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ABBREVIATIONS

ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EONIA	Euro OverNight Index Average
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ETC	Employment and Training Corporation
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FTSE	Financial Times Stock Exchange
GDP	gross domestic product
HCI	harmonised competitiveness indicator
HICP	Harmonised Index of Consumer Prices
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LFS	Labour Force Survey
LTRO	longer-term refinancing operation
MIGA	Multilateral Investment Guarantee Agency
MFI	monetary financial institution
MFSA	Malta Financial Services Authority
MGS	Malta Government Stock
MRO	main refinancing operation
MSE	Malta Stock Exchange
NACE	statistical classification of economic activities in the European Community
NCB	national central bank
NPISH	Non-Profit Institutions Serving Households
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
OMFI	other monetary financial institution
OMT	Outright Monetary Transaction
RPI	Retail Price Index
ULC	unit labour costs

FOREWORD

The Governing Council of the European Central Bank (ECB) left key interest rates unchanged during the last quarter of 2012 and for the first four months of this year. On 2 May the Council cut interest rates, lowering the rate on the main refinancing operations (MRO) by 25 basis points to 0.50%. The interest rate on the marginal lending facility was lowered by 50 basis points to 1.00%, while that on the deposit facility was kept unchanged at 0.00%. This decision was taken in view of expectations of low underlying price pressures over the medium term and the continuing recessionary environment in the euro area. At the same time, money and credit dynamics remained subdued, while economic sentiment was weak.

Throughout the period reviewed, the Eurosystem continued to implement non-standard monetary policy measures, which were mainly aimed at strengthening the monetary policy transmission mechanism. The Eurosystem also extended the conduct of MROs and special-term refinancing operations with a maturity of one maintenance period as fixed rate tender procedures with full allotment. Similar procedures for the three-month longer-term refinancing operations (LTRO) allotted in 2013 and in the first half of 2014 were also extended.

During the final quarter of 2012, economic activity in the euro area contracted by 0.9% on a year earlier. This contraction was driven by domestic demand, which offset the positive contribution of net exports. All domestic demand components went down on their year-ago levels, with investment showing the sharpest contraction.

Euro area inflation based on the Harmonised Index of Consumer Prices (HICP) eased during the last three months of 2012, going down from 2.6% in September to 2.2% in December. This drop mainly reflected developments in energy prices, although movements in prices of non-energy industrial goods and of processed food also contributed. HICP inflation excluding energy and unprocessed food remained at 1.6% over the same period. The euro area-wide inflation rate continued to moderate during the first four months of 2013, reaching 1.2% in April.

According to the ECB staff projections published in March 2013, the euro area economy is set to contract this year, with real gross domestic product (GDP) growth expected to range between -0.9% and -0.1%. Growth should recover in 2014, to stand within a range of 0.0% and 2.0%. The euro area average inflation rate is expected to ease from 2.5% in 2012 to between 1.2% and 2.0% in 2013, and between 0.6% and 2.0% in 2014.

On the domestic front, economic expansion continued in the last quarter of 2012, although at a slower pace compared with the previous quarter. The annual GDP growth rate stood at 1.1%, with net exports being the driver of growth. In contrast, domestic demand declined, reflecting lower investment and inventories, while private and government consumption increased on a year earlier.

HICP inflation in Malta moderated further during the fourth quarter of 2012, with the annual rate edging down to 2.8% in December from 2.9% in September. This deceleration was due to price developments in services and energy, which offset increased price pressures in non-energy industrial goods. Inflation continued to fall during the first three months of 2013, with the annual rate dropping to 1.4% in March.

Employment figures based on the Labour Force Survey showed an annual increase of 3.4% in the December quarter. As a result the unemployment rate dropped to 6.5% from 6.6% in the same period of the previous year.

Competitiveness indicators continued to show mixed developments during the last three months of 2012. Thus, while both the nominal and the real harmonised competitiveness indicator increased, mostly as a result of the appreciation of the euro against major currencies, growth in unit labour costs, measured as a four-quarter moving average, eased to 3.7% from 3.9% in the year to September.

Meanwhile, the current account of the balance of payments recorded a smaller surplus compared with the last quarter of 2011. This was mainly due to net outflows on the income account and a larger deficit on the merchandise trade account. As a proportion of GDP, the current account balance, expressed as a four-quarter moving sum, stood at 0.4% compared with 0.5% in the previous quarter, and -0.2% in 2011.

The contribution of resident monetary financial institutions to the euro area broad money stock, which approximates the broad money aggregate (M3) in Malta, continued to expand in the fourth quarter of 2012. The annual growth rate accelerated to 8.7% in December from 6.3% three months earlier. Deposits held by Maltese residents also grew at a faster pace when compared with the September quarter, while credit granted to the private sector slowed down.

Meanwhile, yields on three-month Treasury bills fell in both the primary and secondary market, with the secondary market rate ending the year at 1.00%. Yields on ten-year government bonds also declined, standing at 3.83% in December. Yields continued to decline in the first quarter of 2013, with the three-month and ten-year rates standing at 0.78% and 3.47% respectively at the end of March.

With regard to fiscal developments, the general government deficit reached 3.3% of GDP in 2012, after it had dropped below 3% in 2011. This widening occurred as expenditure outpaced revenue. Expenditure growth partly reflected the impact of public sector wage increases, as well as strong growth in intermediate consumption and social benefit payments. Revenue was boosted by buoyant corporate tax receipts, as indirect tax revenue grew at a slower pace. General government debt increased, with the debt-to-GDP ratio rising from 70.3% in 2011 to 72.1% in 2012.

In its latest projection exercise concluded in May, the Bank expects real GDP growth to accelerate from 0.8% in 2012 to 1.4% in 2013 and 1.9% in 2014. The Bank expects domestic demand to be the main driver of economic growth during these two years, with private consumption expected to accelerate over the projection horizon. Investment is also set to contribute to economic expansion, particularly in 2014, when government investment is expected to accelerate and investment in the energy sector gathers momentum. Net exports are projected to add to GDP growth in 2013, but are set to have a negative impact in 2014 as imports outpace exports. With regard to prices, HICP inflation is set to moderate to 1.4% in 2013, partly under the impact of lower energy prices. The inflation rate is projected to remain at that level in 2014.

Risks to the GDP projections are broadly balanced. The fragile situation in the euro area and the possibility that external demand is weaker than expected remains a key negative risk. On the other hand, export growth may accelerate if the ongoing expansion of the business and financial

service sectors is maintained and extends into new export markets. Risks to the inflation projections are also broadly balanced.

From a policy perspective, following the breach of the 3% threshold in 2012, a key priority is to implement measures that would bring the general government deficit back down to below the limit this year. The fiscal consolidation effort should continue thereafter to make progress towards the medium-term objective of a balanced budget and a sustainable reduction in the debt ratio. The domestic fiscal framework also needs to be strengthened as soon as possible, through the introduction of a balanced-budget requirement in the Constitution, the setting up of an independent fiscal council and the establishment of an effective medium-term budgetary framework.

Sustainable economic growth also requires that Malta safeguards its external competitiveness, through moderation in wage increases and improvements in productivity. The latter, in turn, require further investment in education, to ensure that the skills offered by the labour force meet the demands of today's industries.

With regard to financial stability, banks in Malta remain profitable, liquid and well capitalised, with the core domestic banks characterised by a strong deposit base and little reliance on wholesale funding. However, these banks are exposed to risks stemming from the local property market, which has been undergoing a correction, and from an increase in non-performing loans. This calls for additional provisioning in the short run, with complementary policies aimed at diversifying lending portfolios over the medium term. Banks should also strengthen their capital buffers and further lengthen the maturity of their liabilities to more closely match that of their assets.

ECONOMIC SURVEY

1. INTERNATIONAL ECONOMIC DEVELOPMENTS AND THE EURO AREA ECONOMY

Economic growth in the world's major developed nations slowed down during the fourth quarter of 2012. Annual growth in the United States, though positive, decelerated significantly when compared with previous quarters, partly due to temporary factors. At the same time, Japan and the United Kingdom continued to suffer from near-zero growth. On the other hand, in emerging Asia, activity recovered from its earlier slowdown, with annual growth accelerating in China and India. Inflation patterns differed across the world's main economies, while the price of oil at the end of the year was roughly similar to its level at the end of the previous quarter. Meanwhile, financial markets improved towards the end of the year as the global outlook ameliorated following a somewhat slow start to the quarter.

During the last quarter of 2012 economic activity in the euro area continued to contract. The decline was entirely driven by domestic demand. Against this backdrop, labour market conditions deteriorated further, with the unemployment rate reaching a new record high. Meanwhile, the annual inflation rate eased during the quarter, mainly owing to developments in energy prices. With regard to monetary policy, the Governing Council of the European Central Bank (ECB) kept key interest rates unchanged until May, when the rate on the main refinancing operations (MRO) was reduced by 25 basis points to 0.50%. The Eurosystem also continued to implement non-standard monetary policy measures.

International economic developments

US expansion slows down

The US economy slowed down during the final quarter of 2012, expanding by 1.7% on an annual basis following 2.6% growth in the previous quarter (see Table 1.1). The contribution of domestic demand, though positive, dipped significantly during the period. This mainly reflected negative contributions from government consumption, particularly defence spending, and from a temporary drop in inventories. The former means that government spending has declined for over two years. With regard to the other components of domestic demand, investment and consumption both grew at solid annual rates during the quarter, with investment in particular rising strongly

Table 1.1
REAL GDP GROWTH

Annual percentage changes; seasonally adjusted

	2011		2012		
	Q4	Q1	Q2	Q3	Q4
United States	2.0	2.4	2.1	2.6	1.7
Euro area	0.6	-0.1	-0.5	-0.7	-0.9
United Kingdom	1.1	0.5	0.0	0.4	0.2
Japan	-0.1	3.3	4.0	0.4	0.4
China	9.1	8.1	7.6	7.4	7.9
India	5.6	4.7	4.0	3.4	3.9

Sources: Eurostat; OECD.

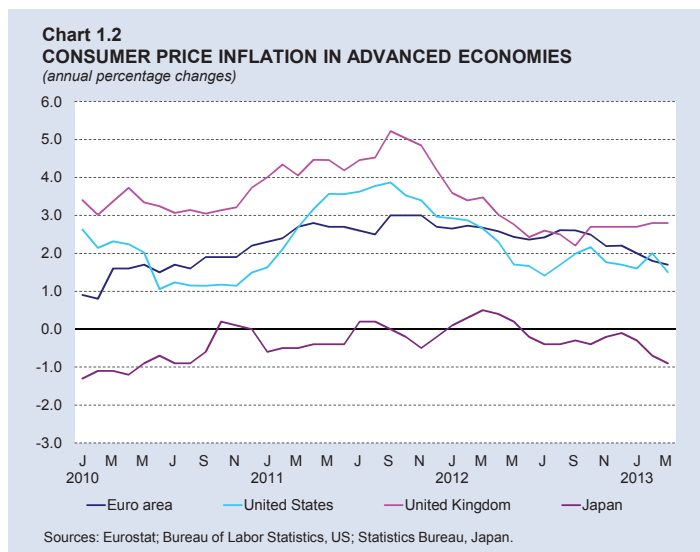
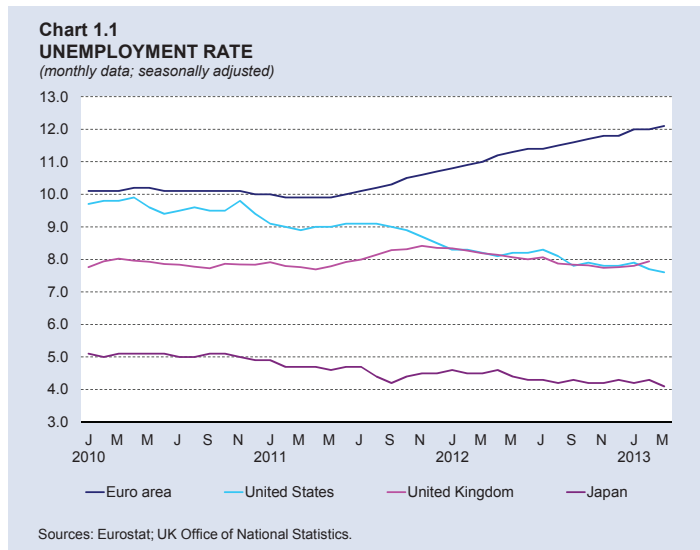
on the back of a recovery in the property market. On the external side, net exports contributed positively to growth for the first time in over a year, as a slowdown in exports was offset by a stronger deceleration in imports, partially due to the United States' reduced dependence on energy imports in the light of increased domestic production of shale oil.

When compared with the previous quarter, real gross domestic product (GDP) grew marginally by 0.1% during the fourth quarter of 2012, again reflecting declines in inventories and government spending.

This somewhat halted the recent improvement in the labour market, with the unemployment rate rising marginally to 7.9% in October before ending the year at 7.8%, the same level as at end-September (see Chart 1.1). Nonetheless, the recovery resumed during the following quarter, with the jobless rate dropping by 0.2 point to 7.6% in March.

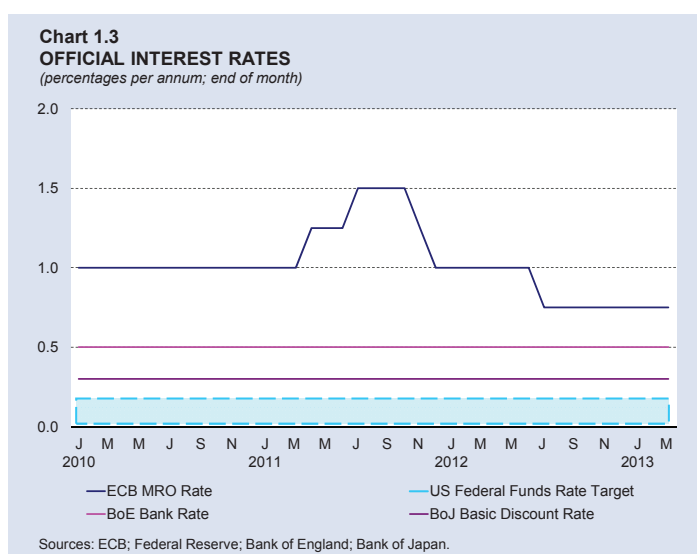
Annual consumer price inflation eased to 1.7% in December 2012, from 2.0% in September (see Chart 1.2). Developments during the quarter were mixed, with the inflation rate rising to 2.2% in October before declining gradually in the following two months. Motor fuel prices were the main driver of these movements. The core rate of inflation, which excludes changes in food and energy prices, saw a marginal easing during the period, going from 2.0% in September to 1.9% in December. Price developments during the following quarter were again determined by energy price movements, with the annual consumer price inflation rate dropping to 1.5% in March.

In the light of these developments, the Federal Reserve kept the federal funds target rate unchanged in a range between zero and 0.25% during the fourth quarter of 2012 and the first quarter of 2013 (see Chart 1.3). In December it announced that these low levels would be maintained as long as the unemployment rate remained above 6.5%, the medium-term inflation rate was below 2.5% and long-term inflation expectations were well anchored. The Fed maintained that a sustained improve-



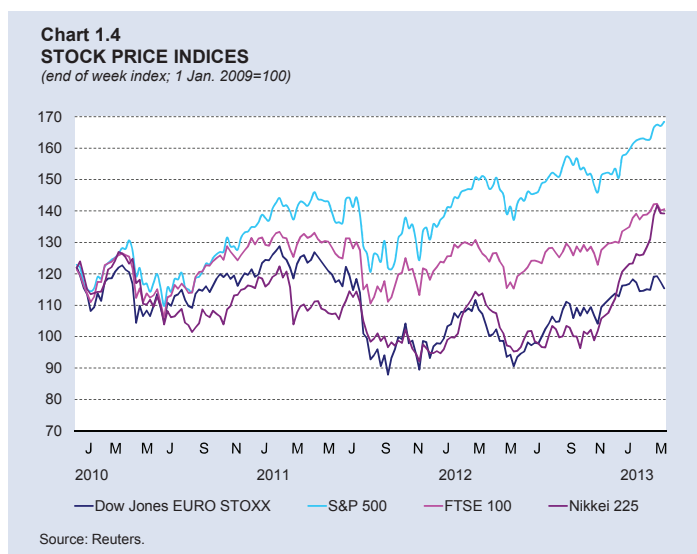
ment in labour market conditions through economic growth was only attainable through sufficient policy accommodation, in the context of price stability.

With regard to other policy measures, during the fourth quarter the Federal Reserve maintained its policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. It also continued with the third round of quantitative easing as announced in September, purchasing additional agency mortgage-backed securities each month. Meanwhile, the Fed's programme of extending the average maturity of its holdings of Treasury securities expired at the end of the fourth quarter. Hence, in December it announced that it would start purchasing long-term Treasury securities at a steady monthly pace as from 2013, while also renewing its holdings of maturing Treasury securities at auction. These measures were intended to put downward pressure on long-term interest rates, support mortgage markets, and make financial conditions more accommodative. No further measures were announced during the following quarter.



The fiscal scene in the United States during the fourth quarter was dominated by the US Presidential elections and by debate on the “fiscal cliff”, a series of tax increases and spending cuts that were scheduled to come into force at the start of 2013. This issue was partly resolved when Congress passed legislation raising tax rates on the highest income groups, while extending middle-class tax cuts and higher unemployment benefits, apart from other measures.

Equity prices in the United States, as measured by the S&P500 Index, dropped by 1.0% during the fourth quarter of 2012, thus partially reversing the 5.8% rise seen in the previous three months (see Chart 1.4). Developments during the quarter were mixed, with equity prices generally declining in October and in the first half of November. Disappointing corporate earnings dampened investor sentiment at the start of the quarter, along with caution ahead of the November presidential elections. Furthermore, stock markets



were closed for several days in October as Superstorm Sandy struck the US coast. Equity prices recovered in mid-November, reflecting macroeconomic data that pointed to improved growth prospects in the United States and an easing in financial market tensions in Europe. This renewal of positive sentiment was partly offset in the final days of the year by the uncertainty related to the looming fiscal cliff.

Ten-year US government bond yields increased by 12 basis points during the fourth quarter

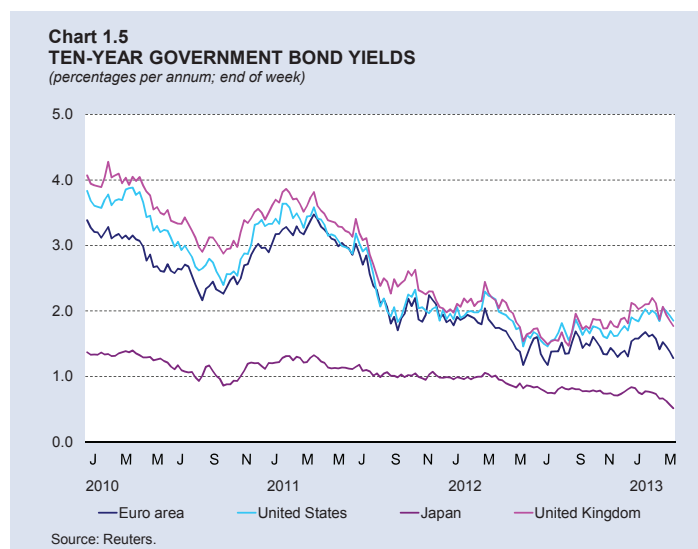
to 1.8% in December, following two consecutive quarters of decline (see Chart 1.5). Improved sentiment in financial markets towards the end of the quarter led to an overall drop in the demand for US ten-year government bonds, normally considered as a safe-haven asset, and to a consequent rise in yields. Demand for US government bonds during the month was dampened by improved global growth prospects, reflecting positive data releases in the United States and the easing in euro area tension. These factors offset a temporary increase in safe-haven asset demand earlier in the quarter, caused by disappointing corporate earnings, the US presidential elections, and fiscal policy uncertainty.

During the first quarter of 2013, financial markets continued to improve on the back of increased optimism regarding US economic prospects and the deal preventing the fiscal cliff. As a result, investor demand shifted away from safe-haven assets, causing the S&P500 index to gain 10.0% and ten-year government bond yields to rise by 10 basis points to 1.9%.

UK economy remains weak

Economic growth in the United Kingdom remained weak during the final quarter of 2012, standing at 0.2% on an annual basis compared with 0.4% in the previous period (refer to Table 1.1). Real GDP growth has been tepid for most of the past two years, ranging from 0.0% to 0.5% during 2012. As in the first three quarters of the year, growth during the fourth quarter was held back by a poor net export performance, with slower import growth being offset by a decline in exports. External demand has been negatively impacted by the current recessionary climate in the euro area. Domestic demand, on the other hand, continued to grow modestly, reflecting small positive contributions from private and government consumption and investment. These factors outweighed the slightly negative contribution from inventories, although the recovery in domestic demand continues to be held back by fiscal consolidation and low real income growth.

The subdued economic performance in the United Kingdom was also reflected in the quarter-on-quarter GDP growth rate, which stood at -0.3% during the fourth quarter. This followed an increase during the previous quarter, although this might partly reflect the unwinding of the one-off boost resulting from the London Olympics in summer. In particular, services output was stagnant



during the period under review, while growth was also adversely affected by a decline in manufacturing and in oil and gas output.

Labour market conditions in the United Kingdom improved slightly during the fourth quarter of 2012. The unemployment rate was broadly stable, dropping by 0.1 point to 7.7% in November. However, this improvement was reversed in the following month, with the jobless rate ending December at 7.8%, the same level as in September (see Chart 1.1). Despite the weak economic outlook, private sector employment increased during the period. This contrasting situation resulted in an overall drop in labour productivity. Going into the following quarter, the jobless rate remained unchanged in January before rising marginally to 7.9% in February.

Meanwhile, following a decline in the third quarter, the annual inflation rate in the United Kingdom rose from 2.2% in September to 2.7% in October, and remained at this level through to the year's end (refer to Chart 1.2). The acceleration in October came from an increase in university tuition fees and the inflation rate was subsequently sustained by an increase in prices of electricity and gas. Price growth remained solid during the following quarter, rising to 2.8% in February and staying at this level through March.

Against this backdrop, the Bank of England maintained its official bank rate at 0.50% during the fourth quarter of 2012 (refer to Chart 1.3). The stock of assets purchased under its Asset Purchase Facility rose to GBP375 billion at the end of the quarter, as asset purchases announced under this programme were completed during the period under review. Going into the following quarter, the Bank in February decided that it would reinvest the principal sum of its Asset Purchase Facility holdings that were to mature in March 2013.

The FTSE100 measure of equity prices gained 2.7% during the final quarter of the year, following a 3.1% rise three months previously (refer to Chart 1.4). The FTSE100 moved sideways at the start of the quarter, before declining sharply in mid-November as data showed the euro area entering a recession. Furthermore, the outlook for the UK economy worsened. Concerns about Greece and Spain also dampened investor sentiment. This downturn was reversed at the end of the month, when equity prices rose as policy announcements fuelled greater investor willingness to hold risky assets, global growth prospects improved and a bail-out deal for Greece was agreed.

Meanwhile, ten-year UK government bond yields followed their US counterparts during the fourth quarter, rising by 10 basis points following a 1 basis point decline in the third quarter (refer to Chart 1.5). Yields rose in October as the announcement of Outright Monetary Transactions (OMT) by the ECB may have shifted demand away from UK government bonds toward euro area sovereigns. This increase was reversed in the following month as euro area tensions flared up once more before reduced risk aversion and an improving global economy at the end of the year caused UK government bond yields to rise once again.

During the following quarter, UK equity price developments were similar to those in the United States, with the FTSE100 Index gaining 8.7% by the end of March. Over the same quarter, UK ten-year government bond yields shed 5 basis points, on the back of increased concerns regarding developments in Cyprus and Italy.

Economic growth in Japan remains tepid

Having grown by just 0.4% on an annual basis during the third quarter, economic activity in Japan was again subdued in the final quarter, expanding by 0.4% (refer to Table 1.1). This contrasts with growth rates of over 3% observed during the first two quarters of the year. Growth in domestic demand gradually decelerated over 2012. This mainly reflects a slowdown in consumption and private sector investment. Government spending, on the other hand, increased throughout the year, contributing significantly to GDP growth during the quarter under review.

Meanwhile, net exports acted as a drag on growth during the final three months of 2012. For the second quarter in succession, exports declined, reflecting the weak global economy and a territorial row with China. Conversely, imports continued to expand, though at a significantly slower pace when compared with recent quarters. Japan's trade balance has been negatively impacted by an increase in energy imports as a result of the closure of the Fukushima nuclear plant in 2011.

When measured on a quarterly basis, real GDP in Japan was stagnant during the fourth quarter of 2012, following two consecutive periods of decline. Despite the weak economic climate, labour market conditions were stable in the fourth quarter of 2012, with the unemployment rate in December standing at 4.3%, the same level as in September (see Chart 1.1). The jobless rate had declined marginally to 4.2% in November, but rose once again in the following month as weak export growth took its toll on the manufacturing sector. The jobless rate subsequently dropped during the first quarter of 2013, reaching 4.1% in March.

Prices in Japan continued to follow a deflationary trend during the period under review. Nevertheless, the annual rate of decline eased to 0.1% in December, following a drop of 0.3% in September (refer to Chart 1.2). This was mainly because the decline in food prices moderated. Excluding food and energy, inflation stood at -0.6% in December, the same rate as in September and hence marking the fourth consecutive year of decline. Going into the following quarter, the overall inflation rate continued to decline, standing at -0.9% in March.

Given this backdrop, the Bank of Japan kept its basic discount rate unchanged at 0.3%, while encouraging the uncollateralized overnight call rate to remain in a range of between zero and 0.1% (refer to Chart 1.3). During the fourth quarter, the Bank extended its asset purchase programme on two occasions, by 11 trillion yen in October and by a further 10 trillion yen in December, for a total of 101 trillion yen. The programme, which is aimed at reducing long-term interest rates and risk premia, is expected to be completed by the end of 2013. Furthermore, during the period under review the Bank established the operational details of its Stimulating Bank Lending Facility, which is aimed at providing long-term funds at a low interest rate to financial institutions until March 2014.

In January 2013 the Bank set an inflation target of 2% in terms of the annual growth rate in the consumer price index, up from its previous goal of 1%. It also announced open-ended asset purchases, whereby it will start buying a certain amount of financial assets every month as from January 2014 for as long as it deems necessary to reach its inflation target.

The Nikkei225 Index of Japanese equity prices rose significantly during the period under review, climbing by 17.2% following two successive quarters of decline (refer to Chart 1.4). Stocks struggled to make gains at the start of the quarter owing to concerns about the Chinese and euro area economies and about somewhat weak corporate earnings. Furthermore, macroeconomic data

releases raised fresh worries about the health of the domestic economy. The stock index then surged during the final weeks of the year as the newly-elected Japanese government's commitment to major economic stimulus led to a depreciation of the yen and boosted investor sentiment.

These factors also had an impact on Japanese government bond yields, which declined in October and November before rising when the new government, which committed itself to fiscal stimulus, was elected in December. Overall, the ten-year Japanese government bond yield rose by 3 basis points to 0.80% during the quarter under review, following two successive quarters of decline (refer to Chart 1.5).

Market optimism surrounding the new government's expansionary policies continued in the following quarter, causing a 19.3% surge in the Nikkei225 Index. On the other hand, ten-year government bond yields dropped by 25 basis points to 0.6% as investors anticipated a significant increase in bond purchases by the Bank of Japan.

Emerging Asia recovers from slowdown

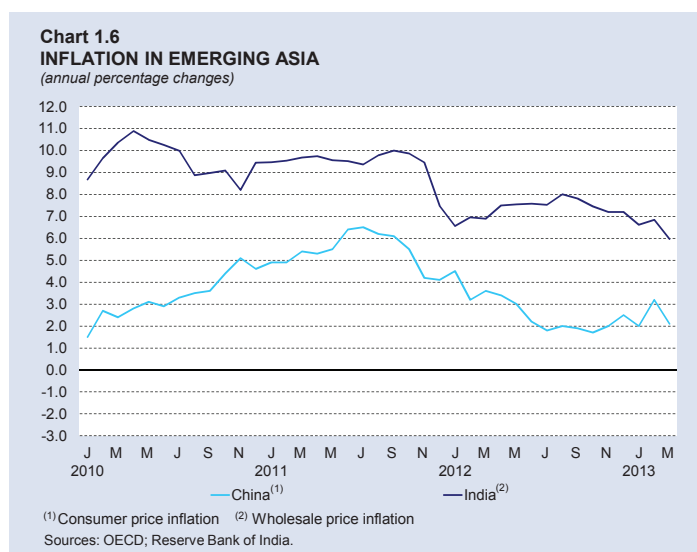
Economic activity in the main emerging Asian economies accelerated on an annual basis during the fourth quarter of 2012, following a slowdown earlier in the year.

In China GDP grew at an annual rate of 7.9%, up from 7.4% in the previous quarter (refer to Table 1.1). This was the first acceleration of GDP growth since the third quarter of 2011, and mainly reflected positive contributions from consumption and investment. Furthermore, external trade picked up during the period, making a small, positive contribution to growth. The upturn came amid a rise in infrastructure investment and more accommodative policy making, as well as a robust housing market. Furthermore, factories rebuilt their inventories that had been reduced in response to the earlier slowdown in growth.

With regard to prices, annual consumer price inflation accelerated to 2.5% in December 2012, up from 1.9% at the end of the third quarter (see Chart 1.6). This acceleration was the result of a marked increase in food prices, probably from poor weather conditions. Inflation excluding food, on the other hand, was unchanged at 1.7%. During the following quarter, the overall inflation rate decelerated to 2.1%.

Against this background of improving growth and moderate inflation, the People's Bank of China kept its monetary policy stance unchanged during the quarter under review. As a result, the one-year benchmark deposit and loan rates stood at 3.0% and 6.0%, respectively.

In India GDP growth accelerated to 3.9% in the fourth quarter from 3.4% in the previous period. Though these growth rates were relatively low when



compared with recent years (refer to Table 1.1), the recent pick-up in growth represents a break following five consecutive quarters of deceleration. During the quarter, economic growth was driven mainly by private consumption and investment. Meanwhile, inflation remained high; the annual rate of change in the wholesale price index stood at 7.2% in December, down from 7.8% in September (see Chart 1.6). Price growth continued to ease in the following quarter, with the annual inflation rate standing at 6.0% in March.

Commodities

Brent crude drops marginally

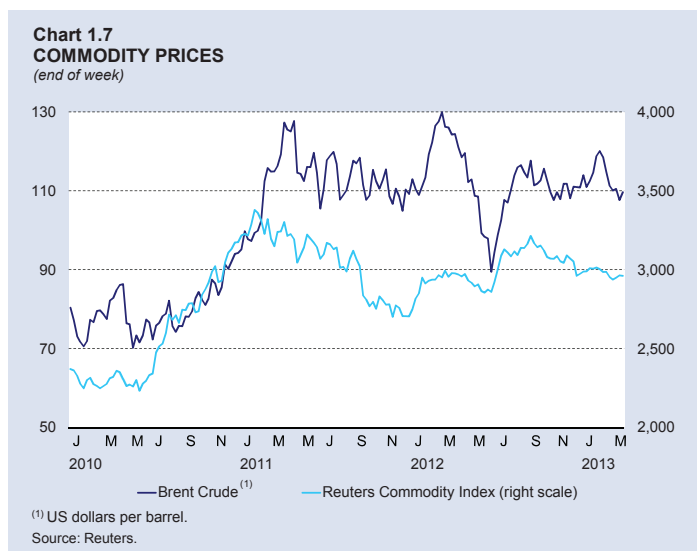
The Brent crude oil price during the fourth quarter was volatile, but it ended the period just 0.2% lower than in the previous quarter at USD111.6 a barrel (see Chart 1.7). This followed an 18.4% rise in the quarter ending September 2012. Escalating tension between Syria and Turkey pushed up the oil price at the start of the quarter, before pessimism over the global economic outlook, and lower oil demand projections dragged the price downwards again in late October and early November. This decline was further compounded by concerns about the possibility of a congressional deadlock regarding the fiscal cliff, and Superstorm Sandy, which disrupted refinery operations through extensive damage to the United States' oil infrastructure. Subsequently, oil prices generally rose, albeit marginally during the final weeks of the year on the back of seasonally strong winter demand and escalating tensions in the Middle East.

The Brent oil price declined further by 1.8% during the following quarter, standing at USD109.6 a barrel as at end-March 2013. This drop was driven by a rise in global oil supply and concerns about the impact of renewed tensions in the euro area on economic growth.

Food commodity prices decline

During the fourth quarter, non-energy commodity markets were characterised by declining food prices and a marginal increase in base metal prices. The RT Commodity Index, which tracks the prices of 17 non-energy commodities, dropped by 5.1% during the period, following a 7.6% increase in the previous three months (see Chart 1.7).

With regard to food, prices for most products declined during the quarter under review as concerns regarding the economic outlook persisted. Furthermore, ample supply led to lower prices of commodities, such as soybeans, oilseeds and sugar. On the other hand, the price of grains, such as wheat and corn, rose at the start of the quarter amid concern about dry weather conditions in supplier countries. These conditions improved at the end of the year, offsetting the effects of increased demand and causing a drop in grain prices.



Concerns regarding the economic outlook in the euro area and China, and the threat of the US fiscal cliff, dampened demand for most base metals at the start of the quarter though certain commodity prices, such as the price of iron ore, rose significantly on the back of a drop in supply. At the end of the year, prices for most base metals rose sharply, amid an improvement in sentiment in China and the United States and more positive news regarding the euro area.



In the following quarter, the RT Commodity Index dropped by 0.7%. Prices of base metals were negatively affected by falling demand related to the crisis in Cyprus, uncertainty surrounding the Italian election, and a strong US dollar. On the other hand, the drop in food prices, in particular grains and sugar, was the result of a continued improvement in supply conditions.

Gold price drops

The price of gold declined during the quarter under review, shedding 5.4% of its value and hence partly reversing the 10.8% gain observed in the previous period (see Chart 1.8). Weaker physical demand and the debate about the future conduct of monetary policy in the United States drove down the gold price at the start of the quarter. The US election results in early November calmed these fears, while concerns about the looming fiscal cliff caused the gold price to rise temporarily. At the end of the year, gold demand dropped once again as steadier base metal prices, encouraging economic data in the United States and China, and an easing in euro area tensions reduced the appeal of safe-haven assets. Consequently, the gold price ended the year at USD1,674.3 per troy ounce.

The gold price continued to decline in the first quarter of 2013, shedding 4.6% of its value to reach USD1,597.5 per troy ounce. Demand for gold dropped during the period on the back of improved economic prospects, the deal to avert the fiscal cliff, a strengthening US dollar in trade-weighted terms and the surge in equity prices, which dampened safe-haven asset demand.

Economic and monetary developments in the euro area

Euro area economy contracts further

During the final quarter of 2012 economic activity in the euro area contracted by 0.9% on the same period of the previous year, following a drop of 0.6% in the previous quarter (see Table 1.2). This was the fourth consecutive quarter registering a year-on-year drop in GDP. The contraction in the fourth quarter was driven by domestic demand. On a quarter-on-quarter basis, real GDP declined by 0.6% following a marginal fall in the previous quarter.

Domestic demand contracted by 2.2% on an annual basis in the quarter under review, compared with a 2.5% drop in the previous quarter. It thus acted as a drag on overall economic expansion,

Table 1.2
REAL GDP GROWTH IN THE EURO AREA

Seasonally adjusted

	2011	2012			
	Q4	Q1	Q2	Q3	Q4
	<i>Annual percentage changes</i>				
Private consumption	-0.9	-1.1	-1.1	-1.5	-1.2
Government consumption	-0.3	0.1	-0.1	-0.1	-0.2
Gross fixed capital formation	0.8	-2.5	-3.9	-4.4	-4.9
Domestic demand	-0.7	-1.7	-2.3	-2.5	-2.2
Exports	3.6	2.5	3.6	3.2	2.2
Imports	0.6	-1.1	-0.7	-1.0	-0.6
GDP	0.6	-0.1	-0.5	-0.6	-0.9
	<i>Percentage point contributions</i>				
Private consumption	-0.5	-0.6	-0.6	-0.9	-0.7
Government consumption	-0.1	0.0	0.0	0.0	0.0
Gross fixed capital formation	0.1	-0.5	-0.8	-0.8	-0.9
Changes in inventories	-0.2	-0.5	-0.9	-0.8	-0.5
Domestic demand	-0.7	-1.6	-2.3	-2.5	-2.1
Net exports	1.3	1.6	1.8	1.8	1.3
GDP	0.6	-0.1	-0.5	-0.6	-0.9

Source: Eurostat.

reducing annual real GDP growth by 2.1 percentage points. All individual components of domestic demand contracted over the previous year. The most pronounced decline was in investment, falling by 4.9%, faster than the 4.4% drop in the preceding quarter. This decrease was broad-based, with both residential construction investment and spending on machinery and equipment contracting. Government investment also went down. Private consumption remained weak, dropping by 1.2% on a year earlier, following a 1.5% fall in the third quarter. This weakness in consumer spending may be explained by eroding real disposable income. Similarly, government consumption declined by 0.2% after a marginal drop in the previous quarter. Changes in inventories continued to have a significant adverse impact on economic growth.

On the external front, exports grew by 2.2% on an annual basis, a slower rate than the 3.2% registered in the September quarter. On the other hand, in line with the fall in aggregate demand, imports contracted by 0.6%, compared with a 1.0% decline in the third quarter. As a result, the contribution of net exports to growth was positive at 1.3 percentage points, down from 1.8 points in the previous quarter.

Euro area inflation eases

After picking up in the previous quarter, the annual rate of inflation in the euro area, as measured using the Harmonised Index of Consumer Prices (HICP), eased during the December quarter. The area-wide inflation rate edged down from 2.6% in September to 2.5% in October, and further to 2.2% in the final two months of the year (see Chart 1.9).

The drop in the annual inflation rate mainly reflected developments in energy prices, and, to a much lesser extent, prices of non-energy industrial goods and of processed food. Indeed, the annual rate of change of energy prices dropped from 9.1% to 5.2% between September and December, such that its contribution to overall inflation diminished from 1.0 percentage point to 0.6 point. On

the other hand, both services and unprocessed food prices rose at a faster annual rate, and therefore saw their contribution to overall inflation increase. Excluding energy and unprocessed food prices from the HICP, inflation remained stable at 1.6% in December 2012.

The downward trend of the area-wide inflation rate extended into the first quarter of 2013, as annual inflation fell further to 1.7% in March, and to 1.2%, in April.

Labour market conditions deteriorate further

Labour market conditions in the euro area continued to worsen during the quarter under review, against the backdrop of the contraction in GDP.

The area-wide unemployment rate rose during the quarter. The jobless rate added 0.1 of a percentage point in October and November, to end the year at a new high of 11.8% (see Chart 1.10). Meanwhile, the number of unemployed people rose by almost 0.4 million over the fourth quarter to 18.8 million in December 2012.

Employment continued to contract, with the annual drop going to an average of -0.8% in the December quarter from -0.6% in the September quarter.

Going into the following quarter, the jobless rate rose to 12.0% in January and February and further to 12.1% in March.

Euro area GDP forecasts revised downwards

According to the ECB staff projections published in March 2013, real GDP is expected to fall in 2013 and then to recover in 2014. The projected recovery is set to remain subdued by historical standards. Over the forecast horizon, growth is expected to be supported by a modest pick-up in exports and by a favourable impact on private domestic demand of the accommodative monetary policy stance. Growth is also set to be boosted by the positive impact of a declining inflation rate

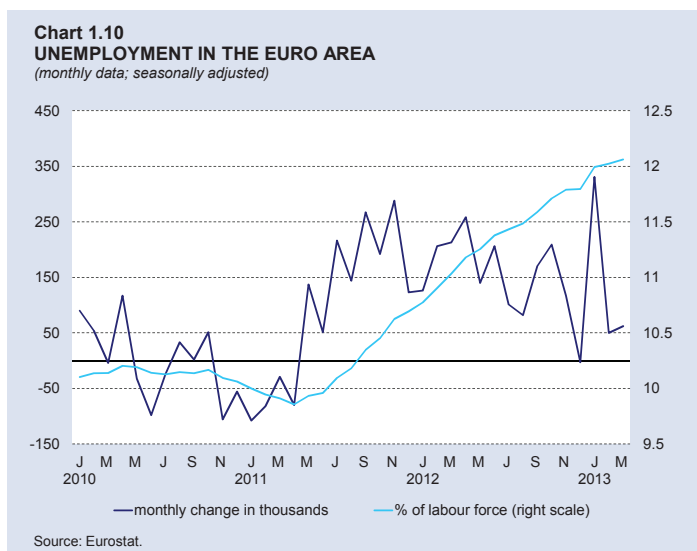
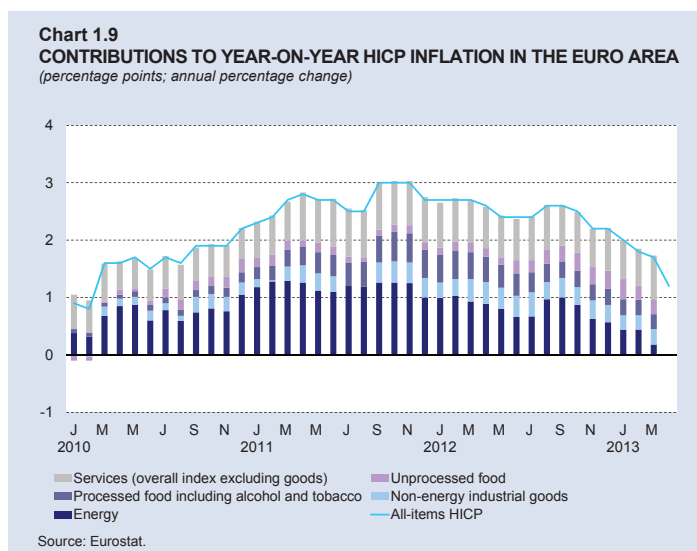


Table 1.3**REAL GDP AND INFLATION PROJECTIONS FOR THE EURO AREA⁽¹⁾***Average annual percentage changes; working-day-adjusted data*

	2012	2013		2014			
Private consumption	-1.2	-1.3	—	-0.3	-0.3	—	1.5
Government consumption	0.0	-0.9	—	-0.1	-0.4	—	1.2
Gross fixed capital formation	-4.0	-3.8	—	-1.0	-0.9	—	3.5
Exports	2.9	-1.3	—	3.5	0.8	—	7.8
Imports	-0.7	-2.1	—	2.3	1.0	—	7.2
GDP	-0.5	-0.9	—	-0.1	0.0	—	2.0
HICP	2.5	1.2	—	2.0	0.6	—	2.0

⁽¹⁾ ECB staff macroeconomic projections (Mar 2013).

Source: ECB.

on real disposable income and private consumption. Domestic demand is, however, expected to remain weak and recover only gradually. As a result, the ECB projects annual real GDP growth to range between -0.9% and -0.1% in 2013 and between 0.0% and 2.0% in 2014 (see Table 1.3). These projections represent a downward revision from the Eurosystem staff forecasts released in December.

The euro area average annual inflation rate is expected to decline from 2.5% in 2012 to between 1.2% and 2.0% in 2013 and between 0.6% and 2.0% in 2014. This easing primarily reflects the projected strong decrease in energy price inflation and, to a lesser extent, food price inflation. Energy price inflation is expected to fall as the impact of recent increases in oil prices diminishes, as well as a result of their projected gradual decrease over the forecast horizon. Similarly, the expected easing in food price inflation reflects downward base effects and the projected easing of food commodity prices over the forecast horizon. The range for 2014 has been revised downwards when compared with the December forecasts.

ECB leaves interest rates unchanged

The Governing Council of the ECB left key interest rates unchanged during the final quarter of 2012 and the first quarter of 2013, with the MRO rate at 0.75%. These policy rates were kept constant as the inflation rate in the euro area was expected to remain in line with price stability over the policy relevant horizon, while the underlying pace of monetary expansion continued to be subdued. In addition, inflation expectations for the euro area remained firmly anchored and consistent with the aim of maintaining inflation rates below, but close to, 2% over the medium term.

Subsequently, on 2 May the Governing Council cut interest rates, reducing the MRO by 25 basis points to 0.50% and the rate on the marginal lending facility by 50 basis points to 1.00%, with effect from 8 May. Meanwhile, the interest rate on the deposit facility was kept unchanged at 0.00%. These changes imply that the width of the policy rates corridor was narrowed. This decision was taken against a backdrop of low underlying price pressure over the medium term, and taking into consideration the fact that inflation expectations continue to be firmly anchored, accompanied by subdued monetary and loan dynamics. The Council said that it expected the cut in interest rates to support economic recovery.

The Eurosystem continued to implement non-standard monetary policy measures. In December 2012 the Governing Council decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary, and at least until 9 July 2013. This procedure

will also remain in use for the Eurosystem's special-term refinancing operations. Furthermore, the Council decided to conduct the three-month longer-term refinancing operations to be allotted in the first half of 2013 as fixed rate tender procedures with full allotment.

Also in December the ECB, together with the Bank of Canada, the Bank of England, the Federal Reserve, and the Swiss National Bank, agreed to extend by one year the existing temporary US dollar liquidity swap arrangements that had previously been authorised until 1 February 2013. The ECB, in cooperation with these central banks, also decided to extend its temporary network of reciprocal swap lines until 1 February 2014. In addition, the ECB decided to continue, until further notice, regular US dollar liquidity-providing operations with maturities of approximately one week and three months as fixed rate tender procedures with full allotment.

Growth in broad money picks up

Annual growth in the broad monetary aggregate (M3) in the euro area accelerated in the December quarter, going from 2.7% in September to 3.5% three months later (see Table 1.4). It, however, remained subdued. Monetary growth was supported by increased investor confidence in the euro area as a result of several recent policy measures, including the announcement of OMTs and the establishment of the European Stability Mechanism.

The annual growth rate of the narrow money component M1 extended the upward trend observed since mid-2011. Over the quarter, M1 growth increased from 5.2% to 6.5%, which illustrates a strong preference for liquidity in an environment characterised by low interest rates and high, though falling, uncertainty. This, however, masks different developments in its two components. While the annual growth rate of the smaller of the two components – currency in circulation – decreased, that of overnight deposits increased substantially, from 5.4% to 7.4%.

At the same time, the annual rate of growth of other short-term deposits (i.e. M2 minus M1) increased from 0.5% in September to 2.0% at the end of the year, reflecting developments in both components. Deposits with an agreed maturity of up to two years (short-term time deposits) contracted at a slower rate, while deposits redeemable at notice of up to three months (short-term saving deposits) expanded at a faster pace.

Going into the following quarter, annual growth rate in M3 decreased to 2.6% in March. A similar drop was observed in the other short-term deposits category (i.e. M2 minus M1), whereas M1 rose.

Table 1.4
EURO AREA MONETARY AGGREGATES

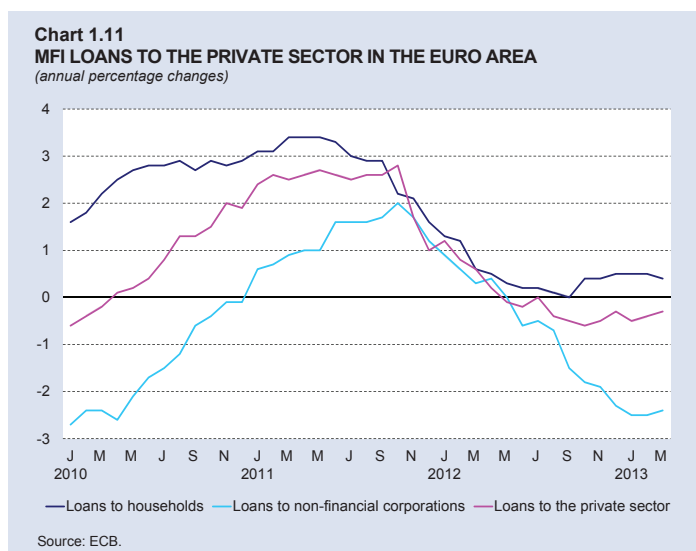
Annual percentage changes

	2012				2013		
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
M1	5.2	6.5	6.5	6.5	6.6	7.0	7.1
Currency in circulation	4.3	3.4	2.4	2.3	1.5	1.4	1.8
Overnight deposits	5.4	7.1	7.4	7.4	7.7	8.2	8.2
M2-M1 (Other short-term deposits)	0.5	1.6	1.8	2.0	1.7	0.8	0.5
Deposits with an agreed maturity of up to two years	-3.0	-1.6	-1.8	-2.2	-3.0	-4.8	-5.2
Deposits redeemable at notice of up to three months	3.8	4.6	5.2	5.9	6.2	6.2	5.9
M2	3.1	4.3	4.4	4.5	4.4	4.3	4.2
M3	2.7	3.9	3.7	3.5	3.5	3.1	2.6

Source: ECB.

Private sector credit contracts at a slower rate¹

On the counterparts' side, credit to euro area residents in the private sector contracted at a slower pace than before. The annual rate of credit growth rose to -0.8% in December from -1.2% in September. The decline in credit reflects a number of factors, including weak demand for loans in an environment of subdued economic activity and persistent high uncertainty, pressures on the private sector to reduce debt, and credit supply constraints in some euro area countries.



In line with the contraction in credit, the volume of loans granted by monetary financial institutions (MFI) to the private sector continued to fall. Nevertheless, its annual rate of change increased slightly to -0.3% in December from -0.5% in September (see Chart 1.11). This rate of change has followed a generally declining path since October 2011.

Within this category, the annual growth rate of loans to non-financial corporations contracted further, going to -2.3% in December from -1.5% in September. In contrast, the corresponding growth rate of lending to households increased, going from zero to 0.5% over the same period. Heterogeneity across countries for the latter sector remains, as signs of a gradual recovery in lending for house purchase in some countries were offset by reductions in such lending elsewhere in the euro area.

Going into the first quarter of 2013, the annual growth rate of total lending by MFIs to the private sector contracted further, going to -0.3% in March.

Money market rates decline

Money market interest rates in the euro area kept their downward trend during the December quarter, which was characterised by abundant excess liquidity in the overnight money market as the Eurosystem continued to provide funds through conventional and non-standard monetary policy measures.

Unsecured money market interest rates in the euro area as measured by EURIBOR decreased. Over the quarter, at the three-month and 12-month maturities, EURIBOR declined by 3 basis points and 14 basis points, to 0.19% and 0.54%, respectively (see Chart 1.12).² EURIBOR at both maturities reached a new all-time low towards mid-December. Subsequently the decline in these rates at both maturities came to a halt in the following quarter.

¹ Credit to the private sector is made up of MFI loans and holdings of securities. It includes claims on all resident sectors except MFIs and general government.

² Euro Interbank Offered Rate (EURIBOR) refers to the rates at which prime banks are willing to lend funds to other prime banks in euro on an unsecured basis.

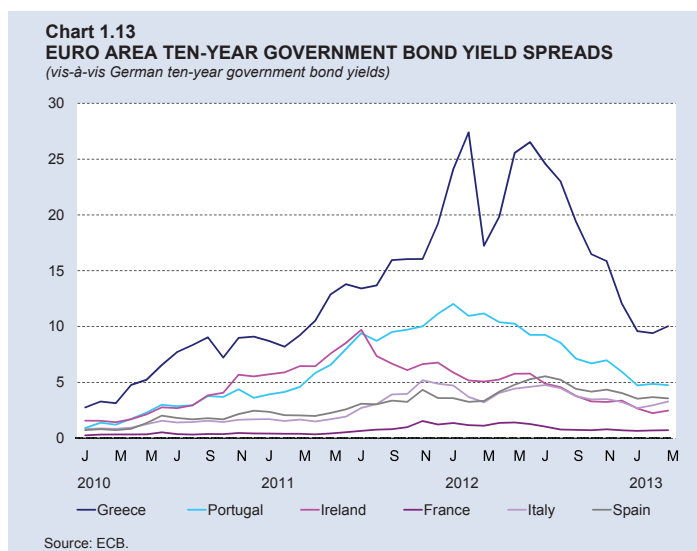
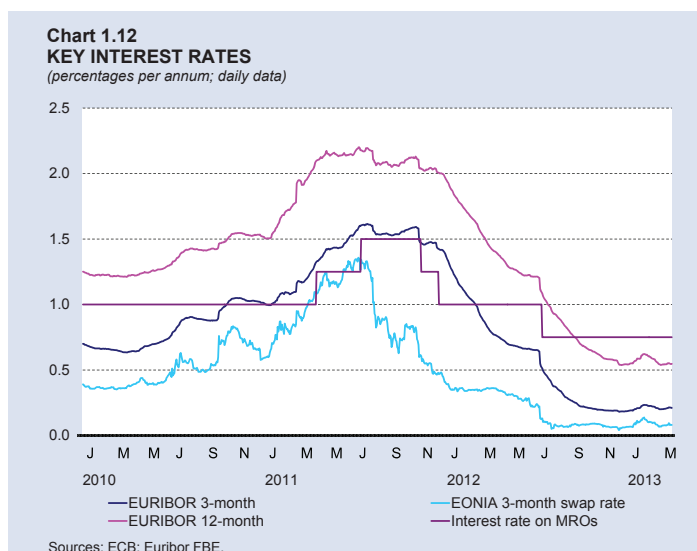
Secured rates, such as those implicit in the three-month EONIA swap index, also declined, though marginally.³ The rate remained close to the zero mark, shedding just 2 basis points over the three months to December to 0.07%, the lowest level seen since the beginning of the financial crisis. The three-month EONIA swap rate edged up marginally in the March quarter.

As a result, over the December quarter the spread between unsecured EURIBOR and secured EONIA swap rates, which is often used as a measure of market confidence in the soundness of the banking system, narrowed slightly. At the three-month maturity, the spread fell to 12 basis points at end-December from 14 points three months earlier, signalling a slight improvement in confidence.

Euro area bond yields fall

During the quarter ten-year German government bond yields, which often serve as a benchmark for the euro area, declined by 12 basis points to 1.31% at the end of the year (refer to Chart 1.5). After increasing in October, yields on these high-rated bonds decreased for the rest of the quarter in line with expected weak economic activity. This was also confirmed by downward revisions of economic growth forecasts by international institutions during the quarter. Ten-year German government bond yields generally declined in the first quarter of 2013, to 1.28% at end-March.

Spreads between yields on bonds issued by a number of euro area countries and Germany narrowed during the quarter under review, as shown in Chart 1.13. Market perception of risks in the euro area continued to ease amid positive developments, such as the ECB's announcement of the OMTs, the agreement on the design of the banking union, the restructuring of the Spanish



³ Euro OverNight Index Average (EONIA) is a measure of the effective interest rate prevailing in the euro interbank overnight market. The EONIA swap rate is the fixed rate that banks are willing to pay in exchange for receiving the average EONIA rate over the lifetime of a swap contract. The EONIA swap index is considered a measure of market confidence in the soundness of the banking system.

banking sector, as well as the agreement on the Greek debt buy-back programme. These developments therefore contributed to the decrease in government bond yields in countries facing market pressure. The most pronounced drop related to the spread on Greek sovereign bonds, which fell from 19 percentage points in September to 12 percentage points in December. Despite this reduction, these spreads remain well above those observed before the crisis.

Euro area equity prices increase

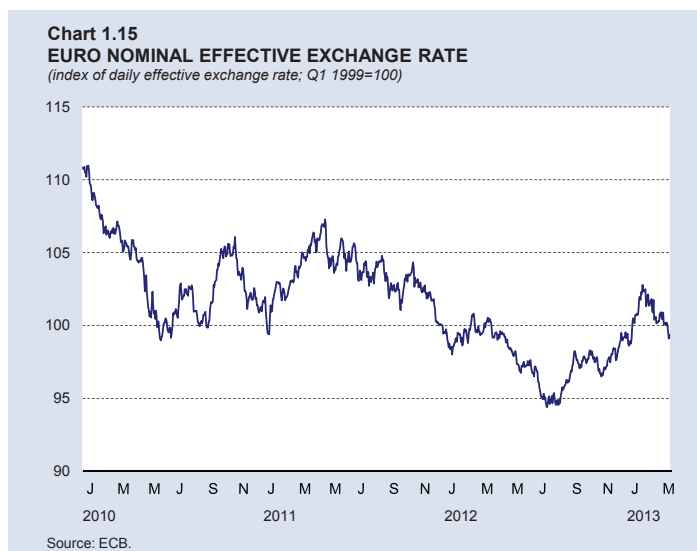
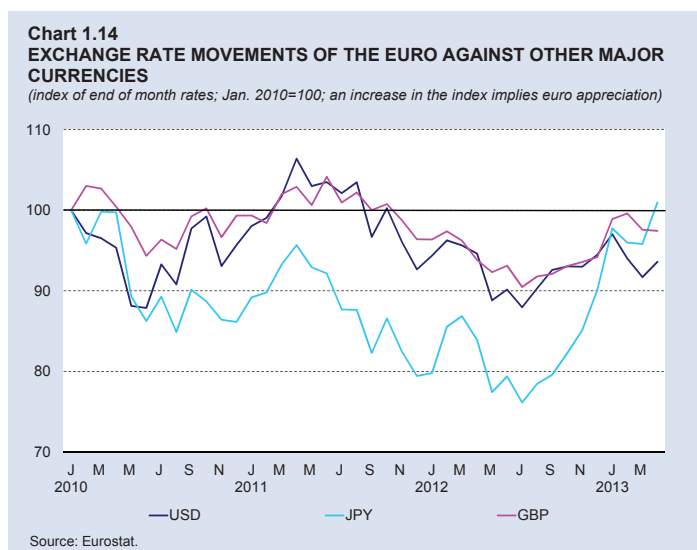
Euro area equity prices, as measured by the Dow Jones EURO STOXX index, increased by 6.8% during the December quarter, extending the rise experienced in the previous quarter (refer to Chart 1.4). The index was rather volatile until mid-November, rising quite strongly thereafter. The latter occurred amid positive market sentiment supported by the decisions of European leaders on Greece and on the single supervisory mechanism. These factors seem to have outweighed the impact on the market of mixed economic data releases and downward revisions to growth prospects in major euro area economies.

This increase continued into the following quarter, with the index rising by 2.0% by end-March.

The euro strengthens

During the December quarter, the euro generally appreciated, after remaining broadly unchanged in the previous quarter. In October, the euro rose as a result of the ECB's OMT announcement and the consequent improvement in sentiment. These gains came to a halt towards the end of October and beginning of November as a result of poor economic data releases. The euro however picked up again for the remainder of the quarter as sentiment improved owing to the several positive factors mentioned earlier, such as progress on the design of the banking union, the restructuring of the Spanish banking sector, and the decision on the Greek debt buy-back.

Over the quarter as a whole, on a bilateral basis the euro gained 2.0% against the US dollar and 2.3% against the pound sterling (see Chart 1.14). The euro rose



particularly strongly against the Japanese yen during the period reviewed, putting on 13.2% as the yen weakened across the board following a series of announcements regarding expansionary monetary and fiscal policy measures in Japan. Going into the following quarter and up to April, the euro appreciated against the Japanese yen and the pound sterling, while it depreciated against the US dollar.

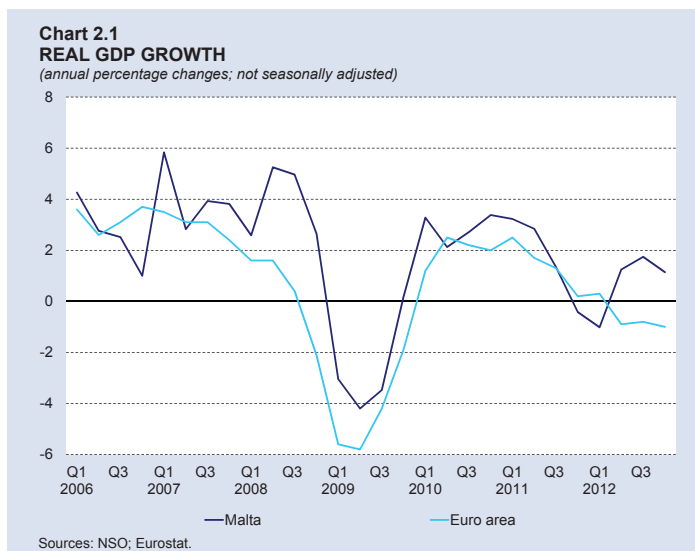
Over the final quarter of 2012, as a result the nominal effective exchange rate of the euro, as measured against the currencies of 20 of the euro area's main trading partners, strengthened by 1.9% (see Chart 1.15). Thus, the recovery that began in the previous quarter was extended, reversing most of the decline seen during the first half of the year. The euro remained broadly unchanged in nominal effective terms during the March quarter.

2. OUTPUT AND EMPLOYMENT

Gross domestic product and industrial production

Real GDP growth slows down

The Maltese economy continued to expand in the last quarter of 2012. Year-on-year growth stood at 1.1%, down from 1.7% in the third quarter. Net exports provided the stimulus to growth as domestic demand declined owing to a fall in investment and inventories. The expansion of the domestic economy for the third consecutive quarter contrasted with the euro area's, which contracted by 1.0% on a year earlier (see Chart 2.1).¹



Net exports sustain real GDP growth

While exports recorded a decline in the fourth quarter compared with the same period in 2011, a more substantial fall in imports resulted in a positive contribution of net exports to gross domestic product (GDP) growth amounting to 2.0 percentage points (see Table 2.1).

The drop in exports was entirely driven by merchandise goods, which went down by 10.4% in the fourth quarter, following an increase of a similar magnitude in the third quarter of the year. Meanwhile, exports of services registered marginal growth of 0.5%, substantially slowing down from the previous quarter.

Exports of goods in nominal terms based on customs data indicate that the decline was mainly due to a significant drop in re-exports of oil. Non-fuel exports of goods increased compared with the previous year, with contrasting developments among the different trade components. In absolute terms the main positive increase emanated from food and chemicals, while the most significant drop was recorded in machinery & transport equipment and "miscellaneous manufactured articles". Service exports were higher, principally due to tourism, personal, cultural & recreational activities and financial services.

Imports in real terms were 8.9% lower, after having increased by 12.1% in the third quarter of 2012. The contraction was attributable to both goods and services, with goods registering the largest decline. In fact, import of goods fell by 12.1% while services decreased by 3.6%, following an increase in both areas in the previous quarter.

Customs data on imports suggest that both the fuel and non-fuel categories declined compared with the last quarter of 2011. The year-on-year drop in imported goods excluding fuel was most

¹ To maintain comparability with data for Malta, annual real GDP growth rates for the euro area reported in this Chapter are not seasonally adjusted. Therefore, they differ from those reported elsewhere in this Review.

Table 2.1
GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

	2011		2012		
	Q4	Q1	Q2	Q3	Q4
	<i>Annual percentage changes</i>				
Private final consumption expenditure	0.2	-0.8	-2.0	-0.3	0.7
Government final consumption expenditure	3.4	6.1	4.2	9.8	2.1
Gross fixed capital formation	-5.8	-2.0	3.9	1.1	-11.4
Changes in inventories (% of GDP) ⁽¹⁾	-3.5	-4.3	0.8	-1.9	-3.5
Domestic demand	-6.1	-6.1	2.6	4.1	-0.9
Exports of goods & services	5.2	8.1	11.7	8.6	-6.6
Imports of goods & services	-0.5	2.5	13.3	12.1	-8.9
Gross domestic product	-0.4	-1.0	1.2	1.7	1.1
	<i>Percentage point contributions</i>				
Private final consumption expenditure	0.1	-0.6	-1.3	-0.2	0.5
Government final consumption expenditure	0.7	1.3	0.8	1.8	0.4
Gross fixed capital formation	-0.9	-0.3	0.5	0.1	-1.7
Changes in inventories ⁽¹⁾	-6.0	-6.8	2.5	1.9	-0.1
Domestic demand	-6.1	-6.3	2.5	3.6	-0.9
Exports of goods & services	5.2	7.9	12.1	8.2	-6.9
Imports of goods & services	0.5	-2.5	-13.4	-10.1	8.9
Net exports	5.7	5.3	-1.3	-1.9	2.0
Gross domestic product	-0.4	-1.0	1.2	1.7	1.1

⁽¹⁾ Includes acquisitions less disposal of valuables.

Source: NSO.

significant in the machinery & transport equipment category. In line with nominal exports, the largest increase in imports was recorded in food and chemicals. Meanwhile, service-related imports fell as a result of lower commissions & other trade-related payments.

Investment drags down domestic demand

The weakness of domestic demand in the fourth quarter was reflected in an annual decline of 0.9% and in a negative contribution of the same amount to real GDP growth. Gross fixed capital formation (GFCF) was the primary cause behind the lower domestic demand, offsetting the impact of higher expenditure from private and government consumption.

Private consumption growth turned positive in annual terms after three consecutive quarters of contraction. In the fourth quarter of 2012 it increased by 0.7%, and added 0.5 percentage point to real GDP growth.

The increase in private consumption was mainly due to higher spending on food in restaurants, communication and health services. On the other hand, the major decline occurred in the transport sector, sustaining the negative trend that had started in the first quarter of the year. The development in transport expenditure mirrors data on newly issued licences for new and used cars, which also show an annual drop from the first quarter of 2012.

Government consumption growth slowed down, but remained resilient, pushing up real GDP growth by 0.4 percentage point. Nominal data show that the health and education sectors continued to absorb a significant proportion of government consumption. Compensation of employees was the main factor driving the increase in government consumption during the fourth quarter,

partly under the impact of a number of wage agreements that were signed in the course of the year. On the other hand, intermediate consumption was lower compared with the same quarter of the previous year.

GFCF fell by 11.4% in the December quarter. As a result, GFCF contributed a negative 1.7 percentage points to GDP growth. Consequently, domestic demand growth moved into negative territory. The significant decline in investment was partly attributed to a base effect, more specifically the substantial increase in investment expenditure on the City Gate project that had occurred during the last quarter of 2011. However, other categories of investment except IT & related services were also lower. The largest drops were recorded in non-residential construction and machinery investment.

Nominal data indicate that the overall decrease in investment was entirely attributed to the private sector as investment by general government was higher compared with the same period of 2011. In absolute terms, the drop in private investment emanated mainly from non-residential construction and machinery. In contrast, these same two sectors were behind the increase in government investment.

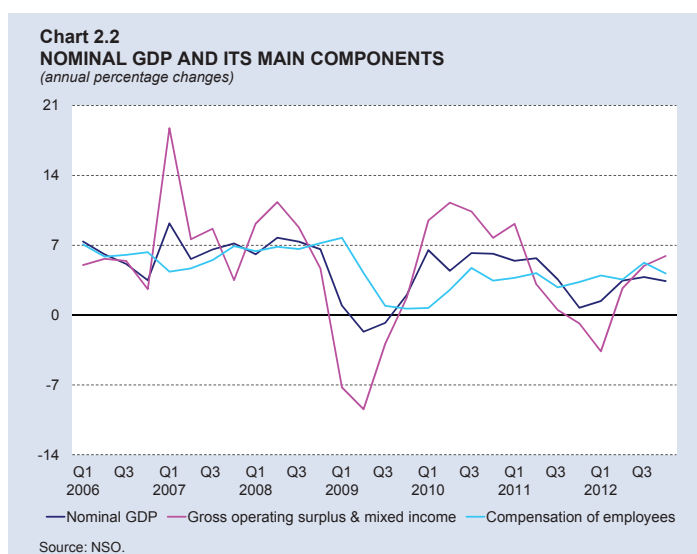
Changes in inventories & acquisitions, which also include the statistical discrepancy, were slightly more negative compared with the same quarter of 2011. Their share of GDP remained stable at -3.5%.

Growth in gross operating surplus accelerates, that in compensation of employees slows down

Nominal GDP growth slowed down moderately from 3.8% in the third quarter of 2012 to 3.4% in the fourth quarter (see Chart 2.2). Both components of national income contributed, with the profits component expanding at a faster pace.

Thus, gross operating surplus growth accelerated to 5.9% from 4.9% in the third quarter of the year. In absolute terms the largest increases emanated from construction; the arts, entertainment & recreation sector (which incorporates the gaming industry); and the sector incorporating wholesale & retail, transportation, accommodation & related activities. In contrast, the mining & utilities sector registered a significant contraction.

Meanwhile, the annual growth rate of compensation of employees decelerated to 4.2%, from 5.2% in the previous quarter with the public administration & defence sector accounting for over two-thirds of the total absolute increase. On the other hand, compensation of employees decreased slightly in the information & communication and property market sectors.



Manufacturing gross value added continues to expand

Growth in gross value added (GVA) accelerated to 5.0% from 4.8% in the third quarter, with its contribution to nominal GDP growth standing at 4.3 percentage points. Meanwhile, net taxes were lower by 5.6%.²

GVA in service sectors continued to be the main driver of nominal GDP growth, increasing in all categories compared with the same period of 2011. Overall, services added 3.4 percentage points to nominal GDP growth. In absolute terms, GVA increased most in the public administration & defence sector and in wholesale & retail, transportation, accommodation & related activities, which contributed 1.1 and 0.8 percentage points, respectively, to GDP growth (see Table 2.2). In the latter sector, higher GVA emanated from wholesale & retail activities and accommodation. The arts & entertainment sector expanded at a faster rate compared with the third quarter of 2012, boosting nominal GDP growth by 0.6 percentage point. GVA also accelerated in the financial services sector, reflecting developments in the banking sector and the continued expansion of activities related to fund management. The contribution from the real estate sector was negligible. The combined remaining service sectors pushed up GDP growth by 0.6 percentage point.

In the manufacturing sector GVA remained resilient, growing by 9.7% compared with 11.5% in the previous quarter and adding 1 percentage point to nominal GDP growth. The mining & utilities and construction sectors, which, on an annual basis, have generally been on a declining trend, contributed a negative 0.4 percentage point to GDP growth. Agriculture & fishing made a small positive contribution.

Table 2.2
CONTRIBUTION OF SECTORAL GROSS VALUE ADDED TO NOMINAL GDP

Percentage points

	2011		2012		
	Q4	Q1	Q2	Q3	Q4
Agriculture, forestry & fishing	-0.4	0.0	0.0	0.0	0.2
Mining & quarrying; utilities	-0.8	-1.5	-0.5	-0.7	-0.3
Manufacturing	-0.3	-0.8	-0.1	1.2	1.0
Construction	-0.2	-0.1	-0.1	-0.1	-0.1
Wholesale & retail trade; repair of motor vehicles; transportation; accommodation & related activities	0.2	0.0	0.9	1.4	0.8
Information & communication	0.2	0.2	0.4	0.2	0.1
Financial & insurance activities	1.0	0.8	0.8	0.2	0.3
Real estate activities	0.1	0.1	0.0	0.1	0.0
Professional, scientific, administrative & related activities	0.1	0.3	0.0	0.7	0.4
Public administration & defence; education; health & related activities	0.8	0.5	0.8	0.8	1.1
Arts, entertainment; household repair & related services	0.5	0.7	0.7	0.4	0.6
Gross value added	1.3	0.2	3.0	4.1	4.3
Net taxation on products	-0.5	1.2	0.5	-0.3	-0.9
Annual nominal GDP growth (%)	0.7	1.4	3.5	3.8	3.4

Source: NSO.

² The difference between nominal GDP growth and the GVA contribution is made up of taxes on products, net of subsidies.

Table 2.3
INDUSTRIAL PRODUCTION

Percentages; annual percentage changes

	Shares	2011		2012		
		Q4	Q1	Q2	Q3	Q4
Industrial production	100	-2.4	-2.8	0.6	6.4	8.6
Computer, electronic & optical products	18.5	-8.1	-7.9	7.4	21.1	26.8
Food products	10.2	0.2	-6.8	1.4	6.4	1.9
Energy ⁽¹⁾	8.0	2.1	6.0	3.7	4.9	3.6
Wearing apparel	6.5	-6.5	9.7	-11.8	-11.1	29.8
Rubber & plastic products	6.2	-2.5	-7.4	-14.2	-11.5	-10.8
Basic pharmaceutical products & pharmaceutical preparations	5.5	-24.6	-18.6	1.8	14.2	16.4
Textiles	5.2	2.6	-3.9	-8.4	-11.3	-0.9
Repair and installation of machinery and equipment	5.0	-24.5	1.6	-1.0	-0.2	-8.9

⁽¹⁾ Includes electricity, gas, steam & air conditioning supply and water collection, treatment & supply.

Source: NSO.

Meanwhile, industrial production accelerated from an annual growth rate of 6.4% in the third quarter of 2012 to 8.6% in the quarter under review (see Table 2.3).³ Output from pharmaceutical products and computer, electronics & optical equipment industries rose strongly. Moreover, production of energy and food continued to rise, although at a slower pace compared with the third quarter, while that of wearing apparel showed positive growth after declining in the previous two quarters. On the other hand, output from firms in textiles, rubber & plastics and repair & installation of machinery was lower.

BOX 1: TOURISM ACTIVITY

Tourism continues to perform strongly in the fourth quarter

During the fourth quarter of 2012, the positive performance seen in tourism during the previous two quarters was sustained, with arrivals, nights stayed and expenditure all higher than their year-ago levels.

According to National Statistics Office (NSO) data, the number of arrivals grew by 4.5% in annual terms, after an increase of 5.8% in the previous quarter (see Chart 1). While the rise recorded in the last quarter of 2012 was broad-based in absolute terms, most of the increase reflected an expansion in the number of leisure travellers and, to a lesser extent, business travellers. Visitors travelling for “other” purposes, who also include language students, grew marginally.

In terms of geographical distribution, while growth was registered in Malta’s main markets, arrivals from smaller source markets recorded losses. The number of visitors from the United Kingdom, which accounts for one third of total arrivals, rose by 5.7% on year-ago levels. Those from Italy, Malta’s second largest source market, increased by 3.7%, while visitors from France were up by 6.9%. Arrivals from another established market, Germany, rose marginally.

³ Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added and is expressed in nominal terms. Industrial production is a measure of the volume of output that takes no account of input costs. The sectoral coverage between the two measures may differ, since industrial production data also capture the output of the energy sector.

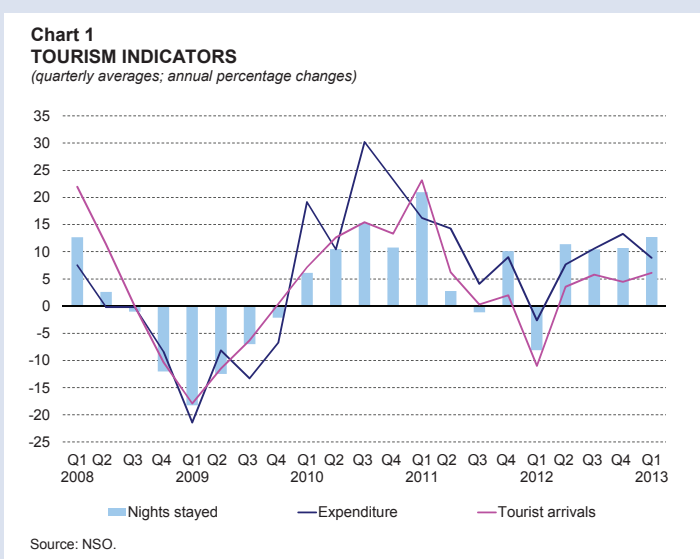
A particularly buoyant market was the Russian one, where tourist numbers increased substantially over 2011 levels. The share of Russian visitors in the total, however, remained small. On the other hand, arrivals from the Spanish market were two-thirds of their year-ago level. The drop recorded in the last three months of the year, which was the second consecutive one, might reflect the closure of some routes by low cost carriers to this

country, as well as Spain's weak economic situation. Arrivals from Scandinavia also fell by 8.5% over year-ago levels, ending the positive growth rates seen earlier in the year. Other small markets, such as the Benelux countries and Switzerland, also showed losses.

During the last quarter of 2012 total tourist expenditure substantially outpaced the rise in the number of visitors, with the former growing by 13.3% in annual terms.¹ This rise was broad-based across all categories of expenditure, but mostly stemmed from a 23.8% increase in spending on non-package holidays, predominantly airfares, although higher spending on accommodation also contributed.² Expenditure on package holidays rose by 5.4%, while the "other" component of expenditure increased by 12.8%.

The total number of nights spent by tourists rose by 10.7% over the same period of 2011, largely because stays in private accommodation, which include self-catering apartments, farmhouses and private residences, rose by 24.3%. In addition, nights spent in collective accommodation rose by 4.1%. As a result, the average length of stay of visitors during the quarter under review rose by half a percentage point to 8.7 nights over the corresponding period a year earlier.

With regard to accommodation capacity, the net number of bed-places available at the end of December was higher than a year earlier, with the expansion mainly attributed to 4-star hotels. Overall, occupancy rates increased by 0.6 percentage point on a year earlier, to 44.2%, reflecting the increase in nights stayed. Occupancy rates in the fourth quarter rose in 3 and 5-star hotels, while they dropped in other hotel categories (see Chart 2). In 3-star hotels, occupancy grew by 4.4 percentage points, while it increased by 1.8 points in 5-star hotels. On the other hand, in 4-star hotels the occupancy rate dropped by 1.9 percentage points, although this category retained the highest occupancy levels in all hotel categories.



¹ Total expenditure is split into package, non-package and "other".

² Non-package holiday expenditure is subdivided into spending on accommodation and travel, while the "other" component captures any additional expenditure by tourists during their stay in Malta.

Occupancy in “other” establishments also fell, to 33.5% from 34.5% in the corresponding period of the previous year.

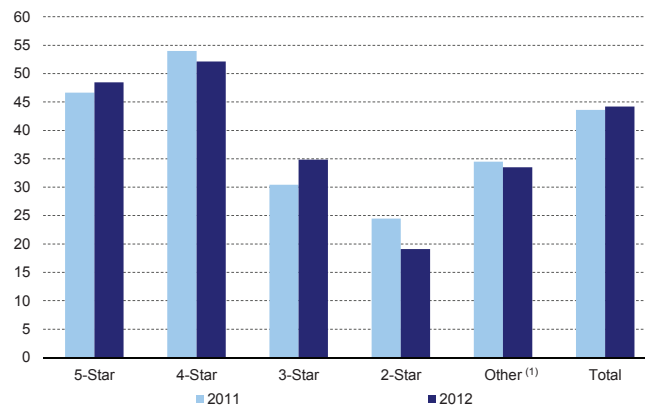
The regular survey conducted by the tourism industry also suggests that the occupancy rate increased in 5-star hotels. However, this survey shows contrasting results for the 3-star and 4-star category, which dropped and increased, respectively.³ The survey confirms

that 4-star hotels continued to record the highest occupancy rates. Furthermore, it shows that in the last quarter of 2012 average achieved room rates increased on a year earlier in the 3 and 5-star hotel categories, but were slightly lower in 4-star hotels.

According to NSO data for the first quarter of 2013, the tourism sector continued to grow with regard to arrivals, nights stayed and expenditure. The number of visitors to Malta rose by 6.1% in annual terms, with total nights stayed 12.7% higher than year-ago levels. Meanwhile, total expenditure increased by 8.9%, with the rise attributable to package expenditure and, to a lesser extent, to the “other” component of expenditure. Expenditure on fares and accommodation in the non-package component fell.

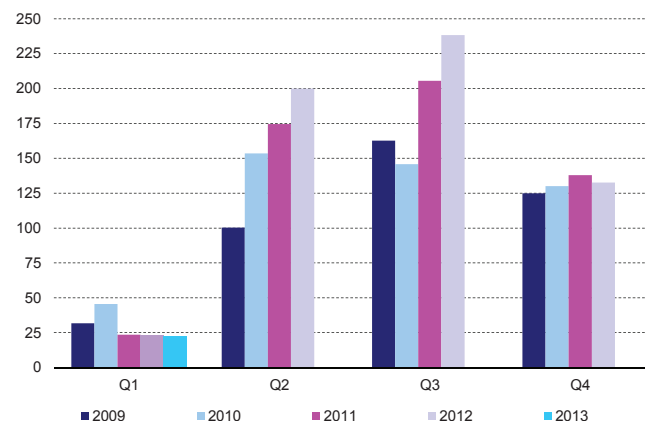
During the fourth quarter of 2012 visitors arriving on cruise liners were 3.8% lower than year-ago levels (see Chart 3). The frequency of port calls by cruise liners was also lower: 84 calls compared with 101 in the same period of 2011. Meanwhile, data for the first quarter of 2013 show that although the number of cruise liner calls increased by one on a year earlier, the number of passengers declined by 3.7%.

Chart 2
AVERAGE OCCUPANCY RATES IN THE FOURTH QUARTER
(per cent)



⁽¹⁾ Includes guesthouses, hostels & holiday complexes.
Source: NSO.

Chart 3
CRUISE LINER PASSENGERS
(thousands)

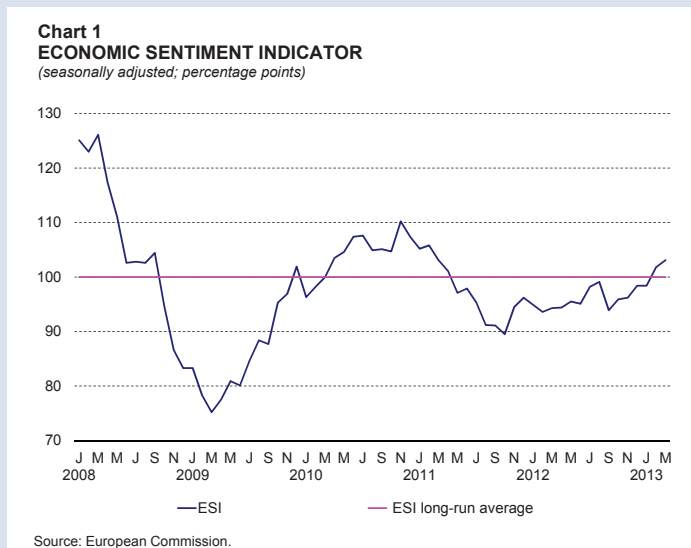


Source: NSO.

³ See BOV-MHRA Survey – Q4 2012.

BOX 2: BUSINESS AND CONSUMER SURVEYS¹

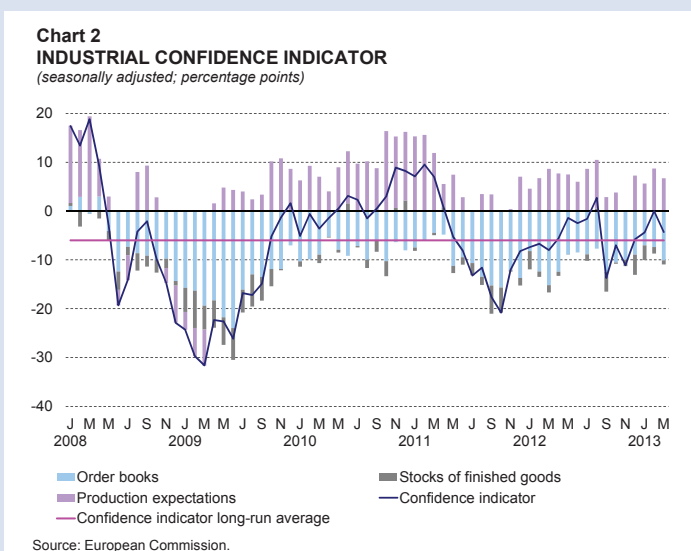
In the first quarter of 2013, confidence improved among firms in manufacturing and among consumers. On the other hand, confidence deteriorated in the construction and service sectors. As a result of these movements, the overall sentiment indicator (ESI) rose to 103.1 in March from 98.4 in December. At this level, the indicator now stands above its long-term average of 100.0 (see Chart 1).^{2,3}



Industrial confidence rises⁴

The industrial confidence indicator remained in negative territory but rose from -6 in December to -4 in March. Thus, the indicator now stands above its respective long-run average of -6 (see Chart 2).

The pick-up in confidence reflected a smaller number of respondents reporting an increase in their stocks of finished goods. However, a slightly larger number of respondents reported weak order



¹ Since May 2010, survey data for industry, construction and services are being compiled according to the NACE Revision 2 classification. However, aggregates for each category are unlikely to be affected by this change in methodology. The compilation of the consumer survey remained unchanged.

² The ESI summarizes developments in confidence in the four surveyed sectors (industry, services, construction and consumers).

³ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicator, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively.

⁴ The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

books compared with what they would have expected for the same period of the year. Further survey data suggest that this revised assessment was influenced by expectations concerning domestic demand, as respondents on balance expected export orders to increase. Production expectations also deteriorated. In March the order book and the stock of finished goods sub-indicators were below their respective long-term average, while the production expectation indicator was exactly equal to its long-run average.

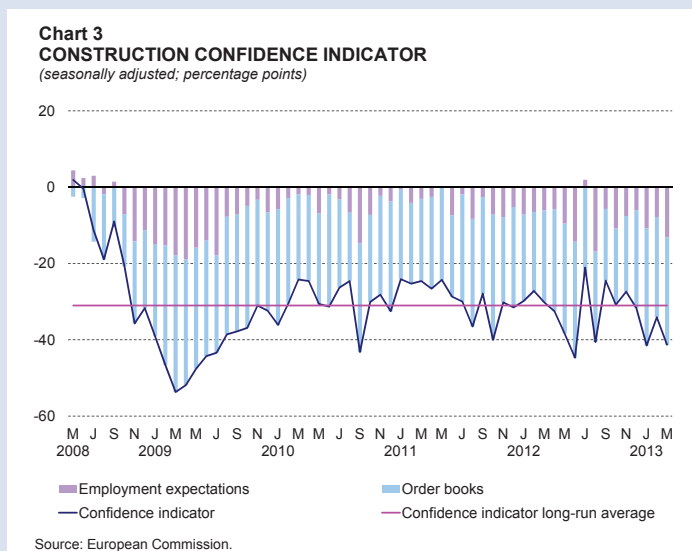
Even though confidence in industry improved, supplementary data collected through the survey show that the number of respondents anticipating their employment force to increase declined compared with three months earlier. Meanwhile, a larger number of participants expected selling prices to fall. A great number of respondents continued to indicate insufficient demand as the factor inhibiting business activity.

At a sectorial level, confidence rose further among producers of computer & electronic equipment and became less negative in the sectors involved in the printing & reproduction of recorded media and fabricated metal products (except machinery & equipment). On the other hand, the balance of replies turned negative among producers of rubber & plastic products and pharmaceuticals. Those producing wearing apparel, paper & paper products and those engaged in the repair & installation of machinery & equipment reported a fall in business confidence.

Confidence in the construction industry declines⁵

Confidence among construction firms decreased further in the quarter reviewed. The indicator fell to -41 in March from -32 in December (see Chart 3). Thus, the indicator remained below its long-term average of -31.

Both components of the indicator showed deterioration. More specifically, a higher share of respondents expressed an intention to reduce their labour complement in the following three months, while the proportion of firms that considered their current order books to be below normal increased. Both sub-components stood below their respective long-term average.



⁵ The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

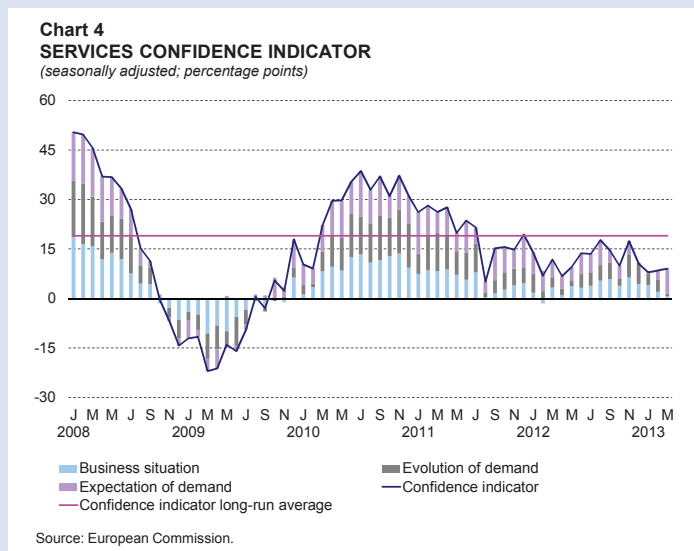
Negative trend in sentiment continues in the services sector⁶

The services confidence indicator registered losses and declined to nine in March from 11 in December (see Chart 4). The indicator thus stood below its long-run average of 19. The decrease was propelled by lower demand in the previous quarter and by fewer respondents registering an improvement in their business

conditions over the previous three months. On the other hand, participants generally expected demand to increase in the subsequent three months, whereas in the December survey they had foreseen a contraction. The improvement in expectations with regard to demand was driven by firms active in accommodation services, rental & leasing, programming & broadcasting, and food & beverage services. The services sector's views on the business situation and the evolution of demand thus remained below the respective long-term averages of these two sub-indicators. However, the sub-indicator pertaining to future demand moved above its average.

Meanwhile, expectations with respect to manpower levels improved, as the majority of respondents believed that employment within their firms would increase over the subsequent quarter, whereas in the December survey they had foreseen a decline in employment. On balance, prices charged by service providers were anticipated to increase in the subsequent three months.

Between December and March, confidence fell in sectors comprising accommodation, financial services, land and air transport, and in the arts, entertainment & recreation. In contrast, it improved among firms offering services related to rental & leasing, programming & broadcasting, computer programming and food & beverage.



⁶ The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

Consumer confidence posts further gains⁷

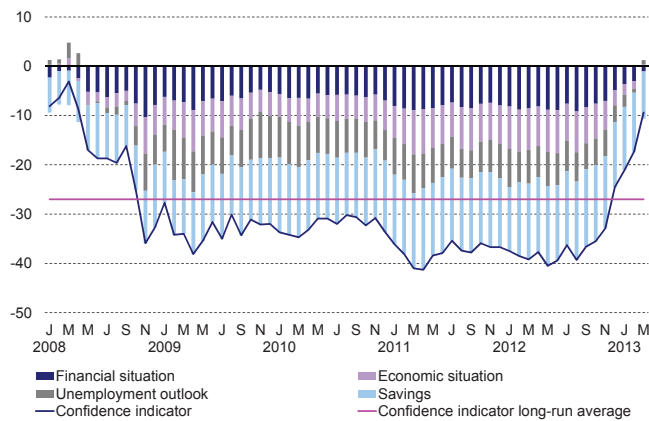
In March the consumer confidence indicator registered further gains, increasing to -9 from -25 in December (see Chart 5). Thus, the indicator rose further above its long-run average of -27.

The improvement between December and March was broad-based. Specifically, the majority of respondents believed that over the subsequent 12 months unemployment

would decrease, in contrast to expectations in recent years which constantly indicated a rise in unemployment. Consumers were also less pessimistic about their ability to save and the overall state of their financial position over the subsequent 12 months. Similarly, the majority of respondents expected the general economic situation in the country to get better. Consequently, compared with the respective long-term averages, indicators related to savings, the financial position and the economic situation were higher, whereas in the case of unemployment this remained below its long-term average.

Supplementary information shows that, given the existing economic situation, the proportion of respondents considering that the time was right to make major purchases of consumer goods, such as furniture and electronic devices, increased compared with the results registered in the December survey. With regard to price developments on balance, in March, a smaller number of consumers expected prices to rise over the subsequent 12 months compared with three months earlier.

Chart 5
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

⁷ The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

BOX 3: MEASURING THE EFFECTS OF STRUCTURAL REFORMS – A MODEL-BASED ANALYSIS¹

Structural reforms have long been identified as key ingredients to unlock Malta's economic growth potential. The diversification of the local economic base since EU membership appears to have increased the resilience of the Maltese economy, as evidenced by the milder economic contraction in 2009 compared with other European countries and by a stronger rebound in 2010. In some market segments, however, the adjustment process is hampered by monopolistic practices and insufficient competition. For instance, estimates of product market mark-ups in Malta are high compared with other European countries, with those in service industries greater on average than in manufacturing.²

This Box summarises the results of an assessment of the macroeconomic effects of structural reforms in service and labour markets in Malta, based on simulations using a large scale dynamic general equilibrium model.³ The model was calibrated to approximate the structural features of the Maltese economy, mainly in terms of its economic size and of the structure of trade and taxation. Parameters governing key ratios, like the shares of consumption, investment, exports and imports in GDP were calibrated on the basis of historical averages since 2000. Other parameters, like price and wage stickiness, were calibrated using information from micro-studies and surveys, such as the Central Bank of Malta's *Wage Dynamics Report*.⁴

The monopolistic competitive framework in the product and labour markets is the key mechanism to study the impact of structural reforms. Their effectiveness is assessed on the basis of a reduction in mark-ups resulting from increased competition in these markets. The impact of these reforms is examined by a permanent reduction of 10 percentage points in mark-ups in the market for non-tradable services and in the labour market over a period of four years. The simulations focus not only on long-term effects but also on the transitional adjustment required to reach the new equilibrium.

Model simulations confirm that structural reforms lead to sizeable positive effects on output and employment in the long term. The reduction in service and labour mark-ups raises GDP by more than 5% in the long run compared with the baseline scenario of no reforms. The combined reforms have positive long-term effects on all components of aggregate demand and real wages, while increasing the competitiveness of the Maltese economy through the depreciation of the real effective exchange rate.

¹ Prepared by Brian Micallef. Mr Micallef is a Senior Research Economist in the Bank's Modelling and Research Office.

² Sectoral estimates of product market mark-ups in Malta are available in Borg (2009).

³ This refers to the EAGLE (Euro Area and Global Economy) model. It is a multi-country model in which the euro area is modelled as a two-country monetary union having a common monetary policy and a nominal exchange rate against the non-euro area countries. The latter is split in two regions, the United States and the rest of the world. Fiscal policy is region-specific. A detailed description of EAGLE is available in Gomes et al (2010). Technical details of the calibration of EAGLE for Malta and its simulation properties are available in Micallef (2013).

⁴ See Central Bank of Malta (2011).

The impact of labour market reforms seems to be more pronounced than product market reform. The latter results in an increase in output, mainly driven by domestic demand. In particular, investment rises, as business anticipates higher future demand, triggering an increase in hours worked and wages in the process.

The increase in GDP following labour market reforms is driven mainly by exports and private consumption, as a rise in the supply of labour lowers the costs for firms, thereby improving their price competitiveness. Given the small size of the economy, spillovers to the rest of the euro area are negligible.

Both reforms are associated with adjustment costs. The effect can, however, be softened to a large extent if product and labour market reforms are implemented jointly. There are also positive spillovers on domestic economic activity if reforms are pursued in the euro area at the same time. In this scenario, the favourable long-term impact on domestic output is more pronounced.

The study does not address which specific reforms will achieve the desired level of competition. Further research should be devoted to study the impact of specific reforms at a sectoral level, thereby moving from a macroeconomic perspective to a micro-economic one. As far as aggregate macroeconomic models are concerned, however, it is encouraging that the findings presented in this box are generally robust to varying levels of mark-ups and different parameterization of the model. Since long-term positive effects seem to be more pronounced in the case of labour market reforms, this calls for policies to reduce the mismatch between skills' demand and supply required in today's industries, and to provide incentives for more people to be attracted to and retained in the labour market.

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The labour market⁴

Labour market statistics for the final quarter of 2012 show that, on an annual basis, employment continued to increase. Meanwhile, the unemployment rate based on the labour force survey (LFS) declined slightly on both an annual and quarter-on-quarter basis.

Employment continues to rise on an annual basis

On the basis of the LFS, in the final quarter of 2012 the labour supply, which includes all persons in the labour market aged 15 and over, rose by 3.3% compared with the same quarter a year ago (see Table 2.4). Employment increased by 3.4% following a rise of 2.1% in the preceding quarter. In absolute terms, full-time jobs were the biggest contributor towards this, rising by 2,769, or 1.9%. A significant change was also registered in part-time jobs as these went up by 2,046, or 11.2%. Meanwhile, full-time jobs on reduced hours also rose on a year earlier.

The total employment rate stood at 59.5%, 0.1 percentage point lower compared with the preceding quarter. However, on a year-on-year basis, it rose by 2.2 percentage points (see Chart 2.3).⁵ The increase in annual terms was driven by females, as their employment rate went up to 45.4% from 41.1% in the fourth quarter of 2011, with the strongest rise recorded in the 45 – 54 age bracket. At the same time, the male employment rate went up marginally in annual terms, by 0.1 percentage point to 73.1%.

As the labour supply rose, the activity rate went up to 63.6% from 61.4% a year earlier.⁶ This rise was completely propelled by the female category.

Table 2.4
LABOUR MARKET INDICATORS BASED ON THE LFS

Persons; annual percentage changes

	2011		2012			Annual change %
	Q4	Q1	Q2	Q3	Q4	
Labour supply	179,518	182,310	183,705	186,409	185,426	3.3
Employed	167,744	171,270	171,728	174,126	173,456	3.4
<i>By type of employment:</i>						
Full-time	146,192	147,789	148,438	148,833	148,961	1.9
Full-time with reduced hours	3,228	3,422	4,876	4,232	4,125	27.8
Part-time	18,324	20,059	18,414	21,061	20,370	11.2
Unemployed	11,774	11,040	11,977	12,283	11,970	1.7
Activity rate (%)	61.4	62.4	62.6	63.9	63.6	
Male	77.9	77.4	77.7	79.1	77.7	
Female	44.4	46.8	47.0	48.1	49.0	
Employment rate (%)	57.3	58.6	58.5	59.6	59.5	
Male	73.0	73.0	72.5	74.7	73.1	
Female	41.1	43.6	43.9	44.0	45.4	
Unemployment rate (%)	6.6	6.1	6.5	6.6	6.5	
Male	6.2	5.6	6.5	5.4	5.9	
Female	7.3	6.8	6.6	8.6	7.4	

Source: NSO.

⁴ This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted by the NSO on the basis of definitions set by the International Labour Organization and Eurostat, and administrative records compiled by the Employment and Training Corporation according to definitions established by domestic legislation on employment and social security benefits.

⁵ The employment rate measures the number of persons employed on a full-time or part-time basis as a proportion of the working age population, which is defined as all those aged between 15 and 64 years.

⁶ The activity rate measures the number of persons in the labour force as a proportion of the working age population, which is defined as all those aged between 15 and 64 years. Both the labour force and working age population are sourced from the LFS.

Employment and Training Corporation (ETC) data show that the gainfully occupied population, defined to include all those persons in full-time employment, continued to increase (see Chart 2.4). The annual growth rate accelerated to 1.7% in December from 1.1% in September.

From a sectoral perspective, employment growth was completely propelled by the private sector (see Table 2.5). In December, the number of full-time employees in this sector increased by 2,663, or 2.4%, on a year earlier. Job creation occurred in market services, where employment rose by 3.9%, whereas jobs in direct production decreased by 1.3%.

The largest increases in the number of employed persons in the service sectors were registered in administrative & support service activities, health & social work, arts, entertainment & recreation, professional, scientific & technical activities and information & communication. Compared with the preceding year, job creation also occurred in accommodation & food service activities, wholesale & retail trade and financial & insurance activities. On the other hand, jobs fell marginally in real estate. Furthermore, the annual drop in employment in direct production registered in December mainly occurred in manufacturing and construction.

In the public sector, employment decreased by 113 to 40,879 in December, compared with a year earlier. Jobs were lost solely in direct production. More specifically, jobs decreased primarily in the construction sector and in the energy and water supply sectors. In contrast, full-time employment rose in the service category, with increases mainly in education, health and social work.

On an annual basis, part-time jobs increased by 4.1% in December, as against 5.4% in September. The number of workers with a part-time job as their primary employment rose by 5.3%, while those

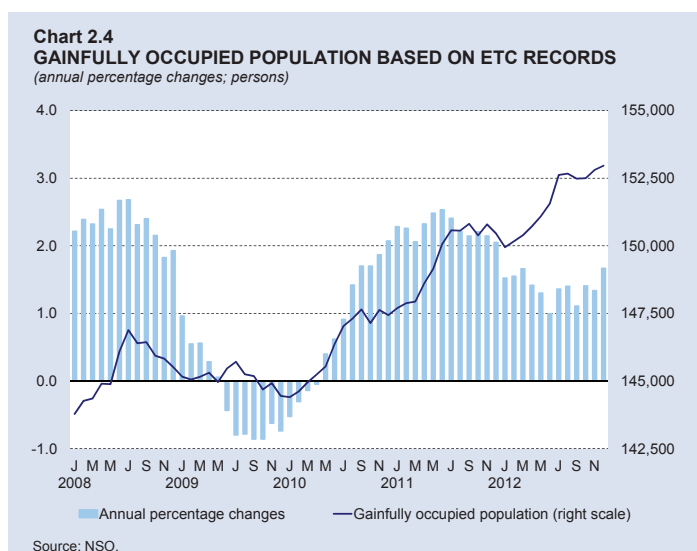
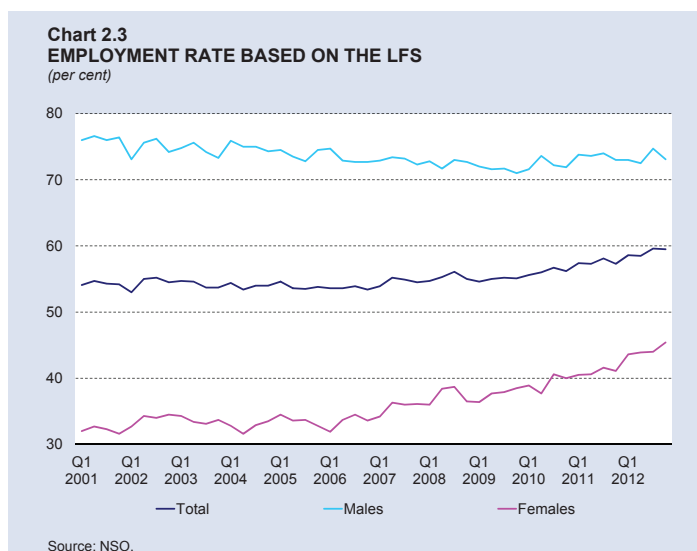


Table 2.5
LABOUR MARKET INDICATORS BASED ON ETC ADMINISTRATIVE RECORDS

Persons; annual percentage changes

	2011		2012			Annual change %
	Dec.	Mar.	June	Sep.	Dec.	
Labour supply	157,044	157,355	158,256	159,352	159,775	1.7
Gainfully occupied ⁽¹⁾	150,457	150,389	151,559	152,483	152,964	1.7
Registered unemployed	6,587	6,966	6,697	6,869	6,811	3.4
Unemployment rate (%)	4.2	4.4	4.2	4.3	4.3	
Private sector	108,833	109,100	110,326	111,186	111,496	2.4
Direct production	30,955	31,471	30,639	30,798	30,568	-1.3
Market services	77,878	77,629	79,687	80,388	80,928	3.9
Public sector	40,992	40,658	40,621	40,726	40,879	-0.3
Temporary employment	632	631	612	571	589	-6.8
Part-time jobs	53,440	53,271	55,331	55,369	55,655	4.1
Primary	30,201	30,142	31,780	31,890	31,813	5.3
Secondary ⁽²⁾	23,239	23,129	23,551	23,479	23,842	2.6

⁽¹⁾ This category measures full-time employment.

⁽²⁾ This category includes employees holding both a full-time and a part-time job.

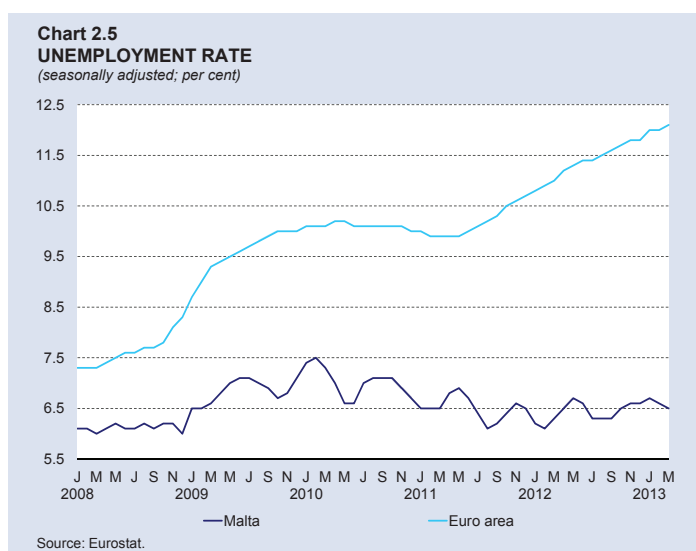
Source: NSO.

who hold both a part-time and a full-time job were up by 2.6%. Female workers continued to be the main drivers behind both increases. Within the pool of part-timers, the most significant additions in the number of job holders were recorded in administrative & support service activities, public administration & defence, wholesale & retail trade and the arts, entertainment & recreation sector.

The unemployment rate remains practically unchanged

In the December quarter the LFS unemployment rate stood at 6.5%, 0.1 percentage point lower than in the preceding quarter and in the same period a year earlier.⁷ Compared with the situation a year earlier, the unemployment rate for males fell, while that for females increased marginally.

The seasonally adjusted unemployment rate averaged 6.6% in the final quarter of 2012, 0.3 percentage point higher when compared with the previous quarter and 0.1 percentage point above the year-ago level (see Chart 2.5).⁸ Despite these increases, the jobless rate in Malta was over

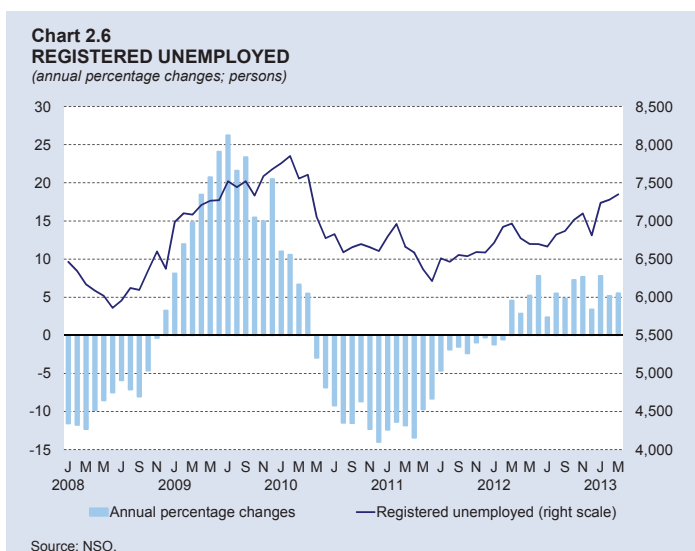


⁷ According to the LFS, the unemployed comprise all persons above 15 years of age who are without work, available for work and who have actively sought work during the four weeks preceding the survey. In contrast, the number of unemployed on the basis of ETC data includes only those persons registering for work under Part 1 and Part 2 of the unemployment register.

⁸ Based on Eurostat calculations.

5 percentage points lower than the average for the euro area.

The administrative records of the ETC indicate that the number of claimants for unemployment benefits fell by 58 between September and December (see Chart 2.6). However, throughout the quarter, the number of registered unemployed was substantially higher than a year earlier. In December, the unemployment rate based on ETC data stood at 4.3%, marginally higher than the 4.2% registered a year earlier.

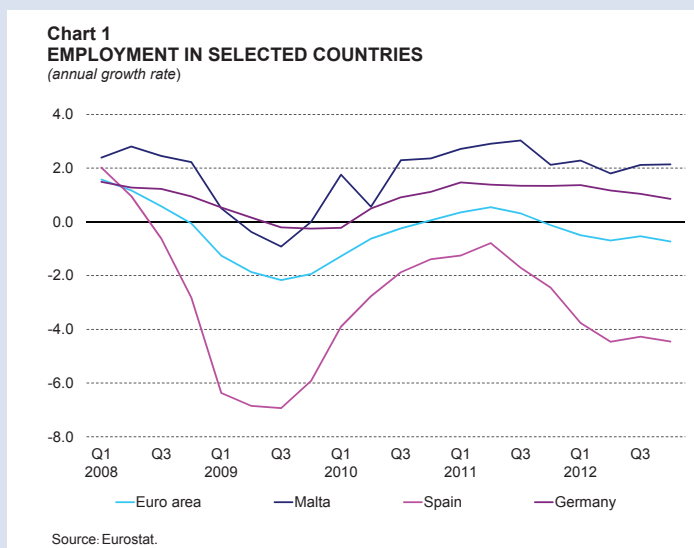


In the first quarter of 2013, the seasonally adjusted jobless rate averaged 6.6%, unchanged from the last quarter of 2012, but higher compared with the 6.2% recorded a year earlier. Meanwhile, ETC data indicate that the number of registered unemployed increased to 7,350 in March 2013, which was higher than a year earlier.

BOX 4: LABOUR MARKET RESILIENCE IN MALTA¹

Labour market developments in Europe showed a substantial degree of cross-country heterogeneity since the start of the economic and financial crisis in 2008. This is attributable to a number of factors, such as differences in the severity of the crisis and policy responses adopted by national authorities, the exposure of some countries to sectoral shocks and country-specific institutional features of the labour market. Compared with the euro area, the 2008-2009 recession in Malta was less severe and its impact on the labour market more moderate.

Against this background, this box reviews key labour market developments and the sources of resilience since 2008, and identifies



¹ Prepared by Brian Micallef, who is a Senior Research Economist in the Bank's Modelling and Research Office.

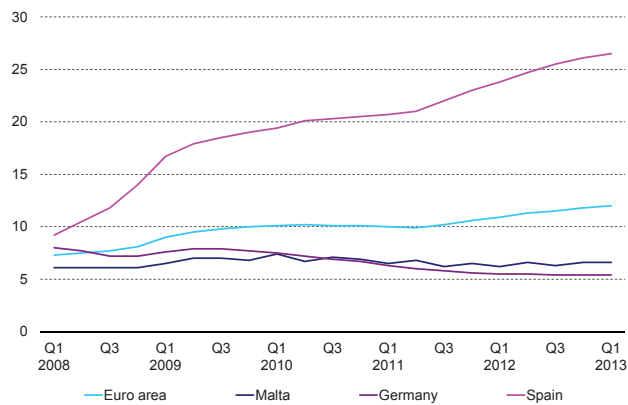
possible bottlenecks, which could hinder the adjustment process in response to future economic shocks.

Employment growth in Malta had already returned to its pre-crisis growth trend in 2010, with job creation in the services sector continuing unabated throughout this period. This performance contrasts with the situation prevailing in the euro area and especially in those countries that were hit hard by the recession, such as Spain, and compares favourably even with Germany (see Chart 1).

Following the collapse of international trade in 2009, the Maltese government provided temporary and targeted assistance directly to companies in difficulties. This approach was deemed more appropriate than a broad-based fiscal stimulus package, which, in a small and open economy, would have mostly leaked abroad through imports.

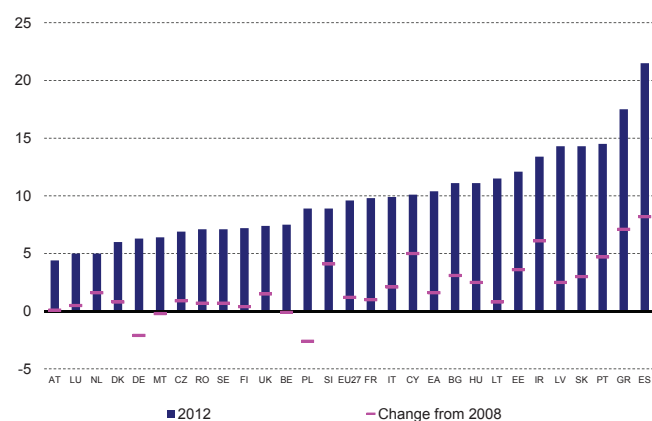
In part, as a result, the increase in the unemployment rate in Malta was more moderate, from 6% in 2008 to 6.9% in 2009. The rise started to be reversed already by early 2010. This contrasts with the situation prevailing in the euro area, where the increase in the unemployment rate after the 2008-2009 recession persisted and resumed its upward trend following the sovereign debt crisis in 2011 (see Chart 2). Despite the recent increases, the unemployment rate in Malta remains at a low level compared with the euro area, standing at 6.6% in 2013 Q1. According to estimates by the European Commission, the impact of the crisis on Malta's structural unemployment rate has been negligible (see Chart 3).²

Chart 2
UNEMPLOYMENT RATE IN SELECTED COUNTRIES
(per cent of the labour force)



Source: Eurostat.

Chart 3
STRUCTURAL UNEMPLOYMENT RATE
(per cent of the labour force)



Sources: AMECO database; own calculations.

² According to the Commission, structural unemployment refers to the concept of the non-accelerating-wage rate of unemployment (NAWRU), that is, the unemployment rate that is consistent with a constant wage growth. The cyclical component of unemployment in Malta was close to zero in 2012.

Labour supply

Contrary to the pro-cyclical behaviour of the participation rate in past recessions, the labour supply in most EU countries remained resilient since the onset of the crisis.³ In Malta the participation rate continued to rise from 58.9% of the working age population in 2008 to 63.1% in 2012, though it still remains lower than the EU average of 71.8%, with both males and females contributing to this increase.

An analysis of the participation rate by educational attainment suggests that the gap between Malta and the European Union is populated mostly by individuals with a low and medium level of education, whereas the participation rate of Maltese persons with a tertiary level of education is higher than in the European Union.

Albeit starting from a low level, the participation rate of females increased by 7.6 percentage points since 2008, by far the largest increase among EU countries, to stand at 47.8% in 2012. During the same period, the participation rate of older workers increased by 4.2 percentage points, to stand at 44.4% in 2012. From a longer-term perspective, however, efforts to retain older workers in the labour market have been less successful in Malta, at least when compared with developments in other EU economies. The pension reform, in conjunction with targeted fiscal measures, should, however, contribute to encourage more older workers to remain active over the coming years.⁴ Statistics on the average exit age from the labour market suggest that Malta is closing the gap with the EU economies.⁵

The increased participation rate of females in the labour force is attributable to a number of initiatives taken since the beginning of the crisis, including back-to-work fiscal incentives, new income tax rules and an increase in maternity and adoption leave. Measures were also aimed at making childcare facilities more available and extending after-school care services in a number of schools to bridge the gap between school days and regular working hours of parents in employment. The possibility of going from full-time employment to full-time reduced hours with the enjoyment of all pro-rata benefits has also helped in this regard.

A related trend in the domestic labour market has been the increasing engagement of part-timers. Statistics from the LFS suggest that part-time employment accounted for more than 40% of the overall increase in employment since 2008, with women accounting for around 60% of that rise during this period.

Immigration also generates an increase in the labour supply and can address structural shortages in the labour market, both in the low and the highly-skilled sectors. This is important not only in view of Malta's ageing population but also because labour shortages in selected sectors can create upward pressure on wages, with adverse effects on price

³ See European Commission (2012) and ECB (2012) for further details.

⁴ Legislation was introduced in 2008 through which persons of pensionable age under the age of 65 will be able to work without losing their pension entitlements, irrespective of the amount of earnings and of their age. As a result of pension reforms, the retirement age is being gradually raised to 65.

⁵ According to Eurostat, the average exit age in Malta increased from 59.8 years in 2008 to 60.5 in 2010. During the same period, the average exit age in the European Union rose slightly from 61.4 to 61.5 years.

competitiveness. According to the ETC, there were almost 9,000 foreigners with a licence to work in Malta in 2010, with more than half being EU nationals.⁶

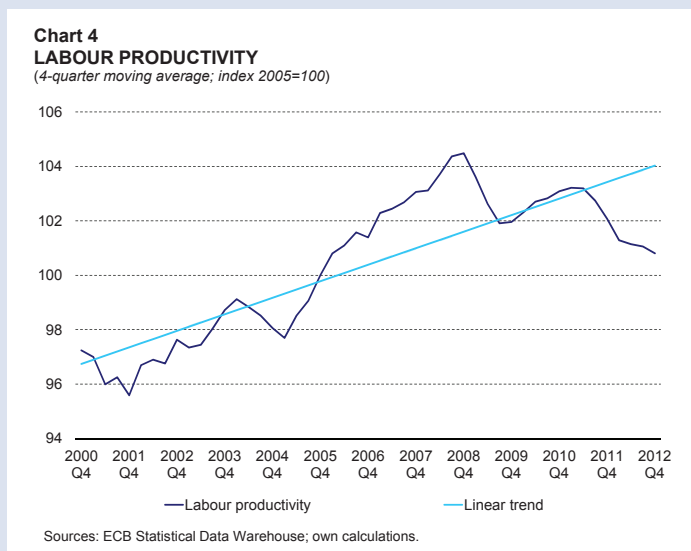
Wages, productivity and labour hoarding

The increase in the labour supply was complemented by a period of wage moderation. In the aftermath of the 2008-2009 recession, nominal wage increases in Malta averaged 2.0% per annum, broadly in line with those awarded in the euro area and lower than the historical average wage growth of around 4% before the crisis. Wage moderation was especially pronounced in 2010 and 2011. Econometric estimates presented in Grech *et al* (2013) point towards an important role for wage moderation in sustaining the demand for private sector employment in Malta.

However, with employment by domestic firms rising more strongly than output, labour productivity dropped sharply since 2011. Consequently, unit labour costs increased. Labour hoarding is likely to be one factor behind falling productivity.⁷ In general, businesses resort to labour hoarding if hiring new workers involves substantial search and training costs, namely, if the skills required are very firm-specific and, hence, difficult to find among potentially new workers. In such an environment, firms may opt to vary the utilisation rate of labour during a period of temporary weak demand instead of laying off workers.

According to information collected in 2010 and presented in the *Wage Dynamics Report*, more than half the surveyed firms indicated that, when faced with economic shocks, they prefer to cut non-labour costs and overtime rather than shedding jobs.⁸ Statistics from the LFS confirm that the trend in hours worked per employee, both for full-timers and part-timers, has remained below the pre-crisis levels.

Chart 4 uses the difference between labour productivity and its long-term trend as a proxy for labour utilisation.⁹ The chart plots an index of labour productivity and a fitted linear trend.



⁶ A large drop in active licences was registered in 2011 since, as from May 2011, EU nationals no longer require an employment licence to work in Malta.

⁷ There could be other explanations for the weakness in productivity, such as the impact that a prolonged period of subdued investment may have on the capital stock, high risk aversion by banks to lend to start-up companies that have the potential to achieve higher productivity and difficulty in measuring real output in emerging sectors of the economy.

⁸ For details of the *Wage Dynamics Report*, see Central Bank of Malta (2011).

⁹ A similar approach was proposed by Felices (2003). Since labour productivity is measured as output per headcount employment, such a measure should be interpreted with caution in light of the increasing use of part-time workers. In addition, the absence of price deflators at the sectoral level for Malta prevents an in-depth analysis of sectoral productivity dynamics.

Data points below the trend line represent an underutilisation of the workforce, implying an increase in labour hoarding, and vice-versa. The chart points to a drop in labour utilisation in 2009, bringing it back to its long-term trend. Since the end of 2011, however, this indicator implies an increasing degree of labour hoarding as labour productivity fell further below its long-term trend.

Skill mismatches

The relatively low unemployment rate in Malta masks important differences in the profile of the unemployed. According to the LFS, slightly less than half of the unemployed in 2012 were searching for a job for more than a year, thereby being classified as long-term unemployed. Such structural unemployment may be the result of a mismatch between the skills offered by the unemployed and those required by today's industries.

Further indications of possible skill mismatches can be gauged by the occupations sought by persons on the ETC unemployment register. In 2012 more than 60% of registrants were looking for low skilled jobs that do not warrant a higher level of education, such as elementary occupations, plant and machine operators, sales workers and clerks.¹⁰ In addition, more than 40% of those on the unemployment register are over 45 years of age, an indication of an added challenge that may be encountered in the upgrading of skills and qualifications.

In recent years, efforts were directed to increase the employability of the long-term unemployed by introducing schemes to undertake work in the community. Such programmes are also intended to tackle the problem of undeclared work.

Main policy implications

The Maltese labour market performed relatively well since the economic and financial crisis of 2008, at a time when labour market performance in a number of other European countries deteriorated drastically. This resilience is the result of a combination of prudent economic policies and labour market institutions, such as wage-bargaining at firm level, which helped to keep wage pressures contained and employment growing.

Going forward, measures to increase the supply of labour, primarily by attracting more females and older workers to the labour market, should remain high on the policy agenda. Incentives should continue to be directed to address bottlenecks for these target groups by providing tax incentives on income from work, making childcare more available and extending after-school facilities. The introduction of more flexible work arrangements, such as flexitime and teleworking, could help reconcile work and family life. Recourse to early retirement schemes should be limited, instead opting for measures to support the employment and retention of older workers in the labour market by emphasising the value of work experience.

The education system in Malta should remain adaptable and flexible to ensure that the diversification of the economy's production structure does not lead to shortages in the

¹⁰ The figures include both Part 1 and Part 2 of the unemployment register.

high-skilled segment of the labour market. Initiatives that strengthen the collaboration between academia and the business community should be encouraged to bridge the gap between the skills of new graduates and the requirements of today's industries.

Finally, despite Malta having one of the lowest youth unemployment rates in the European Union, additional efforts are needed to reduce early school dropouts, improve vocational education and extend apprenticeships schemes. Efforts should continue to be directed towards labour market policies that facilitate the return to work of less-skilled individuals, in particular by providing appropriate training to improve the employability of job seekers and tackle the mismatch between the supply and demand of labour skills.

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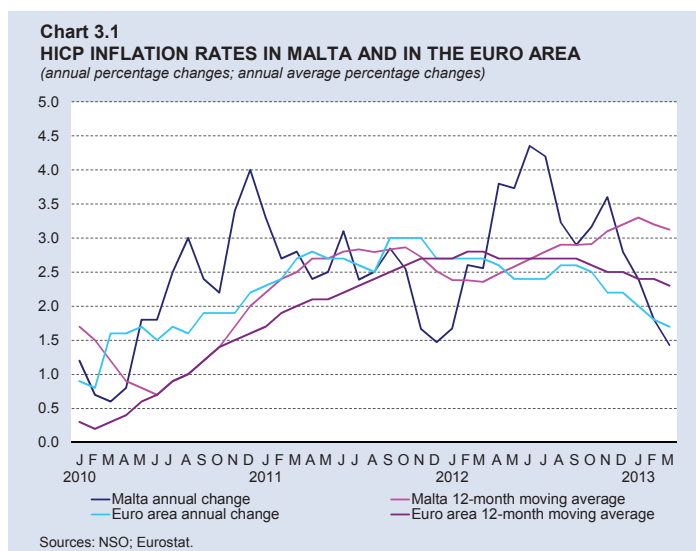
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3. PRICES, COSTS AND COMPETITIVENESS

HICP inflation

HICP inflation rate moderates slightly in the fourth quarter

The inflation rate based on the Harmonised Index of Consumer Prices (HICP) moderated further during the fourth quarter of 2012, with the annual rate easing to 2.8% in December from 2.9% in September (see Table 3.1).¹ This deceleration in the headline inflation rate was due to price developments in services, more specifically communications. During the quarter, however, price pressures from energy also eased. Developments in these two components were partly offset by increased price pressures in the non-energy industrial goods category.



Although the overall HICP inflation rate in Malta moderated during the quarter under review, the 12-month moving average rate continued to edge upwards, by a further 0.3 percentage point to 3.2% in December. This rate was higher than that registered in the euro area, which decelerated to 2.5% by the end of 2012 (see Chart 3.1).

In Malta the deceleration in the overall inflation rate between September and December was mainly driven by developments in the prices of services. Their annual rate of change stood at 1.7% and their contribution to the overall inflation rate went down to 0.7 percentage point in

Table 3.1
YEAR-ON-YEAR HICP INFLATION

Percentage change

	2012					
	July	Aug.	Sep.	Oct.	Nov.	Dec.
Unprocessed food	9.3	6.2	9.4	7.0	8.1	8.7
Processed food including alcohol and tobacco	3.3	3.7	3.7	4.1	4.2	3.7
Energy	2.7	2.3	5.3	4.9	4.3	4.1
Non-energy industrial goods	1.3	1.8	1.8	2.0	1.8	2.0
Services (overall index excluding goods)	5.1	3.0	1.6	2.5	3.9	1.7
All Items HICP	4.2	3.2	2.9	3.2	3.6	2.8

Source: NSO.

¹ In January 2012 the HICP weights were revised to reflect changes in household consumption patterns. As a result, the weight of non-energy industrial goods was reduced by 1.6 pp to 29.9%. In addition, the weight related to food fell by 0.2 pp to 20.3%. In contrast, the share allocated to energy rose from 6.7% to 7.3% in 2012. Weights related to services rose by 1.2 pp, to 42.5%.

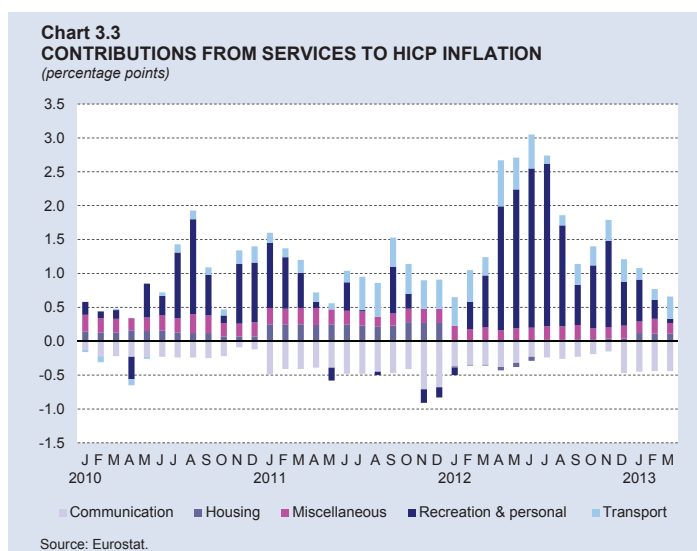
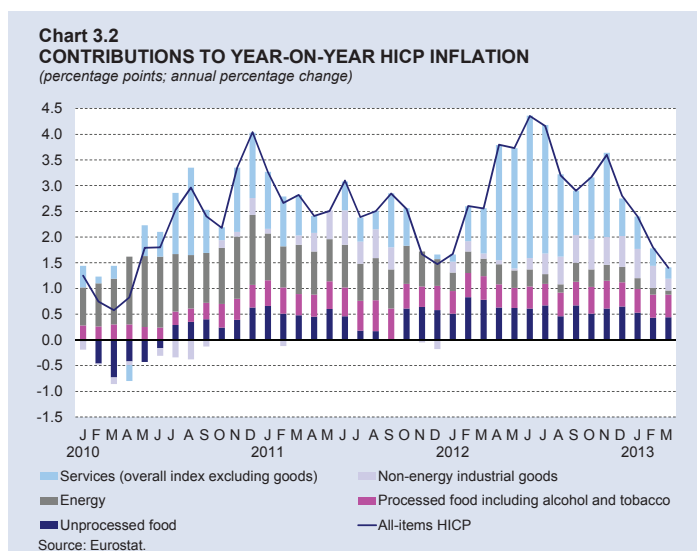
December (see Chart 3.2 and Chart 3.3). The moderation in the services' inflation rate over the quarter mainly reflected lower prices for internet rates, which in turn affected the prices of communication services. In December the latter were 10.7% lower than their year-ago level. As a result, communication services contributed a negative 0.5 percentage point to the overall rate of inflation from -0.2 percentage point three months earlier.

Meanwhile, the energy inflation rate stood at 4.1% in December from 5.3% in September, with the drop reflecting a slower rate of increase in fuel prices. As a result, the contribution of the energy category to overall inflation marginally dropped to 0.3 point in December.

On the other hand, non-energy industrial goods prices rose slightly, mostly reflecting higher prices for clothing. As a result, the inflation rate of this component edged up to 2.0% from 1.8% in September (see Table 3.1). Its contribution to overall inflation rose by 0.1 percentage point to 0.6 point.

The annual rate of change in food prices decelerated to 5.5% in December from 5.8% in September. This component contributed 1.1 percentage points to overall inflation, similar to three months earlier. The slight moderation in food price inflation over this period reflected a small drop in the inflation rate of unprocessed food, to 8.7% in December from 9.4% in September. The annual rate of change of processed food prices stood unchanged at 3.7% in December.

The annual HICP inflation rate moderated further during the first quarter of 2013, decelerating to 1.4% in March. The drop between December and March was broad-based across all components, but mainly reflected developments in the prices of services and non-energy industrial goods.



RPI inflation²

RPI inflation follows the same path of the HICP

The Retail Price Index (RPI) inflation rate also moderated somewhat, to 2.8% in December 2012 from 2.9% three months earlier. Meanwhile, the 12-month moving average inflation rate based on this index rose slightly to 2.4% from 2.3% in September (refer to Table 3.2 and Chart 3.4).

The inflation rates of most sub-components of the RPI did not show very large movements between September and December 2012. Nonetheless, there was a significant change in the transport and communications inflation rate, which halved to 1.5%. This component contributed 0.3 percentage point to overall RPI inflation in December, as against 0.7 percentage point in September.

On the other hand, the drops in clothing & footwear prices seen in September bottomed out going into the fourth quarter. By December the inflation rate stood at 1.2%, with this category contributing 0.1 percentage point to RPI inflation.

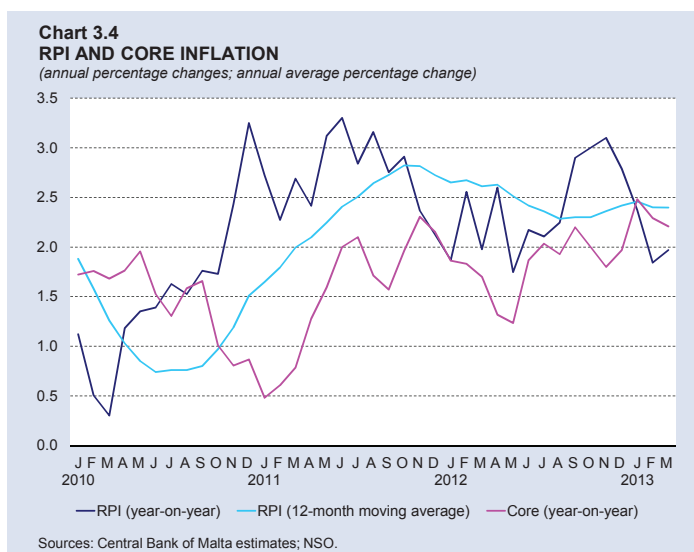


Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION

Percentage points

	2012					
	July	Aug.	Sep.	Oct.	Nov.	Dec.
Food	0.9	0.9	1.2	1.1	1.2	1.3
Beverages & tobacco	0.3	0.3	0.3	0.3	0.3	0.2
Clothing & footwear	-0.1	0.2	-0.2	0.0	0.0	0.1
Housing	0.1	0.1	0.0	0.1	0.1	0.1
Water, electricity, gas & fuels	0.0	0.0	0.0	0.1	0.1	0.1
Household equipment & house maintenance costs	0.2	0.1	0.2	0.1	0.1	0.1
Transport & communications	0.2	0.2	0.7	0.7	0.8	0.3
Personal care & health	0.1	0.1	0.1	0.1	0.1	0.1
Recreation & culture	0.1	0.2	0.2	0.2	0.2	0.2
Other goods & services	0.3	0.3	0.3	0.3	0.2	0.2
RPI (annual percentage change)	2.1	2.2	2.9	3.0	3.1	2.8

Sources: Central Bank of Malta; NSO.

² Diverse patterns in inflation as measured by the HICP and the RPI reflect differences in the way the two indices are compiled. For instance, whereas RPI weights are based on expenditure by Maltese households, HICP weights also reflect tourist expenditure in Malta. Thus, while the RPI excludes hotel accommodation prices, these account for a significant weight in the HICP. The RPI also allocates a larger weight to the food component.

In addition, food inflation increased further to 6.0% in December from 5.5% in September.³ As a result, the contribution of food to the overall rate of RPI inflation rose by 0.1 percentage point to 1.3 points. Beverages & tobacco contributed 0.2 percentage point to inflation, as the annual rate of change in prices declined to 3.4% from 4.3% three months earlier. As a result, the total contribution of food & beverages was unchanged at 1.5 percentage points, although the two components together remained the largest contributors to overall headline RPI inflation in December. Other major RPI sub-indices had only a marginal impact on the overall RPI inflation rate during this period.

Data running into the first quarter of 2013 show that RPI inflation eased further to 2.0% in March. This stemmed from weaker price increases in food and a drop in the prices of transport & communication services.

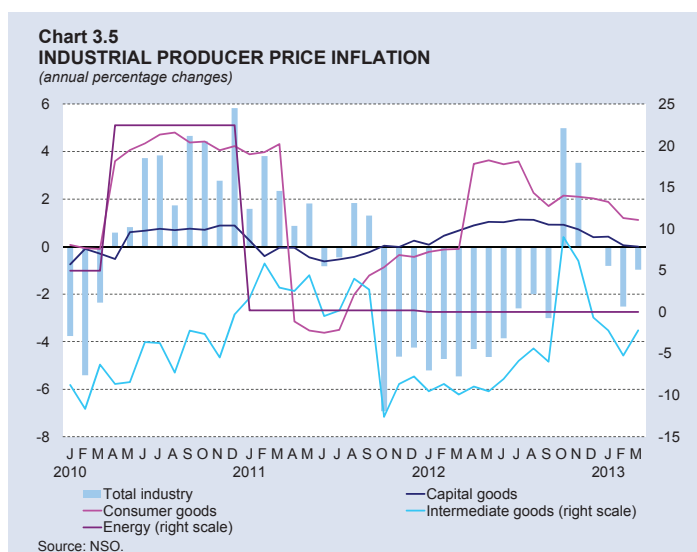
As the RPI is heavily influenced by a number of volatile components, such as food prices and water & electricity charges, underlying price pressures can be better gauged by the Bank's core RPI inflation rate.⁴ This rate also slowed down during the last quarter of 2012, standing at 2.0% in December from 2.2% three months earlier. The main components driving the deceleration in the core index were household equipment & house maintenance, and other goods & services.

Costs and competitiveness

Producer price inflation stable in December⁵

During the fourth quarter of 2012 producer price inflation turned positive, but by December the rate fell to nil (see Chart 3.5).

Developments between September and December largely reflected movements in the intermediate goods category, which mainly includes semiconductors, pharmaceutical, paper and plastic products. Intermediate goods prices contracted at the slower rate of 0.7% after having declined by 6.0% in September.



³ The food component in the RPI includes both processed and unprocessed food. Processed food in the RPI excludes beverages and tobacco, which, however, are part of the processed food sub-index of the HICP.

⁴ The core inflation rate reflects developments only in those sub-indices of the RPI that show persistent price changes. As measured by the Bank, these sub-indices currently consist of: housing, durable household goods, personal care & health, education & entertainment and other goods & services.

⁵ The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage. It monitors the ex-works sale prices of leading products as reported by a sample of 77 large enterprises accounting for over 80% of total industrial turnover. The index covers three areas of economic activity: mining & quarrying, manufacturing and the supply of electricity, gas & water. Products are divided into five main groupings: intermediate goods, capital goods, consumer durables, non-durable consumer goods and energy. In turn, producer prices are divided between export and domestic markets for each of the groupings, with the bulk of the weight given to the export index. Producer price inflation in Malta has been more volatile than consumer price inflation in recent years, reflecting relatively sharp fluctuations in producer prices in the energy and intermediate goods sectors.

As a result, their contribution to overall producer price inflation became less negative, falling by 0.4 percentage point from -3.3 percentage points in September. Meanwhile, prices of capital goods moderated to 0.4%, a slightly lower rate than in September. They continued to have a small upward effect on the overall inflation rate.

On the other hand, prices of consumer goods rose by 2.0% in December from 1.7% in September, with the contribution to overall producer price inflation standing at 0.3 point.

As electricity tariffs remained unchanged over the year, energy prices had no effect on producer price inflation.

During the first quarter of 2013 producer price inflation turned negative, and stood at -1.0% in March. Developments between January and March predominantly reflected movements in intermediate goods prices.

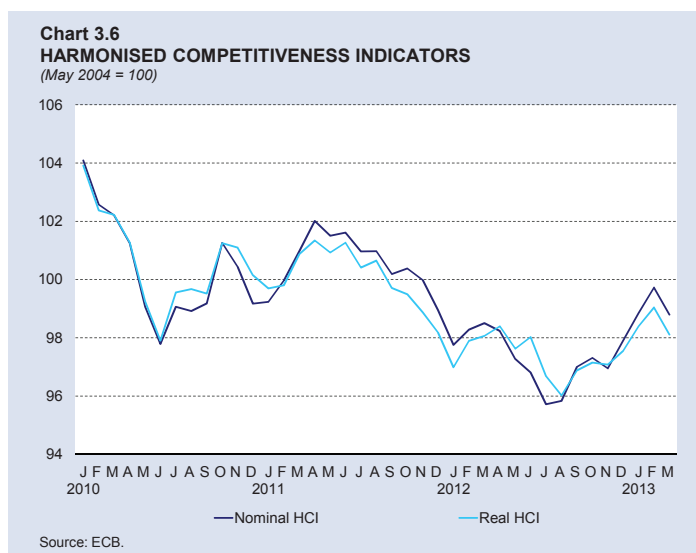
Harmonised competitive indices rise

During the fourth quarter of 2012, both the nominal and real harmonised competitiveness indicator (HCI) increased.⁶ In December the nominal index was 0.9% higher than its September level, while the real index rose by 0.7% (see Chart 3.6).⁷

The increase in the nominal HCI reflected the appreciation of the euro against major currencies, particularly the pound sterling and the US dollar, owing to the size of Malta's trade with the United States and the United Kingdom.

The increase in the nominal index was slightly dampened by favourable developments in Malta's inflation rate vis-à-vis that of its trading partners. Thus, as consumer prices in Malta rose on average less rapidly than those of its trading partners, a marginal narrowing of inflation differentials led to a slightly lower increase in the real HCI.

Compared with a year earlier, the nominal HCI was 1.1% lower in December while the real HCI fell by 0.6% over the same period. The more contained decline in



⁶ A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international competitiveness. The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, while the real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. In the computation of the indices, exchange rate and price changes are weighted according to the direction of trade in manufactured goods only. Therefore, the HCI should only be considered as a partial measure of Malta's international competitiveness. Changes in the HCI should be interpreted with caution. The HCIs are compiled by the ECB.

⁷ Following the adoption of the euro in Estonia in January 2011, the HCI now measures Malta's competitiveness vis-à-vis the other 16 countries in the euro area plus the EER-40 group of trading partners. Previously, Malta's HCI was compiled on the basis of 15 other countries in the euro area and the EER-41 group of trading partners.

the real index reflects a widening in Malta's inflation differentials compared with its main trading partners. This resulted in a partial offsetting of the competitive advantage gained from the depreciation of the euro, when compared with the previous year.

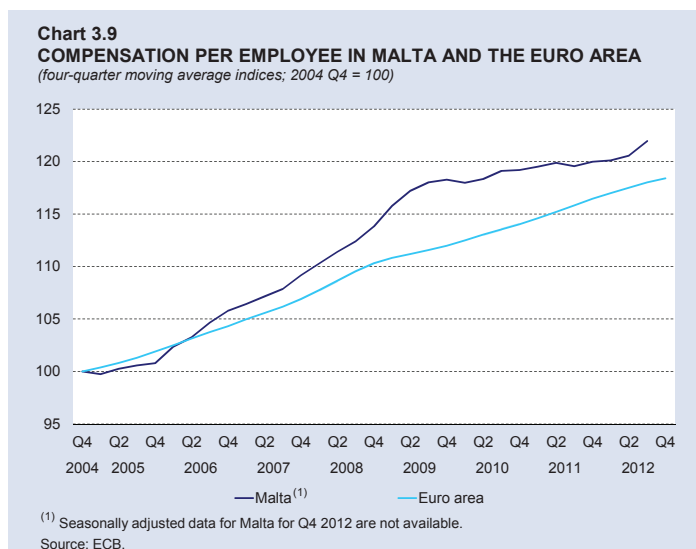
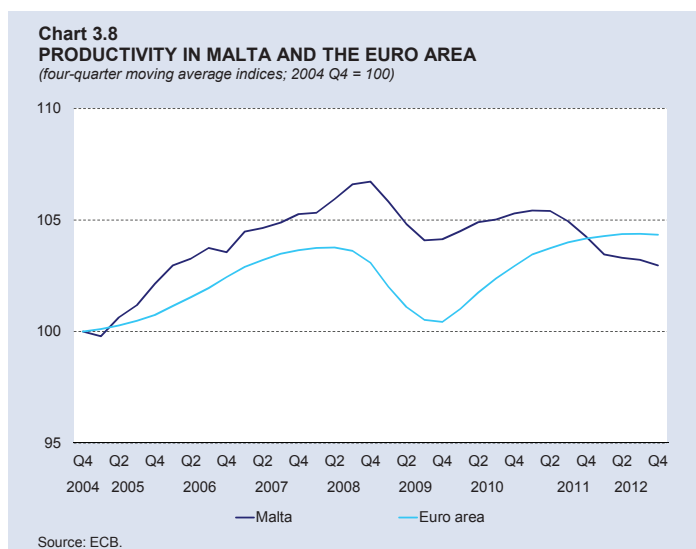
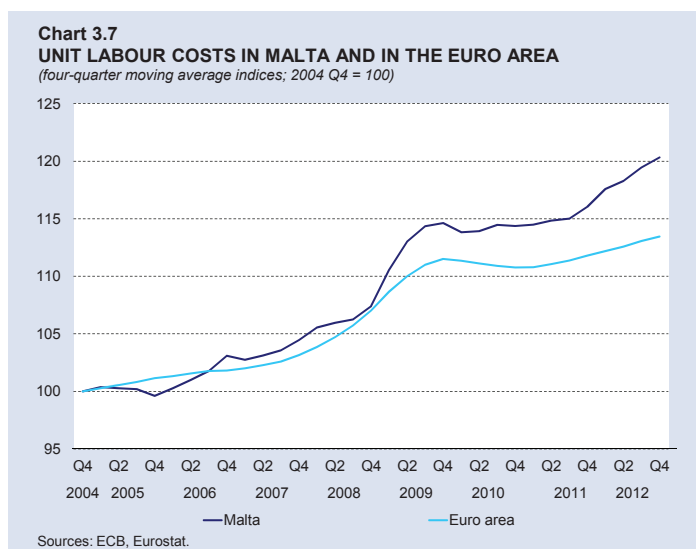
Going into the first quarter of 2013, HCI data show that both indices rose steadily in January and February, before moderating somewhat during March. As a result, at the end of the quarter, nominal and real HCI stood at 0.9% and 0.6%, respectively, above their December level.

Unit labour costs remain high

Malta's unit labour cost (ULC) index, measured as a four-quarter moving average, increased by 3.7% during the fourth quarter of 2012, following a rise of 3.9% in the third quarter (see Chart 3.7).

The year-on-year rise in ULC resulted from both a drop in labour productivity and an increase in compensation per employee (see Chart 3.8 and Chart 3.9). Compensation per employee rose by 2.4%, after it had gone up by 2.2% in the previous quarter. Labour productivity continued to fall, going down by 1.2% following a drop of 1.6% in the previous quarter.

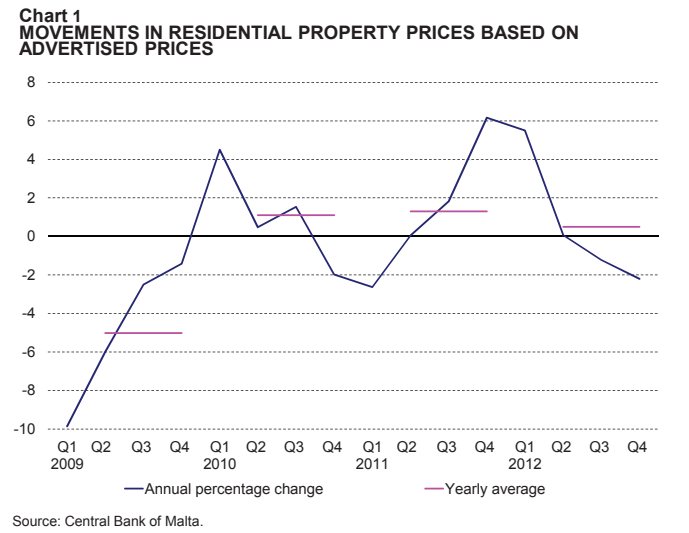
In the euro area ULC also increased, going up by 1.5% in 2012. This rise was driven by developments in compensation per employee, which expanded by 1.7% on an annual basis. The effect of higher wages on ULC was only partly offset by a 0.2% gain in productivity.



BOX 5: RESIDENTIAL PROPERTY PRICES

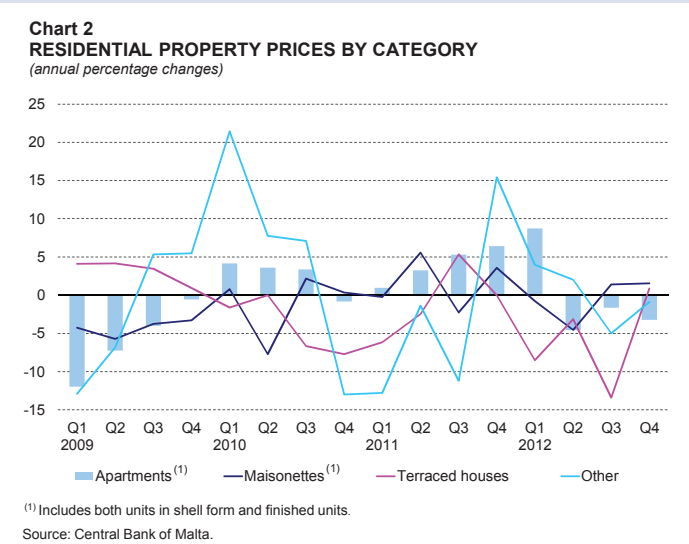
Residential property prices drop further in the fourth quarter

Based on the Central Bank of Malta's property price index, the average price of residential properties fell at an annual rate of 2.2% in the last quarter of 2012, following a drop of 1.2% in the previous quarter. On the other hand, over the year as a whole, average property prices increased by 0.5%, as a rise in prices in the first half of the year offset the declining trend in subsequent quarters. This marginal increase in the index was well below the increases recorded in the previous two years (see Chart 1).¹



The annual drop in the overall index during the fourth quarter reflected diverging movements in prices of different segments of the residential property market (see Chart 2). Whereas prices for maisonettes and terraced houses increased on an annual basis, those for apartments and property in the “other” category, which consists of townhouses, houses of character and villas, dropped.

During the quarter under review, asking prices for apartments, which make up just over half of properties surveyed, registered an annual drop of 3.2%, a larger decline than in the previous quarter.



¹ This analysis of property price movements is based on the Central Bank of Malta's residential property price index, which tracks movements in advertised residential property prices compiled from newspaper advertisements sampled each month. The Bank's index is divided into eight dwelling categories.

Advertised prices in the “other” category fell by 0.9%, owing to a drop in prices for villas and for houses of character.

In contrast, during the fourth quarter of 2012, prices for maisonettes and for terraced houses increased by 1.6% and 0.9%, respectively.

A measure of activity in the housing market is provided by the number of advertised properties captured in the Bank’s survey and permits for house construction approved by the environment and planning authority in Malta (MEPA). In the fourth quarter of 2012, the number of advertised properties in the Bank’s survey fell by 7.9% on a year earlier, to just below 1,500. This overall fall was the sixth consecutive one, with the decrease broad-based across all surveyed categories, except for houses of character and maisonettes.

Meanwhile, the number of building permits issued by MEPA rose by 4.9% in the fourth quarter compared with the same period of 2011. The rise was due to a higher number of permits issued for apartments and for maisonettes. In contrast, the number of permits granted for terraced houses and other property categories dropped by 22.4% and 4.3%, respectively.

4. THE BALANCE OF PAYMENTS

In the final quarter of 2012 the current account of the balance of payments remained in surplus, although it narrowed compared with the corresponding period of 2011. The drop mainly reflected higher outflows on the income account and a larger deficit on merchandise trade. Marginally lower net inflows on current transfers also contributed. Together, these movements more than offset higher net inflows on the services account.

Concurrently, the capital and financial account registered lower net outflows than in the December quarter of 2011. This decrease primarily reflected movements on the financial account, although a higher surplus on the capital account also contributed.¹

In the fourth quarter, reserve assets – movements of which are recorded on the financial account – increased. Meanwhile, net errors and omissions decreased, but remained positive.²

The current account

A lower surplus registered on the current account

In the December quarter the current account surplus amounted to €9.8 million, compared with a positive balance of €18.4 million in the fourth quarter of 2011 (see Table 4.1).

Table 4.1
BALANCE OF PAYMENTS
EUR millions

	2011 Q4	2012	four-quarter moving sums ⁽¹⁾				
			2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Current account	18.4	9.8	-9.8	121.4	145.4	32.8	24.2
Goods	-201.9	-225.1	-1,052.7	-959.1	-997.3	-1,054.6	-1,077.8
Services	257.9	316.8	1,390.2	1,403.2	1,416.5	1,447.7	1,506.5
Income	-65.3	-106.3	-382.3	-363.6	-317.3	-418.4	-459.5
Current transfers	27.7	24.5	34.9	40.9	43.5	58.1	54.9
Capital and financial account	-160.2	-89.2	-26.8	-125.9	-259.3	-307.4	-236.4
Capital account	8.1	17.7	63.9	76.1	57.4	88.8	98.3
Financial account	-168.3	-106.8	-90.7	-202.0	-316.7	-396.2	-334.7
Direct investment	196.1	103.6	282.1	189.0	146.2	284.3	191.7
Portfolio investment	-1,963.3	-584.9	-3,103.5	-2,811.9	-3,496.1	-2,980.3	-1,601.9
Financial derivatives	-44.6	-18.2	24.3	73.4	55.3	-3.8	22.6
Other investment	1,637.1	394.3	2,653.6	2,408.0	3,105.1	2,417.1	1,174.3
Reserve assets	6.4	-1.6	52.9	-60.5	-127.1	-113.4	-121.4
Errors and omissions	141.8	79.4	36.6	4.5	113.9	274.6	212.3

⁽¹⁾ In the final quarter of the year, the four-quarter moving sum is equivalent to the annual figure.

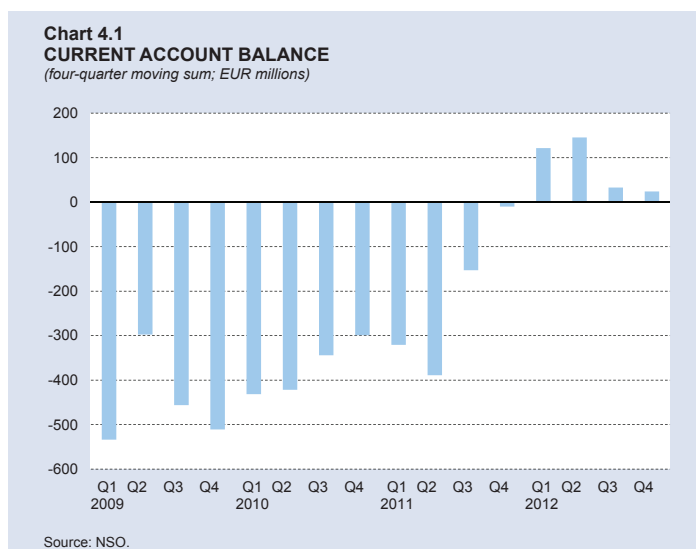
Source: NSO.

¹ In the capital and financial account of the balance of payments, additions to assets and decreases in liabilities are considered as outflows and recorded with a negative sign. Conversely, increases in liabilities and decreases in assets are recorded with a positive sign.

² Positive net errors and omissions imply an underestimation of the current account surplus and/or an overestimation of net outflows on the capital and financial account.

On a cumulative basis from January to September, however, net inflows on the current account were substantially higher so that over the year as a whole the balance stood at a surplus of €24.2 million compared with a deficit of €9.8 million in 2011 (see Chart 4.1). This was to a large extent driven by stronger net earnings from services, although net inflows on current transfers also increased.

As a proportion of gross domestic product, the current account balance, expressed as a four-quarter moving sum, stood at 0.4% compared with 0.5% in the third quarter, and a negative 0.2% in the year to December 2011.



The merchandise trade gap widens

Between October and December 2012, the merchandise trade deficit widened by €23.2 million on a year earlier, rising to €225.1 million, as a drop in exports offset a decrease in imports. The value of goods exported fell by €72.1 million, or 8.7% over the corresponding period of 2011, while imports of goods decreased by €48.9 million, or 4.7%. The former was caused by a drop in the value of “goods procured in ports by carriers”, with other merchandise exports increasing on a year earlier.³

Customs data for the same period also indicate that the decrease in exports of goods recorded in the December quarter mostly reflected lower re-exports of fuel-related products. The latter, which exhibit a high degree of volatility from month to month, more than halved on a year earlier. Non-fuel exports, on the other hand, rose by €50.5 million, owing mostly to higher sales of food and pharmaceuticals. However, exports of machinery & transport equipment, and other manufactured articles fell by €21.0 million.⁴

On the imports side, Customs data indicate that the decrease was driven to a large extent by trade in fuel, and to a lesser extent by machinery & transport equipment. Foreign purchases of industrial supplies rose, mainly owing to higher purchases of semi-finished goods. At the same time, imports of consumer goods went up by €12.1 million.

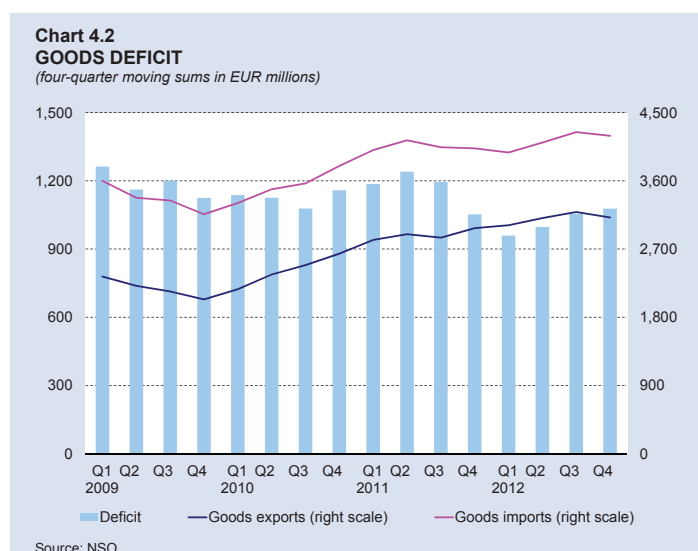
Compared with a year earlier, when measured on a four-quarter cumulative basis, the merchandise trade deficit based on balance of payments data widened from €1,052.7 million in

³ Goods exports and imports in balance of payments figures include general merchandise data from Customs sources – adjusted for differences in coverage, valuation and timing (see footnote 4). These are added to goods procured in ports by carriers (GPPC), repairs on goods and non-monetary gold. Exports (imports) of GPPCs are those goods, such as fuels, stores and provisions, sold to foreigners in local ports (bought by residents in foreign ports).

⁴ International trade data compiled on the basis of Customs returns differ from balance of payments data as a result of differences in coverage, valuation and timing. Thus, for example, trade data record the physical entry into, and the corresponding exit from, Maltese territory, of all goods, whereas balance of payments data only capture transactions that entail a change of ownership between residents and non-residents. These differences are especially pronounced in the case of trade in fuel.

the year to December 2011 to €1,077.8 million in the similar period to December 2012. The increase in the goods' deficit reflected a rise of €165.8 million in imports, which offset higher exports of €140.7 million (see Chart 4.2).

Customs data indicate that a substantial proportion of the rise in imports during the whole of 2012 was attributed to fuels, with imports of consumer goods also increasing on a year earlier, but to a lesser extent. On the other hand, purchases of machinery & transport equipment were lower than in 2011. However, in 2012 Customs data show a rise in exports surging across almost all main categories, with the largest increases in fuel re-exports.



Customs data for January and February point to a narrowing visible trade gap on a year earlier, with imports falling at a faster pace than exports during January and February, 2013. This mostly related to a decrease in trade in fuels, with the merchandise deficit contracting by €12.2 million, or 5.5%, on a year earlier.

Increase in the surplus on services

During the December quarter, the surplus on services increased by €58.8 million to €316.8 million, compared with the same quarter of 2011. The rise reflected a significant expansion in exports of services which was reinforced by a fall in related imports.

Although all net balances of the components of the services account improved on a year earlier, the increase in the overall surplus was mainly due to lower net payments for transport activities. Net outflows on the latter fell from €52.1 million to €12.8 million, reflecting a decrease in payments on freight owing to the slowdown in merchandise trade in the fourth quarter.

Higher net earnings were recorded on the “other services” components and, to a lesser extent, in travel receipts. Net receipts on the former were up by €13.2 million, reaching €206.5 million. This was primarily attributed to higher receipts from personal, cultural & recreational services, commissions earned by banks and other financial institutions, as well as trade-related services. Together, these offset higher payments for business, professional and technical services. The continued buoyant performance of the tourism industry resulted in an expansion of €17.3 million in receipts from tourism in the fourth quarter. However, these were partly offset by an increase of €11.0 million in expenditure by Maltese nationals travelling abroad. Net earnings on the travel component thus rose by €6.4 million to €123.1 million.

The overall surplus on services in 2012 rose by €116.3 million, reaching €1,506.5 million. This reflected a stronger increase in receipts, up by €212.5 million, which offset a rise in payments of €96.2 million (see Chart 4.3). The marked improvement in the balance was attributed to increased

earnings in the “other services” component.

Increased net outflows recorded on the income account

Between October and December 2012, net outflows on the income component of the current account stood at €106.3 million, an increase of €41.1 million over the comparable months of 2011. This mainly reflected an increase in profits recorded by foreign-owned firms operating in Malta, which enter as outflows on this account. These outflows were partly offset by higher interest

earnings recorded by residents on their portfolio investments abroad, mostly international banks with holding of debt instruments. For the year as a whole this account registered a higher negative balance than in 2011.

Current transfers fall

During the December quarter of 2012, the positive balance on current transfers stood at €24.5 million, as against €27.7 million in the corresponding period of 2011. This component continued to be heavily affected by tax payments and refunds related to companies engaged in international business operations. It also includes transfers received from the European Union, as well as Malta’s contribution to the EU budget.

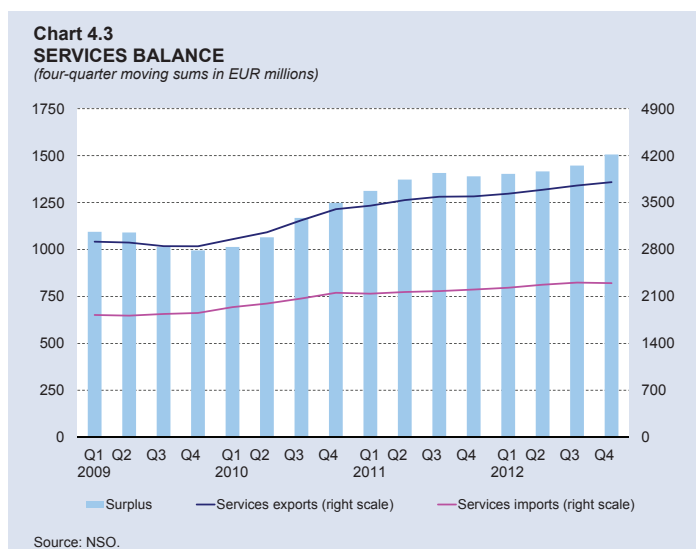
The capital and financial account

Lower net outflows recorded on the capital and financial account

In the final quarter of 2012, net outflows on the capital and financial account totalled €89.2 million, well below the level of the €160.2 million recorded a year earlier (see Table 4.1).

The decrease in the negative balance primarily reflected movements on the financial account, where net outflows were €61.4 million lower. At the same time, inward flows on the capital account more than doubled, rising to €17.7 million, compared with €8.1 million a year earlier. The surge in capital account inflows was largely attributable to increased transfers involving the Government, comprising the receipt of structural and cohesion funds from the European Union.

Net outflows on the financial account during the fourth quarter amounted to €106.8 million, compared with €168.3 million in the corresponding period of 2011. Movements in the account continued to be heavily influenced by transactions of internationally-oriented banks. In particular, during the fourth quarter of 2012, these banks more than halved their purchases of foreign portfolio instruments, mostly bonds, resulting in related net outflows declining to €584.9 million from the €1,963.3 million a year earlier.



Meanwhile, the “other investment” component recorded a fall in net inflows. At €394.3 million, these were significantly lower than in the corresponding months of 2011. They reflected repayments of non-residents’ loans that had been extended by Maltese banks, which were only partly offset by a decrease in liabilities of resident banks abroad.

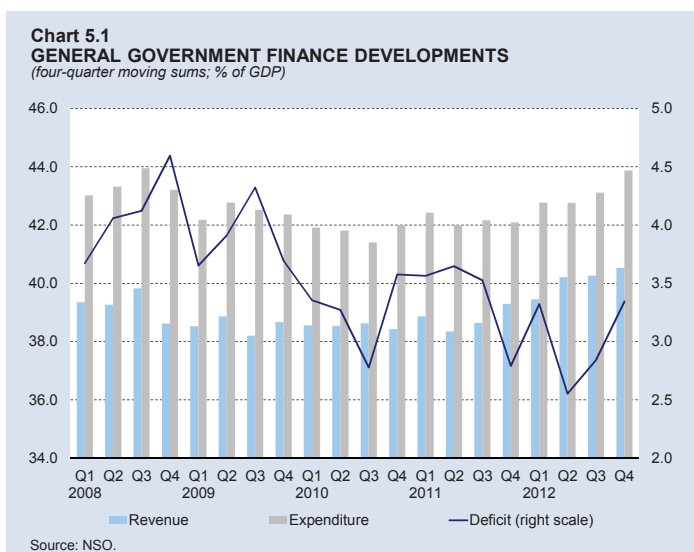
Net direct investment inflows fell to €103.6 million in the final quarter, a decrease of €92.6 million over the same period of 2011. This was mainly attributable to a drop in trade credits related to the manufacturing and the pharmaceutical industries.

During the December quarter, reserve assets rose by €1.6 million after declining by €6.4 million in the corresponding period of 2011. Errors and omissions remained positive and substantial.

5. GOVERNMENT FINANCE

In the fourth quarter of 2012, the general government deficit increased on a year-on-year basis, as expenditure outpaced revenue. Over the year as a whole, the deficit ratio to gross domestic product (GDP) stood at 3.3%, compared with 2.8% in 2011 (see Chart 5.1).

On a year-on-year basis, the Consolidated Fund balance deteriorated both in the last quarter of 2012 and when measured over the year as a whole.¹ The general government debt as a percentage of GDP increased by 1.8 percentage points to 72.1% at the end of December when compared with December 2011.



General government

General government deficit widens

Between October and December, the shortfall between revenue and expenditure continued to widen on a year earlier. The general government deficit rose by €35.5 million when compared with the last three months of 2011, to €52.5 million (see Table 5.1).

Over the 12-month period to December, the deficit widened by €42.8 million year-on-year. Over the same period, the primary balance, which excludes interest payments from expenditure, turned negative as non-interest expenditure outpaced revenue.

Revenue rises

General government revenue rose by €39.9 million, or 5.5%, in the fourth quarter of the year compared with the same period in 2011. Most of the increase stemmed from higher capital and current transfers receivable, which went up by €24.3 million mainly on the back of higher investment grants received from the European Union.

Meanwhile, revenue from current taxes on income and wealth went up by €17.1 million, mainly owing to higher intakes from corporate taxes. In line with developments in employment, which continued to increase in annual terms, revenue from social contributions rose by €11.4 million during the last quarter of 2012. Conversely, the intake from taxes on production and imports declined by €12.4 million, as lower net VAT receipts were recorded during the quarter, mainly following higher refunds.

¹ The Consolidated Fund captures most of the transactions of central government on a cash basis. The general government accounts, which are compiled in line with ESA95 regulations, cover central government, which is defined to include extra-budgetary units, as well as local councils, on an accrual basis. On the revenue side, discrepancies between the two sets of accounts mainly stem from the recorded timing of income tax and VAT revenue. On the expenditure side, significant differences often arise in the treatment of capital expenditure.

Table 5.1
GENERAL GOVERNMENT BALANCE

EUR millions

	2011	2012	Change		2011	2012	Change	
	Q4	Q4	Amount	%	Q1-Q4	Q1-Q4	Amount	%
Revenue	730.9	770.9	39.9	5.5	2,576.5	2,738.0	161.5	6.3
Taxes on production and imports	259.4	246.9	-12.4	-4.8	907.3	919.9	12.6	1.4
Current taxes on income and wealth	243.0	260.1	17.1	7.0	849.4	934.9	85.5	10.1
Social contributions	134.7	146.0	11.4	8.4	486.7	504.3	17.6	3.6
Capital and current transfers	41.5	65.8	24.3	58.6	132.4	174.4	42.0	31.7
Other ⁽¹⁾	52.3	52.0	-0.4	-0.7	200.7	204.4	3.7	1.9
Expenditure	747.9	823.4	75.5	10.1	2,759.6	2,963.9	204.3	7.4
Compensation of employees	217.2	235.2	18.0	8.3	870.6	914.8	44.2	5.1
Intermediate consumption	135.3	127.5	-7.8	-5.8	416.6	451.6	35.0	8.4
Social benefits	229.3	262.5	33.2	14.5	880.5	938.7	58.2	6.6
Subsidies	20.5	19.1	-1.4	-6.9	65.1	74.6	9.6	14.7
Interest	52.6	51.2	-1.4	-2.7	200.9	212.8	12.0	6.0
Current transfers payable	34.3	37.8	3.5	10.3	117.3	120.3	3.0	2.6
Gross fixed capital formation	46.5	73.8	27.4	58.9	164.1	207.6	43.5	26.5
Capital transfers payable	14.3	16.8	2.5	17.5	48.0	71.0	23.0	47.9
Other ⁽²⁾	-2.1	-0.6	1.5	-	-3.6	-27.6	-24.1	-
Primary balance	35.7	-1.3	-36.9	-	17.9	-13.0	-30.9	-
General government balance	-17.0	-52.5	-35.5	-	-183.0	-225.9	-42.8	-

⁽¹⁾ "Other" revenue includes market output as well as income derived from property and investments.

⁽²⁾ "Other" expenditure reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

Source: NSO.

Over the year as a whole, revenue grew by €161.5 million, or 6.3%, compared with 2011. More than half of the increase was the result of movements in current taxes on income and wealth. This was largely related to greater provisional taxes paid by corporations on profits earned in previous financial years.

Capital and current transfers rose by €42.0 million whereas social contributions increased by €17.6 million, driven by the above-mentioned developments in grants receivable and labour market conditions, respectively. Meanwhile, indirect taxes rose by €12.6 million, largely on the back of higher VAT revenue, which was affected by inflows from a scheme launched during the year, whereby companies and individuals with VAT arrears were encouraged to settle their balances through reduced interest and administrative penalties.

Expenditure increases

In the last three months of 2012, general government expenditure rose by €75.5 million, mainly as a result of greater social benefits relating to retirement pensions. At the same time, compensation of employees rose by €18.0 million, driven by higher salaries and allowances to employees in the health, education, public administration and defence sectors.

On the other hand, declines were registered in terms of intermediate consumption, in large part due to lower spending in the health sector. Outlays on subsidies and interest payable on government debt declined slightly. Meanwhile, gross fixed capital formation rose by €27.4 million during the last quarter of 2012 as a result of higher spending on infrastructural projects that are mainly

financed by EU funds. The increase of €2.5 million in capital transfers payable mainly stemmed from higher expenditure by extra-budgetary units.

Over the 12-month period to December, general government expenditure rose by €204.3 million, or 7.4%, mostly owing to higher recurrent outlays. In particular, spending on social benefits accounted for the largest increase in expenditure. The latter rose by €58.2 million, primarily as a result of higher outlays on retirement pensions. Compensation of employees also registered significant increases during the year, which was characterised by lump-sum payments arising from a number of new collective agreements covering the civil service and the health and education sectors.

Intermediate consumption expanded by €35.0 million during the year as a whole owing to higher expenditure in the health and education sectors. Subsidies payable rose by €9.6 million in 2012, primarily arising from government transfers to Enemalta, as well as from incentives to the film industry. Spending on interest payments rose by €12.0 million as a result of higher government debt.

Turning to capital expenditure, outlays on gross fixed capital formation rose by €43.5 million mainly owing to higher spending on infrastructural projects, most of which are co-financed by the European Union. Capital transfers payable also rose substantially, mainly reflecting the injection of equity capital by Government into Air Malta at the beginning of 2012.

In contrast, “other” expenditure recorded a notable decline, reflecting the concession fee paid by a private firm to operate the National Lottery.²

Consolidated Fund

The Consolidated Fund deficit increases

Between October and December 2012, the Consolidated Fund balance deteriorated, reaching a deficit of €80.1 million from a negative balance of €30.2 million in the same period a year earlier (see Table 5.2).

Compared with the same quarter of 2011, revenue fell by €29.5 million as a result of lower inflows from customs and excise duties, as well as from grants. Together, these offset a rise in direct tax receipts, on the back of higher revenue from corporate taxes as referred to earlier. Conversely, expenditure rose by €20.4 million during the last three months of 2012 mainly fuelled by higher capital spending. The period under review featured weak growth in recurrent outlays, with increases in the latter being almost entirely driven by higher interest payments.

In 2012 the Consolidated Fund deficit widened by €143.7 million as expenditure growth outweighed the increase in revenue. The former rose by 7.8% mainly owing to higher recurrent spending on social benefits and health services. Spending on interest payments and personal emoluments also rose, the latter under the impact of the wage agreements mentioned earlier. Recurrent expenditure during 2012 also included a €20.7 million subsidy paid by Government to Enemalta. At the same time, capital expenditure expanded by 26.0% during the year in relation to spending on infrastructural projects, as well as the equity capital contribution to Air Malta.

² In line with ESA95 methodology, such revenue, which is related to the disposal of assets, is deducted from expenditure.

Table 5.2
CONSOLIDATED FUND BALANCE

EUR millions

	2011	2012	Change		2011	2012	Change	
	Q4	Q4	Amount	%	Q1-Q4	Q1-Q4	Amount	%
Revenue	748.8	719.3	-29.5	-3.9	2,449.1	2,513.3	64.1	2.6
Direct tax ⁽¹⁾	370.3	392.7	22.4	6.1	1,167.0	1,273.1	106.1	9.1
Indirect tax	271.4	239.3	-32.1	-11.8	961.7	917.3	-44.3	-4.6
Non-tax ⁽²⁾	107.0	87.3	-19.8	-18.5	320.5	322.8	2.3	0.7
Expenditure	778.9	799.4	20.4	2.6	2,667.7	2,875.5	207.8	7.8
Recurrent ⁽¹⁾	673.7	679.0	5.3	0.8	2,379.1	2,511.8	132.7	5.6
Of which: Interest payments	53.0	57.8	4.8	9.1	212.5	225.8	13.3	6.3
Capital	105.3	120.4	15.2	14.4	288.7	363.8	75.1	26.0
Primary balance⁽³⁾	22.8	-22.3	-45.1	-	-6.1	-136.5	-130.3	-
Consolidated Fund balance	-30.2	-80.1	-49.9	-	-218.6	-362.3	-143.7	-

⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both direct tax revenue and recurrent expenditure.

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

⁽³⁾ Revenue less expenditure excluding interest payments.

Source: NSO.

Revenue rose by 2.6% during the year, mainly owing to higher intakes from income tax, particularly from provisional taxes. However, this was partly offset by reduced inflows from customs and excise duties, recorded as indirect taxes, particularly from duties on petroleum.

General government debt

General government debt declines

By end-December 2012, the stock of general government debt amounted to €4,871.2 million, €28.6 million lower than at the end of September (see Table 5.3).

Despite the financing requirements arising from the deficit in the fourth quarter, the Government was able to reduce its gross debt by drawing on its own financial assets, namely bank deposits.

Table 5.3
GENERAL GOVERNMENT DEBT

EUR millions

	2011		2012		
	Q4	Q1	Q2	Q3	Q4
General government debt⁽¹⁾	4,607.3	4,837.7	5,008.2	4,899.8	4,871.2
Currency	45.8	45.2	47.0	48.9	50.1
Securities	4,303.5	4,489.2	4,621.0	4,507.6	4,476.9
Short-term	257.1	216.4	255.1	319.4	154.1
Long-term	4,046.3	4,272.8	4,366.0	4,188.2	4322.8
Loans	258.0	303.3	340.1	343.3	344.2
Short-term	51.4	53.1	55.0	55.7	22.68
Long-term	206.6	250.2	285.1	287.6	321.5

⁽¹⁾ Short-term debt includes all instruments with an initial term to maturity of one year or less. Long-term debt includes all debt with an initial term to maturity of over one year.

Source: NSO.

As a result, between September and December, the debt-to-GDP ratio fell by 1 percentage point, to 72.1% (see Chart 5.2).

During the quarter under review, the composition of debt shifted in favour of long-term debt at the expense of short-term obligations. The former's share in total government debt rose by 4 percentage points to 95.3%.

The increase partly arose because new issues of Malta Government Stocks (MGS) in November and December outweighed redemptions.

The December issue was related to the MGS Switch Auction Programme, which is designed to lengthen and smooth the interest and redemption profile of the existing MGS debt portfolio. Consequently, the share of long-term securities in total debt increased by 3.3 percentage points to 88.7%, whereas that of short-term securities in the form of Treasury bills went down by 3.3 percentage points to 3.2%.

Meanwhile, the composition of loans also shifted in favour of longer-term debt, with long-term loans rising by €33.9 million. This increase mainly corresponded to additional loans granted to other euro area Member States through the European Financial Stability Facility (EFSF).³

Liabilities in the form of Maltese euro coins in issue went up by EUR1.2 million, although their share in the total debt figure remained unchanged from the previous quarter's level.



³ According to rules covering the statistical treatment of general government accounts, any increase in EFSF debt to finance lending to euro area countries in need of support is reported as an increase in the debt of the contributing Member States weighted in accordance with their capital key.

BOX 6: GOVERNMENT'S FISCAL OUTLOOK: BUDGET 2013¹

According to the Budget Speech and Financial Estimates 2013 issued by the Government in April 2013, the deficit in the Consolidated Fund widened considerably in 2012 but is set to decline in 2013 (see Table 1). It is projected to fall further in 2014 and 2015, as revenue growth is forecast to outstrip a rise in expenditure.

The general government deficit also widened, reaching 3.3% of GDP in 2012. The Government expects this to narrow to 2.7% in 2013, and then to decline steadily to 1.6% by 2015. Moreover, the general government debt-to-GDP ratio is set to increase further in 2013 to 74.2%. It is then projected to decline in 2014 and 2015.

Consolidated Fund 2012

The Consolidated Fund deficit for 2012 stood at €342.3 million, compared with the originally approved €145.2 million (see Table 2). The difference arose from revenue shortfalls that outweighed lower capital expenditure. Moreover, the Consolidated Fund deficit increased to 5.1% of GDP from 2.1% as originally approved.²

Total revenue in 2012 rose by 2.6% to reach €2,513.3 million. Nevertheless, this was €237.2 million less than the approved estimate mainly on account of lower inflows from indirect taxes. These were driven by reduced receipts from customs and excise duties, and VAT. This reflected weaker than expected growth in private consumption and the timing of payments by Enemalta to Government of excise duties on fuel, which were not received in 2012 (see Chart 1 and Table 2).

In addition, grants received in 2012 from the European Union (under the 2007-2013 Structural and Cohesion Fund programmes) were lower than estimated. The shortfall in EU

Table 1
GOVERNMENT FISCAL INDICATORS

As a percentage of GDP

	2011	2012	2013	2014	2015
	Actual	Actual	Estimate	Estimate	Estimate
Total revenue	40.3	40.2	43.4	44.1	44.4
Total expenditure	43.7	45.3	45.8	46.2	45.6
Primary balance	-0.1	-1.7	1.0	1.3	2.1
Consolidated Fund balance	-3.3	-5.1	-2.3	-2.1	-1.3
General government balance	-2.8	-3.3	-2.7	-2.1	-1.6
General government gross debt	70.3	72.1	74.2	74.1	73.2
Nominal GDP (growth rate)	3.8	3.0	3.3	3.8	4.2

Sources: NSO; Ministry for Finance (Budget Speech April 2013).

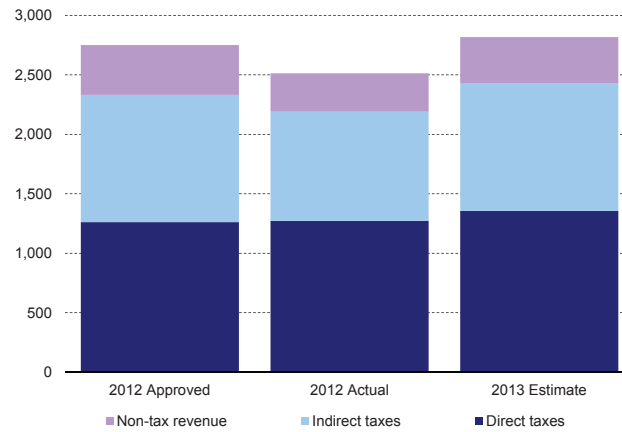
¹ The Budget was first presented to Parliament in November 2012 but failed to pass. This Box is based on the Budget bill for 2013 that was subsequently passed in Parliament in April 2013.

² In this Box the approved estimates for 2012 refer to the Financial Estimates presented with the Budget 2012 that was approved by Parliament on 14 November 2011.

grants reflects lower than expected capital expenditure, as well as the timing of cash flows, which are expected to be recorded as intakes in 2013.

In contrast, recurrent expenditure rose by 5.6% to €2,511.8 million, or €41.4 million higher than the amount originally approved. The outcome for 2012 featured the transfer of around €21.0 million in subsidies to Enemalta,

Chart 1
CONSOLIDATED FUND REVENUE IN 2012 AND 2013
(EUR millions)



Source: Ministry for Finance.

Table 2
BALANCE ON THE CONSOLIDATED FUND 2012-2013

EUR millions

	2012		Change (Actual 2012 less estimate)		2013 Estimate	Change (2013/2012)	
	Approved Estimate	Actual	Amount	%		Amount	%
Revenue	2,750.5	2,513.3	-237.2	-8.6	2,817.2	303.9	12.1
Direct Tax	1,261.5	1,273.1	11.6	0.9	1,355.7	82.6	6.5
Income tax	840.0	865.9	25.9	3.1	928.0	62.1	7.2
Social security contributions ⁽¹⁾	421.5	407.2	-14.3	-3.4	427.7	20.5	5.0
Indirect tax	1,069.9	917.3	-152.5	-14.3	1,070.7	153.3	16.7
Value Added Tax	581.6	534.2	-47.4	-8.2	580.0	45.8	8.6
Customs and excise duties	267.9	155.8	-112.1	-41.8	236.9	81.1	52.0
Licences, taxes and fines	220.4	227.4	7.0	3.2	253.8	26.5	11.6
Non-tax	419.2	322.8	-96.4	-23.0	390.8	68.1	21.1
of which Grants	194.5	92.9	-101.6	-52.3	186.5	93.6	100.8
Expenditure	2,895.7	2,855.5	-40.2	-1.4	2,981.0	125.5	4.4
Recurrent⁽¹⁾	2,470.4	2,511.8	41.4	1.7	2,594.1	82.3	3.3
Personal emoluments	609.1	612.5	3.3	0.5	640.0	27.5	4.5
Operational and maintenance	117.1	115.6	-1.5	-1.3	122.6	7.1	6.1
Contributions to entities	229.6	221.2	-8.4	-3.7	231.7	10.5	4.8
Social security benefits	750.4	782.6	32.2	4.3	787.7	5.1	0.7
Interest payments	230.6	225.8	-4.8	-2.1	235.3	9.5	4.2
Other expenditure	533.5	554.1	20.6	3.9	576.7	22.6	4.1
Capital⁽²⁾	425.3	343.8	-81.6	-19.2	386.9	43.1	12.6
Consolidated Fund balance	-145.2	-342.3	-197.0	135.7	-163.8	178.5	-52.1

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

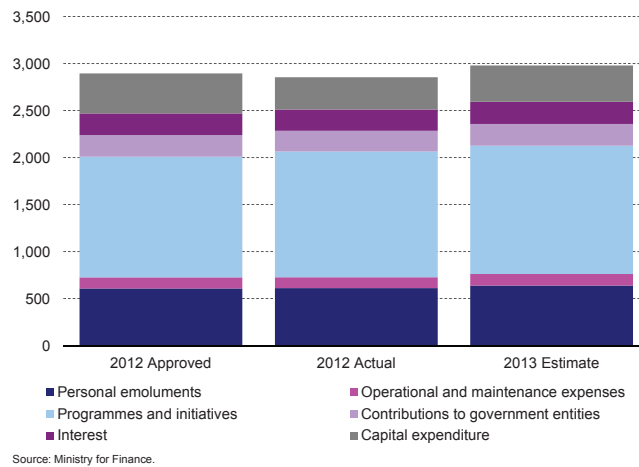
⁽²⁾ Capital expenditure data are obtained from the Budget Speech 2013, as presented in November 2012 and April 2013. Figures do not correspond with those in the Financial Estimates due to the treatment of equity acquisitions.

Source: Ministry for Finance.

which had not formed part of the approved estimates. Spending on social benefits, more specifically on retirement pensions, contributory bonuses and social assistance, was also higher than estimated (see Chart 2).

Meanwhile, capital spending, at €343.8 million, was €81.6 million lower than projected. This was largely driven by lower outlays on EU-funded projects, as mentioned earlier.

Chart 2
CONSOLIDATED FUND EXPENDITURE IN 2012 AND 2013
(EUR millions)



Consolidated Fund 2013

The Consolidated Fund deficit is expected to decline to €163.8 million in 2013, which implies a narrowing of €178.5 million compared with 2012 (see Table 2). The improvement is driven by a larger year-on-year increase in revenue relative to expenditure.

In the Budget Speech and Financial Estimates 2013, total revenue is forecast to expand by 12.1%, mainly as a result of higher tax receipts. The latter rise is mostly driven by a recovery in indirect taxes, particularly customs and excise duties, as the above-mentioned dues from Enemalta are expected to be passed on during 2013. The projected rise in collected duties will also be driven by the increase in excise duty rates on fuel, cement, cigarettes, and other tobacco products. Moreover, VAT receipts are set to rise by 8.6%, partly due to a recovery in domestic private consumption and to a more concerted effort to recoup past tax arrears.

Direct tax inflows in 2013 are expected to expand by 6.5%, mainly driven by a 7.2% increase in income tax receipts. Growth in income tax intake from households is expected to be subdued - a result of a slower pace of growth in government forecasts for compensation per employee and employment, as well as the announced reductions in the income tax rate from 35% to 32% charged on specific income bands.³ Social security contributions are set to grow by 5.0%. Non-tax revenue is expected to increase by 21.1%, mainly due to higher grants, in line with a projected rise in capital expenditure.

Total expenditure is forecast to rise by 4.4% from its 2012 level. This is a result of an increase in both capital and recurrent spending. While capital expenditure is set to rise by 12.6%, recurrent expenditure is projected to grow by 3.3%. The latter, however, accounts for most of the increase in absolute terms.

³ Tax at 32% is to be levied on income between €19,501 to €60,000 in the case of single taxpayers, from €21,201 to €60,000 in the case of parents and from €28,701 to €60,000 for married taxpayers.

The main contributor to the growth in recurrent spending is personal emoluments, which are set to rise by 4.5%, partly under the impact of new sectoral collective agreements. Interest payments and contributions to government entities are expected to increase by 4.2% and 4.8%, respectively. Spending on social benefits is set to grow by 0.7%, as the increase in the retirement age dampens expenditure on pensions.

Capital spending is expected to increase by 12.6%. Growth in capital spending is set to be driven by EU-funded projects, which include the Mater Dei Oncology Centre and the flood water relief project.

Consolidated Fund projections for 2014 and 2015

Looking further ahead, the Consolidated Fund deficit is set to decline by €11.8 million, to €152 million in 2014. This decline will be mainly driven by higher tax revenue, which will outweigh the rise in total expenditure. The increase in the latter will primarily reflect higher capital expenditure.

The deficit is set to decline further to €95 million in 2015, as increases in tax revenue will outweigh the rise in total expenditure. In contrast to 2014, the main contributor to the rise in outlays in 2015 is projected to be recurrent spending.

6. MONETARY AND FINANCIAL DEVELOPMENTS

During the fourth quarter of 2012, there was a further acceleration in the contribution of Maltese monetary financial institutions (MFI) to the euro area's broad money stock (M3).¹ Deposits held by Maltese residents grew at a faster pace than in the previous quarter, while credit granted to them substantially slowed down. Despite this, deposit and credit growth in Malta remained positive and higher than in the euro area as a whole.

Domestic primary money market yields fell during the fourth quarter, as did those on five-year and ten-year Maltese government securities. The five-year spread over benchmark euro area rates narrowed, while the ten-year spread widened.

At the same time, the Malta Stock Exchange (MSE) share index continued to increase, extending the recovery that started during the second quarter of 2012.

Going into the first quarter of 2013, domestic money market rates and yields on government bonds fell further. As in the previous quarter, the MSE share index rose between the end of December and end-March.

Monetary aggregates and their counterparts

Contribution to euro area M3 accelerates further

The contribution of Maltese MFIs to the euro area's broad money stock (M3) continued to expand in the fourth quarter of 2012, with the annual growth rate accelerating to 8.7% in December from 6.3% three months earlier (see Table 6.1). Annual M3 growth for the euro area as a whole was less pronounced and stood at 3.5% in December.

Monetary growth in Malta continued to be driven almost entirely by the narrow money (M1) component, which expanded by 10.7% on an annual basis in December. Overall, during the 12 months to December 2012, higher balances belonging to private non-financial corporations (NFC) and

Table 6.1
CONTRIBUTION OF RESIDENT MFIs TO EURO AREA MONETARY AGGREGATES⁽¹⁾

	EUR millions	Annual percentage changes				
		2011	2012			
		Dec.	Mar.	June	Sep.	Dec.
Narrow money (M1)	6,006.3	8.5	7.8	12.3	11.6	10.7
Intermediate money (M2)	10,325.9	3.8	5.4	5.7	6.6	9.0
Broad money (M3)	10,517.5	3.3	5.3	5.6	6.3	8.7

⁽¹⁾ Figures show the contribution of Maltese MFIs to the euro area totals. Data on monetary aggregates include deposit liabilities to residents of Malta and other euro area residents. Broad money comprises M2 plus certain marketable instruments, namely, repurchase agreements, money market fund shares and units, and debt securities with a maturity of up to and including two years issued by MFIs.

Source: Central Bank of Malta.

¹ The contribution of Maltese MFIs to euro area monetary aggregates comprises the notional issue of euro currency attributed to the Central Bank of Malta, deposits held by Maltese and other euro area residents (except those belonging to central governments and interbank deposits) with resident MFIs, and other monetary liabilities of Maltese MFIs towards euro area residents, as explained in the General Notes accompanying the Statistical Tables in this Review. Monetary statistics cover all MFIs resident in Malta.

households were the main factors behind the growth in M1. However, M1 growth slowed down from 11.6% in September owing to weaker inflows during the fourth quarter, predominantly on the part of households and private NFCs. Concurrently, a decline in balances belonging to non-bank financial intermediaries and public NFCs also contributed to the deceleration.

At the same time, the intermediate money aggregate (M2) grew at 9.0% on an annual basis, up from 6.6% in September. This was mainly driven by the narrow money component, as investors continued to prefer holding liquid monetary assets in an environment of relatively low interest rates. The fourth quarter of the year was also characterised by a sizeable increase in short-term deposits with an agreed maturity of up to two years belonging to NFCs, which also contributed to M2 growth.

Maltese residents' deposits gain momentum

Total M3 deposits held by Maltese residents with Maltese MFIs grew at a faster pace during the fourth quarter of 2012, with their annual growth rate reaching 6.4% from 5.7% in September (see Table 6.2).

Growth continued to be driven by overnight deposits. Despite a slight slowdown, these deposits continued to record double-digit annual growth, which stood at 11.3% in December, on account of increased balances belonging to households and private NFCs, as resident depositors opted for more liquid portfolios. At end-December, overnight deposits accounted for 57% of all residents' deposits within M3.

Moving on to the other components of M2, the annual growth rate of residents' deposits redeemable at up to three months' notice continued to rise strongly to 23.8% in December, compared with 14.9% three months earlier, mainly because of a sharp increase in balances belonging to private NFCs. Nevertheless, this component tends to be volatile, and accounted for only 2.0% of total residents' M3 deposits at the end of December.

In contrast, residents' deposits with an agreed maturity of up to two years contracted, though at a much slower pace when compared with three months earlier, with their annual rate of decline easing to -0.2% in December. This bottoming out reflected a moderate increase in households' and NFCs' holdings of such deposits during the course of the fourth quarter. Growth in these deposits was weighed down by shifts towards overnight deposits along with a movement into longer-term assets outside M3, which attracted money holding investors, mainly households, in search of higher yields. Indeed, from a longer-term perspective, recent years have seen

Table 6.2
DEPOSITS OF MALTESE RESIDENTS INCLUDED IN M3

	EUR millions	Annual percentage changes				
		2011 Dec.	2012			
			Mar.	June	Sep.	Dec.
Overnight deposits	5,110.4	8.7	7.7	12.4	12.2	11.3
Deposits redeemable at notice up to 3 months	151.7	-0.8	-5.6	12.2	14.9	23.8
Deposits with agreed maturity up to 2 years	3,686.3	-4.0	0.2	-1.2	-2.5	-0.2
Total residents' deposits	8,948.3	2.6	4.1	6.2	5.7	6.4

Source: Central Bank of Malta.

portfolio shifts toward overnight deposits, which form part of M1 and, to a lesser extent, towards long-term monetary assets which are classified outside M3 (see Chart 6.1).

Going into the first quarter of 2013, year-on-year growth in total residents' deposits included in M3 decelerated, reaching 5.2% in February.

Excluding deposits belonging to government, residents' deposits outside M3 expanded by 5.5% during the 12 months to December. In the fourth quarter, this category continued to decelerate from double-digit growth rates recorded in 2011, which had been driven by a large number of new savings products launched by various banks during that year (see Chart 6.2).

Interest rates on Maltese residents' deposits rise marginally

The weighted average interest rate paid by MFIs on all deposits belonging to households and NFCs resident in Malta edged up slightly by 2 basis points in the final quarter of 2012, reaching 1.42% in December. Rates received by households on overnight deposits were unchanged at 0.32%, while those earned by NFCs rose by 1 basis point to 0.28%. Rates on deposits with an agreed maturity of up to two years also increased slightly for both households and NFCs. More significant changes involved deposits with an agreed maturity above two years, which are excluded from M3. Within this category, rates received by households rose by 6 basis points to 3.42%, while those earned by NFCs declined by 28 basis points to 3.06% (see Table 6.3).²

Going into the first quarter of 2013, rates on outstanding deposits edged up further.

Chart 6.1
DISTRIBUTION OF TOTAL RESIDENT DEPOSITS
(percentage points)

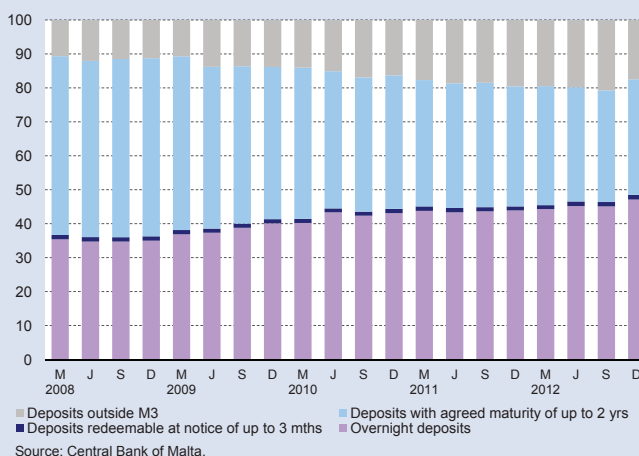
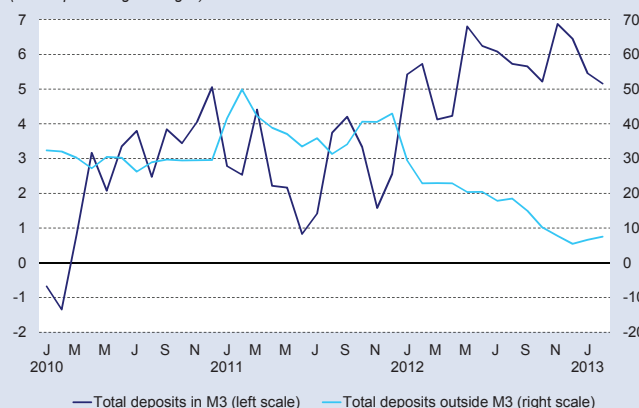


Chart 6.2
DEPOSITS OF MALTESE RESIDENTS⁽¹⁾
(annual percentage changes)



⁽¹⁾ Excluding deposits belonging to central government.
Source: Central Bank of Malta.

² Data on interest rates on outstanding amounts shown in Table 6.3 cover MFI euro-denominated deposits belonging to households and NFCs resident in Malta. The household sector also includes Non-Profit Institutions Serving Households (NPISH). NFCs include all enterprises except banks, insurance companies and other financial institutions. Hence, these statistics do not cover all economic sectors.

Table 6.3
INTEREST RATES ON OUTSTANDING DEPOSITS BELONGING TO RESIDENTS OF MALTA

Percentages per annum; weighted average rates as at end of period

	2011		2012		
	Dec.	Mar.	June	Sep.	Dec.
Total deposits belonging to households and non-financial corporations	1.41	1.41	1.41	1.40	1.42
Overnight deposits					
Households	0.31	0.31	0.32	0.32	0.32
Non-financial corporations	0.30	0.29	0.29	0.27	0.28
Time deposits with agreed maturity up to 2 years⁽¹⁾					
Households	2.05	2.04	2.06	2.06	2.07
Non-financial corporations	2.00	1.96	1.92	1.96	1.99
Time deposits with agreed maturity over 2 years⁽¹⁾					
Households	3.21	3.22	3.27	3.36	3.42
Non-financial corporations	3.13	3.16	3.23	3.34	3.06

⁽¹⁾ Annualised agreed rates on euro-denominated deposits.

Source: Central Bank of Malta.

Growth in credit to residents of Malta decelerates further

The annual growth rate of credit to residents of Malta, which had been on a general downward path since May 2012, slowed down further to 0.8% in December from 3.8% three months earlier (see Table 6.4). Nonetheless, it continued to outpace the rate of increase in the euro area as a whole, where credit to euro area residents added 0.5% during the year to December.

The overall slowdown in credit growth partly reflected a drop in credit to general government, which contracted by 2.8% in December, whereas it had expanded by 6.4% in September (see Chart 6.3). This reversal reflected a sizeable drop in Treasury bills held by credit institutions during the fourth quarter, which outpaced a rise in their holdings of Malta Government Stocks (MGS).

Moreover, credit to residents other than general government, which in absolute terms makes up almost four-fifths of the total, expanded at a slower pace. Following a weaker increase during the fourth quarter when compared with the corresponding three months of 2011, its year-on-year growth rate declined to 1.8% in December from 3.1% in September (see Table 6.4).³

Table 6.4
CREDIT TO RESIDENTS OF MALTA

	EUR millions 2012 Dec.	Annual percentage changes				
		2011 Dec.	2012			
			Mar.	June	Sep.	Dec.
Total credit	10,989.5	6.1	6.4	5.9	3.8	0.8
Credit to general government	2,287.1	12.5	12.9	10.6	6.4	-2.8
Credit to other residents ⁽¹⁾	8,702.3	4.4	4.6	4.7	3.1	1.8
Credit to non-bank private sector	7,972.3	4.0	3.9	3.4	3.0	2.1
Credit to non-bank public sector	730.0	8.9	14.1	19.6	3.7	-2.1
Total loans to other residents	8,441.7	4.2	4.4	4.3	3.1	1.8

⁽¹⁾ Credit to other residents consists mainly of loans. Holdings of securities, including equities, issued by non-bank private and public corporations as well as financial derivatives are also included. Interbank claims are excluded.

Source: Central Bank of Malta.

³ The term "other residents" represents all economic sectors that are resident in Malta but do not form part of general government. It includes households, private NFCs and public NFCs.

Credit to the non-bank private sector continued to expand but at a slower annual rate, which ended December at 2.1%. In contrast, low credit flows to public NFCs during the fourth quarter led to a sharp drop in the annual rate of change of credit to the non-bank public sector to -2.1% in December.

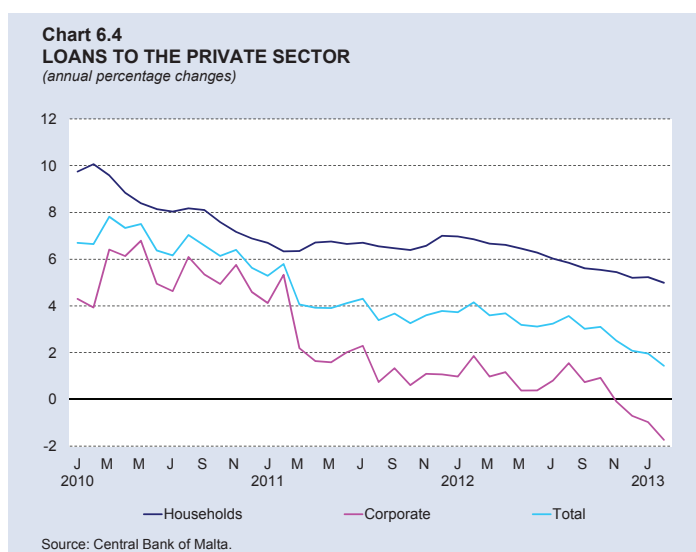
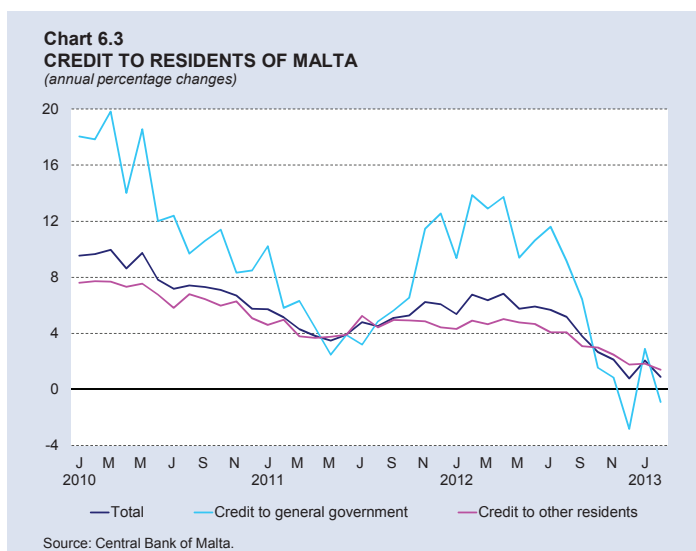
Growth in loans slows down further

The overall slowdown in credit growth partly reflected a slower expansion in loans, which at the end of December accounted for 97% of all credit to residents of Malta excluding general government. Loans to these other residents expanded at an annual rate of 1.8% in December as opposed to 3.1% in September (see Table 6.4).

Loans to the non-bank public sector contracted by 1.7% during the year to December, driven predominantly by reduced borrowing by the electricity, gas, steam & air-conditioning supply sector and the transportation & storage sector.

Meanwhile, annual growth in loans to the non-bank private sector extended its downward trend, falling from 3.0% in September to 2.1% three months later. Once again, growth was entirely driven by lending to households. Nevertheless, year-on-year growth declined steadily during the fourth quarter, reaching 5.2% in December compared with 5.6% in September (see Chart 6.4). In turn, mortgage lending, which constitutes more than four-fifths of all loans to households, expanded at an annual rate of 6.7% in December, down from 7.0% three months earlier. The remainder, consisting of consumer credit and other lending to households, contracted at an annual rate of -1.2% in December after having decreased by 0.2% in September.

During the same period, growth in corporate loans turned negative, falling from 0.7% in September to -0.7% in December. In particular, there was a decline in lending to firms operating in the construction, transportation & storage and wholesale & retail trade sectors. In contrast, lending to the manufacturing sector continued to recover, in line with increased activity within the industry.



From a credit supply perspective, the maintenance of unchanged and relatively tight bank lending standards, as shown in the January Bank Lending Survey (BLS) findings, may partially explain the weakness in loan growth experienced during the past quarters.

Going into the first quarter of 2013, the annual growth rate of credit to residents of Malta edged up to 0.9% in February. Credit to general government contracted at a reduced pace in February, falling by 0.9% on a year earlier. However, annual credit growth to other residents slowed down to 1.4%.

Rates on loans to Maltese residents decline slightly

The weighted average interest rate charged by MFIs on outstanding loans to resident households and NFCs edged down to 4.33% in December. Rates paid by households (on mortgages) and NFCs both fell by 2 basis points during the quarter reviewed, reaching 3.39% and 4.72%, respectively. In contrast, rates on consumer credit & other lending rose by 1 basis point to 5.59% (see Table 6.5).⁴

In February the overall weighted average lending rate rose to 4.34%. Whereas rates charged to households edged down, those on loans to NFCs rose.

Credit standards for enterprises and households remain unchanged

As already indicated, the BLS conducted in January 2013 revealed that credit standards applied to lending to enterprises and households remained unchanged during the fourth quarter of 2012.⁵ Demand for loans by enterprises remained constant during the quarter, while that by households – to finance house purchases – increased somewhat, according to one bank.

With regard to the first quarter of 2013, banks expected credit standards applied to NFCs and households to remain constant. In contrast, replies by one bank revealed a slight decline in the expected demand for loans by firms, while another bank pointed towards projected lower loan demand by households.

Table 6.5

MFI INTEREST RATES ON OUTSTANDING LOANS TO MALTESE RESIDENTS⁽¹⁾

Percentages per annum; weighted average rates as at end of period

	2011		2012		
	Dec.	Mar.	June	Sep.	Dec.
Total loans to households and non-financial corporations	4.44	4.37	4.35	4.35	4.33
Households and NPISH					
Lending for house purchases	3.43	3.42	3.41	3.41	3.39
Consumer credit and other lending ⁽²⁾	5.66	5.56	5.58	5.58	5.59
Non-financial corporations ⁽²⁾	4.85	4.76	4.73	4.74	4.72

⁽¹⁾ Annualised agreed rates on euro-denominated loans to households and non-financial corporations.

⁽²⁾ Includes bank overdrafts.

Source: Central Bank of Malta.

⁴ Data on interest rates on outstanding amounts shown in Table 6.5 cover MFI euro-denominated loans granted to households and NFCs resident in Malta. These statistics do not cover all sectors of the economy.

⁵ The BLS gauges credit demand and supply conditions. It is carried out as part of a quarterly exercise conducted by the Eurosystem across the entire euro area.

Table 6.6
EXTERNAL AND OTHER COUNTERPARTS⁽¹⁾

EUR millions; changes on a year earlier

	2011	2012	Change	
	Dec.	Dec.	Amount	%
External counterpart	7,840.0	10,169.2	2,329.2	29.7
Claims on non-residents of the euro area	29,300.0	32,576.8	3,276.8	11.2
Liabilities to non-residents of the euro area	21,460.0	22,407.7	947.7	4.4
Other counterparts (net)⁽²⁾	14,238.0	15,253.2	1,015.3	7.1

⁽¹⁾ Figures show the contribution of Maltese MFIs to the euro area totals.

⁽²⁾ Includes net interbank claims/liabilities.

Source: Central Bank of Malta.

Credit granted to euro area residents outside Malta declines

The decline in credit granted by resident MFIs to residents of euro area countries except Malta persisted. In December such credit fell by €558.3 million, or 10.8% on a year earlier, similar to a drop of 10.3% three months before. This decline continued to reflect a sharp drop in MFI holdings of euro area sovereign bonds. In contrast, credit institutions further increased their holdings of private debt securities and also extended a higher volume of loans to the private sector. Thus, at end-December, credit provided by resident MFIs to residents of other euro area countries stood at €4.6 billion.

Net claims on non-residents of the euro area rise

The above-mentioned drop in credit to residents of other euro area countries was partly offset by a higher level of credit to borrowers outside the euro area. In fact, during the year to December 2012 the external counterpart of M3, which consists of resident MFIs' net claims on non-residents of the euro area, expanded by €2.3 billion, or 29.7% (see Table 6.6).

MFI claims on non-residents of the euro area rose by 11.2% during the year, mainly owing to an increase in holdings of securities issued by non-euro area governments. At the same time, resident MFIs' liabilities to non-residents of the euro area grew by 4.4%, driven by time deposits belonging to non-euro area banks. An increase in repurchase agreements also contributed. In contrast, foreign loans taken up by resident banks dropped.

Other counterparts (net), which are heavily influenced by interbank transactions within the euro area, expanded by €1.0 billion, or 7.1%, during 2012. This increase stemmed from a strong rise in longer-term financial liabilities, mostly in the form of bank reserves.

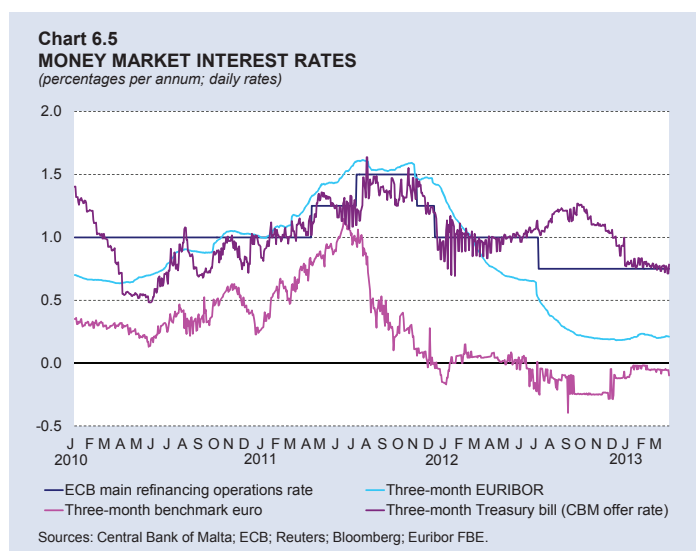
The money market

Domestic yields decline while euro area yields increase

The European Central Bank (ECB) kept the interest rate on its main refinancing operations (MRO) unchanged at 0.75% during the last three months of 2012, as inflation was expected to remain in line with price stability over the policy relevant horizon. Meanwhile, the three-month EURIBOR declined by a further 3 basis points to 0.19% at end-December. It thus remained below the MRO rate, reflecting the significant injections of liquidity by the Eurosystem (see Chart 6.5).⁶

⁶ The Euro Interbank Offered Rate (EURIBOR) refers to rates at which a prime bank is willing to lend funds to another prime bank in euro on an unsecured basis.

The primary market yield on Maltese three-month Treasury bills fell continuously during the last three months of 2012, dropping by 41 basis points to 0.85% by end-December. The drop reflected declining issuance and a higher volume of bids in the domestic market. A total of €214.0 million worth of Treasury bills were issued during the fourth quarter of 2012, €97.7 million less than in the previous quarter, while demand more than doubled over the same period.



Around three-fifths of the amount issued was due to mature in one month's time while the remainder mainly consisted of three-month bills. Resident banks participated actively in the auctions and bought more than three-fourths of the total, with money market funds buying most of the remainder.

At the same time, turnover in the secondary Treasury bill market, which exhibits substantial volatility, amounted to €32.9 million in the fourth quarter of 2012, up from €1.9 million in the previous quarter. All transactions involved the Central Bank of Malta in its capacity as market-maker.

The secondary market yield in the euro area on benchmark three-month government securities rose by 18 basis points during the period reviewed. Nevertheless, the yield still ended the year below zero, reaching -0.07% by end-December, indicating strong demand for safe-haven assets in an uncertain environment.⁷ Conversely, the corresponding domestic yield fell by 25 basis points to 1.00% over the same period. As a result, the spread over the euro area benchmark narrowed to 107 basis points as at end-December from 150 basis points three months earlier (see Chart 6.5).

Throughout the first quarter of 2013, the ECB kept the interest rate on its MROs unchanged at 0.75%. Meanwhile, the three-month EURIBOR rose by 2 basis points in the beginning of the year, reaching 0.21% by end-March. While the yield on benchmark money market securities issued by governments in the euro area fell by 3 basis points, the domestic secondary rate on short-term government securities fell by a further 22 basis points so that the spread against the corresponding benchmark yield narrowed to 88 basis points by end-March.

The capital market

Government bond yields and corporate yields decline

During the last quarter of 2012, the Government raised additional funds through five MGS issues with a combined value of €281.6 million. The bonds had terms to maturity varying between five and 16 years, with the fixed-rate coupons ranging between 3.75% and 4.80%.

The issues that took place in the fourth quarter included one in November when the Government launched the issue of €100 million worth of MGS with an additional €40 million as an

⁷ The benchmark euro area money market yield covers the secondary market in three-month securities issued by the German government.

over-allotment option. The issue was split between the 3.75% MGS 2017 (IV) Fungible Issue, the 4.3% MGS 2022 Fungible Issue and the 4.8% MGS 2028 (II). The amount of bids received was €252.9 million, and the over-allotment option was exercised in full. The majority of the amount issued was purchased at a fixed price, predominantly by households and resident nominees.

The remaining issues in the last quarter were related to the MGS switch auction programme. In December the Treasury operated the second stage of the three-

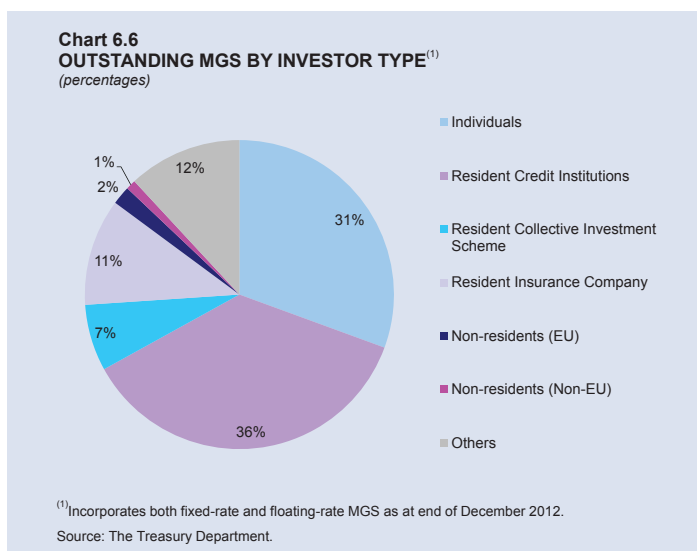
year switch auction programme that was launched in 2011. In an attempt to lengthen and smooth the interest payments and redemptions of outstanding MGSs, around one-third of the bonds maturing in 2013 were converted into a €20.1 million MGS issue maturing in 2017, with a coupon rate of 3.75% and a further €121.4 million MGS issue maturing in 2018, offering 3.85%. The issue was acquired entirely by auction and resident credit institutions participated actively.

By the end of 2012, resident credit institutions held the greatest share of outstanding MGSs at 36%, followed by resident individuals with 31% (see Chart 6.6).

Meanwhile, in the corporate bond market, two new issues were recorded during the last quarter of 2012. In December, Mediterranean Bank p.l.c. offered €10 million worth of bonds subject to an over-allotment option of €2.5 million, which was exercised in full due to over-subscription. The bonds offered a coupon of 7.5% and are due to mature in 2019. During the same month, International Hotel Investments issued €20 million worth of bonds, which were also over-subscribed, offering a coupon of 5.8% and maturing in 2021.

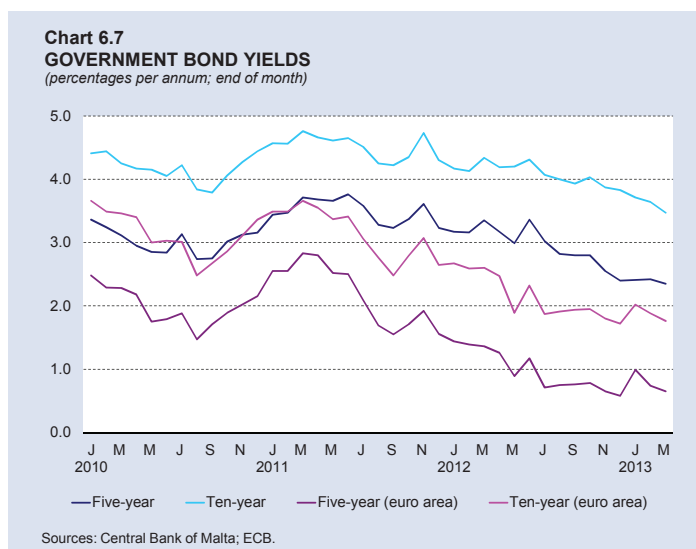
In the last quarter of 2012, turnover in the secondary market for government bonds amounted to €134.8 million, €32.7 million more than in the September quarter. Transactions involving the Central Bank of Malta as market-maker accounted for around four-fifths of the value traded, less than the share recorded in the previous quarter, as inter-broker deals increased during the quarter.

Domestic government bond yields declined during the last quarter of 2012. Yields on both five and ten-year domestic government bonds decreased during the quarter, falling by 40 and 10 basis points, respectively, reaching 2.40% and 3.83% at end-December (see Chart 6.7). The equivalent benchmark yields for the euro fell by 18 and 22 basis points, respectively. Consequently, the spread on five-year yields narrowed by 22 basis points, to 182 points, while the ten-year differential widened by 12 basis points, to 211 points.⁸



⁸ Euro area yields are based on AAA-rated central government bonds. Based on ratings provided by Fitch, the AAA-rated central government bonds in the euro area are those issued by Austria, Finland, France, Germany, Luxembourg and the Netherlands.

In the first quarter of 2013, yields on domestic five-year government bonds fell by 5 basis points while those on ten-year bonds fell by 36 basis points, to 2.35% and 3.47%, respectively. Five-year and ten-year euro area benchmark yields fell by 7 basis points and 4 basis points, respectively. As a result, the five-year differential narrowed to 170 points, while the ten-year differential declined to 171 points in the context of a general compression of spreads in the euro area.



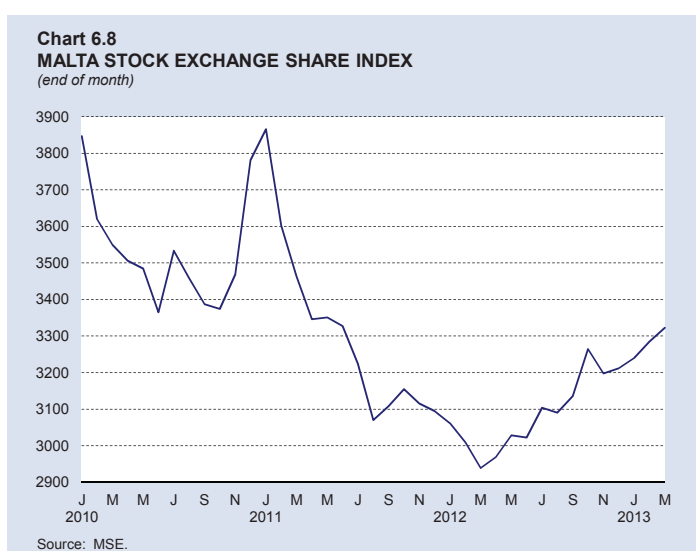
In the secondary corporate bond market, turnover rose to €12.9 million from €11.5 million in the third quarter of 2012. More than 70% of total trading was concentrated around ten securities, mostly issued by the banking, construction and property development sectors. Yields declined for the majority of bonds during the last quarter of 2012.

MSE share index rises

Activity in the domestic equity market was strong during the period, with the value of transactions rising to €10.2 million, the highest quarterly amount registered in 2012, up from €7.0 million in the previous quarter. The general decline in bond yields appears to have led to increased demand for equities, which boosted trading activity.

The increase in market turnover reflected a rise in the number of shares traded, coupled with higher prices. Several companies, especially in the information technology sector, performed particularly well during the quarter, experiencing double-digit growth rates in their share prices. As a result, the MSE share index rose for the third consecutive quarter, increasing by 2.4% from its end-September level, to end December at 3,211.9 (see Chart 6.8).

Going in the first quarter of 2013, equity prices generally continued to go up. By the end of March, the MSE Share index rose by 3.4% from its end-December level, reaching 3,322.6.



7. ECONOMIC PROJECTIONS FOR 2013 AND 2014

Outlook for the Maltese economy¹

According to the Bank's latest projections for the Maltese economy, the growth rate in 2013 should gain momentum after the slowdown recorded in 2012. The forecast for real gross domestic product (GDP) growth in 2013 is unchanged from the Bank's previous exercise, which was presented in the *Annual Report 2012*, but is slightly higher for 2014.²

Thus, real GDP growth is expected to accelerate from 0.8% in 2012 to 1.4% in 2013 and to 1.9% in 2014 (see Table 7.1).

Table 7.1

PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA

	2012 ⁽¹⁾	2013 ⁽²⁾	2014 ⁽²⁾
Real economic activity (% change)			
GDP	0.8	1.4	1.9
Private consumption expenditure	-0.6	1.0	2.1
Government consumption expenditure	5.5	1.0	0.7
Gross fixed capital formation	-2.5	3.2	7.0
Inventories (% of GDP)	-2.2	-2.1	-1.9
Exports of goods & services	5.2	1.8	2.7
Imports of goods & services	4.4	1.8	3.6
Contribution to real GDP growth (in percentage pts)⁽³⁾			
Final domestic demand	0.4	1.3	2.5
Net exports	1.0	0.1	-0.6
Changes in inventories	-0.6	0.0	0.0
Balance of payments (% of GDP)			
Goods and services balance	5.8	6.1	5.9
Current account balance	0.4	0.6	-0.6
Labour market (% change)			
Total employment	2.1	1.4	1.4
Unemployment rate (% of labour force)	6.5	6.5	6.4
Prices and costs (% change)			
RPI	2.4	1.7	1.3
Overall HICP	3.2	1.4	1.4
HICP excluding energy	3.1	1.6	2.2
Compensation per employee	2.4	1.4	2.4
ULC	3.7	1.4	1.9
Technical assumptions			
EUR/USD exchange rate	1.285	1.311	1.308
Oil price (USD per barrel)	112.0	105.5	100.0

⁽¹⁾ Data on GDP were sourced from *NSO News Release 049/2013* published on 11 March 2013. Data on the current account balance were sourced from *NSO News Release 055/2013*.

⁽²⁾ Central Bank of Malta projections.

⁽³⁾ The contributions to GDP growth in this Table are estimated using GDP expenditure aggregates expressed in the previous year's prices. This approach yields different results from those reported elsewhere in this *Review*.

¹ The Bank's outlook for the Maltese economy is based on information available up to 21 May 2013 and is conditional on the technical assumptions included in Table 1.

² See *Annual Report 2012*, pp. 63-66.

Domestic demand drives economic growth over the projection horizon

The Bank expects growth over the projection horizon to be driven by domestic demand, particularly private consumption, which should recover this year and pick up further in 2014. Government consumption is also set to support the expansion over the forecast horizon. Meanwhile, investment is projected to boost overall activity in 2013 and, particularly, in 2014, as expenditure on the construction of a new gas-fired plant and liquid gas facilities gathers pace.

Net exports are expected to expand in 2013, but should do so at a more moderate pace than in 2012. In 2014, however, they are set to drop, with their contribution to GDP growth turning negative under the impact of higher imports related to the projected increase in domestic demand, notably investment.

After having dropped by 0.6% in 2012, private consumption is set to grow by 1.0% in 2013 and by 2.1% in 2014. The recovery is expected to be driven by growth in real disposable income, partly under the impact of the gradual reduction in the income tax rate paid by households in selected income tax bands. The holding of general elections and the subsequent approval of the Budget 2013 earlier this year should provide further stimulus to private consumption in the near term.

Government consumption is also expected to increase in 2013 and 2014. However, its contribution to growth is set to moderate relative to 2012 as expenditure restraint is assumed to continue in the context of the stated policy objective to bring the fiscal deficit-to-GDP ratio to below 3.0%. Moreover, part of the rise in government consumption in 2012 reflected one-off increases in the wage bill following the conclusion of a number of collective agreements in the general government sector during the year. The importance of this element is expected to lessen over the forecast horizon.

After having contracted in 2012, investment (gross fixed capital formation) is expected to recover in 2013 and to increase more strongly in the following year. The Bank's projections take into account the launch, earlier this year, of a major project in the energy sector, which entails the construction of new gas storage facilities, a new gas-fired plant and the eventual conversion of existing power facilities to run on gas. With this project assumed to begin late in 2013, its impact also largely explains why the contribution of domestic demand to GDP growth in 2014 is higher than in the projections presented in the *Annual Report 2012*.

The profile for investment also continues to be shaped by the Bank's expectations about two other specific projects. In particular, the Bank expects the Valletta City Gate project to be completed in 2013, whereas capital expenditure related to the electricity connection between Malta and Sicily is assumed to peak during the year. In contrast, investment in dwellings is expected to remain weak, while investment on machinery & equipment, after excluding the specific projects mentioned above, is set to contract further. IT-related spending also supports overall investment in 2013, reflecting the continued expansion of the services sector.

In 2014 investment is set to grow strongly, mainly because of the new initiatives in the energy sector, but also in view of the Bank's expectation of a gradual recovery in underlying investment in equipment & machinery and in construction.

Export growth is set to moderate in 2013. Merchandise exports, which rose significantly a year earlier, and exports of non-travel services are projected to expand more slowly this year in the context of subdued growth in foreign demand. Inbound tourism is set to provide continued support

to total exports, partly on account of an increase in the number of airline routes serving the country and continuing instability in a number of competing destinations. In 2014, however, overall export growth should accelerate in line with the expected improvement in the economies of Malta's main trading partners.

Imports too are set to decelerate in 2013. Although the recovery in private consumption is expected to support imports of consumer goods, the projected deceleration in exports dampens the expansion of other import categories. In 2014 import growth is expected to pick up in line with the anticipated recovery in both domestic demand and exports. The profile for investment in the energy sector also has a specific bearing on imports that year.

Current account set to remain in surplus in 2013, then swing to deficit in 2014

The trade surplus is expected to widen in 2013, reflecting developments on the services account. In particular, services exports are set to expand more strongly than imports of services, offsetting a small deterioration in the balance of trade in goods.³ In 2014 the trade balance is expected to narrow as nominal imports respond to the recovery in aggregate demand.

Having moved into surplus in 2012, the current account balance is expected to improve further as a share of GDP in 2013, as the positive trade balance widens and net outflows on the income account, which were relatively large in 2012, diminish. The current account, however, is set to swing into deficit in 2014, reflecting the narrowing of the trade surplus along with higher net outflows on the income account.

Wage and employment growth expected to moderate in 2013

Following relatively strong growth in unit labour costs (ULC) observed in 2012, which arose as nominal compensation per employee increased whereas productivity fell, firms are expected to utilise more fully any current overemployment before additional hiring. Moreover, the number of employees in the general government sector is expected to be stable in 2013 and then to drop slightly in 2014. As a result, overall employment growth is projected to moderate in 2013, and then to remain stable in 2014.

The unemployment rate is expected to remain unchanged at 6.5% in 2013, and to ease slightly to 6.4% in the following year.⁴

ULC growth is expected to ease in 2013, owing to the projected moderation in nominal compensation per employee, after the relatively strong increase in 2012. Nominal compensation per employee is set to recover in 2014 in response to an improvement in productivity. The latter is set to stabilise in 2013 and to begin to grow again in 2014, when activity starts to outpace employment. However, since the recovery in productivity is set to be weaker than the rise in compensation per employee, ULC is foreseen to increase again in 2014.

Inflation

Following a strong increase in 2012, which was largely driven by movements in accommodation prices and, to a lesser extent, food prices and prices of non-energy industrial goods, the inflation

³ Data on the trade balance used in this Box are consistent with *NSO News Release 049/2013* and the projections for real exports and imports reported in Table 1. The current account projections are based on balance of payments data published in *NSO News Release 055/2013*.

⁴ In the Bank's projection exercise, the unemployment rate is computed as the ratio of the number of unemployed reported in the Labour Force Survey (LFS) to a measure of the labour force based on the LFS and national accounts data. For this reason, references to the unemployment rate in this Box may differ from those mentioned elsewhere in this *Review*.

rate based on the Harmonised Index of Consumer Prices is set to moderate to 1.4% in 2013 and to remain at that level in 2014.

The projections for inflation for 2013 and 2014 are driven by technical assumptions, particularly the declining price of Brent crude oil. In 2013, moreover, tourist accommodation prices are set to moderate sharply following the very strong increase last year. These factors, and the impact of falling oil prices on transport costs, should lead to an easing in energy and service inflation in 2013.

The projection for inflation in 2014 assumes a drop in electricity and water tariffs that year, in line with the Government's commitments. This further drop in energy prices would offset a pick-up in the price of services.

Fiscal deficit is expected to narrow slightly⁵

The general government deficit-to-GDP ratio widened to 3.3%, from 2.8% in 2011. It is expected to narrow to close to 3.0% in both 2013 and 2014, as revenue is projected to grow slightly faster than expenditure.

The recovery of VAT arrears, growth in corporate tax revenue and Budget 2013 increase in excise duties contribute to revenue growth over the projection horizon. However, the impact of these factors is in part offset by the absence of one-off items that pushed up revenue in 2012 and by the revisions to income tax bands announced in the Budget.

At the same time, the fiscal projections assume restrained growth in selected items of current expenditure, particularly intermediate consumption and compensation of employees. Expenditure on pensions is also set to grow moderately in 2013, as the pension reform postpones retirement of certain cohorts to 2014. Growth in compensation of employees is expected to slow down this year, after having been boosted by the signing of a number of collective wage agreements in 2012. It should slow further in 2014 on the assumption that retiring employees in the government sector are not fully replaced. Intermediate consumption embeds an element of restraint, in line with the Government's commitment to contain recurrent expenditure.

The general government debt-to-GDP ratio is expected to increase over the projection horizon, reaching close to 74% in 2014.

Risks to the projections

Risks to the GDP projections are broadly balanced. The fragile situation in the euro area and the possibility that demand in Malta's main trading partners turns out to be weaker than expected remains a key negative risk which would weigh on output. The possibility of additional fiscal consolidation measures represents another downside risk to economic activity. On the other hand, export growth may accelerate if the ongoing expansion of the business and financial service sectors is maintained and extended into new export markets. A weaker than expected exchange rate would also have a favourable impact on exports.

Risks to the inflation projections are judged to be broadly balanced. A weaker euro than expected would increase domestic prices of imports. On the other hand, weakness in the euro area would imply additional downward pressures on foreign prices, including commodity prices.

⁵ These fiscal projections may differ from forecasts prepared by other institutions, partly owing to differences in the underlying macroeconomic projections and partly because they incorporate an independent assessment of revenue and expenditure by the Bank.

A STRUCTURAL MACRO-ECONOMETRIC MODEL OF THE MALTESE ECONOMY¹

Owen Grech,² Brian Micallef, Noel Rapa, Aaron G. Grech and William Gatt

Introduction

This article gives an overview of a structural model developed by the Modelling and Research Office of the Central Bank of Malta during 2012.³ The objective is to help analyse economic developments in Malta, prepare macroeconomic forecasts and evaluate the potential impact of different economic shocks. The model is just one of the tools adopted by the Bank to analyse and forecast economic developments. For instance, the Bank has two satellite models to forecast in a disaggregated way changes in the Harmonised Index of Consumer Prices (HICP) and to make fiscal projections. This article presents an intermediate stage in the development of the structural model. In future, the supply side will be integrated more fully in the model. An endogenous fiscal block and a more detailed financial block will be developed. The sectorial disaggregation of the model will also be enriched.

This model is similar to the Bank's previous macro-econometric model, but includes a number of modifications to reflect, among other things, the structural changes the Maltese economy has witnessed since EU accession and adoption of the euro. For instance, the growing importance of the services sector, compared with the more capital intensive manufacturing and construction sectors, necessitated a revisiting of the labour demand and investment functions of the model. Recent financial developments also required a further disaggregated financial sector block and a more realistic monetary policy transmission mechanism.

The model is partly inspired by the European System of Central Banks Multi-Country Model,⁴ and uses exogenous variables supplied by the European Central Bank (ECB) that relate to foreign demand, international competitiveness and foreign prices affecting the Maltese economy. Due to the relatively small size of the model, it is easy to interpret simulation results. The model also provides a simple and effective operational tool for economic analysis.

The article first gives an overview and the key features of the model, and discusses the modelling strategy. It then provides a more rigorous description of the model's separate blocks and of the main behavioural equations, while the following section assesses the dynamic properties of the model by considering four standard simulations. A detailed Appendix documents the behavioural equations and presents estimation results.

An Overview of the Model and the Modelling Strategy

In line with many structural macro-econometric models, this new model is built around the neo-classical synthesis, which asserts that the economy is classical in the long run, but Keynesian in the short run. In other words, while in the longer term output is driven by the supply of labour,

¹ The authors work at the Central Bank of Malta's Modelling and Research Office. They would like to thank Prof. Josef Bonnici, Mr Alfred DeMarco, Dr Bernard Gauci, Dr Aleksander Markowski and Mr John Caruana for valuable discussions, comments and suggestions. The views expressed in this article are those of the authors, and do not necessarily reflect those of the Central Bank of Malta. Any errors are their own.

² Corresponding author: Owen Grech, Modelling and Research Office, Central Bank of Malta and Department of Banking and Finance, University of Malta (email: grecho@centralbankmalta.org).

³ For further details see the working paper on the model available at: <http://www.centralbankmalta.org>.

⁴ See Angelini et al. (2006a, 2006b), Boissay & Villetelle (2005), Fagan et al. (2001), Fagan et al. (2005), Fenz & Spitzer (2005), Livermore (2004), Sideris & Zonzilos (2005), Willman & Estrada (2002), Vetlov (2004), Vetlov & Warmedinger (2006). The model is also similar to Bank of England (2000) and Danielsson et al. (2009).

capital stock and by total factor productivity,⁵ in the short run it is determined by the components of aggregate demand as a result of the sluggish adjustment of quantities and prices.

The model exhibits two kinds of inertia that allow for short-run deviations from the long-run equilibrium. The first is real inertia, with real variables (quantities) responding sluggishly to shocks and only moving gradually towards their long-run values. This could reflect the costs of adjusting employment or the capital stock. The model also displays nominal inertia since prices do not respond immediately either. Such form of inertia could, for example, represent costs associated with changing prices (menu costs) or wage stickiness resulting from negotiated wages or indexation. In the model, the deviation from long-run equilibrium is captured by the output gap – the deviation of actual output (aggregate demand) from its potential level (aggregate supply) – and the unemployment gap – the deviation of the unemployment rate from the non-accelerating inflation rate of unemployment (NAIRU)⁶ – which trigger price and wage adjustments that gradually restore long-run equilibrium.

There are 149 equations in the model, 19 estimated behavioural equations and 130 identities. There are 33 exogenous variables.⁷ It is therefore a relatively small-scale model, which strikes a reasonable balance between containing sufficient detail to capture the key economic relationships underpinning the domestic economy, and being tractable and manageable. This is in line with the current modelling practice among many central banks, which generally rely on small or medium-sized models, even when modelling large and complex economies.

The model deals with the determination of private sector outcomes, with government variables being treated as exogenous. The private sector is fairly aggregated with disaggregation only present in few cases. More specifically, exports are divided into exports of tourism and those of goods and non-tourism services. Private investment is broken down into dwelling and non-dwelling investment, and credit to households is decomposed into consumer credit and mortgage lending. This model may be extended to capture sectorial differences and more interlinkages within the economy, particularly as the required data become available.⁸

The behavioural equations are estimated – rather than calibrated⁹ – and specified in error-correction form. Hence, changes in a variable are modelled as being dependent not only on the short-run dynamics of other variables, but also on the deviation of the variable's actual value from its long-run value, allowing this deviation to be gradually corrected via the error-correction term. This error-correction approach reflects the underlying inertia in the economy since long-run relationships assert themselves only gradually in the face of shocks.

The supply side of the model has elements derived from the profit maximisation problem of firms while long-run parameter restrictions ensure the model's stability. The demand side equations are postulated and do not originate from an optimisation framework. This allows the estimation of the demand side to be more faithful to the data.

⁵ Total factor productivity reflects added production owing to the combination of labour and capital, e.g. the use of new technologies, better organisation of production, etc.

⁶ The NAIRU is that level of unemployment which is consistent with an economy operating at its capacity. In any economy, there is a "normal" level of unemployment related to the structure of its labour market. The NAIRU is estimated exogenously by means of a multivariate filter approach, inspired by established economic relationships, such as the Phillips Curve and Okun's Law. See Benes et al. (2010).

⁷ A list of the exogenous variables is available in the working paper found on the Bank's website.

⁸ For example, a richer treatment of some of the components of aggregate demand requires data on deflators at a level of disaggregation which is not publicly available.

⁹ In contrast to estimation, which allows the modeller to estimate parameter values from historical data, calibration involves setting these values on the basis of prior information, such as that obtained from micro-studies, generally with the intention of being more faithful to economic theory or to produce a model with properties which are in line with some stylised facts about the underlying economy.

The model is estimated using seasonally unadjusted quarterly data spanning from 2000Q1 to 2011Q4.¹⁰ No restrictions are placed on the equations' short-run coefficients. As a result, the economy's short-run dynamics are captured more closely and this, in turn, enhances the model's usefulness with regard to forecasting. The model is backward-looking, with expectation formation entering implicitly through the inclusion of lagged values in the dynamic equations, as is the case with many models embodying adaptive expectations.

The model was built with four key uses in mind. Firstly, it can be used to conduct simulations and thus to assess the impact of various shocks on the domestic economy.

Secondly, the model can contribute towards the projection exercises carried out by the Bank, including those incorporated in the biannual Broad Macroeconomic Projection Exercise of the Eurosystem.¹¹ Since short-term forecasting tools augmented by expert judgement are likely to outperform any pure model forecast over shorter horizons, the model's main usefulness lies in providing a framework that helps ensure internal consistency in the judgment-based forecast, serving as a tool for rapidly updating projections and acting as an aid when studying the different interlinkages within the economy.

Another potential use of the model is that of examining the impact of policy actions on the economy.¹² Finally, the model is meant to deepen understanding of how the Maltese economy functions and to ignite further debate.

A Closer Look at the Model

The model is composed of four blocks: a supply block, a demand block, a wage-price block, and a financial block. Charts 1 and 2 portray the model's structure and the interlinkages it captures. The first chart brings together the supply, demand and financial blocks, together with elements of the wage-price block. The second chart highlights the links within the aggregate demand component deflators. Variables within a pink box are exogenous, while those in dark blue are endogenous. Identities are in violet boxes. Variables in light blue in Chart 1 emerge from the price block, whereas in Chart 2 they are determined endogenously. Arrows indicate the direction of influence, which, in some cases, runs in both directions.

For instance, any change in the exogenously set policy interest rates impacts retail interest rates. The latter then influence private non-dwelling investment, in turn affecting gross domestic product (GDP), which then leads to a second-round impact on investment.

Similarly in Chart 2, an increase in foreign prices affects the price of imports, which then causes a rise in consumer prices. Then, as shown in Chart 1, inflation raises private wages, which result in increased unit labour costs, bringing about a second-round impact on consumer prices and export prices, as captured by the private consumption deflator and export deflator, respectively.

¹⁰ The vintage used was NSO News Release 049/2012. Seasonality was treated through the use of seasonal dummy variables as in Danielsson et al. (2009). Note also that data for the period before the adoption of the euro are transformed to reflect the actual exchange rate during that period rather than the constant conversion factor adopted by Eurostat.

¹¹ See ECB (2001) for further details regarding the Eurosystem's staff macroeconomic projection exercises. These projections are based on a set of common assumptions which cover variables, such as world trade developments, the international price of oil and other commodities, nominal exchange rates and the policy rate.

¹² The model is, however, subject to the Lucas (1976) critique. If agents are rational and forward looking, they would change their behaviour to counteract pre-announced changes in policy.

Chart 1
SCHEMATIC REPRESENTATION OF THE MODEL (EXCLUDING THE AGGREGATE DEMAND COMPONENT DEFLATORS)

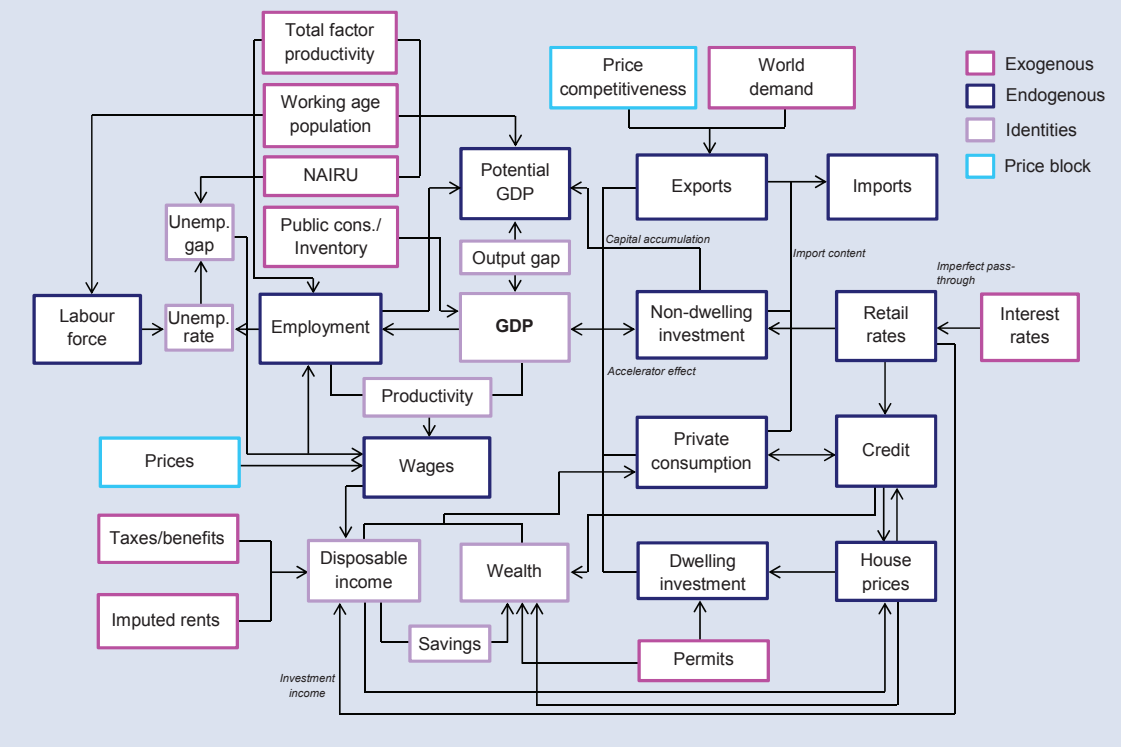
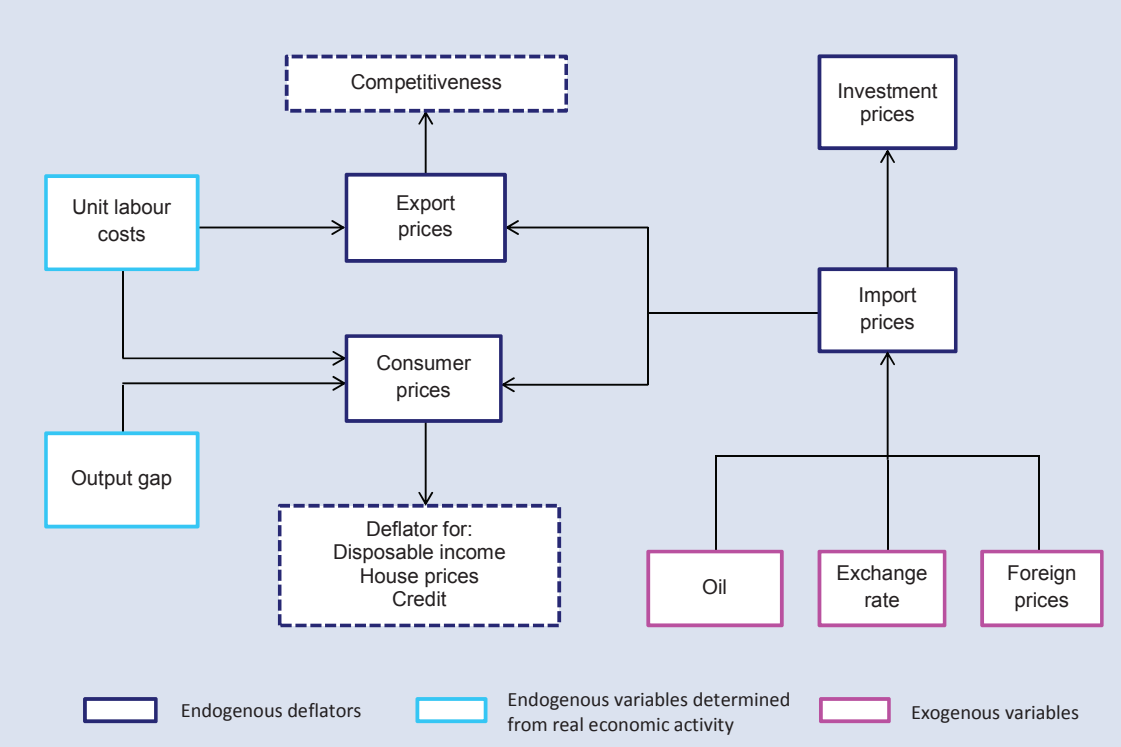
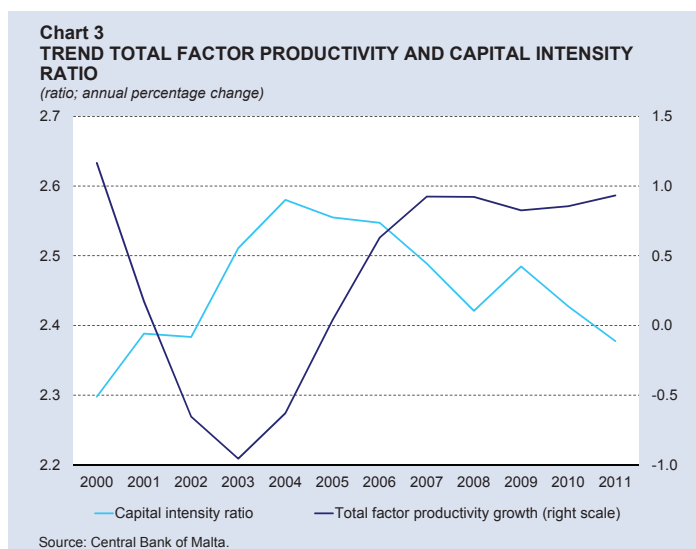


Chart 2
SCHEMATIC REPRESENTATION OF THE AGGREGATE DEMAND COMPONENT DEFLATORS



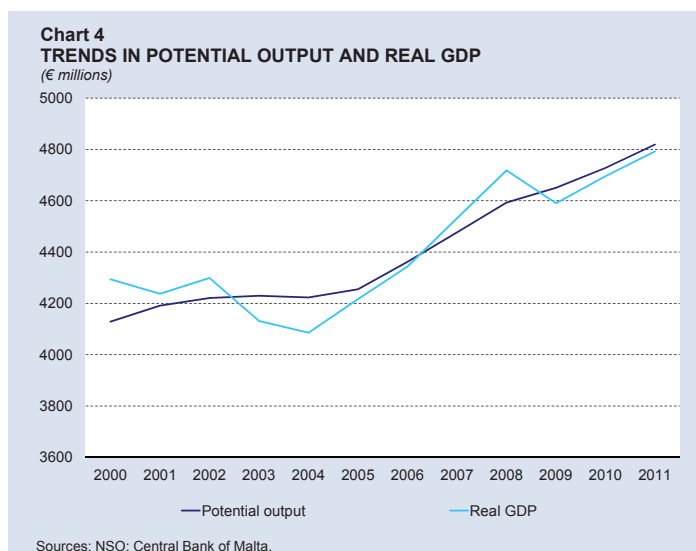
The Supply Block

In the longer term, output is driven by supply-side developments. This long-run equilibrium level of output – or potential output – is provided by an economy-wide Cobb-Douglas production function with constant returns to scale.¹³ Trend employment is derived by applying the four-quarter moving average of the participation rate (defined as the labour force over the working age population) to the working age population, and then subtracting the unemployment level consistent with the NAIRU from it. The other factor of production, capital, is unobservable and is assumed to equal accumulated non-dwelling investment after accounting for depreciation.



As is customary, total factor productivity is derived as a smoothed (Solow) residual resulting from the imposition of constant returns to scale parameters on the production function.¹⁴ Chart 3 shows that growth in total factor productivity was inversely related to the capital intensity ratio, which is computed as the ratio of the capital stock to GDP. Total factor productivity picked up as from 2003, reflecting faster growth of less capital intensive service industries, such as financial and professional services and remote gaming. Labour productivity also accelerated during this period.

Over the short term, output is demand driven and may deviate from its potential level, which is determined by the Cobb-Douglas production function referred to above. These deviations are measured by an output gap variable, which serves to gradually bring output in line with its long-run equilibrium through adjustments in wages and prices. Chart 4 shows the development of potential output and actual GDP during the period covered by the



¹³ The Cobb-Douglas production function is given by:

$$GDPFPO = TFPFT * (CAPSTOCKTOTF^{0.42}) * ((WAP * (1 - NAIRU / 100) * (@MOVAV(PARTICRAT, 4)))^{0.58})$$
 where: GDPFPO = real potential output, TFPFT = trend real total factor productivity, CAPSTOCKTOTF = real total capital stock (excluding dwellings), WAP = working age population, NAIRU = non-accelerating inflation rate of unemployment, PARTICRAT = participation rate.
¹⁴ The income share was set at 0.58 in line with the historical income share of total gross value added.

model. Deviations from potential output have been limited in duration and the economy has fluctuated around its time-varying potential during this decade.

In the short run, real wages (the payment for labour input) grow in line with productivity – resulting in a stable share of labour income (see Appendix A9). Private employment in the short run is determined by real private GDP and the real wage (see Appendix A1).¹⁵ In the long run, it grows in line with private sector real GDP, while the elasticity with respect to the real wage and to trend total factor productivity is negative, as expected a priori. Investment is carried out until the marginal product of capital is equal to the user cost of capital.¹⁶

The Aggregate Demand Block

In the model, real aggregate demand is split into nine (real) expenditure components, with each modelled separately: private consumption, private non-dwelling investment, private dwelling investment, government investment, inventories, government consumption, exports of tourism, exports of goods & non-tourism services and imports of goods & services. Real government investment and real government consumption are exogenous, while real inventories are assumed to be a constant share of real GDP.

The consumption function (see Appendix A3) is based on two approaches: Keynesian theory, which asserts that consumption is a function of current income and the life-cycle or permanent income hypothesis, which postulates that economic agents base their consumption decisions on expected lifetime resources, rather than current income. Over the short run, consumption is driven by real disposable income,¹⁷ real credit and a measure of volatility.¹⁸ The latter captures the influence of uncertainty on precautionary saving and, hence, consumption. In the literature, the unemployment rate is often included as a variable that influences precautionary saving. However, in the case of Malta, it was found to be statistically insignificant. Interest rates were also found to have no direct effect on consumption, though they have an indirect influence through credit.¹⁹ The short-run coefficient of real disposable income stands at 0.76. In the long run, real consumption is determined by real disposable income and real net wealth.²⁰ The sum of these two coefficients was set to be equal to one.

Since not all components of disposable income are published by the National Statistics Office or Eurostat, the Central Bank of Malta's Modelling and Research Office estimated self-employed

¹⁵ All employment variables in the model are converted to full-time equivalent. A constant conversion factor of 2.145 was used to convert part-time employees into full-time employment terms. This estimate is similar to that found in Grech (2003).

¹⁶ The user cost of capital consists of three components: the bank lending rate to non-financial corporations, the depreciation rate and a long-term interest rate.

¹⁷ Disposable income is defined as the sum of compensation of employees (less national insurance contributions paid by employers and imputed government national insurance contributions in respect of its own employees), income earned by the self-employed, investment income received by households, cash social payments (i.e. total social payments less those in kind), and imputed rents, less taxes paid on employment income (which consist of income taxes and national insurance contributions paid by employees and the self-employed).

¹⁸ The measure of volatility used is the Chicago Board Options Market Volatility Index (VIX Index). The consumer confidence indicator for Malta published by the European Commission was considered as an alternative measure of uncertainty and yielded similar results. The key advantage of the VIX index lies in the availability of a transparent exogenous path from futures data and its longer historical time series.

¹⁹ This effect is diluted to some extent by the interest rate's influence on disposable income via investment income. An increase in interest rates, for example, gives rise to a decline in credit, in turn causing consumption to fall. At the same time, however, higher interest rates boost investment income, and hence disposable income, causing consumption to rise, albeit to a lesser degree.

²⁰ Net wealth consists of housing wealth and net financial wealth owned by households. The latter is the difference between households' financial assets and financial liabilities as calculated by the Bank's Statistics Department. Over the forecast or simulation horizon, housing wealth is calculated by multiplying the stock of each housing category – terraced houses, maisonettes, and apartments – by the unit price of the respective category and adding up the resulting three amounts. The housing stocks are determined exogenously, in line with housing permits, while the unit house price of the separate categories grows in line with the year-on-year growth rate of overall house prices, which is estimated through a behavioural equation. Financial assets grow by the value of savings. Financial liabilities consist of credit to households and credit to non-profit institutions serving households. The former is composed of consumer and other credit as well as housing credit, which are determined via behavioural equations.

income and investment income.²¹ Where possible, as in the case of interest earned by households on deposits or income on government bonds, available time series were used. In other cases, particular point-in-time estimates from surveys, such as the Household Budgetary Survey, the EU Survey of Income and Living Conditions and the Eurosystem's Household Finance and Consumption Survey, were used to derive the required series.²²

Gross fixed capital formation is broken down into three components: government investment, which is exogenous, private non-dwelling investment and private dwelling investment.

Real private non-dwelling investment depends on private real GDP and the user cost of capital in the long run, with both elasticities restricted to one, consistent with the Cobb-Douglas production function (see Appendix A4). In the short term, this investment component is influenced by real economic activity, with results showing a coefficient higher than one, capturing the accelerator principle. Note that this equation, through the user cost of capital term, serves as the direct channel through which interest rates affect the broader economy.

Private dwelling investment is modelled as a constant share of real private sector GDP in the long run. Its short-term dynamics are driven by housing permits issued, real housing credit, and real house prices (see Appendix A5).

Turning to the external sector, real exports are modelled in a standard fashion, with the long-run elasticity with respect to world demand restricted to one. The export equation can therefore be interpreted as a market share equation, whereby a gain (loss) in market share, in the long run, is driven by an improvement (deterioration) in price competitiveness. Exports of tourism are modelled separately from other exports.

Tourism exports (see Appendix A6) are principally driven by world demand,²³ though (relative) price competitiveness plays an important role.²⁴ While in the short run, demand for tourism is price inelastic, the results support the imposition of unitary elasticity in the long run. Non-tourism exports were more price inelastic than tourism exports in the short run.²⁵ Again, unitary elasticity was imposed in the long run. Compared with tourism exports, short-term responsiveness to world demand is also less pronounced (see Appendix A7), possibly reflecting relatively more important supply constraints.

²¹ Note that over the forecast or simulation horizon, investment income is calculated in line with the changes in net financial wealth and interest rates. Self-employed income grows in line with employment income.

²² For example, a time series for self-employed income was derived using a margin over per capita employment income. Income surveys provide particular point-in-time readings of this margin.

²³ The variable for world demand is an index constructed by the ECB that specifically measures the demand for Maltese exports. It is a weighted average of the import volumes of trading partners, with weights derived on the basis of the direction of Maltese exports. See Hubrich & Karlsson (2010) for further details.

²⁴ The real effective exchange rate for the tourism sector is constructed using a chain-linked geometric weighted average index of bilateral exchange rates deflated by relative export prices. The weighting scheme adopted is a double-weighting system which allows for the capturing of third market effects (Turner & Van't dack, 1993). Weights are derived from overnight stays of non-resident tourists in all types of accommodation as reported by the Yearbook of Tourism Statistics published by the World Tourism Organisation. Time varying weights in the form of three-year moving average shares are used.

²⁵ This index, constructed by the ECB, is computed as a double-weighted average of export prices of Malta's competitors. In the first stage of the weighting scheme, the competitor's price faced by Malta in its individual export markets is calculated as a weighted average of competitors' export prices, with the weights reflecting the importance of each competitor with regard to imports of that individual country. In the second stage, the competitors' prices faced by Malta in each of its export markets are weighted according to the share of each market in Malta's total exports, and aggregated. Further details can be found in Hubrich & Karlsson (2010).

As shown in Appendix A8, real imports depend on an import demand indicator in both the long run and the short run.²⁶ The elasticity of imports with respect to import demand was, by definition, set to one in the long run, and estimated to be around 0.99 in the short run. Therefore, the unitary elasticity imposed in the long run also broadly holds in the short run. In many of the import equations found in other studies, real imports are also a function of import price competitiveness, defined as the ratio of import prices (often measured by the import deflator) to domestic prices (frequently measured by the overall GDP deflator). However, in the case of Malta, relative prices were not included given that a substantial proportion of them cannot be substituted by domestic products.

The Wage-Price Block

The private wage equation has been outlined in the supply block. Price formation is modelled in a relatively rich manner, with separate behavioural equations for the personal consumption deflator, the investment deflator,²⁷ the export deflator,²⁸ and the import deflator. The inventories deflator is assumed to grow at the same rate as the overall GDP deflator, while the government consumption deflator is exogenous.

The import deflator is determined in both the short run and the long run by export prices in Malta's main import source markets.²⁹ In the short run, import prices tend to move less than competitors' export prices, possibly reflecting delays in pass-through (see Appendix A13). However, in the long run these price changes are passed on completely to import prices. The import deflator is the main determinant of investment prices, reflecting the fact that most investment goods are imported. The pass-through in the short run is 0.69 (see Appendix A11).

Import prices also play an important role in determining consumer prices. In the long run, the personal consumption deflator is determined by import prices – measured by the import deflator – and unit labour costs (see Appendix A10). Over the short term, the consumption deflator is influenced by its own lagged values, the output gap, competitors' prices on the import side (excluding exchange rate effects),³⁰ and the nominal effective exchange rate on the import side.³¹ The long-run elasticity of the private consumption deflator with respect to import prices and unit labour costs is 0.49 and 0.51, respectively. This is broadly in line with the shares in the household consumption basket of goods and services, respectively. In turn, this would be consistent with the view that goods are more likely to be tradable and, hence, influenced by foreign prices, than services.

The export deflator is determined in the long run by imported prices and domestic costs – measured by unit labour costs (see Appendix A12). These elasticities add up to one, thereby ensuring a stable profit margin for Maltese exporters. Domestic costs play only a limited role, accounting for

²⁶ The import demand indicator is a measure of the import content of the components of final demand. In the absence of recent Input-Output tables for Malta that would provide the import content of these components, the first step in constructing the indicator was to estimate a regression with the log of real imports as the dependent variable, and the logs of real consumption, real non-dwelling private investment, and real exports as dependent variables. This revealed that a 1% increase in real consumption, in real non-dwelling private investment, and in real exports lead to a 0.53%, 0.09%, and 0.63% rise in real imports, respectively. (Note that these elasticities cannot be interpreted as import contents). By excluding dwelling investment, government investment (mostly construction), inventories (which include a substantial statistical discrepancy), and government consumption (a substantial portion of which is wages) from the regression, it is implicitly assumed that the import content of these components is negligible. The elasticities were then used to translate changes in the components of final demand into changes in imports.

²⁷ Note that although real non-dwelling private investment, real dwelling private investment, and real government investment are modelled separately, they are all subject to the same aggregate investment deflator.

²⁸ While real tourism exports and real non-tourism exports are modelled separately, they are both subject to the same aggregate export deflator.

²⁹ This variable is a weighted average of the export prices of our main trading partners, with weights reflecting each country's relative share in total Maltese imports of goods. This series is provided by the ECB.

³⁰ This can be extracted by dividing the series for competitors' prices on the import side in euro by the nominal effective exchange on the import side, and multiplying by hundred. Both series are provided by the ECB.

³¹ This series is provided by the ECB.

less than 15% of export price changes in the long run, possibly reflecting the high import content of export production. In the short run, the export deflator is solely driven by imported inflation.

House prices are also modelled separately via a behavioural equation (see Appendix A14), given their importance within the local context. In the long run, to ensure the affordability of housing, the elasticity of house prices with respect to disposable income per capita is restricted to one. In the short run, the provision of mortgage loans plays a very important role in driving house price inflation, while the elasticity in respect of changes in disposable income per capita is lower than one.

The Financial Block

The financial block models credit and interest rates, albeit in a rudimentary fashion. The model distinguishes between two types of credit – consumer & other credit, and housing credit – each of which is modelled through a behavioural equation (see Appendices A15 and A16).³² It should be noted that, within the model, credit is entirely demand driven, and is influenced by disposable income, private consumption, house prices and real lending rates. In other words, all demands for credit are met; there are no supply constraints, such as influences from banks' balance sheet positions. The financial block contains three other behavioural equations that determine a range of interest rates that feature in the model: the lending rate to non-financial corporations, the interest rate on consumer & other credit, and the interest rate on housing credit (see Appendices A17, A18 and A19). There is imperfect pass-through from the policy rate to the retail interest rates. Estimates of interest rate pass-through for the three interest rates present in the model range between 55% and 70%.

The Simulation Properties of the Model

To illustrate the simulation properties of the model, this section outlines the response of the main macroeconomic variables to the following four standard shocks. The shocks are defined as follows: the monetary policy shock consists of a permanent increase of 50 basis points in the policy interest rate, which is exogenously given. In addition, we also assume that the monetary tightening leads to an appreciation of the domestic currency.³³ The oil price shock is defined as a 20% permanent increase in oil prices in US dollar terms. The exchange rate shock consists of a 10% permanent currency appreciation against the US dollar. Finally, the world demand shock is defined as a permanent increase in foreign demand by 1%.

Table 1
IMPACT OF SHOCKS ON MAIN MACROECONOMIC VARIABLES

Percentage deviations from baseline

	Impact on GDP			Impact on HICP			Impact on Employment		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Monetary policy shock	-0.01	-0.03	-0.06	-0.02	-0.02	-0.03	0.00	-0.02	-0.05
Oil price shock	-0.10	-0.29	-0.52	0.62	0.95	1.40	-0.02	-0.02	-0.12
Exchange rate shock	-0.13	-0.20	-0.20	-0.33	-0.44	-0.63	-0.04	-0.14	-0.21
World demand shock	0.46	0.55	0.54	0.04	0.04	0.10	0.12	0.34	0.43

³² A behavioural equation modelling credit to non-financial corporations is also available. However, since this variable was found to have no influence on investment, the equation is not generally part of the model and is only used for forecasting total credit.

³³ This assumption follows from the uncovered interest rate parity condition. In the simulation, the domestic currency is assumed to appreciate by 0.5% against the US dollar. A similar set-up for a monetary policy shock is proposed in Fenz & Spitzer (2005).

Table 1 summarises the response of three macroeconomic variables – GDP, HICP inflation³⁴ and employment – to the four shocks over three years.³⁵ A detailed analysis of the channels which result in these changes is presented below.

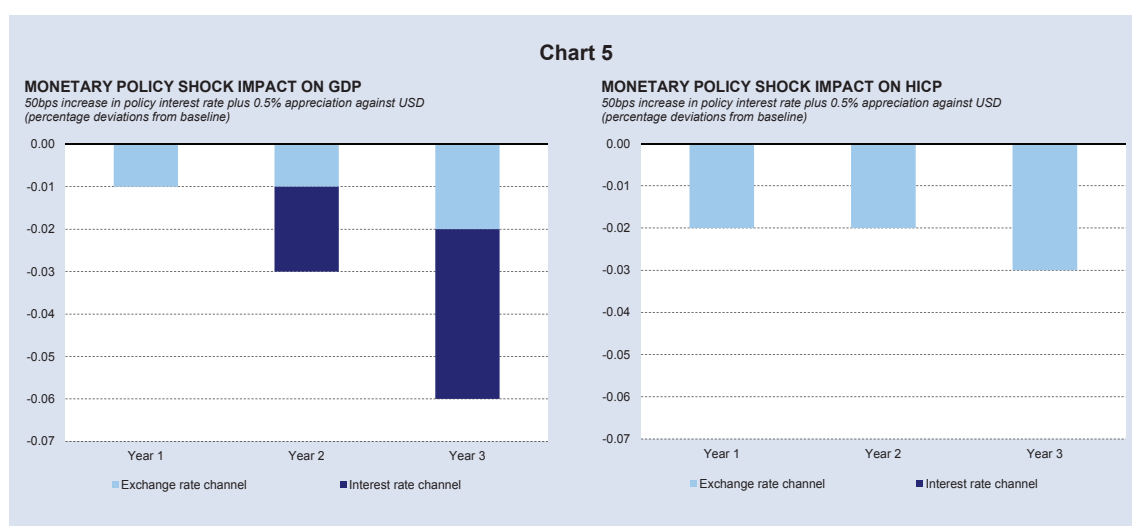
Monetary Policy Shock

Monetary policy affects non-residential investment adversely through the increase in the user cost of capital, while private consumption and housing investment are affected indirectly by a drop in credit demand that follows the rise in interest rates. Private consumption is also negatively affected by a drop in households' wealth, arising mainly from lower house prices, and a slight fall in disposable income due to lower employment and wages. The appreciation of the exchange rate leads to lower exports.

The impact of the monetary shock on GDP and HICP inflation can be decomposed into the interest rate and the exchange rate channels, respectively (see Chart 5). The impact of the interest rate channel on GDP operates with a lag, while the exchange rate channel, which affects the tradable sector's price competitiveness, has an immediate impact. From the second year onwards, however, the fall in GDP is mainly attributable to the interest rate channel.

On the contrary, the interest rate channel has a negligible impact on prices, with the drop in inflation being entirely driven by the exchange rate channel. This pattern can be traced back to the determinants of price inflation in the model – primarily fluctuations in foreign prices and the exchange rate, and a domestic cost component (unit labour costs) – whereas the output gap plays only a minor role in the short term.

These results suggest that a monetary policy shock has a relatively weak effect on domestic output and prices, compared with the effect observed in other countries. There are three main



³⁴ In this model, HICP inflation is not directly modelled by a behavioural equation but is linked to movements in the private consumption deflator, which is the main consumer price index in the model.

³⁵ More detailed tables are available in the working paper available on the Bank's website.

explanations for this. The first relates to model specification, while the rest are related to certain characteristics of the domestic financial system.

First, the model does not include some channels that would otherwise affect this simulation. For instance, a monetary tightening would lead to lower prices and decreased economic activity in the euro area, leading to an indirect effect on domestic prices and activity. The incorporation of this channel would require a multi-country setting or *ad hoc* adjustments.

Moreover, the policy rate may be less than fully transmitted to the retail interest rates, which, ultimately, affect the saving and investment decisions of economic agents.

Furthermore, dependence on credit to finance consumption and investment may be more limited in Malta. Maltese households, for instance, are currently less dependent on mortgage lending than households in many other European countries.

Oil Price Shock

The impact of a permanent oil price shock on economic activity and inflation is relatively strong, reflecting Malta's high degree of dependence on oil to generate energy. The growing importance of the services sector – which is less energy intensive – may be partly counteracting this.

The effects of an oil price shock are similar to an adverse supply shock, with a negative impact on economic activity and an increase in prices. Higher oil prices significantly influence all domestic prices both directly, through higher import prices, and indirectly, via second-round effects. The latter feed into domestic prices through the increase in unit labour costs, in turn driven by a combination of higher nominal compensation per employee and a deterioration in labour productivity. The pass-through from a 20% oil price shock to consumer price inflation increases gradually, with the HICP increasing by 0.6% relative to the baseline in the first year. By the third year, the impact on the index rises to 1.4%. The increase in domestic prices leads to a fall in purchasing power and in price competitiveness, adversely affecting private consumption and exports, while private investment declines with a lag via the accelerator principle. In addition, an oil price shock leads to a persistent deterioration in the terms of trade and worsens the trade balance.

Exchange Rate Shock

An appreciation of the euro against the US dollar has a pronounced impact on domestic economic activity and employment. This reflects the very open nature of Malta's economy, combined with the fact that around 65% of total exports are directed to countries outside the euro area.³⁶ On the other hand, the US dollar is the currency in which oil is priced, and an appreciation of the domestic currency hence results in lower oil prices in euro terms and some improvement in activity, as suggested in the previously described shock in oil prices.

The appreciation has an immediate impact on all deflators, although the impact on consumer prices is gradual, reflecting a pass-through of 55-60% from import to consumer prices. As a result, the latter decline gradually by 0.3% relative to the baseline in the first year and by 0.6% by the third year.

³⁶ Among the non-euro area trading partners, the largest shares are attributable to Asia excluding Japan (22%), the US (17%), and the UK (12%). Further details are available in Hubrich & Karlsson (2010).

Concerning economic activity, the deterioration in external price competitiveness has an immediate and adverse impact on export volumes. In contrast, the increase in purchasing power boosts consumption in the short run but this effect gradually dies out as the decline in disposable income from the deterioration in the labour market, together with an adverse wealth effect from lower house prices, eventually start to take their toll on private consumption.

Foreign Demand Shock

As with the exchange rate shock, the impact of higher foreign demand on GDP is quite pronounced. A favourable external demand shock directly leads to higher export volumes. The resulting rise in employment and wages boosts disposable income. In turn, the latter exerts a positive impact on house prices and bank credit. Together, these elements lead to higher private consumption. Investment rises with buoyant economic activity. Owing to the high import content of domestic demand and exports, however, higher foreign demand leads only to a small improvement in the trade balance.

There is only a very slight increase in domestic consumer prices following a foreign demand shock. As explained elsewhere, this reflects the fact that developments in the output gap play only a minor role in determining prices. The supply of labour and of capital, moreover, tends to rise quickly to accommodate increased demand.

Conclusion

Economic modelling is a continuous process. Models can be constantly improved to capture more of the intricacies within the economy. For this reason, this article has put forward an intermediate stage in the structural model's development. For example, in future, the supply side of the model could be integrated to a greater degree, and the model could be expanded to include an endogenous fiscal block, as well as a more detailed and richer financial block, where credit also depends on bank balance sheets. Further disaggregation could also become possible, if sector specific deflator statistics become available. Similarly, if currently unobservable variables – such as certain components of disposable income – are officially published, these would replace estimates at present used in the model. Moreover, given the very dynamic nature of Malta's economy and the need to increase statistical robustness owing to the short time series currently available, the model needs to be assessed regularly and revised to ensure that it still faithfully represents developments in the Maltese economy.

At this stage, the model presents interesting results, contrasting with those observed in larger economies in some respects. For instance, the lag structure of the equations is shorter, suggesting a relatively fast response adjustment to shocks. This could reflect the volatile nature of the time series used, with a number of structural shocks occurring during the period. However, the relatively high degree of openness to trade and labour market flexibility, such as the growing use of part-time employment and firm-level wage negotiations, could also be contributory factors to the speed of adjustment. Simulation results suggest that the impact of monetary policy is weak while that of changes in foreign demand is quite strong. The exposure of the Maltese economy to oil prices and to the value of the US dollar also appears to be relatively significant.

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Appendix A: Behavioural Equations

Appendix A describes the behavioural equations of the model (which is estimated in EViews). Several conventions and functions are used in the presentation of the empirical results. Data are quarterly; LOG denotes the natural logarithm of a variable; D refers to the first-difference of the variable; @MOVAV(*variable_name*,4) denotes a four-quarter moving average of a variable; @PCY refers to the annual percentage change in a variable; @SEAS/100 refer to seasonal dummies. Dummy variables are denoted by D, followed by the year and the quarter. For example, D02Q3/100 refers to a dummy variable centred in 2002Q3. Finally, @TREND/100 denotes a linear time trend, which, unless stated otherwise, starts from the beginning of the sample. Lagged values are shown in brackets, and t-statistics are provided below the coefficients in italics.

Supply Block

A1. Private Employment

In the long run, demand for labour is negatively affected by the relative price of labour (measured by the ratio of private wages to the GDP deflator) and is positively dependent on real private sector GDP. These also affect private labour demand in the short run. The equilibrium level of labour demand is also influenced by trend total factor productivity.

$$\begin{aligned} \text{DLOG}(\text{PRIVEMPLOY}) = & -0.74 + 0.14*\text{DLOG}(\text{PRIVGDPF}) \\ & (-2.86) \quad (2.27) \\ & -0.21*\text{DLOG}(\text{PRIVWAGE}/\text{@MOVAV}(\text{PGDP},4)) - 0.22*\text{LOG}(\text{PRIVEMPLOY}(-1)/\text{PRIVGDPF}(-1)) \\ & (-4.14) \quad \quad \quad (-3.76) \\ & -0.09*\text{LOG}(\text{PRIVWAGE}(-1)/\text{PGDP}(-1)) - 0.15*\text{LOG}(\text{TFPFT}(-1)) + 0.39*\text{@SEAS}(2)/100 \\ & (-1.74) \quad \quad \quad (-1.88) \quad \quad \quad (0.42) \\ & -0.80*\text{@SEAS}(3)/100 - 2.32*\text{@SEAS}(4)/100 - 2.44*\text{D02Q1}/100 \\ & (-0.76) \quad \quad \quad (-3.20) \quad \quad \quad (-2.56) \end{aligned}$$

where: PGDP = GDP deflator, PRIVEMPLOY = private sector employment, PRIVWAGE = private sector wage, PRIVGDPF = real private sector GDP, TFPFT = total factor productivity (HP Filter), D02Q1 = dummy variable: 1 in 2002Q1, 0 otherwise.

Sample (adjusted): 2001Q1 2011Q4

Adjusted R-squared: 0.69

S.E. of regression: 0.007

Durbin-Watson statistic: 2.46

A2. Labour Force

To allow for an endogenous labour force response, the model includes an equation for the labour supply. The long-run value of the labour force is affected by an increasing participation rate captured by a linear trend, and by the encouraged worker effect caused by higher employment. The dynamics of the labour supply in the short run are solely affected by total employment.

$$\begin{aligned} \text{DLOG}(\text{LABFOR}) = & 2.01 + 0.62*\text{DLOG}(\text{TOTEMPLOY}) - 0.61*\text{LOG}(\text{LABFOR}(-1)) \\ & (2.44) \quad (5.96) \quad \quad \quad (-4.43) \\ & +0.44*\text{LOG}(\text{TOTEMPLOY}(-1)) + 0.04*\text{@TREND}/100 + 0.33*\text{@SEAS}(2)/100 + 0.13*\text{@SEAS}(3)/100 \\ & (3.99) \quad \quad \quad (2.56) \quad \quad \quad (1.63) \quad \quad \quad (0.56) \end{aligned}$$

$$- 0.06 * @SEAS(4) / 100$$

(-0.26)

where: LABFOR = labour force, TOTEMPLOY = total employment.

Sample: 2000Q1 2011Q4
 Adjusted R-squared: 0.68
 S.E. of regression: 0.005
 Durbin-Watson statistic: 1.73

Aggregate Demand Block

A3. Private Consumption

In the long run, private consumption is dependent on real disposable income and real net wealth. The combined elasticity of these variables is set to one, and this is supported by statistical tests. In the short run, real private consumption depends on real disposable income, real credit and a proxy for economic uncertainty.

$$DLOG(CNF) = 2.25 + 0.76 * DLOG(YPD/PCN) + 0.29 * DLOG(TC(-1)/PCN(-1))$$

(4.06) (5.66) (1.81)

$$- 0.07 * DLOG(@MOVAV(VIX,4))$$

(-2.24)

$$- 0.58 * (LOG(CNF(-1)) - 0.85 * LOG(YPD(-1)/PCN(-1)) - 0.15 * LOG(WEALTHNET(-1)/PCN(-1)))$$

(-4.32) (22.22)

$$+ 2.78 * @SEAS(2) / 100 + 8.15 * @SEAS(3) / 100 + 6.84 * @SEAS(4) / 100 + 4.35 * D06Q2 / 100$$

(2.22) (7.08) (7.66) (1.94)

where: CNF = real private consumption, PCN = consumption deflator, TC = total credit to households, VIX = VIX index (proxy for economic uncertainty), YPD = disposable income, WEALTHNET = households' net wealth, D06Q2 = dummy variable: 1 in 2006Q2, 0 otherwise.

Sample (adjusted): 2001Q1 2011Q4
 Adjusted R-squared: 0.81
 S.E. of regression: 0.020
 Durbin-Watson statistic: 1.79

A4. Private Non-Dwelling Investment

In the long run, private non-dwelling investment is positively dependent on private sector real GDP and negatively related to the user cost of capital, with both elasticities restricted to one. These unitary elasticities are predicted by theory and supported by the data. In the short run, real private investment is driven by lagged output, which captures the accelerator effect. The dummy variable was introduced to cater for the sale of aircraft in 2002, which pushed investment down sharply.

$$DLOG(NDIPRIVF) = 1.46 + 0.93 * DLOG(PRIVGDPF(-3)) + 0.57 * DLOG(PRIVGDPF(-4))$$

(7.23) (2.83) (1.69)

$$- 0.57 * (LOG(NDIPRIVF(-1)) - LOG(PRIVGDPF(-1)) + LOG(PCAP(-1))) - 137.36 * D02Q2 / 100$$

(-7.13) (-9.76)

where: PRIVGDPF = real private sector GDP, NDIPRIVF = real private non-dwelling investment, PCAP = user cost of capital, D02Q2 = dummy variable: 1 in 2002Q2, 0 otherwise.

Sample (adjusted): 2001Q1 2011Q4

Adjusted R-squared: 0.78

S.E. of regression: 0.135

Durbin-Watson statistic: 1.80

A5. Dwelling Investment

In the long run, real dwelling investment is modelled as a constant share of real private GDP. In the short run, real dwelling investment is driven by both contemporaneous and lagged number of permits issued, real mortgage credit and real house prices.

$$\begin{aligned} \text{DLOG(DWELLINGF)} = & -0.17 + 0.15*\text{DLOG(PERMITS)} + 0.26*\text{DLOG(PERMITS(-1))} \\ & (-1.69) \quad (3.01) \quad (4.45) \\ & + 0.18*\text{DLOG(PERMITS(-2))} + 0.10*\text{DLOG(PERMITS(-3))} + 0.96*\text{DLOG(HCF(-3))} \\ & (2.94) \quad (1.87) \quad (1.87) \\ & + 0.58*\text{DLOG(PIH(-2)/PCN(-2))} - 0.05*\text{LOG(DWELLINGF(-1)/PRIVGDPF(-1))} - 0.07*@\text{SEAS(1)/100} \\ & (2.68) \quad (-1.80) \quad (-1.98) \\ & - 0.02*@\text{SEAS(2)/100} - 0.06*@\text{SEAS(3)/100} \\ & (-0.42) \quad (-1.74) \end{aligned}$$

where: DWELLINGF = real private dwelling investment, HCF = real mortgage credit, PERMITS = building permits issued, PIH = house price index, PRIVGDPF = real private sector GDP.

Sample (adjusted): 2001Q1 2011Q4

Adjusted R-squared: 0.51

S.E. of regression: 0.061

Durbin-Watson statistic: 2.44

A6. Tourism Exports

The long-run equilibrium condition for real tourism exports depends on world demand and price competitiveness on the (tourism) export side. The elasticity of real tourism exports with respect to world demand and to price competitiveness is restricted to one. These restrictions are supported by statistical tests. In the short run, real tourism exports are driven by world demand and to a lesser extent by price competitiveness.

$$\begin{aligned} \text{DLOG(XTF)} = & 0.73 + 1.01*\text{DLOG(WDR)} - 0.59*\text{DLOG(PX/CXD_T)} \\ & (1.66) \quad (1.86) \quad (-1.18) \\ & -0.16*(\text{LOG(XTF(-1))} - \text{LOG(WDR(-1))} + \text{LOG}(@\text{MOVAV(PX(-1)/CXD_T(-1),4)})) + 97.29*@\text{SEAS(2)/100} \\ & (-2.57) \quad (21.26) \\ & + 91.89*@\text{SEAS(3)/100} - 27.21*@\text{SEAS(4)/100} + 35.73*\text{D00Q4/100} \\ & (23.03) \quad (-3.54) \quad (3.98) \end{aligned}$$

where: CXD_T = competitors' export prices (tourism sector), PX = export price deflator, WDR = world demand indicator, XTF = real exports of tourism, D00Q4 = dummy variable: 1 in 2000Q4, 0 otherwise.

Sample: 2000Q2 2011Q4
 Adjusted R-squared: 0.98
 S.E. of regression: 0.081
 Durbin-Watson statistic: 2.47

A7. Non-Tourism Exports

The long-run equilibrium of non-tourism exports depends on world demand and price competitiveness. The elasticity of real non-tourism exports with respect to these two variables is restricted to one. Again, this is supported by statistical tests. In the short run, non-tourism exports are driven by world demand and, to a lesser extent, by price competitiveness. Note that the responsiveness of both variables is less than that for tourism.

$$\begin{aligned} \text{DLOG(XNTF)} = & 2.12 + 0.87*\text{DLOG}(\text{@MOVAV(WDR,2)}) - 0.42*\text{DLOG(PX/CXD)} \\ & (2.33) \quad (2.17) \qquad \qquad \qquad (-1.36) \\ & -0.24*(\text{LOG(XNTF(-1))} - \text{LOG(WDR(-1))} + \text{LOG}(\text{@MOVAV(PX(-1)/CXD(-1),4)})) + 11.32*\text{@SEAS(2)}/100 \\ & (-2.43) \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad (4.13) \\ & + 6.36*\text{@SEAS(3)}/100 + 14.54*\text{@SEAS(4)}/100 - 11.50*\text{D11Q3}/100 + 14.69*\text{D11Q4}/100 \\ & (2.60) \qquad \qquad \qquad (3.92) \qquad \qquad \qquad (-2.13) \qquad \qquad \qquad (2.63) \end{aligned}$$

where: CXD = competitors' export prices, PX = export price deflator, WDR = world demand indicator, XNTF = real exports of goods and non-tourism services, D11Q3 = dummy variable: 1 in 2011Q3, 0 otherwise, D11Q4 = dummy variable: 1 in 2011Q4, 0 otherwise.

Sample: 2001Q1 2011Q4
 Adjusted R-squared: 0.74
 S.E. of regression: 0.051
 Durbin-Watson statistic: 2.01

A8. Imports

In the absence of import content estimates provided by updated Input-Output tables, an import demand indicator based on a regression linking imports to exports, consumption and private non-dwelling investment was constructed. Real imports are affected both in the short run and long run by this demand indicator. By definition, the long-run elasticity of the import demand indicator is set to unity.

$$\begin{aligned} \text{DLOG(MF)} = & -2.66 + 0.99*\text{DLOG(MFDEM)} - 0.88*\text{LOG(MF(-1)/MFDEM(-1))} + 0.02*\text{@SEAS(2)} \\ & (-5.52) \quad (6.58) \qquad \qquad \qquad (-5.53) \qquad \qquad \qquad (0.66) \\ & -0.07*\text{@SEAS(3)} + 0.01*\text{@SEAS(4)} \\ & (-2.08) \qquad \qquad \qquad (0.23) \end{aligned}$$

where: MF = real imports of goods and services, MFDEM = import demand indicator.

Sample (adjusted): 2000Q2 2011Q4
 Adjusted R-squared: 0.83
 S.E. of regression: 0.047
 Durbin-Watson statistic: 1.98

Wage-Price Block

A9. Private Wage

The long-run condition for private wages is derived from the first order condition of a profit maximising firm. Thus, the long-run elasticity of nominal private wages with respect to both private labour productivity and prices is set to one. The short-run dynamics are driven by the unemployment gap, private productivity and consumer prices.

$$\begin{aligned} \text{DLOG}(\text{PRIVWAGE}) = & -1.42 - 0.59 \cdot \text{D}(\text{URBGAP}(-2))/100 + 0.54 \cdot \text{DLOG}(\text{PRIVPRODF}) \\ & (-2.89) \quad (-0.93) \qquad \qquad \qquad (4.73) \\ & + 0.55 \cdot \text{DLOG}(\text{PCN}(-1)) \\ & (1.75) \\ & - 0.27 \cdot (\text{LOG}(\text{PRIVWAGE}(-1)) + \text{LOG}(@\text{MOVAV}(\text{PCN}(-1),4)) - \text{LOG}(@\text{MOVAV}(\text{PRIVPRODF}(-1),4))) \\ & (-2.97) \\ & - 4.80 \cdot @\text{SEAS}(2)/100 - 9.14 \cdot @\text{SEAS}(3)/100 - 2.67 \cdot @\text{SEAS}(4)/100 \\ & (-2.69) \qquad \qquad (-4.80) \qquad \qquad (-1.96) \end{aligned}$$

where: PCN = consumption deflator, PRIVPRODF = private sector productivity, PRIVWAGE = private sector wage, URBGAP = unemployment gap.

Sample (adjusted): 2001Q1 2011Q4

Adjusted R-squared: 0.56

S.E. of regression: 0.020

Durbin-Watson statistic: 2.09

A10. Consumption Deflator

In the long run, the consumption deflator is determined by import prices and domestic costs (unit labour costs). The long-run elasticities are restricted to add up to one, thereby ensuring a stable profit margin. The short-run dynamics of the consumption deflator are driven by its lag, the output gap, foreign prices and the nominal effective exchange rate.

$$\begin{aligned} \text{DLOG}(\text{PCN}) = & 0.97 + 0.26 \cdot \text{DLOG}(\text{PCN}(-2)) + 0.10 \cdot \text{DLOG}(\text{GDPF}(-3)/\text{GDPFPO}(-3)) \\ & (2.80) \quad (1.86) \qquad \qquad \qquad (1.52) \\ & + 0.32 \cdot \text{DLOG}(\text{CMDFOR}(-1)) + 0.40 \cdot \text{DLOG}(\text{EENM}(-1)) \\ & (1.73) \qquad \qquad \qquad (1.84) \\ & - 0.36 \cdot (\text{LOG}(\text{PCN}(-1)) - 0.49 \cdot \text{LOG}(@\text{MOVAV}(\text{PM}(-1),4)) - 0.51 \cdot \text{LOG}(@\text{MOVAV}(\text{ULC}(-1),4))) \\ & (-3.40) \qquad \qquad \qquad (5.95) \\ & + 1.29 \cdot @\text{SEAS}(2)/100 + 0.84 \cdot @\text{SEAS}(3)/100 + 1.19 \cdot @\text{SEAS}(4)/100 \\ & (3.18) \qquad \qquad (1.50) \qquad \qquad (1.26) \end{aligned}$$

where: CMDFOR = index of price inflation in competitor countries, EENM = effective exchange rate, GDPF = real GDP, GDPFPO = real potential GDP, PCN = consumption deflator, PM = import deflator.

Sample: 2001Q1 2011Q4

Adjusted R-squared: 0.42

S.E. of regression: 0.009

Durbin-Watson statistic: 2.22

A11. Investment Deflator

In the long run, the elasticity of the investment deflator with respect to import prices is set to one. The short-run relation allows for a linear time trend which starts from the first quarter of 2006 and captures the statistical break evident in the investment deflator series from 2006 onwards. Otherwise, in the short run the investment deflator is driven by the import deflator.

$$\begin{aligned} \text{DLOG}(\text{PI}) = & 0.06 + 0.69 \cdot \text{DLOG}(\text{PM}(-1)) - 0.57 \cdot \text{LOG}(\text{PI}(-1)/\text{PM}(-1)) + 0.64 \cdot \text{@TREND06Q1}/100 \\ & (5.82) \quad (5.11) \quad (-5.35) \quad (5.04) \\ & - 12.19 \cdot \text{D06Q2}/100 - 12.05 \cdot \text{D11Q3}/100 - 5.01 \cdot \text{D11Q4}/100 \\ & (-4.70) \quad (-4.47) \quad (-1.66) \end{aligned}$$

where: PI = investment deflator, PM = import deflator, TREND06Q1 = time trend starting from 2006Q1, D06Q2 = dummy: 1 in 2006Q2, 0 otherwise, D11Q3 = dummy: 1 in 2011Q3, 0 otherwise, D11Q4 = dummy: 1 in 2011Q4, 0 otherwise.

Sample: 2001Q1 2011Q4
Adjusted R-squared: 0.68
S.E. of regression: 0.025
Durbin-Watson statistic: 2.14

A12. Export Deflator

Similar to the personal consumption deflator, the export deflator is determined in the long run by import prices – measured by the import deflator – and domestic costs – measured by the unit labour costs. The long-run elasticities are restricted to add up to one, ensuring a stable profit margin. In the short run, the export deflator is solely driven by imported inflation.

$$\begin{aligned} \text{DLOG}(\text{PX}) = & 0.41 + 0.63 \cdot \text{DLOG}(\text{PM}) - 0.68 \cdot \text{LOG}(\text{PX}(-1)) + 0.89 \cdot \text{LOG}(\text{PM}(-1)) \\ & (1.29) \quad (7.35) \quad (-5.06) \quad (9.66) \\ & + 0.11 \cdot \text{LOG}(\text{@MOVAV}(\text{ULC}(-1),4)) + 0.53 \cdot \text{@SEAS}(2)/100 + 0.81 \cdot \text{@SEAS}(3)/100 - 5.15 \cdot \text{@SEAS}(4)/100 \\ & (1.24) \quad (0.72) \quad (0.94) \quad (-5.39) \\ & - 0.01 \cdot \text{D01}/100 \\ & (-1.30) \end{aligned}$$

where: PM = import deflator, PX = export deflator, ULC = unit labour costs, D01 = dummy: 1 in 2001Q1-2001Q4, 0 otherwise.

Sample: 2001Q1 2011Q4
Adjusted R-squared: 0.90
S.E. of regression: 0.014
Durbin-Watson statistic: 1.92

A13. Import Deflator

Both the equilibrium level and the dynamics of the import deflator depend on Malta's trading partners' export prices. This variable is a weighted average of the export prices of trading partners, with weights reflecting each country's relative share in Maltese imports of goods.

$$\begin{aligned} \text{DLOG(PM)} = & 0.02 + 0.38*\text{DLOG(CMD)} - 0.14*\text{LOG(PM(-1)/CMD(-1))} - 1.87*@\text{SEAS(2)/100} \\ & (2.20) \quad (1.03) \quad \quad \quad (-1.84) \quad \quad \quad (-1.73) \\ + & 0.37*@\text{SEAS(3)/100} - 2.20*@\text{SEAS(4)/100} - 10.22*\text{D01Q3/100} \\ & (0.33) \quad \quad \quad (-2.03) \quad \quad \quad (-3.84) \end{aligned}$$

where: CMD = competitors' prices on the import side, PM = import deflator, D01Q3 = dummy: 1 in 2001Q3, 0 otherwise.

Sample: 2001Q1 2011Q4
Adjusted R-squared: 0.32
S.E. of regression: 0.025
Durbin-Watson statistic: 2.29

A14. House Prices

In the long run, house prices are driven by disposable income per capita. So as to ensure the affordability of house prices, their long-run elasticity with respect to disposable income per capita is restricted to one. The short-run dynamics are affected by mortgages and disposable income per capita.

$$\begin{aligned} \text{DLOG(PIH)} = & 0.55 + 0.92*\text{DLOG(HC(-1))} + 0.54*\text{DLOG(YPD(-1)/POP(-1))} \\ & (2.64) \quad (2.17) \quad \quad \quad (1.56) \\ - & 0.13*(\text{LOG(PIH(-1))} - \text{LOG(YPD(-1)/POP(-1)))) + 1.60*@\text{SEAS(2)/100} - 0.06*@\text{SEAS(3)/100} \\ & (-2.66) \quad \quad \quad (0.96) \quad \quad \quad (-0.04) \\ + & 0.35*@\text{SEAS(4)/100} - 13.43*\text{D02Q2/100} + 13.43*\text{D03Q3/100} \\ & (0.18) \quad \quad \quad (-3.44) \quad \quad \quad (3.42) \end{aligned}$$

where: HC = bank lending for mortgages, PIH = house price index, POP = population, YPD = disposable income, D02Q2 = dummy: 1 in 2002Q2, 0 otherwise, D03Q3 = dummy: 1 in 2003Q3, 0 otherwise.

Sample: 2002Q1 2011Q4
Adjusted R-squared: 0.46
S.E. of regression: 0.034
Durbin-Watson statistic: 1.75

Financial Block

A15. Consumer and Other Credit

In the long run, the elasticity of real consumer and other credit with respect to real consumption is set to one. Over the short run it is influenced by its own lag, real consumption and real interest rates on consumer credit.

$$\begin{aligned} \text{DLOG(CCOCF)} = & -0.26 + 0.37*\text{DLOG(CNF)} + 0.29*\text{DLOG(CCOCF(-2))} \\ & (-3.30) \quad (3.66) \quad \quad \quad (2.20) \\ - & 1.42*\text{D(CCOCFRAT/100} - @\text{MOVAV(@PCY(PCN)/100,4))} - 0.33*\text{LOG(CCOCF(-1)/CNF(-1))} \\ & (-2.14) \quad \quad \quad \quad \quad \quad \quad \quad \quad (-3.48) \\ + & 0.43*@\text{TREND/100} \\ & (3.26) \end{aligned}$$

where: CCOCF = real bank lending for consumer credit and other credit (deflated by consumption deflator), CCOCFRAT = bank lending rate for consumer credit and other credit, CNF = real private consumption.

Sample: 2002Q1 2011Q4
 Adjusted R-squared: 0.34
 S.E. of regression: 0.027
 Durbin-Watson statistic: 1.74

A16. Housing Credit

Real housing credit in the long run depends on real house prices with an elasticity of one, and on the real interest rate on mortgages. Its short-run dynamics are driven by real disposable income and real house prices.

$$\begin{aligned} \text{DLOG(HCF)} = & 1.30 + 0.26*\text{DLOG}(\text{PIH/PCN}) + 0.29*\text{DLOG}(\text{YPD/PCN}) \\ & (2.98) \quad (4.14) \quad (2.98) \\ & -0.09*(\text{LOG}(\text{HCF}(-1))-\text{LOG}(\text{PIH}(-1)/\text{PCN}(-1)))-0.36*\text{@MOVAV}((\text{HCRAT}(-1)-\text{@PCY}(\text{PCN}(-1))))/100,4) \\ & (-2.87) \quad (-1.60) \\ & + 0.18*\text{@TREND}/100 + 4.30*\text{D03Q3}/100 \\ & (2.00) \quad (2.51) \end{aligned}$$

where: HCF = real bank lending for mortgages (deflated by consumption deflator), PCN = consumption deflator, PIH = house price index, HCRAT = bank lending rate for house mortgages, D03Q3 = dummy: 1 in 2003Q3, 0 otherwise.

Sample: 2002Q1 2011Q4
 Adjusted R-squared: 0.61
 S.E. of regression: 0.013
 Durbin-Watson statistic: 2.64

A17. Lending Rate to Non-Financial Corporations

The model contains three different bank lending rates, modelled through a simple interest rate pass-through approach. In all three cases, lending rates are dependent both in the short run and long run on a benchmark rate, in this case the ECB policy rate. The long-run coefficient shows the equilibrium pass-through, while the short-run coefficients show the impact pass-through.

$$\begin{aligned} \text{D(NFCLENDRAT)} = & 0.88 + 0.56*\text{D}(\text{POLICYRAT}) - 0.21*\text{NFCLENDRAT}(-1) + 0.13*\text{POLICYRAT}(-1) \\ & (2.83)(12.70) \quad (-2.80) \quad (2.52) \end{aligned}$$

where: NFCLENDRAT = bank lending rate to non-financial corporations, POLICYRAT = policy rate set by European Central Bank.

Sample (adjusted): 2000Q2 2011Q4
 Adjusted R-squared: 0.78
 S.E. of regression: 0.089
 Durbin-Watson statistic: 1.79

A18. Lending Rate on Consumer and Other Credit

$$D(\text{CCOCFRAT}) = 0.74 + 0.61 \cdot D(\text{POLICYRAT}) - 0.15 \cdot \text{CCOCFRAT}(-1) + 0.09 \cdot \text{POLICYRAT}(-1)$$

$(2.07) \quad (6.47) \qquad \qquad (-2.05) \qquad \qquad (1.66)$

where: CCOCFRAT = bank lending rate for consumer credit and other credit, POLICYRAT = policy rate set by European Central Bank.

Sample (adjusted): 2000Q2 2011Q4

Adjusted R-squared: 0.50

S.E. of regression: 0.193

Durbin-Watson statistic: 2.14

A19. Lending Rate on Housing Credit

$$D(\text{HCRAT}) = 0.42 + 0.62 \cdot D(\text{POLICYRAT}) - 0.17 \cdot \text{HCRAT}(-1) + 0.12 \cdot \text{POLICYRAT}(-1)$$

$(2.07) \quad (7.17) \qquad \qquad (-2.21) \qquad \qquad (1.99)$

where: HCRAT = bank lending rate for mortgages, POLICYRAT = policy rate set by European Central Bank.

Sample (adjusted): 2000Q2 2011Q4

Adjusted R-squared: 0.54

S.E. of regression: 0.178

Durbin-Watson statistic: 2.18

NEWS NOTES

Official interest rates cut

On 2 May the Governing Council of the European Central Bank (ECB) reduced the interest rate on the main refinancing operations by 25 basis points to 0.50%, with effect from 8 May. Furthermore, the ECB reduced the interest rate on the marginal lending facility by 50 basis points to 1.00%. Meanwhile, the interest rate on the deposit facility will remain unchanged at 0.00%. These changes imply a narrowing of the interest rate corridor of standing facilities from 150 to 100 basis points.

Eurosystem unveils the Europa series €5 banknote

On 10 January the ECB unveiled the Europa series €5 banknote. The €5 is the first banknote in the new series. It was issued on 2 May 2013 and includes new and enhanced security features, but has the same design and dominant colours as the first series. The other denominations will be introduced over the next few years. The first series will initially circulate alongside the new banknotes but will gradually be withdrawn.

Central Bank of Malta announcements

Publication of results of Household Finance and Consumption Survey in Malta

On May 28 the Central Bank of Malta released a report on various aspects of financial assets, liabilities and consumption patterns of Maltese households. The report is based on a survey that was conducted in 2010 as part of a euro area exercise sponsored by the ECB. The information is available on the Bank's website: http://www.centralbankmalta.org/updates/downloads/pdfs/household_survey.pdf

Biannual information on euro banknote counterfeiting

On 16 January the Central Bank of Malta released its latest data regarding euro banknote counterfeiting. In the second half of 2012, the number of reported counterfeit euro banknotes was 713, 25% lower than in the first half of the year. As a result, total counterfeits withdrawn from circulation in 2012 stood at 1,664, 7.8% higher than in 2011. This total is still insignificant when compared with the estimated number of genuine euro banknotes in circulation in Malta.

Coin Issuance Programme 2013

On 1 February the Bank introduced its Coin Issuance Programme for 2013. It is expected that during the course of the year the Bank will issue five numismatic coins, one commemorative coin as part of the series marking "Milestones in Malta's Constitutional History", and a euro coin set dated 2013.

On 26 February the Bank issued the first of the numismatic coins, which featured the poet Dun Karm Psaila on its reverse, along with the opening words of Malta's national anthem. The obverse shows the emblem of Malta and the year of issue. The coin, which is part of the Europa Coin Programme 2013 "European Writers", is available either in

gold, with a face value of €50, or in silver, with a face value of €10. It was struck at the Royal Dutch Mint.

On 13 March the Central Bank of Malta issued the second numismatic coin. This coin is in silver and features Grand Master Emmanuel Pinto on the reverse side, along with his coat-of-arms and a map of the Maltese island, and the emblem of Malta with the year of issue on the obverse. The coin has a face value of €10 and was struck at the Royal Belgian Mint.

Central Bank of Malta and MFSA establish Joint Financial Stability Board

On 17 January the Bank announced that, together with the Malta Financial Services Authority (MFSA), it would establish a Joint Financial Stability Board (JFSB) to enhance cooperation between the two entities for the assurance of financial stability in Malta and the formulation of macro-prudential policy. The setting up of the JFSB is in line with the recommendation adopted by the European Systemic Risk Board (ESRB) in December 2011 regarding the macro-prudential mandate of national authorities.

Statements on the Maltese banking system

On 27 March the Governor made a statement reported in the media stressing the stability of the domestic banking system. The statement draws attention to the differences that exist between the Maltese and Cypriot banking systems and highlights the fact that the bank assets-to-gross domestic product (GDP) ratio for Malta is inflated by the inclusion of international banks that have almost no links to the domestic economy. The assets of other categories of banks in Malta (core and non-core domestic banks) amount to around 300% of GDP, in line with international norms. Also, the Governor emphasised that the Maltese banking system operates a prudent business model and is profitable, highly liquid, and has minimum exposure to bonds issued by stressed countries.

The Government of Malta also released a statement underlining the fact that asset holdings of the Maltese banking sector are well diversified, with very little exposure to stressed countries. Malta's banking sector is robust and stable, with strong solvency ratios and an overall capital adequacy ratio of above 50%, significantly higher than the minimum regulatory requirement.

Credit ratings

S&P downgrades Malta

On 16 January ratings agency Standard & Poor's downgraded Malta's long-term sovereign credit rating from A- to BBB+ with a stable outlook. The agency stated that the Maltese Government's debt burden, loss-making state enterprises and the dissolution of parliament preventing the 2013 budget coming into force were the main reasons for this decision.

Fitch confirms BOV rating

On 6 February another major rating agency, Fitch Ratings, held the credit rating of Bank of Valletta plc at BBB+ with a stable outlook. The agency mentioned the bank's strong domestic base, stable funding model, prudent provisioning and regulatory capital ratios,

and healthy liquidity position as the basis for this decision. Furthermore, Fitch commented that the bank's operating profitability was resilient even in times of low interest rates or non-favourable scenarios for banks.

Funds available to Malta under the European Union's budget for 2014-2020

On 9 February the Government announced that Malta will receive EU funds amounting to €1.13 billion under the European Union's seven-year budget covering the period 2014 to 2020. Of these, €776 million are cohesion funds. After taking into account Malta's contributions to the EU budget over the period, net receipts of EU funds will stand at €627 million.

European Commission Winter Forecasts

On 23 February the European Commission released its Winter Forecasts, in which it projected real GDP growth in Malta during 2013 at 1.5%, the second highest in the euro area. Growth was expected to accelerate further to 2% in 2014. The Commission also expected the unemployment rate to decline to 6.2% by 2014, while the inflation rate was expected to remain higher than the euro area average over the forecast horizon.

Budget Estimates for 2013

On 8 April the Minister of Finance presented the Budget Estimates for 2013. The general government deficit in 2013 was targeted at 2.7% of GDP, down from 3.3% in 2012. At the same time, the general government debt-to-GDP ratio is expected to rise to 74.2% in 2013, from 72.5% in 2012. Parliament approved the Budget Estimates on 10 April.

Capital market developments

Issue of Malta Government Stocks

On 28 January the Treasury released the 2013 Malta Government Stocks (MGS) Provisional Calendar, announcing that the amount of issuance of MGS during 2013 has been provisionally set at a maximum level of €650 million. The funds, to be raised through fixed-rate MGS and floating-rate MGS linked to the six-month EURIBOR will be used to finance the government's borrowing requirements during the year, as well as to re-finance seven maturing MGS issues.

On 15 February the Government, through Legal Notice 63, announced the issue of two MGS for a total amount of €120 million, subject to an over-allotment option of up to €80 million. The Treasury received bids totalling over €292.9 million for the two stocks, of which it accepted €44.6 million for the 3% MGS 2019 (III) and €155.1 million for the 4.5% MGS 2028 (II).

New share issue

On 25 March Tigne Mall plc, owner and operator of The Point shopping complex, announced a combined offering of 56.4 million shares with a nominal value of €0.50 per share. The offering consists of 42.4 million shares currently held by MIDI plc and Tigne Contracting Limited, and a new issue of 14.0 million shares. The shares will be admitted to the Official List of the Malta Stock Exchange.

Issue of secured notes

On 6 February Pendergardens Developments plc announced the issue of €12.0 million in 7% Secured Notes at par, to be redeemed between 2015 and 2019.

Banking and finance legislation

Legal Notice 28 of 2013, issued on 18 January entitled Consumer Credit (Amendment) Regulations, 2013, implements the provisions of Commission Directive 2011/90/EU of 14 November 2011. This Directive amends Part II of Annex I to Directive 2008/48/EC by providing additional assumptions for the calculation of the annual percentage rate of charge for consumer credit agreements.

Legal Notice 51 of 2013, issued on 29 January entitled Declaration of Bank Holidays, declared 1 April and 26 December 2013 to be bank holidays.

Legal Notice 81 of 2013, issued on 1 March entitled Financial Markets Act (OTC Derivatives, Central Counterparties and Trade Repositories) Regulations, 2013, appoints the MFSA as the competent authority in Malta for implementing the relevant provisions of Regulation (EU) No 648/2012 on over-the counter (OTC) derivatives, central counterparties, and trade repositories. This includes the process of registration of central counterparties, the instances when the competent authority can withdraw registrations, and the power of the competent authority to publish Financial Market Rules.

Legal Notice 105 of 2013, issued on 8 March, entitled Capital Gains (Amendment) Rules, 2013, in relation to income tax, implements a number of changes to the original capital gains rules, including a change to the formula used to calculate the market value of shares in a company.

Legal Notice 107 of 2013, issued on 8 March, entitled Interest Rate (Exemption) (Amendment) Regulations, 2013, stipulates that profit participating loans or notes, or any other similar obligation when the return on the obligation or instrument is variable and dependent on performance, shall be exempt from the provisions of the Civil Code that limit the amount of interest charged. This regulation will be applied on condition that the aggregate principal sum involved is at least €2 million and that the issuer or the borrower is not a natural person.

Legal Notices 113, 114, 115, and 116, issued on 8 March, introduce four new Regulations under the Investment Services Act on marketing, freedom of establishment, duties of the competent authority, and relations with third country Alternative Investment Fund Managers. These implement Directive 2011/61/EU on Alternative Investment Fund Managers (AIFM). This Directive aims to establish common requirements governing the authorisation and supervision of AIFMs in the European Union. The MFSA is the national authority responsible for carrying out duties emanating from the Directive.

New US Dollar Funding Rule for credit institutions

MFSA Rule 02 of 2012, which came into effect on 1 January and is modelled on the Recommendation of the ESRB on US Dollar (USD) Funding (ESRB/2011/2), outlines the general

principles regulating USD-denominated funding. The Rule states that credit institutions are obliged to monitor USD funding and liquidity risk, to have in place risk strategies and policies with respect to USD liquidity and funding, and to have contingency funding plans to handle shocks in USD funding.

Double taxation agreements

Legal Notice 25 of 2013, issued on 15 January, entitled Double Taxation Relief (Taxes on Income) (The Kingdom of Saudi Arabia) Order, 2013, declares relief from double taxation on the Zakat and on the natural gas investment tax imposed by the Kingdom of Saudi Arabia, as from 1 December 2012.

Legal Notice 117 of 2013, issued on 8 March, entitled Double Taxation Relief (Taxes on Income) (The States of Guernsey) Order, 2013, declares relief from double taxation on income tax imposed by the States of Guernsey, as from 10 March 2013.

Legal Notice 118 of 2013, issued on 8 March, entitled Double Taxation Relief (Taxes on Income) (The Kingdom of Norway) Order, 2013, declares relief from double taxation on various income taxes, and on the national tax on remuneration to non-resident artists imposed by the Kingdom of Norway, as from 14 February 2013.

Legal Notice 119 of 2013, issued on 8 March, entitled Double Taxation Relief (Taxes on Income) (The Oriental Republic of Uruguay) Order, 2013, declares relief from double taxation on income tax on business income, personal income, and non-residents income, on the tax for social security assistance, and on the capital tax imposed by the Oriental Republic of Uruguay, as from 13 December 2012.

Exchange of tax information

Legal Notice 26 of 2013, issued on 15 January, entitled Exchange of Information (Tax Matters) (Commonwealth of The Bahamas) Order, 2013, lays down the arrangements made by the Government of Malta with the Government of the Commonwealth of The Bahamas to prevent fiscal evasion through the exchange of information between the two parties. The Agreement entered into force on 30 October 2012.

Legal Notice 120 of 2013, issued on 8 March, entitled Exchange of Information (Tax Matters) (Bermuda) Order, 2013, lays down the arrangements made by the Government of Malta with the Government of Bermuda to prevent fiscal evasion through the exchange of information between the two parties. The Agreement entered into force on 5 November 2012.

Surrender of licence

On 19 February the MFSA announced that it had accepted a request from Fortis Bank Malta Ltd to surrender its licence as a credit institution. As a result, Fortis Bank Malta Ltd ceased, with immediate effect, to undertake banking activities.

SELECTED INTERNATIONAL ECONOMIC AND FINANCIAL NEWS

Treaty on Stability, Coordination and Governance enters into force

On 1 January 2013 the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union entered into force following ratification by 12 Member States of the euro area. The Treaty stipulates that national budgets must be in balance or in surplus and imposes a lower limit of a structural deficit of 0.5% of GDP. The balanced budget rule must be incorporated into national law within one year from the date on which the Treaty enters into force, preferably at Constitutional level. The Treaty also embeds a new debt rule for countries with general government debt exceeding 60% of GDP and obliges Member States to report to the Commission and the Council on their debt issuance plans and on structural reforms.

Agreement to increase EU financial stability

On 27 February the Irish Presidency reached a provisional agreement with the European Parliament on new rules to ensure that European banks hold enough good quality capital to withstand future economic and financial shocks. The provisional agreement includes restrictions on bankers' pay, in order to ensure that pay practices do not lead to excessive risk-taking, and new provisions to make European banks more transparent. The new rules will apply to financial institutions, including banks, across Europe.

Deal on single bank supervision

On 19 March the Irish Presidency reached a provisional agreement with the European Parliament on the single EU bank supervisor. The setting up of the supervisor paves the way for the European Stability Mechanism to take on the direct recapitalisation of banks. The agreement includes strengthened democratic accountability and a greater role for the European Parliament in the appointment of the Chair and Vice Chair of the Supervisory Board.

The European Council

On 7-8 February the European Council agreed on the multiannual financial framework (MFF), laying down EU budgetary priorities from 2014 to 2020. EU leaders agreed to cut financial resources available to the European Union from the level of the MFF 2007-2013. Funds for research, innovation and education were, however, increased. A new initiative designed to tackle youth unemployment was also agreed upon.

On 14-15 March the European Council held a comprehensive discussion on the economic and social situation and set the orientation for the economic policy of EU Member States in 2013. EU leaders asserted that particular priority must be given to supporting youth employment, completing the Single Market and cutting red tape. The Council also took stock of ongoing work on deepening the Economic and Monetary Union.

ECOFIN

On 22 January the Economic and Financial Affairs Council (ECOFIN) adopted a decision authorising 11 EU Member States to proceed with the introduction of a financial transaction tax (FTT) through enhanced cooperation.¹ Discussions on the proposal to introduce

¹ The 11 EU Member States are Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

an FTT throughout the European Union had insufficient support within the Council. The aim of the original proposal was for the financial industry to make a greater contribution to tax revenues, while also creating a disincentive for transactions that do not enhance the efficiency of financial markets.

On 12 February the ECOFIN adopted conclusions under the 2013 European Semester on the basis of two reports submitted by the Commission, namely, the annual growth survey and the alert mechanism report. The Council also adopted conclusions on the European Commission's 2012 fiscal sustainability report.

On 28 February the ECOFIN confirmed an agreement with the European Parliament on two draft regulations to further improve economic governance in the euro area. Proposals were presented by the Commission in November 2011, following adoption of an initial "six-pack" of economic governance measures. Under this agreement, the European Commission will have more power to discipline euro area country budgets by checking draft budgets to see if they are in line with EU rules and to ask for changes if they are not.

On 5 March the ECOFIN broadly endorsed the outcome of the agreement with the European Parliament on the "CRD 4" package, amending EU rules on capital requirements for banks and investment firms. Their purpose is to transpose into EU law the Basel 3 agreement approved by the G20 in November 2010. The proposals aim to amend and replace existing capital requirement directives by two new legislative instruments: a regulation establishing prudential requirements for institutions to respect and a directive governing access to deposit-taking activities. The new rules are expected to apply from 1 January 2014.

On 27 March the ECOFIN confirmed the agreement with the European Parliament on the "CRD 4" package amending EU rules on capital requirements for banks and investment firms.

Eurogroup statements

On 25 March the Eurogroup reached an agreement with the Cypriot authorities on the key elements necessary for a future macroeconomic adjustment programme. The programme is aimed to address the exceptional challenges facing Cyprus and to re-establish the viability and credibility of the financial sector, while restoring sustainable growth and sound public finances over the coming years. The total financial assistance agreed upon is for an amount of up to €10 billion. The programme involves a reduction in the size of the financial sector, with the domestic banking sector reaching the EU average, in terms of the banking assets/GDP ratio, by 2018. It also steps up efforts in the areas of fiscal consolidation, structural reforms and privatisation. The plan safeguards all deposits below €100,000, in line with EU principles.

The Group of Twenty

The leaders of the G20 met in Moscow on 15-16 February. Leaders discussed the global economic outlook, the implementation of the G20 Framework agreement for strong, sustainable, and balanced growth, as well as further implementation of reforms of the international financial architecture and financial regulation. They reiterated their commitment to move faster towards more exchange rate flexibility to reflect underlying fundamentals and avoid persistent misalignments.

STATISTICAL TABLES

The Maltese Islands - Key information, social and economic statistics

(as at end-Dec 2012, unless otherwise indicated)

CAPITAL CITY	Valletta		
AREA	316 km ²		
CURRENCY UNIT	Euro exchange rates ¹ :	EUR 1 = USD 1.3194 EUR 1 = GBP 0.8161	
CLIMATE	Average temperature (2012):	Jan. - Mar. 11.6°C	
		July - Sep. 27.4°C	
	Annual rainfall (2012)	519.2mm	
SELECTED GENERAL	GDP growth at constant 2000 prices ²	1.1%	
ECONOMIC STATISTICS	GDP per capita at current market prices ²	EUR16,100	
	GDP per capita in PPS relative to the EU-27 average (2011)	85.0%	
	Ratio of gross general government debt to GDP ² (2011)	72.1%	
	Ratio of general government deficit to GDP ² (2011)	3.3%	
	RPI inflation rate (12-month moving average)	2.4%	
	HICP inflation rate (12-month moving average)	3.2%	
	Ratio of exports of goods and services to GDP ²	97.3%	
	Ratio of current account surplus to GDP ²	0.6%	
	Employment rate ³	59.5%	
	Unemployment rate ³	6.5%	
		Long term government bond yield	3.9%
	POPULATION	Total Maltese and foreigners (2011)	417,520
		Males	207,677
		Females	209,843
Age composition in % of population (2011)			
0 - 14		14.7%	
15 - 64		68.8%	
	65 +	16.5%	
	Annual growth rate (2011)	0.4%	
HEALTH	Density per km ² (2011)	1,321	
	Life expectancy at birth (2011)	80.5	
	Males	78.4	
	Females	82.6	
	Crude birth rate, per 1,000 Maltese inhabitants (2011)	10.3	
	Crude mortality rate, per 1,000 Maltese inhabitants (2011)	7.9	
	Doctors (2012)	1,572	
EDUCATION	Gross enrolment ratio (2010/2011)	70.6%	
	Teachers per 1,000 students (2009/2010) ²	130	
ELECTRICITY	Domestic Consumption (million kwh) (2011)	593	
WATER	Average daily consumption ('000 m ³) (2011)	81	
LIVING STANDARDS	Human Development Index: rank out of 187 countries (2012)	32	
	Mobile phone subscriptions per 100 population	129.2	
	Internet subscribers per 100 population	32.8	
	Private motor vehicle licences per 100 population	58.0	

¹ End of month ECB reference rates.

² Provisional.

³ Labour Force Survey.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance, the Economy and Investment; NSO; UNDP.

The monetary and financial statistics shown in the 'Statistical Tables' annex are primarily compiled on the basis of information submitted to the Central Bank of Malta by the following credit institutions, as at December 2012:

Akbank T.A.S.
APS Bank Ltd.
Banif Bank Malta p.l.c.
Bank of Valletta p.l.c.
BAWAG Malta Bank Ltd.
Credit Europe NV (from March 2007)
Commbank Europe Ltd. (from September 2005)
Deutsche Bank Malta Ltd. (from March 2010)
Erste Bank (Malta) Ltd.
FCM Bank Limited (from November 2011)
FIMBank p.l.c. (from August 2011)
Fortis Bank Malta Ltd.
HSBC Bank Malta p.l.c.
IIG Bank (Malta) Ltd. (from October 2010)
Investkredit International Bank p.l.c.
Izola Bank Ltd.
Lombard Bank Malta p.l.c.
Mediterranean Bank p.l.c. (from January 2006)
NBG Bank Malta Ltd. (from July 2005)
Nemea Bank Ltd (from December 2009)
Raiffeisen Malta Bank p.l.c.
Saadgroup Bank Europe Ltd. (from January 2009)
Sparkasse Bank Malta p.l.c.
Turkiye Garanti Bankasi A.S.
Voicecash Bank Limited (from October 2010)
Volksbank Malta Ltd.

In order to reflect Malta's entry into the euro area and the adoption of the euro as its currency on 1 January 2008, the layout and design of a number of tables, in particular in Parts 1 and 3, have been changed significantly, while others have been replaced with entirely new tables. Hence, users should exercise caution when comparing these series with earlier data, as the underlying definitions may have changed. For ease of comparison, all data relating to earlier periods presented in this *Quarterly Review* are converted into euro at the fixed exchange rate of EUR1=MTL0.4293. The reasons for this approach were explained in a note entitled 'Conversion of data in Maltese liri into euro' which was published in the 2007:3 issue of the *Quarterly Review*, while the changes to the underlying concepts were explained in a note entitled 'Presentation of statistics relating to Malta following adoption of the euro' which was published in the 2008:1 issue of the *Quarterly Review*. Detailed definitions of the concepts in each table can be found in the 'General Notes' section.

As from *Quarterly Review 2013:1*, the Central Bank of Malta discontinued to publish the weighted average deposit and lending rates in Table 1.21 - Other rates and indicators. Interest rates paid and charged by MFIs in Malta reported according to harmonised definition established by the ECB are shown in Table 1.18 - 'Monetary Financial Institutions Interest Rates on Deposits and Loans to Residents of Malta', and Table 1.19 - 'Monetary Financial Institutions Interest Rates on Deposits and Loans to Euro Area Residents'.

The statistical tables shown in the 'Statistical Tables' annex, including historical data, are provided in electronic format on the website of the Central Bank of Malta at www.centralbankmalta.org.

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Monetary, Banking and Financial Markets

Table 1.1 Financial statement of the Central Bank of Malta¹ (assets)

EUR millions

End of period	External assets				IMF currency subscription	Central government securities	Other assets	Total assets/liabilities
	Gold	IMF-related assets ²	Other ³	Total				
2005	1.5	87.4	2,061.2	2,150.1	74.6	21.2	62.5	2,308.4
2006	2.7	84.8	2,123.6	2,211.1	70.5	70.5	62.3	2,414.4
2007	8.8	83.9	2,434.4	2,527.2	66.3	203.6	74.4	2,871.5

EUR millions

End of period	Gold and gold receivables	Claims in euro		Claims in foreign currency		Lending related to monetary policy operations	Intra-Eurosystem claims	Other assets ⁴	Total assets/liabilities
		Claims on euro area residents	Claims on non-euro area residents	Claims on euro area residents	Claims on non-euro area residents				
2008	4.1	638.8	260.0	435.4	251.4	454.0	48.4	631.5	2,723.6
2009	5.2	626.8	95.7	238.0	375.0	1,252.5	49.0	602.3	3,244.5
2010	3.7	1,067.1	94.3	250.8	399.0	1,074.5	49.4	707.3	3,646.1
2011									
Jan.	3.7	1,103.8	109.6	287.0	395.1	1,055.0	49.4	684.4	3,688.0
Feb.	4.3	1,114.3	101.7	339.1	368.4	1,133.2	49.4	700.0	3,810.3
Mar.	7.3	1,133.8	105.7	332.4	372.4	961.5	49.4	709.4	3,671.8
Apr.	7.1	1,202.3	142.9	329.0	380.0	1,013.3	49.4	682.8	3,806.8
May	7.1	1,160.4	123.2	299.7	379.4	975.8	49.4	726.3	3,721.4
June	7.5	1,379.2	408.9	313.9	357.3	1,116.3	49.4	720.5	4,353.1
July	7.4	1,202.5	138.9	323.8	367.1	1,143.3	49.4	721.0	3,953.4
Aug.	7.1	1,196.6	138.9	334.4	344.1	891.5	49.4	738.5	3,700.4
Sep.	8.4	1,278.0	173.2	356.0	356.5	790.8	49.4	738.3	3,750.6
Oct.	10.4	1,308.4	164.1	297.6	341.5	533.7	49.4	722.5	3,427.6
Nov.	8.3	1,398.6	189.8	241.1	354.1	614.2	49.4	732.4	3,587.8
Dec.	10.3	1,382.9	182.3	276.7	387.0	498.2	51.0	769.8	3,558.2
2012									
Jan.	8.3	1,334.3	204.8	358.2	413.4	506.1	50.4	764.3	3,639.8
Feb.	8.8	1,306.1	236.2	279.7	473.8	474.3	50.4	785.9	3,615.2
Mar.	13.0	1,281.8	281.4	246.9	491.6	557.0	50.4	787.1	3,709.2
Apr.	13.0	1,308.5	322.2	280.8	452.4	532.3	50.4	772.7	3,732.3
May	13.0	1,300.1	346.6	237.2	479.0	595.7	50.4	756.5	3,778.4
June	13.1	1,279.3	342.0	251.7	544.4	614.7	50.4	746.7	3,842.2
July	10.9	1,317.6	348.6	261.9	529.1	691.5	50.4	722.3	3,932.3
Aug.	9.8	1,341.1	367.4	286.5	516.1	636.6	50.4	747.5	3,955.4
Sep.	9.9	1,322.6	363.8	240.7	529.5	592.6	50.4	789.2	3,898.7
Oct.	10.4	1,268.3	362.3	222.6	479.7	648.3	50.4	740.8	3,782.9
Nov.	11.5	1,290.5	374.5	178.1	435.1	537.2	50.4	732.4	3,609.6
Dec.	13.4	1,305.0	382.7	224.2	512.1	378.2	52.8	736.2	3,604.4

¹ As from 2008, figures are reported according to the accounting principles established in ECB Guideline 2006/16 of 10 November 2006 (as amended) on the legal framework for accounting and reporting in the ESCB.

² Includes IMF reserve position and holdings of SDRs.

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

⁴ Including items in course of settlement.

Monetary, Banking and Financial Markets

Table 1.1 Financial statement of the Central Bank of Malta¹ (*liabilities*)

EUR millions

End of period	Currency issued	IMF-related liabilities	Deposits				Capital & reserves	External liabilities	Other liabilities
			Credit institutions	Central government	Other residents	Total			
2005	1,211.4	74.6	424.7	343.5	22.2	790.4	196.3	-	35.7
2006	1,173.9	70.5	660.8	248.2	41.0	950.0	181.0	-	38.9
2007	677.8	66.4	1,433.5	387.2	75.7	1,896.4	189.9	-	41.0

EUR millions

End of period	Banknotes in circulation ²	Liabilities related to monetary policy operations		Liabilities in euro		Liabilities in foreign currency		Counterpart of SDRs allocated by the IMF	Intra-Eurosystem liabilities	Other liabilities ³	Capital and reserves ⁴
		Total	(of which): Minimum Reserve Requirements	Liabilities to euro area residents	Liabilities to non-euro area residents	Liabilities to euro area residents	Liabilities to non-euro area residents				
2008	693.1	483.5	474.5	366.3	80.4	33.8	0.1	12.5	719.4	99.4	235.2
2009	673.4	584.6	447.6	397.7	86.8	71.6	0.0	103.9	908.7	156.1	261.7
2010	701.2	501.2	470.4	410.9	97.0	96.5	0.0	110.4	1,329.7	116.2	280.7
2011											
Jan.	681.7	497.4	484.4	381.7	94.2	98.9	0.0	110.4	1,438.3	113.1	272.3
Feb.	680.8	518.4	496.8	509.3	94.3	130.9	0.0	110.4	1,386.5	99.4	280.1
Mar.	684.0	481.5	453.6	382.6	87.5	146.4	0.0	106.5	1,418.5	87.6	277.2
Apr.	692.5	479.3	461.1	403.7	88.7	155.7	0.0	106.5	1,523.4	79.2	277.8
May	695.5	471.9	447.6	482.0	88.4	134.3	0.0	106.5	1,381.1	83.5	278.2
June	703.0	492.6	445.4	485.0	81.4	121.2	0.0	105.6	1,998.9	85.7	279.7
July	710.2	579.4	423.3	370.8	89.7	141.0	0.0	105.6	1,585.7	90.0	281.0
Aug.	705.3	1,236.8	436.1	485.3	83.1	129.5	0.0	105.6	577.4	96.0	281.4
Sep.	711.6	1,188.5	450.0	426.2	90.0	131.6	0.0	110.3	694.1	110.4	287.9
Oct.	717.4	822.8	446.8	339.2	93.7	138.5	0.0	110.3	803.1	114.5	288.0
Nov.	720.3	1,139.2	429.6	534.6	96.4	123.9	0.0	110.3	458.4	116.6	288.1
Dec.	737.6	1,101.1	431.6	438.6	86.5	122.5	0.0	113.2	557.9	103.1	297.1
2012											
Jan.	721.1	1,054.7	220.5	272.1	88.8	121.5	0.0	113.2	874.7	106.5	287.2
Feb.	719.9	895.0	219.2	542.2	83.3	145.9	0.0	113.2	725.5	93.9	296.3
Mar.	722.1	554.6	215.9	440.8	89.7	151.1	0.1	110.7	1,245.1	96.5	298.4
Apr.	725.3	1,049.0	218.0	386.7	90.2	144.7	0.1	110.7	842.9	83.7	299.0
May	732.9	636.2	215.8	361.9	90.3	99.3	0.0	110.7	1,356.4	91.1	299.5
June	741.8	581.7	227.0	518.0	91.3	128.7	0.0	115.0	1,269.9	96.6	299.1
July	745.2	519.3	224.3	480.8	93.2	106.0	0.0	115.0	1,474.3	98.1	300.3
Aug.	744.0	546.1	276.1	559.0	91.8	157.8	0.0	115.0	1,335.1	105.4	301.0
Sep.	740.8	1,028.3	254.6	697.5	85.1	180.4	0.0	113.8	631.4	116.8	304.6
Oct.	739.9	1,372.9	234.6	357.3	84.9	132.2	0.0	113.8	555.1	121.8	305.0
Nov.	738.5	1,304.8	247.0	457.8	93.3	167.7	77.3	113.8	224.3	126.2	305.8
Dec.	757.5	1,474.0	252.6	297.0	84.8	151.6	0.0	111.2	292.0	105.6	330.7

¹ As from 2008, figures are reported according to the accounting principles established in ECB Guideline 2006/16 of 10 November 2006 (as amended) on the legal framework for accounting and reporting in the ESCB.

² This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key. This amount is purely notional and may not reflect the amount of currency in circulation in Malta; the series is not comparable with the data prior to January 2008. For 2008, remaining outstanding Maltese lira banknotes are included.

³ Includes items in course of settlement.

⁴ Includes provisions and revaluation accounts.

Monetary, Banking and Financial Markets

Table 1.2 Balance sheet of the Central Bank of Malta based on statistical principles¹ (assets)

EUR millions

End of period	Holdings of euro-denominated cash	Claims on residents of Malta			External assets				Other assets ³	Total assets/liabilities
		Loans	Securities other than shares	Total	Claims on other euro area residents	Claims on non-residents of the euro area	Other external assets ²	Total		
2008	0.0	5.2	271.2	276.4	963.0	479.2	196.7	1,638.9	834.6	2,750.0
2009	0.4	5.4	214.7	220.2	1,069.8	355.4	246.9	1,672.1	1,380.8	3,273.4
2010	0.2	5.9	274.7	280.6	1,555.4	381.3	285.3	2,222.1	1,182.7	3,685.6
2011	0.1	6.2	343.9	350.1	1,910.9	434.4	301.8	2,647.1	612.9	3,610.3
2012										
July	0.3	6.3	339.4	345.7	1,737.8	735.4	300.8	2,774.0	892.3	4,012.3
Aug.	0.3	6.3	343.9	350.2	1,794.8	725.5	311.5	2,831.8	839.8	4,022.1
Sep.	0.3	6.2	304.4	310.6	1,730.9	759.1	318.8	2,808.8	838.1	3,957.9
Oct.	0.3	6.2	305.9	312.1	1,689.3	712.6	304.7	2,706.6	816.9	3,835.9
Nov.	0.3	6.2	299.0	305.2	1,667.6	695.1	302.6	2,665.3	704.9	3,675.8
Dec.	0.3	6.3	302.3	308.6	1,729.6	760.9	315.4	2,806.0	556.2	3,671.1

Table 1.2 Balance sheet of the Central Bank of Malta based on statistical principles¹ (liabilities)

EUR millions

End of period	Currency issued ⁴	Deposits from residents of Malta			External liabilities				Capital & reserves	Other liabilities ³
		Withdrawable on demand ⁵	With agreed maturity	Total	Deposits from other euro area residents	Deposits from non-residents of the euro area	Other external liabilities ²	Total		
2008	740.9	400.1	0.0	400.1	667.7	80.4	65.0	813.1	297.2	498.6
2009	710.5	445.5	5.6	451.0	814.6	86.8	109.2	1,010.6	419.9	681.3
2010	742.1	489.1	8.2	497.2	1,225.2	97.1	108.0	1,430.3	438.1	577.8
2011	783.4	532.5	12.7	545.2	428.5	86.6	134.3	649.4	454.8	1,177.4
2012										
July	793.4	546.7	14.6	561.3	1,356.1	95.0	128.8	1,579.9	472.7	605.1
Aug.	793.0	626.8	14.2	641.0	1,233.6	91.9	103.4	1,428.9	477.8	681.5
Sep.	789.6	769.2	13.8	783.0	532.7	88.6	101.5	722.8	481.3	1,181.2
Oct.	789.1	391.2	13.8	405.0	467.2	86.8	89.5	643.5	485.0	1,513.3
Nov.	788.5	498.3	13.8	512.1	137.5	105.2	166.7	409.4	493.5	1,472.2
Dec.	807.5	335.3	17.4	352.7	201.3	84.9	93.6	379.8	490.9	1,640.1

¹ Based on a detailed description of instrument categories as stipulated in ECB Regulation 2008/32 of 19 December 2008 (recast).

² If the Central Bank of Malta issues less, or more, currency than the amount attributed to it under the banknote allocation key, the shortfall, or excess, will be reflected in intra-Eurosystem claims, or liabilities, respectively.

³ Includes resident interbank transactions.

⁴ This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury. For 2008, the remaining outstanding Maltese lira banknotes and coins are included.

⁵ For the purposes of this table deposits withdrawable on demand include deposits redeemable at notice.

Monetary, Banking and Financial Markets

Table 1.3 Aggregated balance sheet of the other monetary financial institutions based on statistical principles¹ (assets)

EUR millions

End of period	Balances held with Central Bank of Malta ²	Claims on residents of Malta			External assets				Other assets ³	Total assets/liabilities
		Loans	Securities other than shares	Shares & other equity	Claims on other euro area residents	Claims on non-residents of the euro area	Other external assets	Total		
2005	487.5	5,058.0	1,440.4	62.2	4,472.3	13,040.6	1,827.7	19,340.5	806.0	27,194.5
2006	707.0	5,788.8	1,210.8	83.2	5,212.1	15,976.6	412.3	21,601.1	643.1	30,033.9
2007	1,518.0	6,334.9	1,287.2	93.0	5,376.8	21,961.2	609.4	27,947.3	627.3	37,807.7
2008	600.6	7,150.4	1,342.9	115.3	6,153.2	25,468.7	847.3	32,469.1	797.8	42,476.2
2009	674.9	7,677.1	1,690.3	132.2	6,186.2	23,631.2	631.9	30,449.3	876.8	41,500.6
2010	599.6	8,075.5	1,781.1	141.9	9,366.9	28,681.7	650.4	38,699.0	909.3	50,206.4
2011										
Jan.	594.7	8,065.1	1,846.4	141.7	9,620.9	28,282.3	603.4	38,506.5	924.1	50,078.5
Feb.	611.0	8,080.5	1,834.6	141.4	9,569.6	27,445.4	631.0	37,646.0	891.0	49,204.5
Mar.	570.9	8,102.0	1,837.4	140.9	9,432.6	26,559.9	607.1	36,599.6	825.6	48,076.3
Apr.	583.2	8,094.1	1,851.5	140.7	9,505.7	27,147.7	611.2	37,264.6	827.7	48,761.9
May	569.8	8,130.7	1,897.1	140.5	9,651.2	28,473.7	622.6	38,747.5	840.2	50,325.8
June	591.2	8,156.2	1,880.5	141.8	9,643.7	28,077.5	581.2	38,302.5	861.3	49,933.4
July	696.4	8,184.2	1,887.6	170.9	9,624.4	28,569.6	585.9	38,779.9	895.1	50,614.1
Aug.	1,354.2	8,196.8	1,944.1	170.7	9,675.5	27,817.7	632.6	38,125.8	913.0	50,704.5
Sep.	1,299.6	8,317.3	1,925.9	169.5	10,519.6	27,554.6	643.6	38,717.7	867.9	51,298.0
Oct.	918.6	8,318.4	1,955.2	169.1	10,652.3	27,705.7	596.5	38,954.5	883.3	51,199.0
Nov.	1,203.3	8,391.3	1,986.1	168.9	10,413.2	27,977.8	655.6	39,046.5	899.4	51,695.5
Dec.	1,179.9	8,438.6	1,946.1	169.0	10,111.8	27,921.1	665.8	38,698.7	914.9	51,347.1
2012										
Jan.	1,123.7	8,420.1	1,939.4	168.5	9,843.9	28,923.2	691.2	39,458.3	910.8	52,020.9
Feb.	966.1	8,486.8	2,005.4	168.4	10,048.0	28,333.0	673.3	39,054.3	909.9	51,591.0
Mar.	624.0	8,491.2	2,002.1	167.9	9,361.5	28,991.8	622.2	38,975.5	839.5	51,100.2
Apr.	1,104.5	8,508.4	2,012.0	168.8	8,432.9	30,236.9	643.6	39,313.3	893.0	51,999.9
May	683.5	8,523.3	2,024.6	169.0	8,219.6	31,812.4	785.2	40,817.2	906.9	53,124.6
June	686.9	8,536.4	2,046.6	167.9	8,019.4	31,911.1	781.0	40,711.5	918.5	53,067.9
July	621.6	8,540.6	2,101.6	174.4	9,044.4	32,874.0	789.8	42,708.2	894.6	55,041.0
Aug.	700.8	8,542.4	2,114.7	175.1	8,521.2	32,058.4	814.6	41,394.2	922.6	53,849.8
Sep.	1,330.5	8,585.0	2,079.5	175.1	9,566.9	30,730.4	769.9	41,067.2	896.5	54,133.8
Oct.	1,509.3	8,545.0	2,023.0	175.6	9,228.9	30,162.0	721.2	40,112.0	892.3	53,257.2
Nov.	1,480.8	8,568.8	2,057.5	175.8	9,202.3	31,538.1	771.5	41,511.9	865.8	54,660.6
Dec.	1,644.2	8,565.6	1,939.0	176.3	8,778.0	30,810.7	721.2	40,309.9	891.6	53,526.7

¹ Based on a detailed description of instrument categories as stipulated in ECB Regulation 2008/32 of 19 December 2008 (recast). As from December 2008 figures also include assets of the MMFs.

² Include holdings of Maltese lira banknotes and coins up to 2008.

³ Includes resident interbank claims.

Monetary, Banking and Financial Markets

Table 1.3 Aggregated balance sheet of the other monetary financial institutions based on statistical principles¹ (liabilities)

EUR millions

End of period	Deposits from residents of Malta ²				External liabilities				Debt securities issued ³	Capital & reserves	Other liabilities
	Withdrawable on demand	Redeemable at notice	With agreed maturity	Total	Deposits from other residents of the euro area	Deposits from non-residents of the euro area	Other external liabilities ³	Total			
2005	2,800.2	73.3	3,834.6	6,708.1	5,329.3	9,294.9	2,653.5	17,277.7	170.5	2,359.4	678.8
2006	2,834.9	71.8	4,300.2	7,206.9	6,385.9	11,167.7	1,447.7	19,001.3	87.9	3,083.0	654.9
2007	3,139.6	105.3	5,102.7	8,347.6	7,916.4	15,275.8	2,124.2	25,316.4	144.9	3,360.6	638.1
2008	3,170.0	114.5	5,222.2	8,506.7	9,240.4	17,301.9	2,275.7	28,818.0	172.2	3,339.7	1,639.5
2009	3,705.3	111.6	4,789.0	8,605.9	7,772.1	16,973.4	1,205.3	25,950.9	253.4	4,120.5	2,569.9
2010	4,314.3	123.7	4,860.4	9,298.5	6,611.2	20,023.4	1,758.1	28,392.7	304.5	9,840.3	2,370.5
2011											
Jan.	4,310.3	124.1	4,876.8	9,311.2	6,703.6	19,785.5	1,912.6	28,401.8	304.2	9,732.8	2,328.5
Feb.	4,258.9	125.7	4,893.9	9,278.5	6,537.1	18,952.5	2,191.3	27,681.0	304.0	9,604.0	2,337.0
Mar.	4,460.4	131.4	4,891.6	9,483.4	5,979.0	18,454.0	2,090.5	26,523.5	303.7	9,604.8	2,161.0
Apr.	4,491.0	128.4	4,889.9	9,509.4	6,168.4	18,604.9	2,336.8	27,110.2	302.8	9,610.4	2,229.1
May	4,413.6	128.5	4,888.9	9,431.1	6,204.7	18,190.3	4,384.7	28,779.7	303.4	9,637.0	2,174.6
June	4,424.8	128.6	4,880.4	9,433.8	7,164.0	16,957.3	4,086.3	28,207.6	308.0	9,634.4	2,349.5
July	4,520.1	129.5	4,919.2	9,568.7	6,955.9	16,839.8	4,749.9	28,545.6	308.3	9,734.2	2,457.3
Aug.	4,526.0	133.0	4,966.7	9,625.7	7,269.9	17,055.2	4,533.4	28,858.5	352.2	9,745.0	2,123.1
Sep.	4,568.3	125.5	5,026.0	9,719.8	7,121.7	16,505.9	5,909.2	29,536.8	353.4	9,649.4	2,038.7
Oct.	4,705.4	124.0	5,016.5	9,845.9	7,587.1	16,302.5	5,609.1	29,498.7	352.8	9,719.9	1,781.8
Nov.	4,578.4	127.8	5,038.8	9,745.0	7,534.4	16,799.6	5,734.9	30,069.0	353.8	9,649.8	1,878.0
Dec.	4,686.6	122.6	5,096.6	9,905.8	6,901.8	16,889.2	5,679.9	29,470.9	354.3	9,815.5	1,800.6
2012											
Jan.	4,812.1	124.4	5,115.9	10,052.5	6,793.4	16,830.4	6,051.2	29,675.0	354.0	10,001.4	1,938.0
Feb.	4,742.3	128.3	5,107.3	9,977.9	6,341.1	17,082.8	5,948.3	29,372.2	353.6	9,985.5	1,901.8
Mar.	4,798.9	124.1	5,141.0	10,064.1	6,199.1	17,041.9	5,754.6	28,995.6	353.8	9,799.8	1,886.9
Apr.	4,837.0	131.4	5,138.9	10,107.2	6,186.1	17,437.8	6,220.4	29,844.3	394.0	9,817.2	1,837.3
May	4,930.3	137.6	5,127.2	10,195.2	6,303.7	17,406.5	7,120.2	30,830.4	395.3	9,737.9	1,965.8
June	4,969.7	144.3	5,057.2	10,171.2	6,402.0	17,098.7	6,982.6	30,483.2	395.1	9,939.7	2,078.6
July	5,038.9	141.2	5,097.1	10,277.2	6,260.6	18,828.5	6,900.0	31,989.1	395.6	10,274.7	2,104.5
Aug.	5,067.9	138.6	5,111.4	10,317.9	6,175.1	17,435.8	7,203.9	30,814.8	395.2	10,291.2	2,030.8
Sep.	5,111.8	144.0	5,099.2	10,355.0	6,369.7	17,546.9	7,184.8	31,101.4	394.6	10,245.4	2,037.3
Oct.	5,063.6	142.3	5,186.9	10,392.8	6,597.1	16,273.4	7,195.5	30,066.0	393.2	10,289.7	2,115.4
Nov.	5,094.8	149.6	5,150.2	10,394.6	6,908.3	17,245.3	7,312.4	31,466.0	390.8	10,449.2	1,960.0
Dec.	5,190.0	151.8	5,149.2	10,491.0	6,966.1	16,296.1	7,204.1	30,466.2	403.1	10,369.2	1,797.2

¹ Based on the instrument categories as stipulated in ECB Regulation 2008/32 of 19 December 2008 (recast). As from December 2008 figures also include liabilities of the MMFs.

² Excludes inter-bank deposits. These are included, together with other resident inter-bank liabilities, in 'other liabilities'.

³ Up to December 2007, debt securities held by non-residents are included under 'other external liabilities'. As from January 2008 they are included under 'debt securities issued'. For the purpose of this table, 'Other external liabilities' also include repos.

Monetary, Banking and Financial Markets

Table 1.4a Monetary base and monetary aggregates

EUR millions

End of period	Monetary base (M0)			Broad money (M3)							
				Intermediate money (M2)							Total (M3) ¹
	Narrow money (M1)				Deposits redeemable at notice up to 3 months	Deposits with agreed maturity up to 2 years	Total (M2)				
	Currency issued	OMFI balances with Central Bank of Malta	Total (M0)	Currency in circulation				Deposits withdrawable on demand		Total (M1)	
Demand					Savings						
2005	1,211.4	315.7	1,527.1	1,162.2	727.0	2,001.0	3,890.2	73.3	3,121.5	7,085.0	7,085.0
2006	1,173.9	412.2	1,586.1	1,112.9	726.5	2,020.0	3,859.4	71.8	3,520.6	7,451.7	7,451.7
2007	677.8	1,110.0	1,787.8	610.2	806.3	2,278.9	3,695.4	105.3	4,474.6	8,275.3	8,275.3

Table 1.4b The contribution of resident MFIs to the euro area monetary aggregates

EUR millions

End of period	Broad money (M3)								
	Intermediate money (M2)							M3-M2 ⁴	Total (M3) ⁵
	Narrow money (M1)			Deposits redeemable at notice up to 3 months ³		Deposits with agreed maturity up to 2 years ³			
	Currency issued ²	Overnight deposits ³		From residents of Malta	From other euro area residents	From residents of Malta	From other euro area residents		
From residents of Malta		From other euro area residents							
2008	669.2	3,120.0	60.4	114.2	0.0	4,668.0	192.7	37.3	8,861.8
2009	639.8	3,633.6	86.1	111.6	0.1	4,057.2	142.7	212.2	8,883.3
2010	674.4	4,225.1	99.5	123.5	0.7	3,848.1	157.5	241.6	9,370.5
2011	710.6	4,590.9	124.1	122.5	2.6	3,693.1	228.2	204.3	9,676.3
2012									
Jan.	706.3	4,724.4	145.5	124.3	2.6	3,722.4	224.1	209.7	9,859.2
Feb.	702.9	4,667.3	157.8	128.1	2.6	3,704.7	222.8	212.6	9,798.8
Mar.	701.9	4,715.8	163.9	124.0	2.6	3,727.1	183.6	213.7	9,832.6
Apr.	706.1	4,750.3	163.7	131.2	0.7	3,706.3	192.5	214.9	9,865.7
May	719.1	4,851.9	171.5	137.6	0.3	3,712.1	148.7	235.3	9,976.4
June	717.4	4,885.0	176.0	144.2	2.1	3,632.6	247.0	209.6	10,014.0
July	723.7	4,954.5	181.6	141.1	2.1	3,673.7	320.8	211.4	10,209.0
Aug.	719.7	4,980.0	180.1	138.5	2.1	3,678.4	295.2	202.7	10,196.7
Sep.	718.7	5,025.9	184.6	144.0	1.7	3,660.3	340.8	202.5	10,278.3
Oct.	715.8	4,984.9	172.0	142.2	1.7	3,729.5	369.6	190.5	10,306.1
Nov.	713.5	5,013.7	179.8	149.5	1.5	3,701.3	378.4	189.8	10,327.4
Dec.	726.2	5,110.4	169.7	151.7	1.6	3,686.3	480.1	191.5	10,517.5

¹ M3 comprises M2, repurchase agreements and debt securities with agreed maturity of up to 2 years.

² This is not a measure of currency in circulation in Malta. It comprises the Central Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury, less holdings of issued euro banknotes and coins held by the MFI sector. For 2008, remaining outstanding Maltese lira banknotes and coins are included. This represents the residual amount after deducting holdings of euro banknotes and coins (and, temporarily, of Maltese lira currency) reported by MFIs in Malta from the currency issued figure as reported in Table 1.2.

³ Deposits with MFIs exclude interbank deposits and deposits held by central government.

⁴ M3 - M2 comprises repurchase agreements that are not conducted through central counterparties 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 euro area. Figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the euro area and holdings by non-residents of the euro area.

⁵ This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the euro area aggregate.

Monetary, Banking and Financial Markets

Table 1.5a Counterparts to the monetary aggregates

EUR millions

End of period	Domestic credit			Net foreign assets					Broad money (M3)	Other counterparts to broad money (net) ²
	Net claims on central government ¹	Claims on other residents	Total	Central Bank of Malta		OMFIs		Total		
				Foreign assets	Foreign liabilities	Foreign assets	Foreign liabilities			
2005	1,031.2	5,110.6	6,141.8	2,260.2	87.8	19,340.5	17,297.9	4,215.0	7,085.0	3,271.8
2006	850.1	5,855.8	6,705.9	2,314.0	99.1	21,601.1	19,011.8	4,804.1	7,451.7	4,058.3
2007	1,023.8	6,404.9	7,428.7	2,633.0	100.1	27,947.3	25,330.1	5,150.1	8,275.3	4,303.6

Table 1.5b The contribution of resident MFIs to counterparts to euro area monetary aggregates

EUR millions

End of period	Broad money (M3) ⁴	Credit counterpart ³					External counterpart			Other counterparts (net) ²
		Residents of Malta		Other euro area residents		Total credit	Claims on non-residents of the euro area	Liabilities to non-residents of the euro area	Net claims on non-residents of the euro area	
		Credit to general government	Credit to other residents	Credit to general government	Credit to other residents					
2008	8,861.8	1,618.0	7,266.9	461.8	2,796.6	12,143.4	26,971.4	19,603.7	7,367.8	10,649.4
2009	8,883.3	1,927.4	7,792.4	1,238.3	2,273.9	13,232.0	24,843.9	18,197.0	6,646.9	10,995.6
2010	9,370.5	2,091.0	8,188.1	1,794.9	2,392.7	14,466.7	29,948.7	21,765.5	8,183.3	13,279.4
2011										
July	9,448.5	2,242.1	8,320.8	2,014.1	2,242.3	14,819.3	29,794.0	21,328.2	8,465.8	13,836.6
Aug.	9,584.0	2,311.3	8,320.7	2,195.3	2,245.4	15,072.7	29,076.1	20,877.1	8,199.1	13,687.7
Sep.	9,672.9	2,305.8	8,437.0	2,528.7	2,833.1	16,104.5	28,866.9	21,130.6	7,736.4	14,168.0
Oct.	9,820.6	2,335.9	8,432.1	2,417.6	2,841.6	16,027.1	28,944.2	20,604.7	8,339.6	14,546.1
Nov.	9,615.2	2,378.4	8,498.1	2,258.7	2,941.1	16,076.3	29,291.8	21,511.8	7,780.0	14,241.1
Dec.	9,676.3	2,353.4	8,550.5	2,240.9	2,929.5	16,074.3	29,300.0	21,460.0	7,840.0	14,238.0
2012										
Jan.	9,859.2	2,354.5	8,530.4	2,186.6	2,960.0	16,031.5	30,369.4	21,709.8	8,659.7	14,831.9
Feb.	9,798.8	2,443.9	8,592.8	2,195.7	3,021.6	16,254.0	29,845.5	21,878.5	7,967.0	14,422.2
Mar.	9,832.6	2,426.7	8,590.1	1,832.7	3,062.2	15,911.7	30,542.9	21,709.5	8,833.4	14,912.6
Apr.	9,865.7	2,433.9	8,608.6	1,810.3	2,868.7	15,721.5	31,812.3	22,428.4	9,383.9	15,239.8
May	9,976.4	2,433.1	8,628.7	1,832.2	2,843.7	15,737.8	33,606.9	23,313.1	10,293.8	16,055.2
June	10,014.0	2,450.4	8,646.9	1,726.6	2,780.7	15,604.6	33,711.7	22,892.4	10,819.2	16,409.8
July	10,209.0	2,502.2	8,660.1	1,404.6	3,359.4	15,926.3	34,673.6	24,928.7	9,744.9	15,462.2
Aug.	10,196.7	2,523.2	8,659.2	1,391.9	3,431.2	16,005.5	33,866.2	23,713.4	10,152.7	15,961.5
Sep.	10,278.3	2,453.6	8,696.6	1,364.9	3,445.6	15,960.6	32,533.9	23,741.2	8,792.7	14,474.9
Oct.	10,306.1	2,372.0	8,683.6	1,245.7	3,386.1	15,687.4	31,865.9	22,418.2	9,447.7	14,828.9
Nov.	10,327.4	2,398.5	8,708.8	1,279.7	3,378.8	15,765.8	33,279.5	23,584.1	9,695.5	15,133.8
Dec.	10,517.5	2,287.1	8,702.3	1,261.1	3,351.0	15,601.5	32,576.8	22,407.7	10,169.2	15,253.2

¹ Central government deposits held with MFIs are netted from this figure.

² Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

³ Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

⁴ This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the euro area 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 euro area and holdings by non-residents of the euro area.

Monetary, Banking and Financial Markets

Table 1.6a Currency in circulation

EUR millions

End of period	Currency issued and outstanding			Less currency held by OMFIs	Currency in circulation
	Notes	Coins	Total		
2005	1,164.5	46.8	1,211.4	49.2	1,162.2
2006	1,125.4	48.6	1,173.9	61.0	1,113.0
2007	634.2	43.6	677.8	67.6	610.2

Table 1.6b Currency issued

EUR millions

End of period	Currency issued excluding holdings of MFIs					Memo item: Excess / shortfall (-) on the banknote allocation key ³
	Notional amount of banknotes issued by the Central Bank of Malta ¹	Euro coins issued by the Central Bank of Malta on behalf of the Treasury	Outstanding Maltese lira banknotes and coins ²	Less euro banknotes and coins held by MFIs in Malta	Total	
2008	629.3	31.2	80.5	71.7	669.2	54.5
2009	673.4	37.2	-	70.7	639.8	95.1
2010	701.2	41.0	-	67.7	674.4	104.5
2011						
July	710.2	43.8	-	67.5	686.5	131.7
Aug.	705.3	44.3	-	64.5	685.1	123.6
Sep.	711.6	44.5	-	65.9	690.1	119.9
Oct.	717.4	44.5	-	60.3	701.6	116.4
Nov.	720.3	44.7	-	62.4	702.6	119.9
Dec.	737.6	45.8	-	72.8	710.6	130.0
2012						
Jan.	721.1	45.3	-	60.2	706.3	137.5
Feb.	719.9	45.0	-	62.0	702.9	142.2
Mar.	722.1	45.2	-	65.4	701.9	148.8
Apr.	725.3	45.8	-	65.0	706.1	147.1
May	732.9	46.3	-	60.1	719.1	132.6
June	741.8	47.0	-	71.5	717.4	137.1
July	745.2	48.2	-	69.7	723.7	118.3
Aug.	744.0	49.0	-	73.3	719.7	101.5
Sep.	740.8	48.9	-	70.9	718.7	98.7
Oct.	739.9	49.3	-	73.4	715.8	88.0
Nov.	738.5	50.1	-	75.1	713.5	86.8
Dec.	757.5	50.1	-	81.4	726.2	90.7

¹ This comprises the Bank's share of euro banknotes issued in the Eurosystem based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB).

² For 2008 only, currency issued includes any outstanding Maltese lira banknotes and coins. A breakdown of Maltese lira banknotes and coins outstanding by denomination is shown in Table 1.7a (Denominations of Maltese currency issued and outstanding). For December 2008 the figure shown under "outstanding Maltese lira banknotes and coins" differs from that shown under the afore-mentioned table, due to the fact that all unredeemed Maltese lira coins were written off and transferred to the profit and loss account of the Central Bank of Malta at the end of 2008 (see more details in the notes to the financial statements of the Central Bank of Malta 2008).

³ The difference between the value of euro banknotes allocated to the Bank in accordance with the banknote allocation key (based on its share in the ECB's capital) and the value of the euro banknotes that the Bank puts into circulation gives rise to intra-Eurosystem balances. If the value of the actual euro banknotes issued is below the value based on the capital share, the difference is recorded as a shortfall (-). If the value of the actual euro banknotes issued is above the value based on the capital share, the difference is recorded as an excess.

Monetary, Banking and Financial Markets

Table 1.7a Denominations of Maltese currency issued and outstanding

EUR millions

End of period	Total notes & coins ¹	Currency notes					Total
		Lm20	Lm10 ²	Lm5	Lm2		
2005	1,211.4	257.5	812.1	76.8	18.1		1,164.5
2006	1,173.9	240.5	785.0	80.9	18.9		1,125.4
2007	677.8	120.2	439.8	57.5	16.7		634.2
2008	90.5	11.3	35.4	9.5	7.5		63.8
2009	82.2	9.6	29.9	8.9	7.4		55.8
2010	49.9	8.4	25.7	8.5	7.3		49.9
2011	46.7	7.8	23.5	8.2	7.2		46.7
2012							
Mar.	46.1	7.6	23.1	8.2	7.2		46.1
June	45.5	7.4	22.7	8.2	7.2		45.5
Sep.	45.0	7.3	22.4	8.1	7.2		45.0
Dec.	44.6	7.3	22.1	8.1	7.2		44.6

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

² Since February 2010 a change in the basis of reporting was carried out to include the 4th series of the Lm10 notes.

Table 1.7b Denominations of euro banknotes allocated to Malta¹

EUR millions

End of period	Euro banknotes							Total
	€5	€10	€20	€50	€100	€200	€500	
2008	-1.3	46.7	319.0	181.6	34.8	42.7	60.5	683.8
2009	-3.8	35.1	331.4	214.3	23.2	50.4	117.9	768.5
2010	-6.3	21.7	328.9	235.2	1.2	54.7	170.3	805.7
2011	-9.4	9.6	326.8	266.1	-18.6	77.9	215.2	867.6
2012								
Mar.	-10.2	5.8	321.8	277.8	-28.7	79.2	225.0	870.8
June	-10.6	3.9	321.4	287.0	-43.0	80.3	239.7	878.9
Sep.	-12.0	-2.2	309.2	278.3	-62.2	79.4	249.1	839.6
Dec.	-12.7	-4.1	309.1	294.3	-78.9	79.7	260.7	848.1

¹ This comprises the Bank's share of euro banknotes issued in the Eurosystem based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB) adjusted for the excess / shortfall on the banknote allocation key. Figures represent the net issuance of currency notes, that is, the net amount of notes issued by (+), or the net amount paid into (-), the Bank.

Table 1.7c Denominations of euro coins issued by the Central Bank of Malta on behalf of the Treasury

EUR millions

End of period	Euro coins								Total
	1 € cent	2 € cent	5 € cent	10 € cent	20 € cent	50 € cent	€1	€2	
2008	0.1	0.4	0.8	1.5	2.6	4.3	7.7	13.6	31.1
2009	0.0	0.5	1.0	1.8	3.0	4.9	8.6	17.3	37.2
2010	0.0	0.6	1.2	2.0	3.4	5.4	9.2	19.1	41.0
2011	0.1	0.6	1.4	2.3	3.9	6.1	9.8	21.7	45.8
2012									
Mar.	0.1	0.6	1.4	2.3	3.8	5.9	9.6	21.5	45.2
June	0.1	0.6	1.4	2.4	3.9	6.1	9.9	22.5	47.0
Sep.	0.1	0.7	1.5	2.5	4.1	6.5	10.3	23.3	48.9
Dec.	0.1	0.7	1.5	2.5	4.1	6.5	10.2	24.4	50.1

Monetary, Banking and Financial Markets

Table 1.8 Deposits held with other monetary financial institutions by sector¹

End of period	Resident deposits										Deposits held by non-residents of Malta		Total deposits
	General government ¹	Monetary financial institutions ²	Insurance companies and pension funds	Other financial intermediaries & financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total	Other euro area residents		Non-residents of the euro area			
								Total					
2005	118.3	149.3	49.6	136.0	1,042.9	5,361.3	6,857.3	5,575.2	9,976.4		22,409.0		
2006	218.2	73.5	99.1	89.6	1,112.8	5,687.3	7,280.4	6,688.4	12,055.0		26,023.8		
2007	126.8	106.1	198.6	137.8	1,342.5	6,541.8	8,453.7	8,090.1	16,239.9		32,783.8		
2008	101.5	878.8	249.2	146.1	1,282.9	6,727.0	9,385.6	9,276.9	17,640.5		36,303.0		
2009	123.4	1,575.1	263.9	122.7	1,417.1	6,678.8	10,181.0	7,839.7	17,628.8		35,649.5		
2010	227.0	1,378.3	233.1	208.4	1,694.9	6,935.0	10,676.8	6,632.2	21,127.9		38,437.0		
2011													
Jan.	222.7	1,346.5	237.8	217.7	1,680.9	6,952.0	10,657.8	6,723.8	21,083.3		38,464.9		
Feb.	221.2	1,390.3	213.2	232.5	1,694.2	6,917.3	10,668.8	6,557.1	20,516.6		37,742.5		
Mar.	235.2	1,223.5	222.6	223.0	1,828.0	6,974.5	10,706.9	6,048.8	19,937.2		36,692.9		
Apr.	223.5	1,277.2	224.8	224.7	1,844.4	6,991.9	10,786.5	6,283.3	20,310.9		37,380.7		
May	226.2	1,218.4	207.1	209.6	1,806.9	6,981.2	10,649.4	6,314.7	21,913.5		38,877.7		
June	224.9	1,374.1	210.5	212.2	1,796.7	6,989.5	10,808.0	7,494.9	20,211.6		38,514.5		
July	227.2	1,419.4	218.3	217.6	1,825.3	7,080.3	10,988.1	7,252.9	20,758.7		38,999.7		
Aug.	229.8	1,168.3	254.6	224.8	1,804.6	7,111.9	10,794.0	8,004.5	20,274.9		39,073.3		
Sep.	238.0	1,058.7	246.0	232.6	1,800.3	7,202.9	10,778.5	8,443.3	20,435.6		39,657.4		
Oct.	240.8	784.6	282.7	249.8	1,864.0	7,208.6	10,630.6	8,927.8	19,968.9		39,527.3		
Nov.	237.3	864.2	267.1	234.0	1,860.7	7,145.9	10,609.1	8,586.1	20,810.6		40,005.8		
Dec.	239.0	763.6	279.6	229.7	1,912.7	7,244.8	10,669.4	8,046.4	20,748.6		39,464.4		
2012													
Jan.	237.3	865.0	280.1	256.7	1,986.0	7,292.4	10,917.5	7,999.9	20,922.7		39,840.2		
Feb.	225.0	822.9	260.8	345.7	1,879.9	7,266.5	10,800.8	7,519.0	21,138.8		39,458.6		
Mar.	233.5	877.3	255.8	373.1	1,879.3	7,322.4	10,941.4	7,328.6	21,020.6		39,290.5		
Apr.	231.5	862.8	268.5	325.8	1,947.8	7,333.6	10,970.0	7,454.7	21,706.7		40,131.4		
May	221.1	940.3	261.2	383.6	1,955.5	7,373.8	11,135.5	7,580.5	22,424.4		41,140.5		
June	226.9	954.8	238.1	431.7	1,930.6	7,344.0	11,126.1	7,589.4	22,143.8		40,859.2		
July	229.4	1,058.3	243.1	353.8	2,056.1	7,394.8	11,335.5	7,030.7	24,113.1		42,479.4		
Aug.	231.9	982.9	254.7	372.3	2,011.5	7,447.5	11,300.8	7,058.7	22,923.6		41,283.0		
Sep.	229.2	930.4	252.0	352.0	2,011.3	7,510.6	11,285.5	7,307.1	22,999.7		41,592.2		
Oct.	227.8	969.5	249.1	357.5	2,057.9	7,500.5	11,362.3	7,603.2	21,692.4		40,658.0		
Nov.	225.4	857.3	264.8	361.5	1,997.4	7,545.5	11,251.9	7,933.2	22,755.4		41,940.5		
Dec.	219.2	683.1	271.4	343.8	2,022.5	7,634.0	11,174.0	8,031.1	21,690.6		40,895.8		

¹ Including extra-budgetary units.

² For the purposes of this table, deposits include interbank loans and uncleared effects.

Monetary, Banking and Financial Markets

Table 1.9 Deposits held with other monetary financial institutions by currency¹

EUR millions

End of period	By residents of Malta					By non-residents of Malta				Total deposits
						Other euro area residents			Non-residents of the euro area	
	MTL ²	EUR	GBP	USD	Other	MTL ²	EUR	Other		
2005	5,812.9	288.2	423.5	252.9	79.9	22.9	2,820.1	2,732.2	9,976.4	22,409.0
2006	6,052.9	434.8	446.3	252.6	93.7	49.4	3,856.3	2,782.8	12,055.0	26,023.8
2007	6,922.6	711.2	380.9	316.5	122.5	35.0	5,465.8	2,589.3	16,239.9	32,783.8
2008		8,325.4	317.4	629.2	113.6		7,149.6	2,127.3	17,640.5	36,303.0
2009		9,319.8	401.0	381.5	78.7		5,489.8	2,349.9	17,628.8	35,649.5
2010		9,723.3	423.4	418.9	111.2		4,764.3	1,868.0	21,127.9	38,437.0
2011										
Jan.		9,740.2	409.3	408.9	99.4		4,751.4	1,972.4	21,083.3	38,464.9
Feb.		9,739.0	413.0	405.5	111.4		4,484.7	2,072.3	20,516.6	37,742.5
Mar.		9,778.6	399.3	425.2	103.8		4,262.8	1,786.0	19,937.2	36,692.9
Apr.		9,755.4	398.3	533.4	99.4		4,535.7	1,747.6	20,310.9	37,380.7
May		9,734.4	409.7	405.4	99.8		4,775.1	1,539.6	21,913.5	38,877.7
June		9,883.0	401.6	423.3	100.1		5,377.2	2,117.7	20,211.6	38,514.5
July		10,040.1	415.2	431.3	101.5		5,174.1	2,078.8	20,758.7	38,999.7
Aug.		9,841.3	423.1	424.5	105.1		5,527.8	2,476.7	20,274.9	39,073.3
Sep.		9,832.7	425.0	424.6	96.2		6,129.8	2,313.6	20,435.6	39,657.4
Oct.		9,671.3	422.6	437.9	98.8		6,576.4	2,351.4	19,968.9	39,527.3
Nov.		9,620.7	429.9	454.4	104.1		6,069.8	2,516.2	20,810.6	40,005.8
Dec.		9,592.4	518.9	454.4	103.7		5,857.6	2,188.8	20,748.6	39,464.4
2012										
Jan.		9,765.5	497.2	545.5	109.4		5,734.4	2,265.5	20,922.7	39,840.2
Feb.		9,720.5	438.2	518.7	123.4		5,793.2	1,725.9	21,138.8	39,458.6
Mar.		9,881.4	444.7	506.2	109.0		5,740.6	1,588.0	21,020.6	39,290.6
Apr.		9,836.5	489.0	533.6	110.9		5,869.6	1,585.1	21,706.7	40,131.4
May		9,963.9	492.7	563.2	115.7		5,630.8	1,949.8	22,424.4	41,140.5
June		9,939.4	493.1	576.5	117.1		5,595.6	1,993.8	22,143.8	40,859.2
July		10,114.5	493.0	608.5	119.6		5,081.5	1,949.2	24,113.1	42,479.4
Aug.		10,103.6	486.1	596.4	114.7		5,074.2	1,984.5	22,923.5	41,283.0
Sep.		10,098.3	490.9	583.0	113.2		5,290.4	2,016.7	22,999.7	41,592.2
Oct.		10,186.2	467.8	566.4	141.9		5,505.7	2,097.5	21,692.5	40,658.0
Nov.		10,082.1	470.0	555.8	144.1		5,601.1	2,332.1	22,755.4	41,940.5
Dec.		9,971.6	481.1	568.9	152.4		5,276.0	2,755.1	21,690.6	40,895.8

¹ Also includes loans granted to the reporting MFIs.

² Maltese lira-denominated deposits were redenominated as euro deposits from the beginning of 2008.

Monetary, Banking and Financial Markets

Table 1.10 Other monetary financial institutions' loans by size class¹

EUR millions

End of period	Size classes ²				Total
	Up to €25,000	Over €25,000 to €250,000	Over €250,000 to €1 million	Over €1 million	
2005	811.9	2,173.4	2,247.7	6,898.6	12,131.6
2006	1,046.2	2,362.9	2,360.0	9,294.3	15,063.4
2007	1,138.2	3,143.8	2,865.2	14,036.2	21,183.3
2008	658.2	2,646.3	2,117.9	20,593.7	26,016.0
2009	704.9	2,896.9	2,701.2	16,096.2	22,399.3
2010	758.2	3,242.9	2,138.5	18,901.8	25,041.4
2011					
Jan.	756.0	3,245.6	2,162.9	18,588.5	24,752.9
Feb.	756.3	3,268.2	2,104.2	18,381.2	24,509.9
Mar.	754.9	3,287.4	2,153.8	18,334.7	24,530.7
Apr.	756.2	3,293.1	2,100.0	17,978.3	24,127.5
May	752.1	3,313.8	2,141.1	17,971.5	24,178.4
June	751.9	3,327.7	2,082.9	17,926.8	24,089.2
July	754.3	3,339.3	2,118.4	17,843.3	24,055.3
Aug.	749.0	3,350.4	2,070.5	17,417.2	23,587.2
Sep.	753.9	3,371.5	2,133.5	16,572.5	22,831.5
Oct.	754.6	3,388.1	2,102.6	16,480.8	22,726.1
Nov.	755.6	3,403.0	2,138.1	16,509.9	22,806.5
Dec.	760.5	3,421.3	2,151.5	16,797.3	23,130.7
2012					
Jan.	750.6	3,430.3	2,181.8	16,441.4	22,804.2
Feb.	751.2	3,444.3	2,208.1	16,489.1	22,892.6
Mar.	755.5	3,472.4	2,228.1	16,387.6	22,843.5
Apr.	755.4	3,475.0	2,249.3	16,483.7	22,963.3
May	756.6	3,487.8	2,323.0	16,810.0	23,377.4
June	758.0	3,494.4	2,316.9	16,878.0	23,447.1
July	755.8	3,510.7	2,272.2	15,371.1	21,909.8
Aug.	754.2	3,520.3	2,307.7	15,621.5	22,203.7
Sep.	759.6	3,540.4	2,291.1	15,467.3	22,058.4
Oct.	758.7	3,555.0	2,251.4	15,299.2	21,864.3
Nov.	757.6	3,574.4	2,286.9	15,210.8	21,829.7
Dec.	754.6	3,580.7	2,308.6	15,269.8	21,913.6

¹ For the purposes of this classification, these include loans extended to residents and non-residents in both domestic and foreign currencies. Loans exclude OMFIs' deposits placed with other OMFIs.

² Amounts in euro are approximations.

Monetary, Banking and Financial Markets

Table 1.11 Other monetary financial institutions' loans to residents of Malta by economic activity¹

End of Period	Electricity, gas & water supply	Transport, storage, information & communication	Manufacturing	Construction	Accommodation and food service activities	Wholesale & retail trade; repairs	Real estate activities	Households & individuals ²				Other ³	Total lending to residents	
								Lending for house purchase	Consumer credit	Other lending	Total		Public sector	Private sector
2005	142.3	287.1	306.2	502.3	474.8	691.1	444.2	1,521.4	212.7	214.6	1,948.7	427.6	401.1	4,823.2
2006	188.9	340.7	266.7	586.4	492.9	715.0	612.8	1,769.9	250.4	230.7	2,251.1	380.7	421.3	5,414.0
2007	196.6	322.6	301.3	677.5	474.3	732.3	725.1	2,014.9	287.6	276.1	2,578.6	356.8	438.3	5,926.7
2008	333.1	429.2	340.6	730.4	457.4	757.1	931.3	2,219.8	329.9	307.8	2,857.5	333.9	634.1	6,536.4
2009	432.1	480.0	296.4	733.0	485.8	767.2	1,033.2	2,457.8	373.8	307.2	3,138.8	316.3	733.0	6,949.8
2010	502.0	511.8	283.5	1,113.8	446.3	825.2	392.2	2,666.0	365.4	323.4	3,354.8	646.5	740.5	7,335.5
2011														
Jan.	497.9	505.1	279.9	1,106.2	447.8	821.8	394.3	2,679.2	363.5	317.2	3,359.9	659.7	737.5	7,335.1
Feb.	490.5	508.3	282.3	1,107.3	451.5	825.2	392.1	2,694.8	364.0	316.7	3,375.5	652.9	727.7	7,357.9
Mar.	469.3	489.5	283.1	1,109.0	455.1	840.2	395.4	2,719.1	364.8	319.0	3,402.9	658.9	698.1	7,405.2
Apr.	469.2	482.2	279.6	1,096.8	452.9	840.8	391.3	2,729.6	367.5	317.2	3,414.3	667.1	696.8	7,397.3
May	462.7	478.0	282.6	1,089.8	456.5	867.9	392.1	2,752.2	367.9	315.7	3,435.8	671.6	685.9	7,451.1
June	467.1	477.5	281.4	1,096.2	457.1	861.4	385.2	2,775.7	367.7	316.1	3,459.5	670.8	690.5	7,465.6
July	466.5	510.0	279.0	1,091.5	455.0	838.8	388.3	2,795.7	370.8	316.2	3,482.7	673.2	721.7	7,463.2
Aug.	468.2	512.3	278.5	1,083.0	449.5	838.7	395.3	2,809.4	371.2	318.5	3,499.1	672.7	739.2	7,458.2
Sep.	496.5	515.9	279.5	1,108.5	451.0	863.7	398.7	2,835.6	375.1	319.2	3,530.0	684.5	775.1	7,543.2
Oct.	527.8	512.4	276.9	1,101.7	438.3	829.4	396.9	2,853.5	373.8	315.5	3,542.8	692.6	807.1	7,511.7
Nov.	533.5	512.3	279.6	1,102.3	455.2	848.6	398.3	2,871.7	375.3	314.6	3,561.6	700.8	815.5	7,576.8
Dec.	539.8	526.5	280.8	1,092.7	459.8	847.9	396.6	2,892.9	382.9	314.0	3,589.8	706.7	826.1	7,614.5
2012														
Jan.	537.2	524.3	283.9	1,088.3	457.8	836.2	395.1	2,906.8	374.6	312.8	3,594.2	704.1	819.3	7,601.8
Feb.	547.9	521.0	288.8	1,082.4	455.9	877.9	396.4	2,921.8	374.1	311.3	3,607.2	732.1	828.3	7,681.5
Mar.	538.2	515.5	303.8	1,088.9	465.2	831.2	400.3	2,939.3	378.9	312.2	3,630.4	733.2	820.6	7,686.0
Apr.	555.4	506.9	301.6	1,082.8	462.2	843.4	396.1	2,949.4	380.2	310.9	3,640.5	735.6	838.4	7,686.0
May	555.2	514.1	306.3	1,080.3	465.1	833.5	397.1	2,964.2	381.8	312.1	3,658.2	730.1	841.0	7,698.8
June	552.0	517.7	310.5	1,078.5	468.4	822.1	393.4	2,983.0	381.1	313.1	3,677.3	733.1	837.7	7,715.3
July	553.0	514.6	305.0	1,062.6	465.9	824.3	392.4	2,999.3	381.3	312.2	3,692.7	746.4	835.9	7,720.9
Aug.	540.1	510.9	309.3	1,047.9	460.8	841.4	389.2	3,016.2	380.9	307.0	3,704.1	740.1	818.5	7,725.5
Sep.	535.3	512.6	310.3	1,055.8	463.5	836.5	394.3	3,035.7	384.3	308.6	3,728.6	749.3	814.6	7,771.6
Oct.	530.1	500.0	330.5	1,047.1	461.6	833.7	393.2	3,047.2	382.9	309.3	3,739.5	710.7	800.4	7,746.1
Nov.	530.8	501.1	338.9	1,037.7	459.8	847.5	392.0	3,063.7	383.1	309.2	3,756.0	707.2	802.3	7,768.7
Dec.	280.1	502.0	333.8	1,024.0	468.2	829.9	398.4	3,088.2	387.1	301.5	3,776.8	953.4	794.4	7,772.2

¹ As from 2010, the statistical classification of loans by economic activity is based on NACE rev 2.

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

³ Includes loans to agriculture & fishing, mining & quarrying, public administration, education, health & social work, financial and insurance activities (including interbank loans), professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations.

Monetary, Banking and Financial Markets

Table 1.12 Other monetary financial institutions' loans by sector

End of Period	Lending to residents of Malta										Lending to non-residents of Malta		Total lending
	General government ¹	Monetary financial institutions ²	Insurance companies and pension funds	Other financial intermediaries & financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total	Lending to non-residents of Malta					
								Other euro area residents	Non-residents of the euro area				
2005	123.5	648.6	16.7	13.3	2,738.2	2,166.4	5,706.7	1,955.8	6,379.0	14,041.5			
2006	118.4	739.4	20.0	14.9	3,092.7	2,542.9	6,528.2	2,348.2	8,601.4	17,477.8			
2007	126.8	1,557.8	23.0	21.0	3,265.6	2,898.4	7,892.6	2,439.4	15,373.9	25,706.0			
2008	111.4	613.0	21.6	14.3	3,801.0	3,202.2	7,763.4	3,454.6	20,129.5	31,347.5			
2009	111.0	649.0	22.3	10.9	4,034.6	3,498.5	8,326.1	2,900.0	16,825.4	28,051.5			
2010	118.6	586.6	14.0	165.8	4,052.4	3,724.8	8,662.1	6,371.9	18,757.3	33,791.4			
2011													
Jan.	117.5	603.0	13.6	165.8	4,033.9	3,734.3	8,668.1	6,507.8	18,257.8	33,433.7			
Feb.	117.3	613.2	13.4	166.1	4,035.3	3,748.4	8,693.7	6,443.7	17,542.7	32,680.2			
Mar.	119.6	572.2	14.1	171.0	4,024.3	3,772.9	8,674.2	6,304.3	17,206.7	32,185.2			
Apr.	120.3	572.5	12.6	175.0	4,003.3	3,782.9	8,666.6	6,393.0	18,164.9	33,224.4			
May	120.6	561.5	11.7	181.0	4,013.8	3,803.6	8,692.2	6,502.3	19,595.4	34,789.9			
June	121.2	592.2	4.6	179.1	4,022.8	3,828.5	8,748.4	6,459.0	19,344.0	34,551.4			
July	120.2	698.4	3.6	183.3	4,028.8	3,848.4	8,882.6	6,438.4	19,886.4	35,207.4			
Aug.	135.0	1,368.1	5.2	176.6	4,020.1	3,859.8	9,564.8	6,416.2	19,561.6	35,542.6			
Sep.	143.0	1,307.8	4.4	177.4	4,098.9	3,893.6	9,625.1	6,313.5	19,124.8	35,063.4			
Oct.	144.7	928.5	5.2	178.4	4,084.6	3,905.5	9,246.9	6,572.0	17,580.3	33,399.2			
Nov.	149.7	1,224.9	3.0	180.8	4,130.8	3,926.9	9,616.2	6,594.5	17,745.9	33,956.6			
Dec.	150.5	1,176.7	2.6	179.5	4,153.9	3,952.2	9,615.4	6,324.2	17,368.4	33,308.0			
2012													
Jan.	150.4	1,116.3	2.0	179.9	4,132.1	3,955.8	9,536.5	6,083.7	17,888.5	33,508.7			
Feb.	151.9	984.5	3.1	186.9	4,174.0	3,971.0	9,471.3	6,238.0	17,841.9	33,551.1			
Mar.	156.5	621.7	2.8	184.8	4,151.0	3,996.1	9,112.8	6,159.6	17,683.9	32,956.3			
Apr.	158.2	1,099.2	3.0	184.6	4,158.9	4,003.7	9,607.6	5,230.8	18,838.3	33,676.7			
May	156.2	687.7	3.1	180.0	4,166.1	4,018.0	9,211.0	5,087.7	19,216.3	33,515.1			
June	156.7	706.1	4.1	180.8	4,166.9	4,027.9	9,242.5	5,078.7	19,263.9	33,585.1			
July	156.6	638.4	2.4	186.4	4,154.1	4,041.2	9,179.0	5,920.1	18,712.4	33,811.6			
Aug.	156.2	694.9	5.0	185.6	4,144.5	4,051.0	9,237.3	5,451.0	18,891.5	33,579.8			
Sep.	158.8	1,324.1	4.1	189.1	4,154.3	4,078.7	9,909.1	6,452.3	18,013.0	34,374.4			
Oct.	129.9	1,518.3	3.8	184.9	4,138.8	4,087.7	10,063.3	6,071.5	17,615.2	33,750.0			
Nov.	129.2	1,483.2	3.1	177.7	4,154.1	4,104.5	10,052.0	6,089.9	18,195.3	34,337.2			
Dec.	130.3	1,616.3	4.0	421.7	3,886.4	4,123.3	10,181.9	5,725.0	17,480.6	33,387.5			

¹ Includes the extra-budgetary units.

² For the purposes of this table, loans include interbank deposits.

Monetary, Banking and Financial Markets

Table 1.13 Other monetary financial institutions' loans by currency and original maturity to residents of Malta

End of period	Lending to residents of Malta																	Total lending
	Non-financial corporations						Households & non-profit institutions						Other sectors ¹					
	MTL ²			EUR			Other			MTL ²			EUR			Other		
	Less than 1 year	Over 1 year	MTL ²	Less than 1 year	Over 1 year	EUR	Less than 1 year	Over 1 year	Other	Less than 1 year	Over 1 year	MTL ²	Less than 1 year	Over 1 year	EUR	Other		
2005	860.7	1,568.3	17.3	263.3	18.5	10.2	204.2	1,943.2	1.4	15.0	0.1	2.4	696.7	86.4	19.0	5,706.7		
2006	905.7	1,689.6	69.9	395.1	21.1	11.3	218.5	2,289.2	2.3	29.6	0.1	3.1	713.6	156.9	22.1	6,528.2		
2007	858.3	1,802.5	108.1	450.0	36.6	10.2	241.5	2,616.0	2.0	34.4	1.0	3.5	963.8	744.6	20.3	7,892.6		
2008			1,133.1	2,608.2	40.7	19.0			275.7	2,921.9	1.3	3.4		725.2	35.0	7,763.4		
2009			1,152.8	2,811.7	39.4	30.6			281.6	3,207.1	1.5	8.2		765.5	27.6	8,326.1		
2010			1,178.1	2,760.3	70.1	44.0			269.2	3,444.8	1.7	9.1		846.7	38.3	8,662.1		
2011																		
Jan.			1,084.5	2,830.1	74.0	45.2			264.6	3,459.3	1.7	8.7		865.3	34.6	8,668.1		
Feb.			1,086.4	2,837.5	65.7	45.7			263.6	3,474.3	1.9	8.6		867.8	42.2	8,693.7		
Mar.			1,069.4	2,856.4	59.1	39.4			265.0	3,497.4	1.8	8.7		828.9	48.0	8,674.2		
Apr.			1,024.8	2,875.9	64.1	38.5			268.3	3,504.3	1.5	8.7		842.8	37.6	8,666.6		
May			1,017.3	2,864.7	80.3	51.5			267.5	3,525.1	1.8	9.3		847.9	26.9	8,692.2		
June			1,012.6	2,879.8	80.5	49.9			266.8	3,550.2	2.1	9.4		870.7	26.4	8,748.4		
July			989.2	2,910.9	78.5	50.2			265.6	3,570.8	1.9	10.0		973.4	32.0	8,882.6		
Aug.			990.5	2,909.9	68.3	51.5			267.5	3,580.1	1.9	10.3		1,652.9	32.0	9,564.8		
Sep.			1,014.9	2,950.3	82.0	51.6			272.2	3,609.2	2.1	10.1		1,609.7	22.9	9,625.1		
Oct.			1,027.2	2,936.8	70.5	50.1			266.7	3,627.2	1.8	9.8		1,233.4	23.4	9,246.9		
Nov.			1,050.3	2,950.6	78.1	51.8			272.5	3,642.4	2.3	9.7		1,527.2	31.2	9,616.2		
Dec.			1,050.2	2,966.3	87.7	49.7			277.2	3,662.6	2.5	9.9		1,485.0	24.2	9,615.4		
2012																		
Jan.			1,041.9	2,959.5	78.2	52.6			269.8	3,674.0	2.1	9.9		1,424.5	24.2	9,536.5		
Feb.			1,066.4	2,954.9	87.4	65.3			271.4	3,687.4	2.4	9.8		1,300.1	26.2	9,471.3		
Mar.			1,052.2	2,975.2	83.7	40.0			274.5	3,707.8	2.5	11.3		943.0	22.8	9,112.8		
Apr.			1,075.3	2,950.1	91.6	42.0			274.0	3,715.6	2.7	11.4		1,421.8	23.3	9,607.6		
May			1,078.4	2,963.0	81.4	43.3			272.1	3,731.4	3.1	11.5		1,000.1	26.8	9,211.0		
June			1,072.9	2,976.5	74.6	43.0			265.8	3,747.9	2.7	11.4		1,003.8	43.9	9,242.5		
July			1,045.4	2,975.4	89.8	43.5			262.4	3,764.5	2.7	11.6		929.9	53.8	9,179.0		
Aug.			1,031.0	2,971.7	100.3	41.5			263.2	3,780.4	2.4	5.0		951.3	90.5	9,237.3		
Sep.			1,006.2	3,022.0	85.2	40.9			270.2	3,802.2	2.5	3.8		1,589.3	86.8	9,909.1		
Oct.			1,001.1	3,012.9	84.7	40.1			270.0	3,811.3	2.5	3.8		1,758.5	78.3	10,063.3		
Nov.			1,009.1	3,004.7	93.4	46.8			269.2	3,828.5	3.1	3.8		1,695.1	98.2	10,052.0		
Dec.			964.3	2,787.9	88.1	46.1			270.6	3,845.8	3.1	3.7		2,092.6	79.7	10,181.9		

¹ For the purposes of this table, loans include interbank deposits.

² Maltese lira-denominated loans were redenominated as euro loans from the beginning of 2008.

Monetary, Banking and Financial Markets

Table 1.14 Aggregated statement of assets and liabilities - investment funds¹ (assets)

EUR millions

End of period	Deposits	Holdings of securities other than shares		Holdings of shares and other equity		External assets ²	Fixed and other assets ³	Total assets
		Up to 1 year	Over 1 year	Collective investment scheme shares/units	Other shares and equity			
2005	52.2	34.5	624.0	7.9	232.4	350.4	32.7	1,334.1
2006	20.8	50.9	690.2	7.0	204.4	431.6	16.6	1,421.4
2007	32.6	3.4	498.8	6.4	195.3	410.4	12.0	1,159.0
2008	18.8	2.4	421.7	3.9	128.0	299.1	9.4	883.3
2009	33.3	15.4	403.2	4.8	139.3	318.6	5.6	920.2
2010	48.5	8.6	405.9	4.5	144.5	340.5	6.9	959.4
2011	46.2	0.0	354.2	11.1	127.6	308.4	8.0	855.5
2012								
Mar.	50.4	0.0	349.2	22.9	110.3	333.2	7.5	873.5
June	48.7	0.0	363.0	13.9	114.5	346.5	11.5	898.1
Sep.	44.4	0.0	384.3	14.7	117.5	360.7	14.6	936.0
Dec.	52.1	0.5	406.8	4.4	143.8	355.4	9.7	972.8

Table 1.14 Aggregated statement of assets and liabilities - investment funds¹ (liabilities)

EUR millions

End of period	Loans	Shareholders' units/ funds ⁴	External liabilities ⁵	Other liabilities ⁶	Total liabilities
2005	0.2	1,322.5	4.1	7.4	1,334.1
2006	0.4	1,406.4	11.0	3.6	1,421.4
2007	0.3	1,147.6	7.8	3.3	1,159.0
2008	1.9	870.2	6.9	4.2	883.3
2009	2.1	902.0	10.8	5.3	920.2
2010	1.8	910.3	42.9	4.4	959.4
2011	0.1	833.9	18.0	3.5	855.5
2012					
Mar.	0.8	827.1	40.4	5.2	873.5
June	1.0	860.9	31.1	5.2	898.1
Sep.	1.0	883.7	46.5	4.9	936.0
Dec.	0.2	952.9	15.4	4.4	972.8

¹ Comprising the resident investment funds (IFs). The smallest IFs in terms of total assets (i.e. those IFs that contribute to 5% or less to the quarterly aggregated balance sheet of the total IFs' assets in terms of stocks) are estimated.

² Includes deposits, securities other than shares, shares and other equity, debtors and other assets with non-resident counterparties.

³ Includes debtors, currency (both euro and foreign), prepayments and other assets.

⁴ Includes share capital and reserves.

⁵ Includes loans, creditors, accruals, shareholders' units/ funds and other liabilities to non-resident counterparties.

⁶ Includes creditors, accruals and other liabilities.

Monetary, Banking and Financial Markets

Table 1.15 Aggregated statement of assets and liabilities - insurance corporations¹ (assets)

EUR millions

End of period	Currency and Deposits ²	Holdings of securities other than shares	Holdings of shares and other equity		External assets ^{3,8}	Fixed and other assets ^{4,8}	Total assets
			Investment fund shares/units	Other shares and equity			
2005	61.7	347.6	57.4	103.6	358.1	192.1	1,120.5
2006	103.0	373.8	61.3	112.0	462.0	209.8	1,321.9
2007	193.9	418.5	68.4	121.0	482.9	244.5	1,529.2
2008	222.6	442.6	59.5	97.0	481.0	266.9	1,569.6
2009	252.9	486.0	21.5	163.1	622.3	265.6	1,811.4
2010	247.8	547.4	23.1	166.7	778.7	275.3	2,039.0
2011	264.3	510.8	18.3	162.6	837.0	289.4	2,082.5
2012							
Mar.	233.2	539.7	19.8	161.6	900.0	299.4	2,153.7
June	214.4	569.8	17.9	161.9	891.5	316.2	2,171.6
Sep.	230.2	577.7	18.3	166.4	927.2	319.0	2,238.8
Dec.	207.4	574.3	18.5	167.4	963.4	327.5	2,258.4

Table 1.15 Aggregated statement of assets and liabilities - insurance corporations¹ (liabilities)

EUR millions

End of period	Loans	Shares and other equity	Insurance technical reserves ⁵	External liabilities ^{6,8}	Other liabilities ^{7,8}	Total liabilities
2005	17.1	177.5	863.0	17.1	45.7	1,120.5
2006	21.1	205.1	1,027.1	15.7	52.9	1,321.9
2007	21.3	238.9	1,196.7	15.6	56.7	1,529.2
2008	24.9	229.2	1,229.3	34.3	52.0	1,569.6
2009	20.6	265.0	1,430.7	37.7	56.9	1,811.0
2010	22.6	289.2	1,628.6	45.1	53.6	2,039.0
2011	11.7	292.1	1,683.0	45.0	50.8	2,082.5
2012						
Mar.	12.0	302.2	1,737.4	46.2	55.8	2,153.7
June	11.9	301.2	1,745.1	49.3	64.1	2,171.6
Sep.	11.9	312.6	1,803.7	46.8	63.8	2,238.8
Dec.	13.3	313.0	1,825.1	48.2	58.8	2,258.4

¹ Comprising the resident insurance companies.

² Includes loans.

³ Includes deposits, securities, investment fund shares/units, financial derivatives and other assets with non-resident counterparties.

⁴ Mainly includes financial derivatives with resident counterparties, non-financial assets including fixed assets, other assets and accruals.

⁵ Comprising investment linked life-assurance policies, prepayments of premiums, reserves for outstanding claims and other insurance technical reserves.

⁶ Includes loans, securities, financial derivatives and other accounts payable to non-resident counterparties.

⁷ Mainly includes financial derivatives with resident counterparties, other liabilities and accruals.

⁸ Following a reclassification exercise, as from Q1 2009, certain instruments were shifted from "External Assets" to the "Fixed and other assets" column.

Monetary, Banking and Financial Markets

Table 1.16 Debt securities, by sector of resident issuers¹

EUR millions

End of period	Outstanding amounts as at end of period				Net issues during period				Net valuation changes ³
	General government	Financial Corporations ²	Non-financial companies ²	Total	General government	Financial Corporations ²	Non-financial companies ²	Total	
2005	3,064.4	160.3	649.6	3,874.4	129.3	-45.8	-17.1	66.4	50.6
2006	2,998.1	104.9	593.0	3,696.0	-66.3	-52.3	-17.5	-136.1	-42.3
2007	3,116.3	162.0	625.0	3,903.2	118.2	60.0	68.1	246.3	-39.1
2008	3,328.3	189.4	665.4	4,183.1	211.9	26.0	22.6	260.5	19.3
2009	3,698.3	271.1	667.7	4,637.1	370.1	82.8	1.5	454.4	-0.3
2010	3,989.2	323.0	743.2	5,055.4	290.9	54.5	62.9	408.3	10.0
2011	4,312.1	372.7	745.6	5,430.4	322.9	49.1	-4.4	367.5	7.3
2012									
Q1	4,546.0	609.8	495.4	5,651.2	233.9	0.0	-6.3	227.7	-6.8
Q2	4,684.3	648.3	500.4	5,832.9	138.3	37.2	-6.9	168.6	13.1
Q3	4,537.4	647.5	492.8	5,677.7	-146.9	0.0	-2.5	-149.4	-5.8
Q4	4,505.8	657.6	486.6	5,649.9	-31.6	10.6	-2.1	-23.1	-4.7

¹ Amounts are at nominal prices.

² As from March 2012 debt securities issued by holding companies have been reclassified from Non-Financial Corporations to Financial Corporations in terms of NACE Rev 2.

³ Net valuation changes reflect exchange rate changes.

Sources: Central Bank of Malta; MSE.

Table 1.17 Quoted shares, by sector of resident issuers¹

EUR millions

End of period	Outstanding amounts as at end of period			Net issues during period			Net valuation changes ²
	Financial corporations	Non-financial companies	Total	Financial corporations	Non-financial companies	Total	
2005	2,673.4	800.8	3,474.2	2.2	20.0	22.2	1,337.5
2006	2,657.4	758.2	3,415.7	0.8	53.3	54.1	-112.7
2007	2,690.1	1,163.9	3,854.0	9.9	387.3	397.2	41.2
2008	1,585.2	981.4	2,566.7	2.1	38.2	40.3	-1,327.6
2009	1,863.3	980.6	2,844.0	42.1	36.4	78.5	198.8
2010	2,034.1	1,188.1	3,222.2	0.3	214.2	214.5	163.7
2011	1,618.5	1,022.7	2,641.3	0.2	11.1	11.3	-592.3
2012							
Q1	1,602.5	1,008.9	2,611.5	0.0	0.3	0.3	-30.1
Q2	1,535.3	1,047.0	2,582.4	0.6	0.0	0.6	-29.6
Q3	1,658.1	1,033.7	2,691.8	15.0	0.0	15.0	94.5
Q4	1,687.5	1,066.9	2,754.5	0.0	2.9	2.9	59.7

¹ Amounts are at market prices.

² Net valuation changes reflect market price and exchange rate changes.

Sources: Central Bank of Malta; MSE.

Monetary, Banking and Financial Markets

Table 1.18 Monetary financial institutions' interest rates on deposits and loans to residents of Malta¹

% per annum	2008	2009	2010	2011	2012						
					July	Aug.	Sep.	Oct.	Nov.	Dec.	
NEW BUSINESS											
Deposits	3.04	1.74	2.10	2.55	2.03	2.00	2.17	2.16	2.06	2.11	
<i>Households and NPISH</i>											
<i>Time deposits with agreed maturity</i>	3.31	2.23	2.50	2.85	2.26	2.32	2.49	2.53	2.24	2.38	
up to 1 year	3.06	1.95	2.03	1.99	1.88	1.91	1.86	1.94	1.89	1.91	
over 1 and up to 2 years	4.60	3.00	3.00	3.41	3.36	3.29	3.30	3.49	3.48	3.49	
over 2 years	4.77	3.44	3.86	3.65	4.64	4.63	3.58	3.60	3.50	3.80	
<i>Non-financial corporations</i>											
Time deposits with agreed maturity	2.60	0.85	1.51	1.93	1.80	1.63	1.67	1.73	1.80	1.72	
Loans (excluding credit card debt, revolving loans & overdrafts)	4.88	4.49	4.71	4.10	4.52	4.66	4.70	4.81	4.79	4.22	
<i>Households and NPISH</i>	4.88	4.49	4.20	3.82	3.94	4.08	4.13	3.94	3.99	4.00	
Lending for house purchase	3.84	3.51	3.43	3.38	3.32	3.36	3.42	3.32	3.28	3.40	
Consumer credit	6.12	6.02	5.81	5.04	5.83	5.65	5.81	5.87	5.74	5.66	
Other lending	6.44	5.56	5.86	5.60	5.65	5.71	5.72	5.16	5.69	5.61	
<i>APRC² for loans to households and NPISH</i>	4.63	4.05	3.94	3.78	3.85	3.90	4.01	3.86	3.82	3.82	
Lending for house purchase	4.35	3.70	3.63	3.60	3.54	3.58	3.65	3.54	3.50	3.56	
Consumer credit	6.25	6.10	5.89	5.12	5.86	5.68	5.84	5.84	5.77	5.64	
<i>Non-financial corporations</i>											
Loans	5.50	4.95	4.86	4.28	5.04	4.96	5.10	5.41	5.55	4.26	
OUTSTANDING AMOUNTS											
Deposits	2.60	1.46	1.38	1.41	1.40	1.41	1.40	1.42	1.42	1.42	
<i>Households and NPISH</i>	2.74	1.57	1.50	1.54	1.55	1.55	1.55	1.57	1.57	1.56	
Overnight deposits ³	0.57	0.30	0.28	0.31	0.32	0.32	0.32	0.33	0.33	0.32	
Savings deposits redeemable at notice ^{3,4}	2.05	1.68	1.59	1.51	1.56	1.55	1.53	1.56	1.56	1.54	
up to 3 months	2.09	1.70	1.69	1.61	1.60	1.59	1.59	1.60	1.62	1.60	
Time deposits with agreed maturity	3.82	2.35	2.30	2.38	2.42	2.43	2.44	2.45	2.46	2.47	
up to 2 years	3.90	2.22	2.08	2.05	2.06	2.06	2.06	2.06	2.06	2.07	
over 2 years	3.19	3.06	3.16	3.21	3.30	3.32	3.36	3.39	3.41	3.42	
<i>Non-financial corporations</i>	1.73	0.86	0.81	0.84	0.73	0.75	0.74	0.77	0.79	0.79	
Overnight deposits ³	0.64	0.23	0.24	0.30	0.28	0.29	0.27	0.28	0.30	0.28	
Time deposits with agreed maturity	3.38	1.99	2.09	2.09	2.08	2.11	2.10	2.08	2.11	2.11	
up to 2 years	3.39	1.89	1.97	2.00	1.95	1.98	1.96	1.95	1.98	1.99	
over 2 years	3.26	3.35	3.24	3.13	3.24	3.32	3.34	3.42	3.43	3.06	
Loans	5.03	4.58	4.38	4.44	4.33	4.33	4.35	4.31	4.33	4.32	
<i>Households and NPISH</i>	4.57	4.15	4.06	4.02	3.96	3.95	3.96	3.95	3.95	3.94	
Lending for house purchase	4.03	3.51	3.46	3.43	3.40	3.40	3.41	3.40	3.40	3.39	
Consumer credit and other lending ⁵	5.80	5.67	5.58	5.66	5.58	5.58	5.58	5.58	5.59	5.59	
<i>Non-financial corporations⁵</i>	5.43	4.96	4.67	4.85	4.70	4.72	4.74	4.68	4.71	4.73	
<i>Revolving loans and overdrafts</i>											
Households and NPISH	7.16	6.44	5.75	6.12	5.87	5.89	5.91	5.90	5.87	5.86	
Non-financial corporations	5.30	5.08	5.03	5.07	5.13	5.14	5.18	5.17	5.17	5.25	

¹ Annualised agreed rates (AAR) on euro-denominated loans and deposits to/from households and non-financial corporations resident in Malta. The AAR is the rate agreed between the customer and the bank, and takes into consideration all interest (excluding fees and other charges) on the deposits and loans concerned. Weighted average rates as at end of period while headline indicators are composite rates.

² The Annual Percentage Rate of Charge covers the total cost of a loan, comprising the interest rate component and other (related) charges, such as the costs for inquiries, administration, preparation of documents, guarantees, credit insurance, fees.

³ Due to large number of inflows and outflows the concept of new business is extended to the whole stock, that is interest rates are compiled on outstanding amounts. Overnight deposits include current/cheque accounts and savings withdrawable on demand.

⁴ Households and non-financial corporations are merged, since deposits in this category held by non-financial corporations are negligible. Moreover, the composite rate consists of both 'up to 3 months' and 'over 3 months'.

⁵ Includes bank overdrafts.

Monetary, Banking and Financial Markets

Table 1.19 Monetary financial institutions' interest rates on deposits and loans to euro area residents¹

% per annum	2008	2009	2010	2011	2012						
					July	Aug.	Sep.	Oct.	Nov.	Dec.	
NEW BUSINESS											
Deposits	2.72	1.90	1.65	2.57	2.06	2.13	2.18	2.17	2.08	2.13	
<i>Households and NPISH</i>											
Time deposits with agreed maturity	3.31	2.24	2.44	2.83	2.29	2.48	2.50	2.53	2.26	2.38	
up to 1 year	3.05	1.97	1.96	1.99	1.94	2.15	1.92	1.98	1.92	1.93	
over 1 and up to 2 years	4.60	3.00	3.01	3.41	3.34	3.32	3.28	3.49	3.47	3.49	
over 2 years	4.77	3.44	3.86	3.65	4.65	4.64	3.59	3.61	3.52	3.80	
<i>Non-financial corporations</i>											
Time deposits with agreed maturity	2.06	1.44	1.11	2.17	1.82	1.69	1.70	1.75	1.84	1.80	
Loans (excluding credit card debt, revolving loans & overdrafts)	4.88	4.48	4.45	4.09	4.26	4.49	4.31	4.53	4.61	4.15	
<i>Households and NPISH</i>											
Lending for house purchase	4.88	4.48	4.20	3.81	3.94	4.08	4.13	3.94	3.99	4.00	
Consumer credit	3.84	3.51	3.42	3.38	3.31	3.37	3.41	3.32	3.28	3.40	
Other lending	6.12	6.01	5.81	5.04	5.82	5.65	5.81	5.85	5.73	5.66	
<i>APRC² for loans to households and NPISH</i>											
Lending for house purchase	4.63	4.05	3.94	3.78	3.85	3.90	4.01	3.86	3.82	3.82	
Consumer credit	4.35	3.70	3.63	3.60	3.54	3.59	3.65	3.54	3.50	3.56	
Consumer credit	6.25	6.09	5.89	5.12	5.85	5.68	5.84	5.82	5.76	5.64	
<i>Non-financial corporations</i>											
Loans	4.93	4.42	4.52	4.20	4.43	4.63	4.38	4.84	5.07	4.18	
OUTSTANDING AMOUNTS											
Deposits	2.62	1.47	1.37	1.41	1.40	1.41	1.40	1.42	1.42	1.43	
<i>Households and NPISH</i>											
Overnight deposits ³	2.74	1.58	1.49	1.54	1.56	1.56	1.56	1.58	1.57	1.56	
Savings deposits redeemable at notice ^{3,4}	0.57	0.30	0.28	0.30	0.32	0.33	0.32	0.32	0.33	0.32	
up to 3 months	2.09	1.70	1.69	1.63	1.62	1.60	1.60	1.61	1.62	1.61	
Time deposits with agreed maturity	2.09	1.70	1.69	1.63	1.62	1.60	1.60	1.61	1.62	1.61	
up to 2 years	3.82	2.36	2.29	2.39	2.44	2.45	2.46	2.47	2.48	2.48	
over 2 years	3.89	2.21	2.08	2.05	2.09	2.10	2.09	2.09	2.09	2.09	
<i>Non-financial corporations</i>											
Overnight deposits ³	3.24	3.10	3.16	3.22	3.31	3.33	3.37	3.40	3.42	3.44	
Time deposits with agreed maturity	2.00	0.92	0.84	0.90	0.74	0.76	0.74	0.79	0.80	0.85	
Overnight deposits ³	0.65	0.23	0.25	0.30	0.29	0.30	0.28	0.30	0.31	0.29	
Time deposits with agreed maturity	3.56	2.04	1.88	2.02	1.84	1.88	1.85	1.96	1.87	2.06	
up to 2 years	3.57	1.93	1.71	1.93	1.71	1.73	1.70	1.83	1.74	1.96	
over 2 years	3.28	3.13	3.33	2.99	3.07	3.14	3.16	3.21	3.21	2.95	
Loans	4.94	4.29	4.32	4.38	4.25	4.25	4.26	4.22	4.23	4.19	
<i>Households and NPISH</i>											
Lending for house purchase	4.57	4.15	4.06	4.02	3.96	3.96	3.96	3.95	3.95	3.94	
Consumer credit and other lending ⁵	4.03	3.51	3.46	3.43	3.40	3.40	3.41	3.40	3.40	3.40	
<i>Non-financial corporations⁵</i>											
Revolving loans and overdrafts	5.79	5.67	5.58	5.66	5.58	5.58	5.58	5.57	5.59	5.59	
Households and NPISH	5.20	4.40	4.54	4.66	4.47	4.49	4.49	4.43	4.45	4.39	
Non-financial corporations	7.16	6.45	5.76	6.12	5.87	5.89	5.91	5.90	5.87	5.86	
Non-financial corporations	5.14	5.08	5.02	5.07	5.13	5.14	5.18	5.17	5.17	5.25	

¹ Annualised agreed rates (AAR) on euro-denominated loans and deposits vis-à-vis households and non-financial corporations with residents of Malta and other Monetary Union Member States. The AAR is the rate agreed between the customer and the bank, and takes into consideration all interest (excluding fees and other charges) on the deposits and loans concerned. Weighted average rates as at end of period while headline indicators are composite rates.

² The Annual Percentage Rate of Charge covers the total cost of a loan, comprising the interest rate component and other (related) charges, such as the costs for inquiries, administration, preparation of documents, guarantees, credit insurance, fees.

³ Due to large number of inflows and outflows the concept of new business is extended to the whole stock, that is interest rates are compiled on outstanding amounts. Overnight deposits include current/cheque accounts and savings withdrawable on demand.

⁴ Households and non-financial corporations are merged, since deposits in this category held by non-financial corporations are negligible. Moreover, the composite rate consists of both 'up to 3 months' and 'over 3 months'.

⁵ Includes bank overdrafts.

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Table 1.20 Key Central Bank of Malta, ECB and money market interest rates

	2008	2009	2010	2011	2012			
					Mar.	June	Sep.	Dec.
INTEREST RATES (%)¹								
Key ECB interest rates²								
Marginal lending facility	3.00	1.75	1.75	1.75	1.75	1.75	1.50	1.50
Main refinancing operations - minimum bid rate	2.50	1.00	1.00	1.00	1.00	1.00	0.75	0.75
Deposit facility	2.00	0.25	0.25	0.25	0.25	0.25	0.00	0.00
Money market rates (period averages)								
Overnight deposit (EONIA)	3.86	0.72	0.44	0.87	0.37	0.33	0.10	0.07
Rates for fixed term deposits (EURIBOR)								
1 month	4.27	0.90	0.57	1.18	0.65	0.38	0.12	0.11
3 months	4.63	1.23	0.81	1.39	1.04	0.66	0.25	0.19
6 months	4.72	1.44	1.08	1.64	1.34	0.93	0.48	0.32
1 year	4.81	1.62	1.35	2.01	1.67	1.22	0.74	0.55
Central Bank of Malta²								
Central intervention rate								
Money market intervention rates:								
Term deposit rate								
Reverse repo rate								
Rate on standby (collateralised) loans								
Rate on overnight deposits								
Remuneration on required reserves								

¹ End of period rates unless otherwise indicated.

² As from 1 January 2008, the Central Bank of Malta ceased to declare interest rates on its operations. The financial market interest rates shown from that date are the key interest rates determined by the ECB for central bank operations throughout the euro area.

Note: # denotes the corridor linked to the central intervention rate.

Monetary, Banking and Financial Markets

Table 1.21 Other rates and indicators

	2008	2009	2010	2011	2012			
					Mar.	June	Sep.	Dec.
INTEREST RATES (%)¹								
Government securities								
Treasury bills (primary market)								
1 month	-	-	-	1.20	-	-	1.16	-
3 month	3.65	1.40	0.99	0.82	0.84	1.04	1.27	0.85
6 month	2.75	1.52	1.10	1.33	1.05	1.19	1.36	1.15
1 year	-	-	-	-	-	-	-	-
Treasury bills (secondary market)								
1 month	2.64	1.36	0.77	0.85	0.96	1.00	1.09	0.94
3 month	2.64	1.40	0.94	0.97	1.01	1.05	1.25	1.00
6 month	2.65	1.46	1.23	0.99	1.04	1.18	1.35	1.05
1 year	2.73	1.69	1.28	1.26	1.40	1.41	1.43	1.26
Government long-term debt securities (period averages)								
2 year	3.43	2.41	1.88	2.31	2.01	2.17	1.92	1.52
5 year	4.01	3.66	3.05	3.36	3.24	3.22	2.96	2.62
10 year	4.53	4.54	4.19	4.35	4.26	4.24	4.06	3.94
15 year	4.76	4.96	n/a	n/a	n/a	n/a	n/a	n/a
MALTA STOCK EXCHANGE SHARE INDEX	3,208	3,461	3,781	3,095	2,939	3,022	3,136	3,212

¹ End of period rates unless otherwise indicated. As from Quarterly Review 2013:1, the publishing of the weighted average deposit and lending rates was discontinued. Interest rates paid and charged by MFIs in Malta reported according to harmonised definition established by the ECB are shown in Table 1.18 - 'Monetary Financial Institutions Interest Rates on Deposits and Loans to Residents of Malta', and Table 1.19 - 'Monetary Financial Institutions Interest Rates on Deposits and Loans to Euro Area Residents'.

Note: '-' denotes that no transactions occurred during the reference period.

n/a denotes that no bond qualifies as a 15 year benchmark.

Government Finance

Table 2.1 General government revenue and expenditure^{1,2}

EUR millions

Period	Revenue			Expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+) ²
	Current	Capital	Total	Current	Capital	Total		
2005	1,836.3	172.9	2,009.2	1,909.4	241.8	2,151.2	-142.1	35.8
2006	1,938.0	167.8	2,105.8	2,002.1	244.7	2,246.7	-140.9	38.8
2007	2,130.7	70.6	2,201.3	2,107.5	222.1	2,329.6	-128.4	52.9
2008	2,256.6	46.5	2,303.1	2,381.5	195.7	2,577.1	-274.1	-87.4
2009	2,246.2	62.2	2,308.5	2,346.1	182.7	2,528.9	-220.4	-37.0
2010	2,316.3	111.1	2,427.4	2,436.0	217.2	2,653.3	-225.9	-39.6
2011	2,463.1	113.5	2,576.5	2,551.5	208.1	2,759.6	-183.0	17.9
2012	2,590.2	147.8	2,738.0	2,713.7	250.2	2,963.9	-225.9	-13.0
2011								
Q1	609.4	22.2	631.6	628.0	46.6	674.6	-43.0	4.5
Q2	576.8	18.8	595.6	632.6	50.6	683.2	-87.6	-37.1
Q3	581.8	36.6	618.4	601.4	52.5	653.9	-35.5	14.7
Q4	695.1	35.8	730.9	689.5	58.4	747.9	-17.0	35.7
2012								
Q1	628.7	21.5	650.2	660.8	68.0	728.7	-78.5	-23.7
Q2	635.0	32.9	667.9	675.5	30.9	706.4	-38.5	14.5
Q3	612.6	36.4	649.0	644.1	61.3	705.4	-56.4	-2.5
Q4	713.9	57.0	770.9	733.4	90.0	823.4	-52.5	-1.3

Table 2.2 General government revenue by main components^{1,2}

EUR millions

Period	Current revenue							Capital revenue			Total	Memo: Fiscal burden ³
	Direct taxes	Indirect taxes	Social security contributions	Sales	Property income	Other	Total	Capital taxes	Capital transfers	Total		
2005	559.5	718.2	380.2	95.0	69.5	14.0	1,836.3	17.5	155.4	172.9	2,009.2	1,675.3
2006	609.8	759.3	389.8	96.8	63.5	18.9	1,938.0	14.7	153.2	167.8	2,105.8	1,773.4
2007	726.0	802.1	398.3	110.0	72.8	21.6	2,130.7	15.7	54.9	70.6	2,201.3	1,942.0
2008	742.8	832.4	432.0	153.4	70.4	25.6	2,256.6	15.1	31.4	46.5	2,303.1	2,022.2
2009	795.4	810.4	434.9	116.6	69.2	19.6	2,246.2	14.0	48.2	62.2	2,308.5	2,054.8
2010	807.8	844.2	456.5	103.3	84.3	20.2	2,316.3	14.7	96.4	111.1	2,427.4	2,123.1
2011	849.4	907.3	486.7	121.3	79.3	18.9	2,463.1	14.8	98.6	113.5	2,576.5	2,258.3
2012	934.9	919.9	504.3	114.7	89.8	26.6	2,590.2	16.1	131.7	147.8	2,738.0	2,375.3
2011												
Q1	229.6	199.7	118.4	24.4	34.6	2.8	609.4	3.0	19.3	22.2	631.6	550.7
Q2	196.1	206.0	115.6	31.0	22.5	5.6	576.8	4.2	14.6	18.8	595.6	521.8
Q3	180.7	242.2	118.1	27.1	8.8	4.9	581.8	3.6	33.0	36.6	618.4	544.6
Q4	243.0	259.4	134.7	38.8	13.5	5.7	695.1	4.1	31.8	35.8	730.9	641.1
2012												
Q1	217.8	219.7	120.5	28.7	37.5	4.5	628.7	3.7	17.8	21.5	650.2	561.7
Q2	241.1	214.8	119.0	28.6	24.0	7.5	635.0	3.8	29.1	32.9	667.9	578.7
Q3	215.9	238.5	118.9	24.1	9.5	5.8	612.6	4.4	32.0	36.4	649.0	577.6
Q4	260.1	246.9	146.0	33.2	18.7	8.8	713.9	4.2	52.8	57.0	770.9	657.3

¹ Based on ESA95 methodology. Data are provisional.

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

³ The fiscal burden comprises taxes and social security contributions.

Sources: Eurostat; NSO.

Government Finance

Table 2.3 General government expenditure by main components^{1,2}

EUR millions

Period	Current expenditure							Capital expenditure			Total
	Compensation of employees	Social benefits	Interest	Intermediate consumption	Subsidies	Other	Total	Investment	Capital transfers	Total ²	
2005	668.3	642.7	177.8	238.2	101.2	81.2	1,909.4	227.7	48.7	241.8	2,151.2
2006	678.4	666.5	179.7	285.6	109.4	82.4	2,002.1	204.7	47.9	244.7	2,246.7
2007	706.9	718.6	181.3	295.8	112.1	92.9	2,107.5	206.0	43.2	222.1	2,329.6
2008	831.4	756.6	186.6	383.5	125.1	98.2	2,381.5	139.1	48.3	195.7	2,577.1
2009	829.3	809.4	183.4	348.4	64.0	111.6	2,346.1	136.6	58.7	182.7	2,528.9
2010	840.6	847.0	186.3	374.7	66.9	120.5	2,436.0	133.7	79.2	217.2	2,653.3
2011	870.6	880.5	200.9	416.6	65.1	117.8	2,551.5	164.1	48.0	208.1	2,759.6
2012	914.8	938.7	212.8	451.6	74.6	121.1	2,713.7	207.6	71.0	250.2	2,963.9
2011											
Q1	216.4	229.7	47.5	93.7	11.0	29.8	628.0	37.6	8.5	46.6	674.6
Q2	219.0	218.5	50.5	97.1	22.5	25.0	632.6	35.3	12.1	50.6	683.2
Q3	218.0	203.1	50.2	90.6	11.0	28.5	601.4	44.9	13.2	52.5	653.9
Q4	217.2	229.3	52.6	135.3	20.5	34.6	689.5	46.5	14.3	58.4	747.9
2012											
Q1	222.0	221.4	54.8	113.8	15.6	33.2	660.8	32.6	29.9	68.0	728.7
Q2	229.7	249.9	52.9	100.2	20.8	22.0	675.5	55.9	12.2	30.9	706.4
Q3	227.9	205.0	53.9	110.1	19.2	28.0	644.1	45.2	12.1	61.3	705.4
Q4	235.2	262.5	51.2	127.5	19.1	37.9	733.4	73.8	16.8	90.0	823.4

¹ Based on ESA95 methodology. Data are provisional.

² Includes acquisitions less disposals of non-financial non-produced assets.

Sources: Eurostat; NSO.

Table 2.4 General government expenditure by function^{1,2}

EUR millions

Period	General public services	Defence	Public order & safety	Economic affairs	Environ. protection	Housing & community amenities	Health	Recreation, culture & religion	Education	Social protection	Total
2005	326.6	43.7	76.2	305.0	73.7	35.7	309.0	31.6	272.6	677.0	2,151.2
2006	348.0	37.1	75.9	310.4	82.0	37.1	325.6	29.1	287.0	714.5	2,246.7
2007	350.8	35.6	80.3	319.6	93.2	33.6	315.8	31.6	296.0	773.1	2,329.6
2008	396.4	38.2	86.6	436.5	94.3	40.3	317.2	36.4	312.7	818.7	2,577.1
2009	427.7	53.8	90.1	286.1	101.5	16.9	321.6	42.7	319.8	868.8	2,528.9
2010	403.2	50.5	92.6	298.7	126.6	17.4	344.9	49.0	363.3	907.1	2,653.3
2011	434.0	56.1	94.6	314.1	87.3	20.1	367.4	57.0	382.5	946.4	2,759.6

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

Sources: Eurostat; NSO.

Government Finance

Table 2.5 General government financial balance sheet¹

Period	Financial assets					Financial liabilities					Net financial worth	
	Currency and deposits	Securities other than shares	Loans	Shares and other equity	Other accounts receivable	Total	Currency and deposits	Securities other than shares	Loans	Other accounts payable		Total
2005	399.1	0.0	29.2	1,117.8	218.3	1,764.4	0.0	3,420.9	300.5	332.0	4,053.4	-2,289.0
2006	431.9	0.0	26.4	842.6	208.0	1,509.0	0.0	3,297.4	265.5	359.0	3,921.9	-2,413.0
2007	488.1	0.0	27.5	836.1	309.7	1,661.4	8.3	3,308.6	272.8	424.1	4,013.9	-2,352.4
2008	476.2	0.0	32.8	739.8	361.1	1,609.9	31.2	3,662.9	284.1	534.9	4,513.0	-2,903.0
2009	577.2	0.0	29.5	797.8	375.0	1,779.5	37.2	3,994.2	237.4	531.3	4,800.1	-3,020.5
2010	588.7	0.0	63.1	855.5	434.8	1,942.1	41.0	4,307.5	237.4	548.0	5,133.8	-3,191.8
2011												
Mar.	576.8	0.0	112.8	839.2	582.1	2,110.9	40.7	4,381.1	241.8	646.7	5,310.4	-3,199.5
June	695.0	0.0	131.2	840.5	526.3	2,193.0	42.6	4,509.2	241.9	664.4	5,458.0	-3,265.0
Sep.	659.0	0.0	136.6	830.6	492.9	2,119.1	44.5	4,500.8	250.2	718.1	5,513.6	-3,394.5
Dec.	655.6	0.0	147.9	843.8	513.4	2,160.6	45.8	4,625.0	260.3	633.0	5,564.1	-3,403.5
2012												
Mar.	665.2	0.0	192.0	849.7	669.8	2,376.7	45.2	4,789.0	305.8	662.3	5,802.3	-3,425.6
June	734.4	0.0	236.2	889.8	701.3	2,561.7	47.0	4,933.7	341.5	698.2	6,020.4	-3,458.7
Sep.	625.9	0.0	239.2	831.2	684.1	2,380.3	48.9	4,880.3	345.0	716.3	5,990.5	-3,610.1
Dec.	425.0	0.0	272.5	1,080.1	662.0	2,439.6	50.1	4,889.7	346.2	667.9	5,953.9	-3,514.4

¹ Based on ESA95 methodology. Data are quoted at market prices and should be considered as provisional.
Sources: Eurostat, NSO.

Government Finance

Table 2.6 General government deficit-debt adjustment^{1,2}

EUR millions

Period	Change in debt	Deficit (-)/ surplus (+)	Deficit-debt adjustment						
			Transactions in main financial assets				Valuation effects and other changes in volume	Other ²	Total
			Currency and deposits	Loans	Debt securities	Shares and other equity			
2005	106.0	-142.1	93.0	-0.1	0.0	-55.4	-23.4	-50.0	-36.0
2006	-101.7	-140.9	67.3	-2.8	0.0	-219.4	-1.2	-86.7	-242.7
2007	131.4	-128.4	60.3	1.1	0.0	-32.1	-7.8	-18.3	3.0
2008	247.4	-274.1	-6.3	5.3	0.0	-5.1	20.3	-40.8	-26.6
2009	330.1	-220.4	135.8	-3.3	0.0	-0.9	-1.0	-21.0	109.6
2010	295.1	-225.9	52.0	33.5	0.0	-0.8	0.2	-15.7	69.3
2011	349.7	-183.0	70.4	84.8	0.0	16.1	5.1	-9.7	166.6
2012	263.9	-225.9	-233.5	124.6	0.0	38.9	-0.7	108.8	38.0
2011									
Q1	148.9	-43.0	-7.5	49.7	0.0	-7.3	4.7	66.3	105.9
Q2	128.4	-87.6	120.5	18.4	0.0	15.1	-3.1	-110.1	40.8
Q3	-57.3	-35.5	-34.1	5.4	0.0	0.1	5.1	-69.3	-92.8
Q4	129.7	-17.0	-8.6	11.3	0.0	8.1	-1.6	103.4	112.7
2012									
Q1	230.4	-78.5	11.0	44.1	0.0	0.7	-6.0	102.0	151.9
Q2	170.5	-38.5	62.9	44.2	0.0	11.3	1.5	12.1	132.1
Q3	-108.4	-56.4	-108.7	2.9	0.0	0.1	3.4	-62.6	-164.8
Q4	-28.6	-52.5	-198.7	33.3	0.0	26.8	0.3	57.3	-81.0

¹ Based on ESA95 methodology. Data are provisional.

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

Source: Eurostat.

Table 2.7 General government debt and guaranteed debt outstanding

Period	Coins issued	Debt securities			Loans			Total general government debt ¹	Government guaranteed debt ²
		Short- term	Long-term	Total	Short-term	Long-term	Total		
2005	-	443.1	2,614.4	3,057.5	76.8	221.1	297.9	3,355.3	612.4
2006	-	373.8	2,617.4	2,991.2	24.5	238.0	262.4	3,253.6	555.1
2007	8.3	354.9	2,753.3	3,108.3	31.0	237.5	268.5	3,385.1	602.8
2008	31.2	365.8	2,954.4	3,320.2	70.4	210.7	281.1	3,632.5	684.8
2009	37.2	474.1	3,216.4	3,690.5	34.8	200.1	234.9	3,962.5	857.8
2010	41.0	377.8	3,603.6	3,981.4	40.7	194.7	235.4	4,257.7	991.1
2011									
Mar.	40.7	416.8	3,710.2	4,127.0	30.6	208.3	238.9	4,406.6	1,018.0
June	42.6	337.1	3,914.9	4,252.1	34.0	206.4	240.4	4,535.0	1,016.2
Sep.	44.5	304.3	3,880.4	4,184.8	42.1	206.4	248.4	4,477.7	1,073.7
Dec.	45.8	257.1	4,046.3	4,303.5	51.4	206.6	258.0	4,607.3	1,068.9
2012									
Mar.	45.2	216.4	4,272.8	4,489.2	53.1	250.2	303.3	4,837.7	1,072.5
June	47.0	255.1	4,366.0	4,621.0	55.0	285.1	340.1	5,008.2	1,065.8
Sep.	48.9	319.4	4,188.2	4,507.6	55.7	287.6	343.3	4,899.8	1,069.3
Dec.	50.1	154.1	4,322.8	4,476.9	22.7	321.5	344.2	4,871.2	1,186.0

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

² Represents outstanding balances on general government guaranteed debt.

Sources: Eurostat; NSO.

Government Finance

Table 2.8 Treasury bills issued and outstanding¹

EUR millions

End of period	Amount maturing during period	Amount issued in primary market and taken up by			Amount outstanding ² and held by		
		OMFIs ³	Others ⁴	Total	MFIs	Others ⁴	Total
2005	1,204.7	831.0	245.3	1,076.3	351.5	91.5	443.0
2006	992.0	522.5	400.2	922.7	249.7	124.2	373.9
2007	1,129.5	823.7	287.0	1,110.7	278.6	76.3	354.9
2008	1,018.9	349.2	683.4	1,032.6	126.4	239.5	365.8
2009	1,516.6	1,033.9	591.0	1,624.8	327.3	146.8	474.1
2010	1,341.6	1,091.7	153.2	1,245.2	319.9	57.9	377.8
2011	1,004.8	839.9	45.1	885.0	224.0	33.9	257.9
2011							
Jan.	66.4	117.7	7.2	124.9	386.4	49.8	436.2
Feb.	94.0	78.8	9.0	87.8	365.7	64.3	430.0
Mar.	61.4	43.1	5.2	48.2	352.5	64.2	416.8
Apr.	134.2	103.0	3.5	106.5	323.6	65.6	389.2
May	76.9	30.8	10.5	41.3	282.1	71.5	353.6
June	40.8	23.2	1.2	24.3	269.8	67.4	337.1
July	120.0	106.5	3.9	110.4	266.1	61.5	327.5
Aug.	76.9	66.3	1.1	67.3	258.0	59.9	317.9
Sep.	62.2	48.8	0.8	49.6	250.7	54.7	305.3
Oct.	108.0	123.6	1.3	124.9	261.5	60.8	322.3
Nov.	92.2	93.8	1.5	95.3	270.0	55.4	325.3
Dec.	71.9	4.4	0.0	4.4	224.0	33.9	257.9
2012							
Jan.	98.1	56.9	0.0	56.9	195.7	20.9	216.7
Feb.	67.3	48.4	1.1	49.4	171.3	27.5	198.8
Mar.	18.8	33.3	3.8	37.1	175.3	41.8	217.1
Apr.	70.1	76.4	0.5	76.9	181.3	42.5	223.9
May	32.4	68.7	1.4	70.0	215.5	46.0	261.5
June	34.6	26.3	2.9	29.2	210.1	46.0	256.1
July	101.6	121.1	1.2	122.3	223.4	53.4	276.7
Aug.	93.0	107.0	1.3	108.4	234.4	57.7	292.1
Sep.	52.8	80.3	0.8	81.1	264.4	56.0	320.4
Oct.	99.0	36.1	0.1	36.2	210.6	47.0	257.5
Nov.	132.7	122.4	6.4	128.8	206.3	47.3	253.6
Dec.	148.5	41.5	2.6	49.1	124.0	30.1	154.1

¹ Amounts are at nominal prices.

² On 16 December 1996, the maximum amount of permissible outstanding bills was raised from €232.9m (Lm100m) to €465.9m (Lm200m), and on 27 November 2002 this was raised further to €698.8m (Lm300m).

³ As from December 2008, issues in the primary market taken up by money market funds were reclassified from 'Others' to 'OMFIs'.

⁴ Includes the Malta Government sinking fund.

Sources: Central Bank of Malta; The Treasury.

Government Finance

Table 2.9 Treasury bills issued and outstanding¹ (as at end-December 2012)

EUR millions

Issue date	Maturity date	Primary market weighted average rate (%)	Secondary market offer rate (%)	Amount issued in the primary market taken up by		Amount outstanding and held by		Total amount issued / outstanding ⁴
				OMFIs ²	Others ³	MFIs	Others ³	
05/Oct/2012	04/Jan/2013	1.260	0.936	1.0	0.0	1.0	0.0	1.0
06/Jul/2012	04/Jan/2013	1.204	0.936	5.0	0.0	3.0	2.0	5.0
05/Apr/2012	04/Jan/2013	1.298	0.936	3.0	0.1	2.0	1.1	3.1
12/Oct/2012	11/Jan/2013	1.210	0.936	4.0	0.1	0.0	4.1	4.1
13/Jul/2012	11/Jan/2013	1.230	0.936	3.0	0.0	3.0	0.0	3.0
13/Apr/2012	11/Jan/2013	1.307	0.936	8.0	0.0	8.0	0.0	8.0
19/Oct/2012	18/Jan/2013	1.143	0.937	10.4	0.0	10.0	0.4	10.4
20/Jul/2012	18/Jan/2013	1.229	0.937	14.0	0.0	11.0	3.0	14.0
26/Oct/2012	25/Jan/2013	1.100	0.937	5.0	0.0	5.0	0.0	5.0
27/Jul/2012	25/Jan/2013	1.208	0.937	10.0	0.0	10.0	0.0	10.0
10/Aug/2012	08/Feb/2013	1.250	0.951	3.0	0.0	3.0	0.0	3.0
23/Nov/2012	22/Feb/2013	1.050	0.964	0.0	1.1	0.0	1.1	1.1
30/Nov/2012	01/Mar/2013	1.050	0.971	1.8	0.0	0.0	1.8	1.8
07/Dec/2012	08/Mar/2013	0.995	0.978	11.0	2.6	11.0	2.6	13.6
14/Dec/2012	15/Mar/2013	0.932	0.984	14.2	0.0	12.0	2.2	14.2
21/Dec/2012	22/Mar/2013	0.854	0.991	11.3	0.0	0.0	11.3	11.3
20/Sep/2012	22/Mar/2013	1.269	0.991	7.0	0.0	7.0	0.0	7.0
28/Sep/2012	28/Mar/2013	1.355	0.997	4.0	0.0	4.0	0.0	4.0
13/Apr/2012	12/Apr/2013	1.400	1.005	4.0	0.0	4.0	0.0	4.0
07/Dec/2012	06/Jun/2013	1.165	1.034	5.0	0.0	5.0	0.0	5.0
14/Dec/2012	14/Jun/2013	1.148	1.039	5.0	0.0	5.0	0.0	5.0
28/Sep/2012	28/Jun/2013	1.424	1.046	5.0	0.0	5.0	0.0	5.0
02/Nov/2012	02/Aug/2013	1.298	1.114	10.0	0.3	10.0	0.3	10.3
05/Oct/2012	04/Oct/2013	1.598	1.227	5.5	0.0	5.0	0.5	5.5
Total				150.0	4.1	124.0	30.1	154.1

¹ Amounts are at nominal prices.

² OMFIs include the money market funds.

³ Includes the Malta Government sinking fund.

⁴ On 16 December 1996, the maximum amount of permissible outstanding bills was raised from €232.9m (Lm100m) to €465.9m (Lm200m), and on 27 November 2002 this was raised further to €698.8m (Lm300m).

Sources: Central Bank of Malta; The Treasury.

Government Finance

Table 2.10 Malta government long-term debt securities outstanding¹ (as at end-December 2012)

EUR millions									
Coupon rate (%)	Year of maturity	Year of issue	Issue price ²	ISMA Yield (%) ⁵	Interest dates	Held by		Amount	
						MFIs ⁶	Others		
7.80	2013 (I)	1997	100	0.91	18/04 - 18/10	45.2	34.6	79.8	
6.35	2013 (II) ⁴	2001	100	N/A	19/05 - 19/11	5.7	54.9	60.6	
7.00	2013 (III) ³	2003	100	0.96	30/06 - 30/12	0.0	0.2	0.2	
3.60	2013 (IV) ⁴	2009	100	0.93	18/04 - 18/10	95.3	45.2	140.5	
6.60	2014 (I) ⁴	2000	100	1.02	30/03 - 30/09	10.3	14.1	24.5	
6.45	2014 (II) ⁴	2001	100	1.05	24/05 - 24/11	25.9	44.0	69.9	
5.10	2014 (III) ⁴	03/04/06/07/08	100/103.25/103.64/105.5	0.98	06/01 - 06/07	172.4	216.6	388.9	
7.00	2014 (IV) ³	26/06/1905	100	1.06	30/06 - 30/12	0.0	4.0	4.0	
6.10	2015 (I) ⁴	2000	100	1.16	10/06 - 10/12	36.5	33.3	69.9	
5.90	2015 (II) ⁴	02/03/07	100/102/105	1.27	09/04 - 09/10	39.8	76.7	116.5	
7.00	2015 (III) ³	2005	100	1.35	30/06 - 30/12	0.0	0.7	0.7	
7.00	2015 (IV) ³	2005	100	1.35	03/05 - 03/11	0.0	0.8	0.8	
3.75	2015 (V) ⁴	2010	100	1.32	03/06 - 03/12	95.6	35.9	131.5	
6.65	2016 (I) ⁴	2001	100	1.43	28/03 - 28/09	12.0	57.8	69.9	
4.80	2016 (II) ⁴	03/04/06	100/101/104	1.69	26/05 - 26/11	77.2	109.1	186.4	
7.00	2016 (III) ³	28/06/1905	100	1.73	30/06 - 30/12	0.0	3.4	3.4	
4.30	2016 (IV) ³	2011	100.93	1.58	16/02 - 16/08	134.5	23.6	158.1	
3.75	2017 (IV) ⁴ R	2012	102	1.99	20/02 - 20/08	30.0	18.0	48.1	
3.75	2017 (IV) ⁴ R Nov 12	2012	105	2.28	20/02 - 20/08	0.0	2.4	2.4	
3.75	2017 (IV) ⁴ I Nov 12	2012	105.3	2.28	20/02 - 20/08	0.0	1.4	1.4	
3.75	2017 (IV) ⁴ FI Dec 12	2012	105.6	2.24	20/02 - 20/08	1.0	19.2	20.2	
7.00	2017 (I) ³	2007	100	2.37	18/02 - 18/08	0.0	0.7	0.7	
7.00	2017 (II) ³	2007	100	2.43	30/06 - 30/12	0.0	10.3	10.3	
4.25	2017 (III) ⁴	11/12	100/100.75/104.97/103.75/ 104.01	2.56	06/05 - 06/11	164.2	99.6	263.9	
3.85	2018 (V) ⁴	2012	105.26	2.56	18/04 - 18/10	116.1	5.3	121.4	
7.80	2018 (I)	1998	100	2.75	15/01 - 15/07	88.2	74.8	163.1	
7.00	2018 (II) ³	2008	100	2.77	18/04 - 18/10	0.0	0.3	0.3	
7.00	2018 (III) ³	2008	100	2.77	30/06 - 30/12	0.0	6.5	6.5	
6.60	2019 (I)	1999	100	2.84	01/03 - 01/09	46.3	56.2	102.5	
7.00	2019 (II) ³	2009	100	2.97	30/06 - 30/12	0.0	13.7	13.7	
5.20	2020 (I) ⁴	2007	100	2.94	10/06 - 10/12	11.3	41.2	52.4	
4.60	2020 (II) ⁴	2009	100	3.11	25/04 - 25/10	64.3	94.0	158.3	
7.00	2020 (III) ³	2010	100	3.26	30/06 - 30/12	0.0	0.4	0.4	
5.00	2021 (I) ⁴	04/05/07/08	98.5/100	3.36	08/02 - 08/08	147.4	311.4	458.8	
7.00	2021 (II) ⁴	2011	100	3.36	18/06 - 18/12	0.0	0.5	0.5	
7.00	2021 (III) ⁴	2011	100	3.45	30/06 - 30/12	0.0	2.9	2.9	
5.10	2022 (I) ⁴	2004	100	3.43	16/02 - 16/08	9.9	61.2	71.0	
4.30	2022 (II) ⁴	2012	100.31	3.43	15/05 - 15/11	97.9	113.1	211.0	
4.30	2022 (II) ⁴ FI R	2012	102.5	3.43	15/05 - 15/11	3.6	17.8	21.4	
4.30	2022 (II) ⁴ FI I	2012	102.9	3.47	15/05 - 15/11	7.8	0.0	7.8	
7.00	2022 (III) ³	2012	100	3.47	01/09 - 01/03	0.0	1.3	1.3	
5.50	2023 (I) ⁴	2003	100	4.41	06/01 - 06/07	20.5	58.3	78.8	
4.80	2028 (I) ⁴ R	2012	101.04	4.43	11/03 - 11/09	3.0	94.0	97.0	
4.80	2028 (I) ⁴ I	2012	100.75	4.43	11/03 - 11/09	3.0	7.0	10.0	
5.10	2029 (I) ⁴	2012	101.12/101	4.41	01/04 - 01/10	8.5	70.6	79.1	
5.25	2030 (I) ⁴	2010	100	4.57	23/06 - 23/12	96.9	343.3	440.2	
5.20	2031 (I) ⁴ I	2011	102.88	4.70	16-03 - 16/09	9.0	192.3	201.3	
F.R. 6-mth Euribor ⁷	2013 (V) ⁴	2010	100	1.350 ⁸ , 9.70 ⁹	24/02 - 24/08	7.0	0.3	7.3	
F.R. 6-mth Euribor ⁷	2013 (VI) ⁴	2010	100	1.090 ⁸ , 84.66 ⁹	11/02 - 11/08	30.0	0.0	30.0	
F.R. 6-mth Euribor ⁷	2013 (VII) ⁴	2011	100.22	0.807 ⁸ , 74.63 ⁹	18/05 - 18/11	51.8	0.3	52.0	
F.R. 6-mth Euribor ⁷	2014 (V) ⁴	2011	100.28	0.802 ⁸ , 101.00 ⁹	23/05 - 23/11	24.0	0.0	24.0	
F.R. 6-mth Euribor ⁷	2015 (V) ⁴	2009	100	1.700 ⁸ , 32.83 ⁹	25/04 - 25/10	13.0	16.8	29.8	
F.R. 6-mth Euribor ⁷	2017 (V) ⁴	2012	100.2	1.433 ⁸ , 69.07 ⁹	05/03 - 05/09	25.0	0.0	25.0	
F.R. 6-mth Euribor ⁷	2018 (IV) ⁴	2012	99.33	1.633 ⁸ , 106.68 ⁹	05/03 - 05/09	30.5	0.9	31.4	
Total						1,860.7	2,491.0	4,351.6	

¹ Amounts are at nominal prices.

² The price for new issues prior to 2008 is denominated in Maltese lira.

³ Coupons are reviewable every two years and will be set one percentage point less than the normal maximum lending rate allowed at law subject to a minimum of 7%. Redemption proceeds are payable at €110 per €100 nominal.

⁴ Fungible issue. That is, the Accountant General reserves the right to issue, in future, additional amounts of the present stock. In the event of such future issues, these would be amalgamated with the existing stock.

⁵ ISMA yields are based on secondary market prices. Securities not available for trading by the end of the reference period are denoted as not available (N/A).

⁶ Comprising of Resident of Malta MFIs.

⁷ Floating Rate (F.R.) MGS linked to the six-month Euribor plus a fixed spread until maturity (quoted margin). The interest rate will be reset semi-annually in accordance with the applicable six-month Euribor rate in effect two business days prior to relative coupon period each year. Interest for each period and accrued interest will be calculated on an Actual/360 day basis. The formula for Simple Margin calculation = Spread + [(100/Clean Price) x (100-Clean Price) / Maturity in Yrs]

⁸ Consists of the reset coupon expressed as a percentage per annum.

⁹ Consists of the simple margin expressed in basis points.

Sources: Central Bank of Malta; MSE.

Government Finance

Table 2.11 Malta government long-term debt securities outstanding by remaining term to maturity¹

EUR millions

End of period	Up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 and up to 15 years	Over 15 years	Total
2005	103.5	655.5	992.7	463.5	406.1	2,621.3
2006	163.1	971.8	817.8	592.8	78.8	2,624.3
2007	93.2	1,037.4	889.6	662.5	78.8	2,761.4
2008	208.2	969.7	1,115.7	668.9	0.0	2,962.5
2009	191.1	1,552.8	774.4	705.8	0.0	3,224.2
2010	128.4	1,810.9	767.9	608.7	295.5	3,611.5
2011	439.0	1,705.8	1,194.5	149.9	565.0	4,054.2
2011						
Mar.	35.2	1,880.8	813.1	608.7	380.3	3,718.1
June	115.6	1,852.5	902.9	612.1	440.1	3,923.2
Sep.	80.6	1,852.5	1,361.9	153.2	440.2	3,888.4
Dec.	439.0	1,705.8	1,194.5	149.9	565.0	4,054.2
2012						
Mar.	356.9	1,787.8	1,463.9	519.0	201.3	4,328.9
June	416.9	1,647.3	1,282.4	360.9	720.7	4,428.2
Sep.	230.1	1,638.4	1,547.7	80.1	720.6	4,216.7
Dec.	370.3	1,650.1	1,424.8	78.8	827.7	4,351.6

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

Sources: Central Bank of Malta; MSE.

Table 2.12 General government external loans by currency¹ and remaining term to maturity²

EUR millions

End of Period	EUR		USD		Other foreign currency		Total
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	
2005	17.0	142.1	0.0	10.7	0.0	1.6	171.3
2006	0.0	134.4	1.0	5.6	0.0	1.3	142.3
2007	0.1	126.6	0.0	3.2	0.0	1.0	131.0
2008 ³	1.5	115.2	0.4	1.1	0.0	0.9	119.1
2009 ³	1.7	98.9	0.0	1.0	0.0	0.7	102.3
2010 ³	0.5	85.6	0.0	0.9	0.0	0.7	87.7
2011 ³	1.3	87.6	0.0	0.7	0.0	0.5	90.1
2011³							
Mar.	0.8	89.0	0.0	0.8	0.0	0.6	91.2
June	0.5	87.4	0.0	0.7	0.0	0.6	89.2
Sep.	0.4	87.4	0.0	0.8	0.0	0.6	89.1
Dec.	1.3	87.6	0.0	0.7	0.0	0.5	90.1
2012³							
Mar.	1.1	127.9	0.0	0.7	0.0	0.5	130.3
June	1.1	162.9	0.0	0.7	0.2	0.2	165.1
Sep.	1.1	165.4	0.0	0.6	0.2	0.2	167.6
Dec.	0.3	196.8	0.0	0.5	0.1	0.2	197.9

¹ Converted into euro using the ECB official rate as at end of reference period.

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

³ Provisional.

Exchange Rates, External Transactions and Positions

Table 3.1a Euro exchange rates against the major currencies¹ (end of period)

Period	USD	GBP	JPY	CHF	AUD	CAD
2005	1.1797	0.6853	138.90	1.5551	1.6109	1.3725
2006	1.3170	0.6715	156.93	1.6069	1.6691	1.5281
2007	1.4721	0.7334	164.93	1.6547	1.6757	1.4449
2008	1.3917	0.9525	126.14	1.4850	2.0274	1.6998
2009	1.4406	0.8881	133.16	1.4836	1.6008	1.5128
2010	1.3362	0.8608	108.65	1.2504	1.3136	1.3322
2011						
Jan.	1.3692	0.8609	112.49	1.2891	1.3763	1.3679
Feb.	1.3834	0.8528	113.26	1.2840	1.3601	1.3535
Mar.	1.4207	0.8837	117.61	1.3005	1.3736	1.3785
Apr.	1.4860	0.8917	120.67	1.2867	1.3560	1.4102
May	1.4385	0.8721	117.22	1.2275	1.3504	1.3985
June	1.4453	0.9026	116.25	1.2071	1.3485	1.3951
July	1.4260	0.8749	110.59	1.1418	1.3050	1.3556
Aug.	1.4450	0.8856	110.55	1.1670	1.3529	1.4141
Sep.	1.3503	0.8667	103.79	1.2170	1.3874	1.4105
Oct.	1.4001	0.8731	109.22	1.2191	1.3225	1.3930
Nov.	1.3418	0.8558	104.00	1.2265	1.3165	1.3678
Dec.	1.2939	0.8353	100.20	1.2156	1.2723	1.3215
2012						
Jan.	1.3176	0.8351	100.63	1.2048	1.2366	1.3134
Feb.	1.3443	0.8439	107.92	1.2051	1.2414	1.3282
Mar.	1.3356	0.8339	109.56	1.2045	1.2836	1.3311
Apr.	1.3214	0.8130	105.85	1.2018	1.2684	1.2985
May	1.2403	0.7999	97.66	1.2010	1.2736	1.2761
June	1.2590	0.8068	100.13	1.2030	1.2339	1.2871
July	1.2284	0.7840	96.03	1.2014	1.1675	1.2312
Aug.	1.2611	0.7953	98.96	1.2009	1.2201	1.2487
Sep.	1.2930	0.7981	100.37	1.2099	1.2396	1.2684
Oct.	1.2993	0.8065	103.78	1.2076	1.2528	1.3005
Nov.	1.2986	0.8108	107.37	1.2054	1.2474	1.2904
Dec.	1.3194	0.8161	113.61	1.2072	1.2712	1.3137

¹ All the above exchange rates denote units of currency per one euro.

Source: ECB.

Exchange Rates, External Transactions and Positions

Table 3.1b Euro exchange rates against the major currencies (*averages for the period*)¹

Period	USD	GBP	JPY	CHF	AUD	CAD
2005	1.2441	0.6838	136.85	1.5483	1.6320	1.5087
2006	1.2556	0.6817	146.02	1.5729	1.6668	1.4237
2007	1.3705	0.6843	161.25	1.6427	1.6348	1.4678
2008	1.4708	0.7963	152.45	1.5874	1.7416	1.5594
2009	1.3948	0.8909	130.34	1.5100	1.7727	1.5850
2010	1.3257	0.8578	116.24	1.3803	1.4423	1.3651
2011	1.3920	0.8679	110.96	1.2326	1.3484	1.3761
2012	1.2848	0.8109	102.49	1.2053	1.2407	1.2842
2011						
Jan.	1.3360	0.8471	110.38	1.2779	1.3417	1.3277
Feb.	1.3649	0.8464	112.77	1.2974	1.3543	1.3484
Mar.	1.3999	0.8665	114.40	1.2867	1.3854	1.3672
Apr.	1.4442	0.8829	120.42	1.2977	1.3662	1.3834
May	1.4349	0.8779	116.47	1.2537	1.3437	1.3885
June	1.4388	0.8874	115.75	1.2092	1.3567	1.4063
July	1.4264	0.8848	113.26	1.1766	1.3249	1.3638
Aug.	1.4343	0.8767	110.43	1.1203	1.3651	1.4071
Sep.	1.3770	0.8717	105.75	1.2005	1.3458	1.3794
Oct.	1.3706	0.8704	105.06	1.2295	1.3525	1.3981
Nov.	1.3556	0.8574	105.02	1.2307	1.3414	1.3897
Dec.	1.3179	0.8441	102.55	1.2276	1.3003	1.3481
2012						
Jan.	1.2905	0.8321	99.33	1.2108	1.2405	1.3073
Feb.	1.3224	0.8370	103.77	1.2071	1.2327	1.3193
Mar.	1.3201	0.8345	108.88	1.2061	1.2538	1.3121
Apr.	1.3162	0.8219	107.00	1.2023	1.2718	1.3068
May	1.2789	0.8037	101.97	1.2012	1.2825	1.2916
June	1.2526	0.8058	99.26	1.2011	1.2550	1.2874
July	1.2288	0.7883	97.07	1.2011	1.1931	1.2461
Aug.	1.2400	0.7888	97.58	1.2011	1.1841	1.2315
Sep.	1.2856	0.7982	100.49	1.2089	1.2372	1.2583
Oct.	1.2974	0.8067	102.47	1.2098	1.2596	1.2801
Nov.	1.2828	0.8039	103.94	1.2052	1.2331	1.2787
Dec.	1.3119	0.8124	109.71	1.2091	1.2527	1.2984

¹ Calculated on the arithmetic mean of the daily ECB reference exchange rates.

Source: ECB.

Exchange Rates, External Transactions and Positions

Table 3.2 Balance of payments - current, capital and financial accounts (*transactions*)

EUR millions

Period	Current account									Capital account	
	Goods		Services		Income		Current transfers		Total	Credit	Debit
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit			
2005	2,083.2	2,987.5	1,617.2	969.5	973.9	1,173.5	277.5	241.6	-420.4	165.9	10.2
2006 ²	2,575.5	3,541.1	2,049.3	1,407.7	1,462.4	1,636.2	417.0	423.4	-504.1	158.3	5.6
2007 ²	2,699.8	3,623.7	2,439.0	1,584.7	1,973.6	2,098.4	640.1	668.6	-222.8	75.5	6.8
2008 ²	2,526.0	3,759.7	2,949.4	1,823.8	2,211.2	2,386.7	903.8	910.3	-290.1	36.2	11.6
2009 ²	2,034.6	3,159.5	2,848.2	1,852.9	1,649.6	2,073.4	1,431.0	1,388.3	-510.8	108.3	9.1
2010 ²	2,638.5	3,797.3	3,402.4	2,154.2	1,632.2	2,047.1	1,296.6	1,270.1	-298.9	118.7	11.3
2011 ²	2,975.7	4,028.4	3,592.2	2,202.0	1,645.4	2,027.7	902.0	867.1	-9.8	90.2	26.3
2012 ²	3,116.4	4,194.1	3,804.7	2,298.2	1,843.8	2,303.2	951.9	897.0	24.2	110.0	11.8
2011²											
Q1	770.3	1,039.9	763.0	511.3	381.0	555.1	189.3	210.5	-213.2	14.9	17.1
Q2	760.2	1,054.5	913.4	537.8	387.3	533.1	243.2	213.8	-35.0	33.0	3.6
Q3	613.0	899.9	1,081.9	577.0	422.7	419.9	222.9	223.7	220.0	31.3	2.8
Q4	832.2	1,034.2	833.9	576.0	454.3	519.6	246.7	219.0	18.4	11.0	2.9
2012²											
Q1	809.5	985.5	803.2	538.5	463.6	619.0	212.1	227.4	-82.0	12.9	2.9
Q2	854.4	1,186.9	972.3	583.4	488.5	588.0	257.3	225.3	-11.1	13.7	3.0
Q3	692.3	1,036.5	1,144.9	608.7	464.7	562.9	236.7	223.0	107.4	63.0	3.1
Q4	760.1	985.3	884.4	567.6	427.0	533.3	245.7	221.2	9.8	20.5	2.8

EUR millions

Period	Financial account ¹									Errors & omissions	
	Direct investment		Portfolio investment		Financial derivatives		Other investment		Official reserve assets		Total
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
2005	16.6	543.5	-2,166.2	28.8	-14.6	-3.8	-2,261.6	4,344.9	-187.8	299.8	-35.1
2006 ²	-23.8	1,469.6	-1,965.1	-15.3	40.5	-15.6	-3,291.2	4,199.4	-83.0	315.5	36.0
2007 ²	-5.0	557.0	366.0	-0.2	-127.9	251.1	-7,617.8	7,101.8	-326.5	198.6	-44.4
2008 ²	-203.1	542.3	201.6	167.0	27.9	-372.2	-4,418.5	4,157.9	108.7	211.5	54.0
2009 ²	-47.0	267.6	-1,906.6	-25.7	-6.7	-112.1	4,103.5	-2,298.2	-2.4	-27.8	439.5
2010 ²	-65.5	740.1	-3,212.0	1.5	-40.0	67.8	559.9	1,795.1	-23.6	-176.8	368.3
2011 ²	-14.7	296.8	-3,103.1	-0.4	-13.3	37.6	1,589.2	1,064.4	52.9	-90.7	36.6
2012 ²	69.4	122.3	-1,612.3	10.4	-21.8	44.4	100.6	1,073.6	-121.4	-334.7	212.3
2011²											
Q1	-4.0	21.3	-148.1	6.9	27.5	-26.2	768.7	-601.3	-12.7	32.1	183.3
Q2	-12.7	51.4	-48.0	18.2	14.2	15.0	-2,982.1	2,950.3	48.3	54.6	-49.0
Q3	-11.6	41.6	-957.2	-12.0	-28.4	66.7	1,355.9	-475.0	10.9	-9.1	-239.4
Q4	13.6	182.5	-1,949.8	-13.4	-26.7	-17.9	2,446.7	-809.6	6.4	-168.3	141.8
2012²											
Q1	-10.4	-65.3	154.4	-4.0	56.8	-6.3	-399.4	321.1	-126.1	-79.2	151.1
Q2	-11.0	6.8	-712.5	-1.5	-44.0	55.1	-68.4	733.7	-18.3	-60.1	60.5
Q3	55.9	112.3	-464.0	10.7	-34.7	13.9	-319.4	512.3	24.5	-88.6	-78.7
Q4	34.9	68.6	-590.2	5.3	0.1	-18.3	887.8	-493.5	-1.6	-106.8	79.4

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

² Provisional.

Source: NSO.

Exchange Rates, External Transactions and Positions

Table 3.3 Official reserve assets¹

EUR millions

End of period	Monetary gold	Special Drawing Rights	Reserve position in the IMF	Foreign exchange			Total
				Currency and deposits	Securities other than shares	Other reserve assets ²	
2005	1.9	38.9	48.8	676.9	1,420.3	2.0	2,188.9
2006	3.1	39.0	46.2	827.6	1,325.3	-0.6	2,240.6
2007	8.8	40.8	43.5	1,491.0	966.5	10.8	2,561.4
2008 ³	3.7	12.9	44.6	107.5	88.7	10.9	268.3
2009 ³	4.5	104.3	36.1	90.2	145.7	-7.0	373.7
2010 ³	3.3	111.0	35.8	75.2	178.5	1.1	404.9
2011 ³	9.6	107.7	54.4	47.5	179.1	-2.2	395.9
2012 ³	12.0	106.1	55.8	81.7	271.2	6.9	533.8
2012³							
Jan.	8.3	106.8	53.9	6.5	238.8	6.4	420.8
Feb.	8.4	105.0	54.6	27.9	273.3	10.3	479.4
Mar.	11.8	105.6	54.5	50.6	282.9	6.7	512.2
Apr.	12.0	106.8	56.0	16.5	285.5	0.6	477.3
May	12.0	110.8	58.1	34.5	318.5	-19.4	514.6
June	11.9	109.7	57.1	72.9	307.0	-8.8	549.8
July	10.4	111.8	58.1	41.6	319.2	-9.0	532.1
Aug.	9.3	110.0	57.2	30.9	301.5	4.8	513.7
Sep.	8.7	108.6	57.1	83.4	286.6	10.5	554.9
Oct.	8.3	107.9	56.7	47.5	278.8	9.1	508.3
Nov.	9.5	107.5	56.5	20.8	275.5	1.9	471.7
Dec.	12.0	106.1	55.8	81.7	271.2	6.9	533.8

¹ From 2008, official reserve assets correspond to the eurosystem definition of reserves which excludes holdings denominated in euro and/or vis-à-vis euro area residents. These re-classified assets will appear elsewhere in the financial statement of the Central Bank of Malta.

² Comprising net gains or losses on financial derivatives.

³ Provisional.

Table 3.4 International investment position (IIP) - (end of period amounts)

EUR millions

Period	Direct investment		Portfolio investment		Financial derivatives		Other investments		Official reserve assets	IIP (net)
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
2005	840.5	3,645.5	10,053.9	413.0	42.3	44.2	9,595.9	16,839.5	2,188.9	1,779.4
2006 ¹	873.5	4,961.8	11,371.0	408.1	34.4	49.3	12,317.9	19,992.1	2,240.6	1,426.2
2007 ¹	838.3	5,537.5	10,694.7	406.9	106.8	79.1	19,498.0	26,563.8	2,561.4	1,111.9
2008 ¹	798.3	5,577.0	10,188.1	551.0	276.8	281.7	25,903.6	30,651.5	268.3	373.9
2009 ¹	1,066.8	6,131.0	12,441.5	502.2	138.2	177.8	21,682.0	28,029.5	373.7	861.7
2010 ¹	1,265.6	12,145.9	15,577.4	486.6	217.3	307.6	26,973.5	30,915.0	404.9	583.6
2011 ¹	1,247.9	12,097.7	17,168.6	452.5	301.4	377.3	25,583.4	31,275.8	395.9	493.9
2012¹										
Mar.	1,282.2	11,994.3	17,895.3	457.5	240.2	365.6	25,729.3	31,593.3	512.2	1,248.6
June	1,303.2	12,063.3	19,117.9	458.1	298.5	469.1	26,362.4	33,082.2	549.8	1,559.2

¹ Provisional.

Source: NSO.

Exchange Rates, External Transactions and Positions

Table 3.5a Gross external debt by sector, maturity and instrument¹

EUR millions

	2008 ²	2009 ²	2010 ²	2011 ²	2012 ²			
					Mar.	June	Sep.	Dec.
General Government	292.9	264.3	231.1	248.4	293.3	332.6	338.9	382.5
<i>Short-term</i>	84.0	63.8	39.6	50.0	49.9	53.0	54.7	65.0
Money market instruments	76.6	31.4	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	7.4	32.4	39.6	50.0	49.9	53.0	54.7	65.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	208.9	200.4	191.6	198.3	243.5	279.6	284.2	317.5
Bonds and notes	89.9	98.1	103.9	106.6	111.4	112.5	114.3	116.9
Loans	119.0	102.3	87.7	90.3	130.7	165.9	168.7	199.5
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	1.4	1.3	1.3	1.2	1.1
Monetary Authorities	677.8	826.3	1,228.9	426.0	1,105.1	1,141.7	539.4	206.0
<i>Short-term</i>	677.8	826.3	1,228.9	426.0	1,105.1	1,141.7	539.4	206.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	677.8	826.3	1,228.9	426.0	1,105.1	1,141.7	539.4	206.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OMFIs³	28,503.4	25,835.3	28,068.4	29,077.6	28,618.7	30,096.1	30,609.7	29,973.6
<i>Short-term</i>	23,271.7	20,616.8	21,558.3	22,525.7	21,943.8	24,381.3	24,835.5	24,224.7
Money market instruments	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Loans	9,291.0	7,299.9	4,753.7	6,865.8	5,504.4	6,741.2	7,172.0	6,669.9
Currency and deposits	13,116.8	13,181.4	16,623.0	15,544.7	16,330.6	17,521.6	17,527.3	17,426.6
Other debt liabilities	863.9	132.1	181.6	115.2	108.8	118.5	136.2	128.2
<i>Long-term</i>	5,231.7	5,218.5	6,510.1	6,551.9	6,674.9	5,714.8	5,774.2	5,748.9
Bonds and notes	13.7	13.9	14.9	4.0	4.0	92.6	6.0	9.0
Loans	4,986.1	5,111.1	6,495.2	6,548.0	6,670.9	5,622.2	5,768.1	5,739.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	231.9	93.4	0.0	0.0	0.0	0.0	0.0	0.0
Other Sectors⁴	1,570.2	1,461.2	1,717.7	1,853.7	1,939.6	1,987.2	2,107.4	2,170.0
<i>Short-term</i>	843.3	722.2	887.4	1,034.8	1,107.4	1,147.9	1,254.7	1,243.5
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	74.1	30.7	43.5	51.1	56.7	59.3	58.7	60.8
Currency and deposits	137.3	112.0	112.9	113.7	114.0	114.2	114.5	114.7
Trade credits	631.9	579.5	731.1	869.9	936.7	974.4	1,081.5	1,068.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	727.0	739.0	830.3	818.9	832.2	839.3	852.7	926.5
Bonds and notes	212.8	210.6	212.4	218.6	221.6	217.4	220.7	217.1
Loans	493.8	493.3	604.1	589.5	598.3	607.4	615.4	691.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	20.4	35.0	13.8	10.8	12.3	14.4	16.5	18.4
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct Investment: Intercompany lendin	1,099.9	1,370.3	1,717.8	1,752.1	1,794.7	1,841.9	1,875.6	1,954.2
Debt liabilities to affiliated enterprise	71.8	97.5	125.8	155.2	150.1	155.7	165.5	219.8
Debt liabilities to direct investors	1,028.1	1,272.8	1,592.0	1,596.8	1,644.6	1,686.2	1,710.1	1,734.4
Gross External Debt	32,144.2	29,757.3	32,964.0	33,357.8	33,751.5	35,399.5	35,470.9	34,686.2
of which: OMFIs	28,503.4	25,835.3	28,068.4	29,077.6	28,618.7	30,096.1	30,609.7	29,973.6
Gross External Debt excluding OMFIs³								
debt liabilities	3,640.8	3,922.0	4,895.6	4,280.2	5,132.8	5,303.4	4,861.2	4,712.6

¹ Gross external debt illustrates only a fraction of the overall International Investment Position of Malta with other countries. Gross external debt data do not comprise Malta's claims vis-à-vis other countries which act as a counter balance to Malta's gross debts. Detailed data according to the International Investment Position can be found in Table 3.4. Moreover, Malta's net external debt position is shown in Table 3.5b.

² Provisional.

³ The debt of the OMFIs is fully backed by foreign assets.

⁴ Comprising the non-monetary financial institutions, insurance companies, non-financial corporations, households and NPISH.

Exchange Rates, External Transactions and Positions

Table 3.5b Net external debt by sector, maturity and instrument¹

EUR millions

	2008 ²	2009 ²	2010 ²	2011 ²	2012 ²			
					Mar.	June	Sep.	Dec.
General Government	291.3	251.8	190.8	217.3	222.4	218.4	221.9	232.8
<i>Short-term</i>	82.4	51.4	32.4	49.3	49.2	52.8	54.5	64.4
Money market instruments	76.6	31.4	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-0.1	-0.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2
Trade credits	5.9	20.0	32.7	49.5	49.4	52.9	54.6	64.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	208.9	200.4	158.4	168.0	173.1	165.6	167.4	168.4
Bonds and notes	89.9	98.1	103.9	106.6	111.4	112.5	114.3	116.9
Loans	119.0	102.3	67.9	74.4	74.2	65.4	65.2	61.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	-13.4	-12.7	-12.0	-11.6	-11.3	-11.0
Other Debt Liabilities	0.0	0.0	0.0	-0.3	-0.4	-0.7	-0.8	1.1
Monetary Authorities	-852.6	-678.4	-754.8	-1,942.8	-1,329.5	-1,383.2	-2,046.7	-2,394.5
<i>Short-term</i>	212.4	557.2	968.6	119.4	877.1	886.8	322.4	-19.3
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	213.2	557.2	968.6	119.4	877.1	886.8	322.4	-19.3
Other debt liabilities	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	-1,065.0	-1,235.5	-1,723.4	-2,062.2	-2,206.6	-2,270.0	-2,369.1	-2,375.2
Bonds and notes	-1,053.5	-1,222.3	-1,709.2	-2,045.8	-2,183.8	-2,256.0	-2,353.9	-2,359.5
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	-11.5	-13.2	-14.2	-16.3	-22.8	-14.0	-15.1	-15.8
OMFIs	-3,262.7	-4,047.9	-9,690.0	-8,388.6	-9,620.5	-9,854.5	-9,617.3	-9,630.1
<i>Short-term</i>	17,057.8	14,057.2	12,029.9	13,046.0	12,071.8	14,257.4	14,022.2	14,118.5
Money market instruments	-9.2	-198.8	-173.3	-2.0	-2.4	-7.1	-6.9	-0.1
Loans	7,769.0	6,049.5	3,669.3	6,458.6	5,217.4	6,177.8	7,480.4	6,538.2
Currency and deposits	8,476.1	8,167.8	8,457.6	6,523.1	6,799.8	8,045.7	6,504.4	7,544.1
Other debt liabilities	821.9	38.7	76.3	66.4	57.1	41.0	44.3	36.3
<i>Long-term</i>	-20,320.5	-18,105.1	-21,719.9	-21,434.6	-21,692.4	-24,111.9	-23,639.5	-23,748.5
Bonds and notes	-7,748.8	-9,535.1	-12,141.3	-13,568.9	-14,194.7	-15,281.7	-15,503.7	-16,168.3
Loans	-12,698.7	-8,598.3	-9,578.6	-7,865.7	-7,497.7	-8,830.2	-8,135.8	-7,580.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	127.0	28.3	0.0	0.0	0.0	0.0	0.0	0.0
Other Sectors³	-655.3	-691.7	-422.1	-445.1	-418.8	-442.0	-397.6	-495.2
<i>Short-term</i>	-617.3	-579.2	-371.4	-322.2	-285.2	-307.0	-236.4	-360.2
Money market instruments	0.0	-0.8	-0.9	0.0	-0.1	-0.3	-0.1	-0.1
Loans	-29.2	-15.3	-10.5	-21.9	-9.7	-6.5	-8.7	-27.8
Currency and deposits	-477.0	-550.7	-564.8	-590.4	-597.3	-601.3	-605.7	-603.9
Trade credits	-111.0	-12.4	204.8	290.1	321.9	301.1	378.1	271.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	-38.0	-112.5	-50.7	-122.9	-133.6	-135.0	-161.1	-134.9
Bonds and notes	-430.1	-560.1	-585.8	-640.4	-662.4	-671.4	-708.0	-736.9
Loans	460.8	419.2	529.9	514.9	524.6	530.1	538.6	617.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	-62.1	35.0	11.9	9.3	10.7	12.9	14.9	16.6
Other debt liabilities	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6	-32.2
Direct Investment: Intercompany Lending	211.5	107.9	231.4	306.3	471.5	546.3	529.8	494.8
Debt Liabilities to affiliated enterprises	-243.1	-260.9	-348.0	-268.6	-279.9	-286.3	-290.6	-250.8
Debt Liabilities to direct investors	454.6	368.9	579.3	574.9	751.4	832.6	820.4	745.5
Net External Debt	-4,267.7	-5,058.2	-10,444.8	-10,253.0	-10,675.0	-10,915.0	-11,309.9	-11,792.1
of which: OMFIs	-3,262.7	-4,047.9	-9,690.0	-8,388.6	-9,620.5	-9,854.5	-9,617.3	-9,630.1
Net External Debt Excluding OMFIs	-1,005.1	-1,010.3	-754.7	-1,864.3	-1,054.4	-1,060.5	-1,692.6	-2,162.1

¹ A negative figure denotes a net asset position.

² Provisional.

³ Comprising the non-monetary financial institutions, insurance companies, non-financial corporations, households and NPISH.

Exchange Rates, External Transactions and Positions

Table 3.6 Malta's foreign trade¹

EUR millions

Period	Exports (f.o.b.)	Imports (c.i.f.)	Balance of trade
2005	1,959.1	3,117.2	(1,158.1)
2006	2,499.9	3,537.1	(1,037.2)
2007 ²	2,597.4	3,603.9	(1,006.5)
2008 ²	2,455.8	3,897.2	(1,441.4)
2009 ²	2,087.4	3,472.4	(1,384.9)
2010 ²	2,809.3	4,328.2	(1,518.8)
2011 ²	3,818.9	5,335.2	(1,516.3)
2012 ²	4,396.7	6,167.4	(1,770.7)
2011²			
Jan.	285.6	345.2	(59.6)
Feb.	207.4	413.5	(206.2)
Mar.	274.7	409.4	(134.7)
Apr.	270.0	480.8	(210.8)
May	196.7	414.0	(217.3)
June	295.5	369.7	(74.2)
July	214.3	387.9	(173.6)
Aug.	214.9	354.7	(139.8)
Sep.	418.9	435.1	(16.2)
Oct.	447.2	491.4	(44.3)
Nov.	669.6	834.7	(165.1)
Dec.	324.1	398.8	(74.7)
2012²			
Jan.	316.6	444.0	(127.4)
Feb.	409.9	504.3	(94.3)
Mar.	298.4	419.1	(120.8)
Apr.	310.9	441.1	(130.3)
May	391.1	601.5	(210.4)
June	349.5	617.4	(267.9)
July	432.4	783.8	(351.4)
Aug.	419.1	529.3	(110.2)
Sep.	410.4	466.0	(55.6)
Oct.	336.2	403.0	(66.7)
Nov.	373.9	560.1	(186.2)
Dec.	348.3	397.9	(49.5)

¹ Figures may differ from those shown in the NSO's International Trade News Release due to different cut-off dates.

² Provisional.

Source: NSO.

Exchange Rates, External Transactions and Positions

Table 3.7 Direction of trade - exports¹

EUR millions

Period	EU (of which):								All others (of which):			Total
	euro area (of which):					UK	Other EU	Total	Asia	USA	Others	
	France	Germany	Italy	Other euro area	Total							
2005	283.8	236.3	100.5	92.9	713.5	216.2	75.0	1,004.7	460.9	263.9	229.6	1,959.1
2006	326.7	283.0	85.6	164.1	859.4	213.2	82.3	1,154.9	631.4	275.5	438.1	2,499.9
2007 ²	271.3	306.8	90.8	131.7	800.5	222.1	86.2	1,108.8	719.9	246.7	522.1	2,597.4
2008 ²	237.3	270.4	114.6	99.9	722.2	165.4	66.5	954.2	713.9	183.0	604.7	2,455.8
2009 ²	187.4	222.0	105.2	141.9	656.5	100.5	63.8	820.7	528.1	152.3	586.2	2,087.4
2010 ²	238.6	281.6	157.5	229.0	906.7	131.4	111.0	1,149.1	686.5	196.1	777.6	2,809.3
2011 ²	244.9	326.2	171.1	291.3	1,033.5	150.4	118.0	1,301.9	1,092.1	169.0	1,255.8	3,818.9
2012 ²	295.1	357.5	172.3	211.2	1,036.2	124.5	129.1	1,289.8	1,012.9	198.0	1,896.0	4,396.7
2011²												
Jan.	13.9	23.9	9.2	33.7	80.8	10.0	8.0	98.7	64.2	11.4	111.3	285.6
Feb.	15.0	23.8	13.7	9.3	61.8	10.8	9.3	81.8	75.0	13.0	37.5	207.4
Mar.	23.0	28.6	13.8	10.8	76.3	20.7	12.3	109.2	77.0	20.8	67.7	274.7
Apr.	14.0	24.1	11.2	11.2	60.5	21.8	11.4	93.7	64.5	11.0	100.9	270.0
May	15.8	28.9	14.0	12.1	70.8	15.3	8.9	95.0	61.5	13.3	26.9	196.7
June	17.1	26.8	24.2	10.9	79.0	12.7	11.0	102.7	60.9	12.9	119.0	295.5
July	20.1	28.9	11.3	35.2	95.4	9.4	11.0	115.8	47.5	13.0	38.0	214.3
Aug.	26.5	26.8	8.7	19.9	81.8	11.5	8.1	101.4	53.7	13.0	46.8	214.9
Sep.	26.9	32.8	33.9	34.4	128.0	8.5	13.1	149.7	106.3	13.4	149.4	418.9
Oct.	24.1	29.3	10.0	39.9	103.4	11.5	10.5	125.4	181.8	13.0	127.0	447.2
Nov.	22.4	29.6	12.4	33.3	97.7	10.1	5.8	113.6	201.2	21.4	333.3	669.6
Dec.	26.2	22.7	8.7	40.4	98.0	8.1	8.8	114.8	98.6	12.7	97.9	324.1
2012²												
Jan.	19.5	36.3	9.9	9.6	75.3	7.0	6.3	88.6	56.4	11.8	159.8	316.6
Feb.	28.4	31.7	12.7	22.4	95.2	8.1	8.5	111.8	65.6	12.4	220.2	409.9
Mar.	27.3	41.3	10.6	9.5	88.7	11.1	7.8	107.6	68.7	17.8	104.2	298.4
Apr.	23.4	31.2	33.6	13.5	101.6	11.7	12.5	125.8	55.2	13.9	116.1	310.9
May	22.0	30.6	12.5	27.0	92.0	13.6	9.5	115.1	65.8	18.6	191.6	391.1
June	24.3	24.2	8.3	31.3	88.1	9.7	10.9	108.7	61.8	13.2	165.9	349.5
July	23.2	29.5	11.1	7.9	71.7	7.3	13.7	92.7	96.1	33.0	210.6	432.4
Aug.	28.6	30.6	6.4	12.9	78.4	10.0	18.7	107.2	128.9	15.7	167.3	419.1
Sep.	33.0	27.8	9.9	11.3	82.0	22.9	12.1	117.0	80.5	16.6	196.3	410.4
Oct.	24.5	27.0	15.8	26.2	93.5	6.8	12.3	112.6	74.6	14.0	135.0	336.2
Nov.	23.1	30.8	21.4	14.2	89.6	10.3	10.6	110.5	134.8	15.3	113.3	373.9
Dec.	18.0	16.5	20.0	25.5	80.0	6.1	6.2	92.3	124.4	15.9	115.7	348.3

¹ Figures may differ from those shown in the NSO's International Trade News Release due to different cut-off dates.

² Provisional.

Source: NSO.

Exchange Rates, External Transactions and Positions

Table 3.8 Direction of trade - imports¹

EUR millions

Period	EU (of which):								All others (of which):			Total
	euro area (of which):					UK	Other EU	Total	Asia	USA	Others	
	France	Germany	Italy	Other euro area	Total							
2005	291.3	280.1	956.7	334.8	1,862.9	335.9	67.1	2,266.0	417.6	162.3	271.3	3,117.2
2006	405.9	263.2	1,015.2	370.2	2,054.5	344.5	72.6	2,471.6	635.0	179.5	250.9	3,537.1
2007	420.1	290.5	902.7	375.3	1,988.6	499.6	103.4	2,591.6	597.2	206.5	208.6	3,603.9
2008 ²	381.4	267.6	1,027.4	484.6	2,161.0	457.5	137.2	2,755.8	597.8	86.8	456.8	3,897.2
2009 ²	338.9	272.4	861.0	463.0	1,935.3	378.1	109.6	2,422.9	457.7	124.7	467.0	3,472.4
2010 ²	338.5	295.2	1,065.7	495.2	2,194.5	358.2	161.8	2,714.5	611.7	92.8	909.2	4,328.2
2011 ²	376.1	317.6	1,443.0	524.8	2,661.5	362.1	329.7	3,353.3	641.9	225.3	1,114.7	5,335.2
2012 ²	367.9	323.8	1,980.3	656.0	3,327.9	369.3	241.9	3,939.1	768.7	134.1	1,325.5	6,167.4
2011²												
Jan.	37.6	28.2	75.7	37.0	178.6	23.0	25.1	226.7	55.6	22.2	40.7	345.2
Feb.	23.4	32.1	133.9	32.0	221.4	37.7	12.1	271.1	49.4	33.7	59.4	413.5
Mar.	35.8	27.8	123.3	36.6	223.5	45.3	10.8	279.7	47.8	4.0	77.9	409.4
Apr.	52.6	27.3	100.0	36.8	216.7	57.7	8.6	283.0	56.4	33.3	108.1	480.8
May	24.4	24.7	108.4	44.4	202.0	33.4	15.6	251.0	63.0	15.2	84.8	414.0
June	35.5	22.1	105.1	33.2	196.0	21.7	11.5	229.2	48.8	16.0	75.7	369.7
July	19.5	26.4	86.1	66.6	198.7	23.9	19.0	241.6	61.0	4.4	80.9	387.9
Aug.	39.1	27.7	91.7	40.1	198.7	21.1	14.3	234.1	45.9	17.7	57.0	354.7
Sep.	23.5	25.7	110.0	29.7	189.0	22.1	43.9	255.0	53.3	46.1	80.7	435.1
Oct.	34.5	26.1	183.1	49.0	292.6	26.2	46.8	365.5	43.2	16.1	66.6	491.4
Nov.	23.6	26.3	198.9	33.6	282.3	25.7	113.1	421.1	79.6	5.7	328.3	834.7
Dec.	26.6	23.0	126.7	85.8	262.1	24.3	8.9	295.2	37.9	10.9	54.8	398.8
2012²												
Jan.	17.8	27.5	93.1	29.7	168.1	20.5	9.9	198.5	140.9	10.4	94.2	444.0
Feb.	27.7	27.4	268.8	29.8	353.7	29.1	7.4	390.2	36.9	22.6	54.6	504.3
Mar.	36.8	34.9	130.7	50.5	252.9	47.7	30.3	331.0	45.0	4.4	38.8	419.1
Apr.	29.0	26.7	179.4	45.4	280.4	25.0	20.4	325.8	47.4	4.4	63.5	441.1
May	46.1	34.9	166.7	46.7	294.4	51.6	26.9	372.8	57.6	4.6	166.4	601.5
June	21.8	24.9	123.0	104.7	274.3	40.5	9.4	324.2	93.2	6.8	193.2	617.4
July	37.3	29.4	221.6	61.0	349.3	26.9	34.2	410.3	58.7	26.2	288.6	783.8
Aug.	22.8	24.3	213.1	89.3	349.5	25.9	43.9	419.3	66.3	9.4	34.2	529.3
Sep.	20.2	22.4	169.0	74.7	286.3	23.6	7.4	317.3	70.0	20.6	58.1	466.0
Oct.	33.0	24.9	110.7	54.3	222.9	34.3	12.2	269.4	46.5	17.1	70.0	403.0
Nov.	38.0	27.4	158.5	33.5	257.4	24.6	22.3	304.3	63.5	4.2	188.1	560.1
Dec.	37.4	19.2	145.8	36.3	238.7	19.6	17.5	275.8	42.9	3.3	75.8	397.9

¹ Figures may differ from those shown in the NSO's International Trade News Release due to different cut-off dates.

² Provisional.

Source: NSO.

Real Economy Indicators

Table 4.1a Gross domestic product, gross national income and expenditure components (at current market prices)¹

EUR millions

Period	Domestic demand					External balance			Gross Domestic Product	Gross National Income
	Private consumption ²	General government consumption	Gross fixed capital formation	Changes in inventories ³	Total	Exports of goods and services	Imports of goods and services	Net		
2005	3,116.5	941.2	1,047.6	-12.1	5,093.1	3,700.3	3,855.6	-155.3	4,937.8	4,720.0
2006	3,305.1	1,011.1	1,108.1	29.7	5,454.0	4,621.5	4,868.8	-247.3	5,206.7	5,018.7
2007	3,400.0	1,041.9	1,175.2	27.8	5,644.9	5,138.8	5,208.3	-69.5	5,575.4	5,433.7
2008	3,656.3	1,221.3	1,098.4	95.7	6,071.6	5,475.4	5,583.5	-108.1	5,963.5	5,766.5
2009	3,782.7	1,230.6	1,000.6	85.0	6,098.9	4,882.8	5,012.5	-129.6	5,969.2	5,535.6
2010	3,868.4	1,291.4	1,072.2	-4.8	6,227.2	6,040.9	5,951.4	89.4	6,316.7	5,901.2
2011	4,030.5	1,349.5	958.1	-111.6	6,226.5	6,560.3	6,230.5	329.9	6,556.3	6,157.4
2012	4,077.2	1,449.8	984.9	-147.0	6,364.8	6,883.4	6,492.4	391.0	6,755.8	6,278.9
2012										
Q1	993.5	357.9	226.9	-67.5	1,510.7	1,603.5	1,524.0	79.6	1,590.3	1,433.3
Q2	1,001.9	352.3	261.5	13.2	1,628.9	1,818.1	1,770.2	47.9	1,676.8	1,570.9
Q3	1,036.2	365.8	249.0	-34.9	1,616.1	1,828.5	1,645.3	183.2	1,799.3	1,693.8
Q4	1,045.5	373.9	247.5	-57.8	1,609.1	1,633.3	1,552.9	80.4	1,689.4	1,580.9

¹ Provisional.

² Consumption by households and NPISH.

³ Including acquisitions less disposals of valuables.

Source: NSO.

Table 4.1b Gross domestic product and expenditure components (at constant 2000 prices)¹

EUR millions

Period	Domestic demand					External balance			Gross Domestic Product
	Private consumption ²	General government consumption	Gross fixed capital formation	Changes in inventories ³	Total	Exports of goods and services	Imports of goods and services	Net	
2005	2,833.6	790.1	1,007.9	-11.1	4,620.5	3,744.5	3,973.9	-229.4	4,391.0
2006	2,956.7	835.6	1,003.9	25.9	4,822.2	4,297.6	4,615.4	-317.8	4,504.4
2007	2,980.4	839.6	1,023.6	23.4	4,867.0	4,458.0	4,637.3	-179.3	4,687.7
2008	3,103.9	945.9	884.4	82.1	5,016.3	4,550.6	4,697.1	-146.5	4,869.7
2009	3,126.7	920.7	765.9	68.3	4,881.6	4,170.3	4,310.1	-139.9	4,741.8
2010	3,104.4	936.2	772.6	-3.5	4,809.7	4,926.5	4,858.0	68.5	4,878.2
2011	3,205.9	971.7	663.9	-85.9	4,755.6	4,964.4	4,759.8	204.6	4,960.2
2012	3,187.0	1,024.9	647.5	-111.5	4,747.9	5,222.0	4,969.3	252.7	5,000.7
2012									
Q1	789.0	256.0	149.6	-50.0	1,144.7	1,229.1	1,211.6	17.5	1,162.2
Q2	773.4	247.6	166.8	9.4	1,197.2	1,395.6	1,372.2	23.5	1,220.7
Q3	811.7	257.2	164.8	-25.6	1,208.2	1,350.2	1,225.9	124.3	1,332.5
Q4	812.8	264.0	166.2	-45.3	1,197.9	1,247.1	1,159.6	87.4	1,285.3

¹ Provisional.

² Consumption by households and NPISH.

³ Including acquisitions less disposals of valuables.

Source: NSO.

Real Economy Indicators

Table 4.2 Tourist departures by nationality¹

Thousands

Period	EU (of which):								All others	Total
	euro area (of which):					UK	Other EU	Total		
	France	Germany	Italy	Other euro area	Total					
2005	82.6	138.2	92.4	151.8	465.0	482.6	78.0	1,025.6	145.0	1,170.6
2006	73.4	125.8	112.5	151.1	462.9	431.3	79.3	973.5	150.7	1,124.2
2007	75.1	130.1	113.7	177.8	496.7	482.4	103.5	1,082.6	160.9	1,243.5
2008	81.1	150.8	144.5	205.4	581.7	454.4	97.4	1,133.6	157.3	1,290.9
2009	71.9	127.4	161.7	197.8	558.8	398.5	87.0	1,044.3	138.1	1,182.5
2010	86.5	126.2	221.0	211.1	644.9	415.2	103.5	1,163.6	176.7	1,340.3
2011	103.3	133.9	200.4	212.6	650.1	437.6	116.8	1,204.6	208.8	1,413.5
2012	107.5	137.2	201.9	205.7	652.3	440.4	132.2	1,224.9	219.4	1,444.3
2011										
Jan.	3.4	5.3	14.9	8.3	32.0	16.8	5.0	53.8	10.3	64.1
Feb.	5.3	4.1	9.1	7.5	26.1	24.0	3.5	53.6	11.9	65.5
Mar.	6.1	9.7	13.8	12.4	42.0	30.5	4.7	77.1	22.5	99.7
Apr.	11.3	12.2	16.6	19.8	60.0	36.8	11.5	108.3	12.1	120.5
May	12.6	10.9	14.0	23.3	60.8	41.5	11.3	113.6	16.8	130.4
June	10.3	14.7	18.2	20.5	63.7	44.5	11.9	120.0	18.7	138.7
July	11.9	12.7	21.2	27.0	72.8	45.5	17.1	135.4	27.6	163.0
Aug.	15.7	15.3	36.0	30.5	97.5	53.3	15.5	166.3	24.8	191.1
Sep.	9.8	15.6	20.6	23.1	69.1	48.7	14.4	132.2	21.8	154.0
Oct.	8.7	19.2	15.6	21.4	64.9	50.1	13.4	128.3	19.6	147.9
Nov.	4.2	10.5	9.9	12.1	36.7	27.5	6.3	70.4	13.4	83.8
Dec.	4.0	3.7	10.4	6.6	24.7	18.5	2.4	45.6	9.3	54.9
2012										
Jan.	3.0	6.6	11.5	7.9	29.0	16.6	4.5	50.1	11.2	61.4
Feb.	3.4	7.1	6.8	8.1	25.4	22.3	3.5	51.2	10.5	61.7
Mar.	4.8	9.0	11.9	11.2	36.7	26.1	6.6	69.5	11.5	81.0
Apr.	11.5	12.9	18.4	18.0	60.9	37.4	9.6	108.0	14.4	122.4
May	12.7	12.4	16.7	20.0	61.8	40.0	13.9	115.7	17.9	133.7
June	11.5	13.6	16.7	22.1	63.9	47.4	14.9	126.2	21.2	147.4
July	12.5	12.4	25.1	26.4	76.4	46.3	19.3	141.9	32.8	174.7
Aug.	18.4	14.1	36.3	31.2	100.0	53.3	17.8	171.1	28.3	199.4
Sep.	11.6	15.6	21.3	24.8	73.3	49.3	16.6	139.2	24.1	163.3
Oct.	8.2	16.7	15.9	17.3	58.1	54.5	16.6	129.2	23.4	152.6
Nov.	6.5	10.9	10.3	10.9	38.6	27.9	6.0	72.5	13.0	85.5
Dec.	3.4	6.0	11.0	8.0	28.3	19.1	2.8	50.3	11.1	61.4

¹ Based on the NSO's inbound tourism survey. Data refer to tourist departures by air and sea. Source: NSO.

Real Economy Indicators

Table 4.3 Labour market indicators based on administrative records

Thousands

Period ¹	Labour supply			Gainfully occupied			Unemployment					
	Males	Females	Total	Males	Females	Total	Males		Females		Total	
							Number	% ²	Number	% ²	Number	% ²
2005	103.6	42.6	146.2	97.8	41.0	138.8	5.7	5.5	1.6	3.7	7.3	5.0
2006	103.7	43.8	147.5	98.1	42.1	140.2	5.5	5.3	1.7	3.8	7.1	4.8
2007	103.9	45.3	149.3	98.9	43.8	142.7	4.9	4.7	1.5	3.4	6.4	4.3
2008	104.7	47.4	152.1	99.9	46.0	145.9	4.8	4.5	1.4	2.9	6.1	4.0
2009	104.3	48.5	152.7	98.6	46.8	145.3	5.7	5.5	1.7	3.5	7.4	4.8
2010	103.8	49.5	153.3	98.3	48.0	146.3	5.5	5.3	1.5	3.1	7.1	4.6
2011 ³	104.3	51.8	156.1	99.1	50.4	149.6	5.2	5.0	1.4	2.7	6.6	4.2
2012 ³	104.7	53.8	158.5	99.4	52.3	151.7	5.3	5.1	1.5	2.9	6.9	4.3
2011³												
Jan.	104.1	50.4	154.5	98.7	49.0	147.7	5.4	5.2	1.4	2.8	6.8	4.4
Feb.	104.2	50.7	154.8	98.7	49.2	147.9	5.5	5.3	1.5	2.9	7.0	4.5
Mar.	103.9	50.7	154.6	98.6	49.3	147.9	5.3	5.1	1.4	2.7	6.7	4.3
Apr.	103.8	51.3	155.1	98.6	50.0	148.5	5.3	5.1	1.3	2.6	6.6	4.2
May	103.9	51.6	155.5	98.8	50.4	149.2	5.1	4.9	1.3	2.5	6.4	4.1
June	104.2	52.1	156.3	99.3	50.8	150.1	4.9	4.7	1.3	2.5	6.2	4.0
July	104.7	52.4	157.1	99.6	51.0	150.6	5.1	4.9	1.4	2.7	6.5	4.1
Aug.	104.6	52.4	157.0	99.6	51.0	150.6	5.1	4.8	1.4	2.7	6.5	4.1
Sep.	104.8	52.5	157.3	99.7	51.1	150.8	5.1	4.9	1.4	2.7	6.6	4.2
Oct.	104.5	52.4	156.9	99.4	51.0	150.4	5.1	4.9	1.4	2.7	6.5	4.2
Nov.	104.8	52.6	157.4	99.6	51.2	150.8	5.2	4.9	1.4	2.7	6.6	4.2
Dec.	104.4	52.6	157.0	99.3	51.2	150.5	5.2	4.9	1.4	2.7	6.6	4.2
2012³												
Jan.	104.0	52.7	156.7	98.8	51.2	149.9	5.2	5.0	1.5	2.8	6.7	4.3
Feb.	104.2	52.8	157.1	98.8	51.4	150.2	5.4	5.2	1.5	2.8	6.9	4.4
Mar.	104.3	53.1	157.4	98.9	51.5	150.4	5.4	5.2	1.5	2.9	7.0	4.4
Apr.	104.3	53.2	157.5	99.0	51.7	150.7	5.4	5.2	1.5	2.9	7.0	4.4
May	104.4	53.4	157.8	99.2	51.9	151.1	5.2	5.0	1.5	2.7	6.7	4.2
June	104.6	53.7	158.3	99.4	52.2	151.6	5.2	5.0	1.5	2.7	6.7	4.2
July	105.1	54.2	159.3	99.9	52.7	152.6	5.2	4.9	1.5	2.8	6.7	4.2
Aug.	105.1	54.4	159.5	99.9	52.8	152.7	5.2	5.0	1.6	2.9	6.8	4.3
Sep.	105.0	54.3	159.4	99.7	52.8	152.5	5.3	5.0	1.6	2.9	6.9	4.3
Oct.	104.9	54.6	159.5	99.5	53.0	152.5	5.4	5.1	1.6	3.0	7.0	4.4
Nov.	105.1	54.8	159.9	99.6	53.2	152.8	5.5	5.2	1.6	3.0	7.1	4.4
Dec.	104.8	55.0	159.8	99.5	53.4	153.0	5.3	5.0	1.5	2.8	6.8	4.3

¹ Annual figures reflect the average for the year.

² As a percentage of male, female and total labour supply, respectively.

³ Provisional.

Source: ETC.

Real Economy Indicators

Table 4.4 Labour market indicators based on the Labour Force Survey

Thousands

Period ¹	Labour supply			Gainfully occupied			Unemployment					
	Males	Females	Total	Males	Females	Total	Males		Females		Total	
							Number	% ²	Number	% ²	Number	% ²
2005	110.5	51.4	161.9	103.4	46.9	150.3	7.1	6.5	4.5	8.8	11.6	7.2
2006	111.5	52.7	164.3	104.3	48.0	152.4	7.2	6.5	4.7	8.9	11.9	7.3
2007	113.0	54.2	167.2	106.3	50.0	156.4	6.7	5.9	4.1	7.6	10.8	6.5
2008	113.5	57.2	170.7	107.1	53.2	160.4	6.4	5.7	3.9	6.9	10.4	6.1
2009	115.0	58.3	173.3	107.4	53.9	161.3	7.6	6.6	4.4	7.6	12.0	6.9
2010	116.2	60.5	176.7	108.3	56.2	164.4	7.9	6.8	4.3	7.1	12.2	6.9
2011 ³	117.5	62.8	180.3	110.3	58.3	168.6	7.2	6.2	4.4	7.0	11.7	6.5
2012 ³	116.5	68.0	184.5	109.7	63.0	172.6	6.8	5.9	5.0	7.3	11.8	6.4
2012³												
Q1	115.4	66.9	182.3	108.9	62.3	171.3	6.5	5.6	4.5	6.8	11.0	6.1
Q2	116.6	67.1	183.7	109.1	62.6	171.7	7.6	6.5	4.4	6.6	12.0	6.5
Q3	118.1	68.3	186.4	111.6	62.5	174.1	6.4	5.4	5.9	8.6	12.3	6.6
Q4	115.9	69.6	185.4	109.0	64.4	173.5	6.8	5.9	5.1	7.4	12.0	6.5

¹ Annual figures reflect the average for the year.

² As a percentage of male, female and total labour supply, respectively.

³ Provisional.

Source: NSO.

Table 4.5 Property prices index based on advertised prices (base 2000 = 100)¹

Period	Total	Apartments	Maisonettes	Terraced houses	Others ²
2005	170.9	173.7	176.7	188.9	160.3
2006	177.0	178.3	187.0	196.2	175.0
2007	178.9	183.3	181.4	205.3	171.9
2008	174.1	172.7	181.4	201.5	173.7
2009	165.3	162.2	173.7	207.8	169.6
2010	167.1	166.4	171.8	199.4	178.5
2011	169.3	173.0	174.5	197.6	172.5
2012	170.1	172.5	173.5	185.5	172.4
2012					
Q1	172.9	181.0	173.2	177.8	166.0
Q2	167.4	166.4	163.1	191.0	184.1
Q3	170.8	173.6	176.9	177.4	164.2
Q4	169.2	169.0	180.8	195.9	175.4

¹ As the statistical methodologies underpinning the total and the components are different, the change in the components does not necessarily reflect the change in the total.

² Consists of town houses, houses of character and villas.

Source: Central Bank of Malta estimates.

Real Economy Indicators

Table 4.6 Development permits for commercial, social and other purposes¹

Period	Commercial and social								Other permits ⁵	Total permits
	Agriculture	Manufacturing ²	Warehousing, retail & offices ³	Hotels & tourism related	Restaurants & bars	Social ⁴	Parking	Total		
2005	293	33	217	16	25	43	103	730	2,980	3,710
2006	267	38	169	9	26	30	84	623	3,129	3,752
2007	325	27	185	8	14	30	60	649	3,018	3,667
2008	182	29	137	6	14	8	66	442	2,475	2,917
2009	160	31	123	6	20	23	47	410	2,281	2,691
2010	293	55	231	10	46	118	79	832	1,522	2,354
2011	192	33	256	4	47	74	49	655	1,065	1,720
2012	169	33	247	17	32	87	58	643	955	1,598

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

² Includes quarrying.

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

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

⁵ Including the installation of satellite dishes and swimming pools, the display of advertisements, demolitions and alterations, change of use, minor new works, infrastructure, monuments, embellishment projects, boathouses and yacht marinas, light industry, waste management facilities and others.

Source: Malta Environment & Planning Authority.

Table 4.7 Development permits for dwellings, by type¹

Period	Number of permits ²			Number of units ³				
	New dwellings ⁴	Minor works on dwellings	Total	Apartments	Maisonettes	Terraced houses	Others	Total
2005	1,852	570	2,422	7,539	1,058	363	121	9,081
2006	2,502	492	2,994	8,961	932	375	141	10,409
2007	2,636	411	3,047	10,252	696	257	138	11,343
2008	1,770	375	2,145	6,184	361	164	127	6,836
2009	1,241	368	1,609	4,616	400	182	100	5,298
2010	1,499	1,020	2,519	3,736	375	227	106	4,444
2011	1,159	832	1,991	3,276	401	191	87	3,955
2012	958	700	1,658	2,489	298	202	75	3,064

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

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

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

⁴ Including new dwellings by conversion.

Source: Malta Environment & Planning Authority.

Real Economy Indicators

Table 4.8 Inflation rates measured by the Retail Price Index¹ (base 1946 = 100)

Year	Index	Inflation rate (%)	Year	Index	Inflation rate (%)
1946	100.00	-	<i>(continued)</i>		
1947	104.90	4.90	1980	366.06	15.76
1948	113.90	8.58	1981	408.16	11.50
1949	109.70	-3.69	1982	431.83	5.80
1950	116.90	6.56	1983	428.06	-0.87
1951	130.10	11.29	1984	426.18	-0.44
1952	140.30	7.84	1985	425.17	-0.24
1953	139.10	-0.86	1986	433.67	2.00
1954	141.20	1.51	1987	435.47	0.42
1955	138.80	-1.70	1988	439.62	0.95
1956	142.00	2.31	1989	443.39	0.86
1957	145.70	2.61	1990	456.61	2.98
1958	148.30	1.78	1991	468.21	2.54
1959	151.10	1.89	1992	475.89	1.64
1960	158.80	5.10	1993	495.59	4.14
1961	164.84	3.80	1994	516.06	4.13
1962	165.16	0.19	1995	536.61	3.98
1963	168.18	1.83	1996	549.95	2.49
1964	172.00	2.27	1997 ²	567.95	3.27
1965	174.70	1.57	1998	580.61	2.23
1966	175.65	0.54	1999	593.00	2.13
1967	176.76	0.63	2000	607.07	2.37
1968	180.42	2.07	2001	624.85	2.93
1969	184.71	2.38	2002	638.54	2.19
1970	191.55	3.70	2003	646.84	1.30
1971	196.00	2.32	2004	664.88	2.79
1972	202.52	3.33	2005	684.88	3.01
1973	218.26	7.77	2006	703.88	2.77
1974	234.16	7.28	2007	712.68	1.25
1975	254.77	8.80	2008	743.05	4.26
1976	256.20	0.56	2009	758.58	2.09
1977	281.84	10.01	2010	770.07	1.51
1978	295.14	4.72	2011	791.02	2.72
1979	316.21	7.14	2012	810.16	2.42

¹ The Index of Inflation (1946 = 100) is compiled by the NSO on the basis of the Retail Price Index in terms of Article 13 of the Housing (Decontrol) Ordinance, Cap. 158.

² Following the revision of utility rates in November 1998, the index and the rate of inflation for the year 1997 were revised to 567.08 and 3.11% respectively. Consequently, the rate of inflation for 1998 would stand at 2.39%.

Real Economy Indicators

Table 4.9 Main categories of Retail Price Index (base December 2009 = 100)

Period	12-month moving average rates of change (%) ¹											
	All Items Index	All Items	Food	Beverages & tobacco	Clothing & footwear	Housing	Water, electricity, gas & fuels	H/hold equip. & house maint. costs	Transp. & comm.	Personal care & health	Recreation & culture	Other goods & services
2005	90.1	3.0	1.8	2.4	-0.5	5.0	23.0	2.1	3.8	3.6	1.1	3.0
2006	92.6	2.8	2.0	2.2	-1.8	4.8	26.0	1.5	3.3	2.9	-0.2	2.3
2007	93.8	1.3	4.3	2.1	0.4	2.9	-6.6	0.7	-1.1	1.7	1.6	0.4
2008	97.8	4.3	8.0	2.7	4.5	3.9	19.9	-0.2	2.6	1.9	1.1	2.4
2009	99.8	2.1	6.4	4.3	-0.3	2.9	16.0	0.3	-4.1	3.1	0.9	1.9
2010	101.3	1.5	1.0	2.0	-4.3	2.2	24.4	0.6	0.3	2.0	1.6	1.7
2011	104.1	2.7	3.9	2.2	0.1	5.8	2.5	-1.4	3.2	1.7	1.2	4.3
2012	106.6	2.4	4.7	4.4	-1.7	0.4	1.3	2.1	2.1	1.1	1.2	4.4
2011												
Jan.	102.2	1.6	1.4	1.9	-4.1	2.3	23.0	0.2	0.6	1.8	1.7	1.7
Feb.	102.1	1.8	2.0	1.9	-4.2	2.6	21.6	-0.2	0.9	1.8	1.6	1.9
Mar.	103.1	2.0	2.5	1.8	-3.9	2.8	20.3	-0.7	1.2	1.8	1.6	2.1
Apr.	103.9	2.1	2.9	1.8	-3.5	3.0	18.1	-0.9	1.5	1.7	1.5	2.3
May	104.8	2.2	3.5	1.7	-3.2	3.3	16.0	-1.1	1.7	1.7	1.4	2.5
June	104.6	2.4	4.0	1.7	-2.4	3.6	14.0	-1.3	1.8	1.7	1.5	2.7
July	103.9	2.5	4.0	1.7	-1.8	3.9	11.7	-1.2	2.3	1.7	1.4	3.0
Aug.	104.2	2.6	3.9	1.8	-0.7	4.2	9.8	-1.3	2.8	1.7	1.3	3.1
Sep.	104.5	2.7	3.8	1.9	0.4	4.5	8.0	-1.5	3.1	1.7	1.2	3.3
Oct.	105.4	2.8	3.9	2.0	0.5	4.9	6.2	-1.5	3.5	1.7	1.2	3.6
Nov.	105.1	2.8	3.9	2.1	0.4	5.4	4.4	-1.5	3.5	1.7	1.2	4.0
Dec.	105.4	2.7	3.9	2.2	0.1	5.8	2.5	-1.4	3.2	1.7	1.2	4.3
2012												
Jan.	104.1	2.7	3.7	2.4	0.1	5.4	2.3	-0.9	3.1	1.6	1.1	4.6
Feb.	104.7	2.7	3.7	2.6	0.2	4.9	2.1	-0.3	3.0	1.5	1.0	4.8
Mar.	105.2	2.6	3.9	2.9	-0.3	4.5	1.9	0.3	2.7	1.4	0.8	5.0
Apr.	106.6	2.6	4.0	3.2	-0.8	4.0	1.8	0.6	2.9	1.4	0.7	5.1
May	106.6	2.5	3.8	3.4	-1.3	3.5	1.6	0.8	2.8	1.4	0.7	5.0
June	106.8	2.4	3.7	3.7	-1.9	2.9	1.4	1.0	2.8	1.3	0.7	5.1
July	106.1	2.4	3.8	3.9	-2.0	2.5	1.4	1.2	2.4	1.2	0.7	5.1
Aug.	106.5	2.3	4.0	4.1	-2.3	2.2	1.3	1.4	2.1	1.2	0.7	5.0
Sep.	107.5	2.3	4.3	4.2	-3.0	1.7	1.2	1.7	2.1	1.1	0.8	5.0
Oct.	108.5	2.3	4.4	4.3	-2.7	1.3	1.2	1.9	2.0	1.1	1.0	4.9
Nov.	108.3	2.4	4.5	4.4	-2.3	0.8	1.2	2.0	2.1	1.1	1.1	4.6
Dec.	108.4	2.4	4.7	4.4	-1.7	0.4	1.3	2.1	2.1	1.1	1.2	4.4

¹ 12-month moving average rates of change in the RPI sub-indices are compiled by the Central Bank of Malta.
Source: NSC.

Real Economy Indicators

Table 4.10 Main categories of Harmonised Index of Consumer Prices (base 2005 = 100)

Period	All Items Index	12-month moving average rates of change (%)												
		All Items	Food & non-alcoholic beverages	Alcoholic beverages & tobacco	Clothing & footwear	Housing, water, electricity, gas & other fuels	Furnishings, household equipment & routine maintenance of the house	Health	Transport	Communications	Recreation & culture	Education	Restaurants & hotels	Miscellaneous goods & services
2005	100.0	2.5	1.8	1.8	-0.5	9.3	2.4	5.5	3.5	10.0	1.9	1.6	0.0	3.0
2006	102.6	2.6	2.2	0.6	-1.8	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2007	103.3	0.7	3.9	0.8	0.4	-0.1	0.8	2.7	-1.4	0.2	0.7	4.2	-0.6	0.9
2008	108.1	4.7	8.0	1.9	4.5	8.5	0.6	2.2	3.7	2.9	-0.6	6.8	7.7	1.3
2009	110.1	1.8	6.4	3.6	-0.4	7.0	1.0	4.4	-4.3	-1.3	-0.6	6.9	1.3	2.2
2010	112.4	2.0	1.1	3.3	-2.3	10.1	1.1	2.0	2.2	-6.0	-1.7	7.8	5.5	3.4
2011	115.2	2.5	4.9	3.6	-1.2	3.5	0.2	1.4	7.8	-9.7	0.5	4.4	1.8	4.2
2012	118.9	3.2	5.7	4.2	-1.5	0.4	3.2	1.7	4.8	-6.6	0.6	3.6	6.1	2.1
2011														
Jan.	111.3	2.2	1.5	3.3	-2.4	9.7	0.8	1.6	2.9	-6.4	-1.6	7.4	5.9	3.5
Feb.	111.0	2.4	2.1	3.3	-2.7	9.4	0.5	1.6	3.4	-6.5	-1.6	6.9	6.3	3.6
Mar.	112.7	2.5	2.8	3.3	-2.5	9.0	0.3	1.5	4.0	-6.5	-1.5	6.5	6.5	3.8
Apr.	115.1	2.7	3.3	3.2	-2.3	8.3	0.2	1.4	4.4	-6.6	-1.5	6.1	6.6	3.9
May	116.6	2.7	4.0	3.2	-2.0	7.7	0.1	1.4	4.7	-6.6	-1.4	5.7	6.0	4.0
June	117.1	2.8	4.5	3.2	-1.5	7.0	0.2	1.3	5.1	-6.8	-1.1	5.2	5.7	4.0
July	117.0	2.8	4.6	3.3	-1.2	6.3	0.3	1.3	5.8	-7.0	-0.7	4.8	4.8	4.1
Aug.	118.3	2.8	4.7	3.3	-0.3	5.6	0.3	1.3	6.5	-7.2	-0.4	4.4	3.6	4.0
Sep.	117.8	2.8	4.6	3.4	0.4	5.1	0.1	1.4	7.1	-7.4	-0.1	3.9	3.3	4.0
Oct.	116.8	2.9	4.9	3.5	-0.1	4.6	0.1	1.4	7.5	-7.7	0.2	4.1	3.0	4.1
Nov.	114.1	2.7	5.0	3.5	-0.6	4.1	0.2	1.4	7.8	-8.7	0.3	4.2	2.4	4.2
Dec.	114.4	2.5	4.9	3.6	-1.2	3.5	0.2	1.4	7.8	-9.7	0.5	4.4	1.8	4.2
2012														
Jan.	113.2	2.4	4.8	3.6	-1.3	3.2	0.7	1.4	7.5	-9.6	0.4	4.5	1.3	4.1
Feb.	113.9	2.4	5.0	3.7	-1.2	2.9	1.1	1.3	7.5	-9.6	0.4	4.6	1.2	4.0
Mar.	115.6	2.4	5.1	3.8	-1.6	2.6	1.5	1.3	7.2	-9.5	0.3	4.8	1.3	3.9
Apr.	119.5	2.5	5.2	3.9	-2.0	2.3	1.7	1.3	7.2	-9.6	0.4	4.7	1.9	3.7
May	120.9	2.6	5.1	3.9	-2.5	2.0	1.7	1.3	7.1	-9.6	0.4	4.7	2.8	3.5
June	122.2	2.7	5.1	4.0	-3.0	1.7	1.9	1.3	6.9	-9.2	0.4	4.6	3.5	3.4
July	121.9	2.8	5.3	4.1	-3.0	1.5	2.0	1.4	6.3	-8.9	0.3	4.6	4.5	3.2
Aug.	122.1	2.9	5.3	4.1	-3.1	1.4	2.3	1.4	5.7	-8.6	0.3	4.5	5.0	3.0
Sep.	121.3	2.9	5.6	4.1	-3.5	1.1	2.7	1.4	5.5	-8.2	0.3	4.5	4.8	2.8
Oct.	120.5	3.0	5.6	4.1	-2.9	0.9	2.9	1.5	5.2	-7.9	0.3	4.2	5.0	2.6
Nov.	118.2	3.1	5.6	4.3	-2.3	0.6	3.1	1.6	4.9	-7.0	0.5	3.9	5.7	2.3
Dec.	117.6	3.2	5.7	4.2	-1.5	0.4	3.2	1.7	4.8	-6.6	0.6	3.6	6.1	2.1

Sources: NSO; Eurostat.

GENERAL NOTES

In order to reflect Malta's entry into the euro area and the adoption of the euro as its currency on 1 January 2008, the layout and design of a number of tables, in particular in Parts 1 and 3, have been changed significantly, while others have been replaced with entirely new tables. Hence users should exercise caution when comparing these series with earlier data, as the underlying definitions may have changed. For ease of comparison, all data relating to earlier periods presented in this *Quarterly Review* are converted into euro at the fixed exchange rate of EUR 1 = MTL 0.4293. The reasons for this approach were explained in a note entitled 'Conversion of data in Maltese lira into euro' which was published in the 2007:3 issue of the *Quarterly Review*, while the changes to the underlying concepts were explained in a note entitled 'Presentation of statistics relating to Malta following adoption of the euro' which was published in the 2008:1 issue of the *Quarterly Review*.

Part 1 Monetary, Banking, Investment Funds and Financial Markets

General monetary statistical standards

Since January 2008, the compilation of monetary statistics has been consistent with the statistical concepts and methodologies as set out in ECB Regulation 2008/32 (Recast) concerning the consolidated balance sheet of the monetary financial institutions (MFI) sector and the *European System of Accounts (ESA 1995)*. Prior to January 2008, the compilation of monetary statistics was broadly in line with the IMF's *Monetary and Financial Statistics Manual (2000)*.

Institutional balance sheets and financial statements

The financial statement of the Central Bank of Malta published in Table 1.1 is based on accounting principles as established in ECB Guideline 2006/16 (as amended) of 10 November 2006 on the legal framework for accounting and reporting in the ESCB. Consequently, the data in this table may differ from those shown in Table 1.2, which are compiled according to a statistical description of instrument categories as stipulated in ECB Regulation 2008/32 (Recast) of 19 December 2008. Important changes to data on currency issued and reserve assets following the adoption of the euro are explained below in the 'measures of money' and in the 'external statistics' section, respectively.

The aggregated balance sheet of the other monetary financial institutions is also based on a detailed description of instrument categories as stipulated in ECB Regulation 2008/32 (Recast).

Determination of 'residence'

Monetary data are based on the classification of transactions and positions by the residence of the transactor or holder. A transactor is an economic entity that is capable in its own right of owning assets, incurring liabilities and engaging in economic activities with other entities. The internationally agreed residence criterion for the purposes of statistical compilation is based on the transactor's 'centre of economic interest'. The term 'centre of economic interest' usually indicates that there exists some location within an economic territory on or from which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). Transactors with their 'centre of economic interest' outside the said territory are considered to be non-residents. Diplomatic bodies, embassies, consulates and other entities of foreign governments are considered to be residents of the country they represent.

In national monetary statistics, the key distinction up to December 2007 was between residents and non-residents of Malta. Although that distinction remains relevant for national statistical purposes, the key distinction now, in particular for the purposes of Malta's contribution to euro area monetary aggregates shown in Table 1.4 and in other tables, is between residence in Malta or elsewhere in the euro area and residence outside the euro area.

Sector classification

In accordance with ESA 95 and ECB Regulation 2008/32 (Recast), the main sectors of the Maltese (and euro area) economy, for statistical reporting purposes, are currently subdivided by their primary activity into:

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

Entities that are considered to be non-residents are classified in the 'external sector' or the 'rest of the world'. As noted above, in many statistical tables in this *Quarterly Review*, and starting with data for 2008, they are split into other euro area residents and non-residents of the euro area (and may be further sub-classified by sector according to their primary activity).

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

i. **The central bank**, which is the national financial institution that exercises control over key aspects of the financial system, issues currency, conducts financial market operations, and holds the international reserves of the country. The Central Bank of Malta is part of the Eurosystem, which comprises the ECB and the NCBs of the member countries of the euro area.

ii. **Other monetary financial institutions** (OMFIs), consist almost entirely of credit institutions. The business of OMFIs is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. Credit institutions licensed in Malta comprise banks licensed by the competent authority under the Banking Act (Cap. 371). In accordance with the Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006, a credit institution is "an undertaking whose business is to receive deposits or other repayable funds from the public - including the proceeds arising from the sales of bank bonds to the public - and to grant credit for its own account". OMFIs include the Maltese branches and subsidiaries of banks with headquarters abroad. Money Market Funds (MMFs) fulfil the MFI definition and the agreed conditions for liquidity and are therefore included in the OMFI sector. MMFs are defined as those collective investment undertakings of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments.

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

Other financial intermediaries are, broadly speaking, financial intermediaries which are not MFIs or insurance corporations and pension funds (see below). The principal activities of these institutions may include one or more of the following: long-term financing, financial leasing, factoring, security and derivative dealing, receiving deposits and/or close substitutes for deposits from MFIs only (and not from the public), and managing investment trusts, unit trusts and other collective investment schemes (collectively termed investment funds).

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

(c) **Insurance corporations and pension funds**

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

The sector **financial corporations** consists of all corporations which are principally engaged in financial intermediation and/or in auxiliary financial activities i.e. they include monetary financial institutions, other financial intermediaries/financial auxiliaries and insurance corporations/pension funds.

(d) **General government**

General government includes all institutional units principally engaged in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Broadly speaking, non-market production means that the entity does not charge “economically significant” prices such that sales cover at least 50% of production costs. The sector is sub-divided into:

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

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

The **public sector** (which is not an institutional sector in the ESA 95) comprises the general government sector and public corporations (which may be financial or non-financial corporations in the ESA 95), the latter being those companies that are owned by government or are subject to government control. State-owned corporations are to be distinguished from the extra-budgetary units included in the general government sector, since they are considered to be producing goods and services for the market (i.e. charging “economically significant” prices such that sales cover at least 50% of production costs).

(e) **Non-financial corporations**

This sector comprises corporations engaged principally in the production of market goods and non-financial services. Included in this sector are market-producing co-operatives, partnerships and sole proprietorships recognised as independent legal entities, which are subdivided into:

i. **Public non-financial corporations**, i.e. companies that are subject to control by government units - see the notes on financial corporations for a definition of control.

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

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

This sector comprises individuals or groups of individuals that are consumers and producers of goods and non-financial services exclusively intended for their own final consumption. It includes also non-profit institutions serving households principally engaged in the production of non-market goods and services intended for particular sections of households (churches, clubs, societies, trade unions, etc.) and market-producing cooperatives, partnerships and sole proprietorships that are not recognised as independent legal entities. Thus many small businesses are included in the household sector.

Classification of economic activities

The classification of economic activities follows the standards of Regulation EC No 1893/2006 of the European Parliament and of the Council of 20 December 2006, entitled “Statistical classification of economic activities in the European Community”, known by the acronym NACE Rev. 2.

Measures of money

Until the end of 2007, the Central Bank of Malta compiled data on the following monetary aggregates: the monetary base (M0), narrow money (M1), intermediate money (M2) and broad money (M3). The **monetary base (M0)** consisted of currency in issue and OMF1 deposits with the Bank. **Narrow money (M1)** included the most liquid components of M3, namely currency in circulation, demand deposits and savings deposits withdrawable on demand. **Intermediate money (M2)** comprised M1, residents’ savings deposits redeemable at notice and time deposits with an agreed maturity of up to and including two years. **Broad money (M3)** comprised M2 and the

OMFIs' repurchase agreements with the non-bank sector and their debt securities issued with an agreed maturity of up to and including two years and held by the non-bank sector.

Since January 2008, the Central Bank of Malta has been transmitting to the ECB data collected from MFIs in Malta as a contribution to the euro area monetary aggregates compiled by the ECB. The euro area aggregates are defined in a similar way to the Maltese monetary aggregates formerly compiled by the Bank. However it is not possible to calculate the money holdings of Maltese residents within the euro area totals. In the euro area, by agreement between the members, the share of each central bank in the Eurosystem¹ in the total issue of banknotes in the area is deemed to be that central bank's share in the capital of the ECB adjusted for a notional 8% of the total issue, which is attributed to the ECB itself. This is called the banknote allocation key. In the euro area, the Central Bank of Malta may in practice issue more than this, or less, in response to demand; the excess or shortfall will appear elsewhere in the Bank's balance sheet as an intra-Eurosystem liability or asset. The main point is that the entry in the column 'Banknotes in circulation' in the Financial Statements of the Bank will be a notional amount conforming to the banknote allocation key, and may be quite different from the amount of euro banknotes in the hands of Maltese residents. Moreover, Maltese residents' holdings of M3 within the euro area aggregate will include their holdings of deposits and other monetary instruments issued by MFIs anywhere in the euro area, the amount of which is not known.

The *Quarterly Review* Table 1.4b shows the contribution of Maltese MFIs to the euro area totals. This comprises the notional issue of euro currency attributed to the Bank according to the banknote allocation key, plus the issue of coins (where the Central Bank acts as agent of the Treasury), and, for 2008 only, remaining amounts of Maltese lira currency notes outstanding *less* holdings of euro banknotes and coins and, for 2008 only, of Maltese lira currency reported by MFIs in Malta; deposits held by Maltese residents and by residents of other euro area countries with MFIs in Malta excluding any holdings belonging to central governments (since central government holdings of deposits are excluded from the ECB's monetary aggregates) and any interbank deposits; repurchase agreements that are not conducted through central counterparties; any marketable instruments of the kind included in euro area M3 issued by MFIs in Malta *less* holdings by Maltese MFIs of such instruments issued by MFIs resident anywhere in the euro area (because Maltese MFIs may hold more of these instruments than they issued, this part of the Maltese contribution to euro area M3 may be negative); and MMFs shares/units issued *less* holdings in such units by MMFs and credit institutions resident in the euro area and holdings by non-residents of the euro-area. Similarly, the 'credit counterpart' to euro area M3 contributed by Maltese MFIs (Table 1.5b) comprises all Maltese MFI lending (including through the acquisition of securities in any form) to Maltese and all other euro area residents (other than MFIs). The so-called 'external counterpart' will be limited to their net claims on non-residents of the euro area². 'Other counterparts (net)' comprise other items in the balance sheets of Maltese MFIs (including the Central Bank of Malta).

Compilation and valuation principles

Monetary statistics are based on the monthly balance sheets provided by the Central Bank of Malta and the local OMFIs (Tables 1.2-1.3), with details of OMFIs' deposits and loans in Tables

¹ The Eurosystem comprises the ECB and the national central banks of the other EU Member States in the euro area.

² This is Maltese MFIs' (including the Central Bank of Malta's) claims on non-residents of the euro area, minus their liabilities to non-residents of the euro area, in all forms and in foreign currency as well as in euro.

1.8-1.13. The local credit institutions must submit data to the Central Bank of Malta not later than fifteen calendar days following the end of the reporting period. Bank branches and subsidiaries operating in Malta but whose head offices/parent companies are located abroad are OMFIs and are obliged to submit the same data. The reporting institutions compile monthly financial information in line with ECB Regulation 2008/32 (Recast). In addition, in certain instances, the OMFIs are required to submit returns in accordance with specific statistical requirements as instructed by the Central Bank of Malta.

MFIs report stock positions, which are outstanding balances as at the end of the reference period, and for certain items transactions during the period. They show separately positions and transactions with residents of Malta, with residents of other euro area countries, and with non-residents of the euro area. Assets and liabilities are generally reported at market or fair value and on an accruals basis; deposits and loans are reported at nominal value. Thus, the effects of transactions and other events are recognised when they occur rather than when cash is received or paid. Transactions are recorded at the time of change in ownership of a financial asset. In this context, change in ownership is accomplished when all rights, obligations and risks are discharged by one party and assumed by another. Instruments are reported in accordance with their maturity at issue, i.e. by original maturity. Original maturity refers to the fixed period of life of a financial instrument before which it cannot be redeemed, or can be redeemed only with some significant penalty.

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

Release of monetary statistics

Monetary aggregates for the euro area are published by the ECB on the 19th working day of the month following the reference month. The ECB also publishes a more detailed monetary data on a quarterly basis. The Maltese contribution to the monthly aggregates is then posted on the Central Bank of Malta's website. When first published, monetary statistics are considered provisional since the Bank may need to revise the data referring to the periods prior to the current reference period arising from, for example, reclassifications or improved reporting procedures. The ECB accepts revisions to the previous month's data with each monthly submission; revisions to earlier periods are normally submitted with the next provision of quarterly data. Malta's contributions to the euro area aggregates published by the Central Bank of Malta must be consistent with the latest euro area aggregates published by the ECB. Subsequently, such provisional data are released to the press by the Central Bank of Malta on a monthly basis and in more detail in the Central Bank of Malta's *Quarterly Review* and *Annual Report*. The statistics released in the *Quarterly Review* and *Annual Report* are generally considered to be final. Major revisions to the data are also highlighted by means of footnotes in these publications. When major revisions to the compilation methodology are carried out, the Bank releases advance notices in its official publications.

Investment funds

The investment funds sector consists of collective investment schemes licensed by the MFSA; the data in Table 1.14 comprise all those funds whose centre of economic interest is based locally. It excludes all money market funds as according to ECB Regulation 2008/32 (Recast) these form part of the MFI sector. The balance sheet is aggregated, not consolidated, and therefore includes, among the assets and liabilities, holdings by investment funds of shares/units issued by other investment funds.

Insurance corporations

Table 1.15 shows the aggregated statement of assets and liabilities of the insurance corporations resident in Malta. The statistical information excludes those corporations dealing predominantly with non-residents. The insurance corporations sector comprises non-monetary financial institutions principally engaged in financial intermediation as the consequence of the pooling of risk. Therefore, the principal function of insurance corporations is the provision of life, accident, health, fire and/or other forms of insurance. Such statistics are based on standards specified in ESA 1995, while accounting rules are those laid down in the relevant national law implementing the European Council Directive 91/674/EEC on the annual accounts and the consolidated accounts of insurance undertakings. All financial assets and liabilities are reported on a gross basis and are generally valued at market or fair value.

Financial markets

Monetary Financial Institutions interest rate (MIR) statistics shown in Tables 1.18 and 1.19 relate to the interest rates which are applied by resident credit institutions to euro denominated deposits and loans vis-à-vis non-financial corporations and households (including non-profit organisations) resident in Malta and in the euro area. MIR statistics are compiled in accordance with Regulation ECB/2009/7 (as amended) of 31 March 2009 and are therefore harmonised across the euro area. Interest rates are shown for both outstanding amounts and new business. Outstanding amounts cover the stock of all kinds of deposits and loans granted to households and non-financial corporations. New business consists of any new agreement between the household or non-financial corporation and the bank during the period under review. Two types of interest rates are quoted: (a) the Annualised Agreed Rate (AAR) and (b) the Annual Percentage Rate of Charge (APRC). The AAR is the rate which is agreed between the customer and the bank, quoted in percentage per annum. This rate covers all interest payments, excluding any other charges that may apply on deposits and loans. The APRC covers only two categories, namely lending for house purchase and consumer credit. It is the annual percentage rate that covers the total costs of the credit to the consumer such as the cost of inquiries, administration, guarantees, legal fees and other additional costs associated with the transaction.

Up to 31 December 2007, Table 1.20 showed the statutory interest rates determined by the Central Bank of Malta and other indicative benchmark money market rates on instruments denominated in Maltese lira as end-of-period rates and as a percentage per annum. The repurchase agreement/term deposit rates were the rates actually dealt in at the end of the month or the rates offered by the Central Bank of Malta. The interbank market offered rates were the rates prevailing in the last dealings between banks in the official interbank market during the last month of the period being reported on. When no deals were transacted, the Central Bank of Malta fixing rate average was shown.

As from 1 January 2008, the Central Bank of Malta ceased to declare interest rates for its operations as the Maltese money market became part of the integrated euro area-wide interbank market. Thus, as from that date (and with some earlier data for convenience), the financial market interest rates shown in Table 1.20 are the key interest rates determined by the ECB for central bank operations throughout the euro area, and overnight (EONIA) and fixed-term (EURIBOR) rates on wholesale business in euro-denominated deposits as reported daily by a panel of active institutions in the euro area interbank market. Table 1.21 also shows the weighted average rates paid on resident current, savings and time deposits by MFIs in Malta (in Maltese lira to end-2007, in euro since), calculated by multiplying each amount by the different rates on each type of deposit and dividing by the total amount of each type of deposit. The weighted average rate on time deposits is calculated on all time deposits. The weighted average lending rate is calculated by multiplying the amount of each loan extended to residents by the interest rate applied thereto and dividing by the total amount.

Yields on Treasury bills and government securities up to end-2007 are rates on instruments denominated in Maltese lira. All outstanding Treasury bills and government securities denominated in Maltese lira were redenominated in euro at the beginning of 2008. The primary market rates on Treasury bills are the weighted averages of the rates attached to the bills that are taken up by bidders at the weekly auction. Treasury bills are classified by original maturity. A “-” sign means that no transactions occurred during the reference period. Until end-2007, the secondary market yields represented the selling rates quoted by the Central Bank of Malta at the end of the reference period for each respective tenor.

Interest rates on Malta Government long-term debt securities represent average International Securities Market Association (ISMA) redemption yields on applicable stocks with the periods specified referring to the remaining term to maturity. ISMA yields are quoted on the basis of an annual compounding period, irrespective of how many coupon periods per annum the stock has. The MSE share index is based on the last closing trade prices of the shares of all eligible companies weighted by their current market capitalisation. The index has a base of 1,000 on 27 December 1995.

Debt securities as presented in Table 1.16 comprise all financial assets that are usually negotiable and traded on recognized stock exchanges and do not grant the holder any ownership rights in the institutional unit issuing them. Quoted shares included in Table 1.17 cover all shares whose prices are quoted on the Malta Stock Exchange. They comprise all financial assets that represent property rights in corporations. Issues of unquoted shares, investment fund shares/units and financial derivatives are excluded.

Part 2 Government Finance

Tables in this section show the general government fiscal position compiled on the basis of ESA 95 methodology. The data are consolidated between the sectors of government. The sources for such data are the NSO and Eurostat. Government expenditure classified by function (Table 2.4) is based on the OECD’s Classification of the Functions of Government (COFOG), which is a classification of the functions, or socio-economic objectives, that the general government sector aims to achieve through various outlays.

Table 2.6 on the general government deficit-debt adjustment (DDA) shows how the general government deficit is financed and considers the relationship between the deficit and Maastricht

debt. The DDA thus reconciles the deficit over a given period with the change in Maastricht debt between the beginning and the end of that period. The difference is mainly explained by government transactions in financial assets, such as through privatisation receipts or the utilisation of its deposit accounts, and by valuation effects on debt.

The general government debt is defined as the total gross debt at nominal value outstanding at the end of a period and consolidated between and within the various sections of the government. Also shown are data on debt guaranteed by the government (Table 2.7), which mainly relate to the debts of non-financial public sector corporations. Government-guaranteed debt excludes guarantees on the MIGA and IBRD positions and government guarantees on foreign loans taken by the Central Bank of Malta on behalf of government, which loans already feature in the calculation of government external debt. Government-guaranteed debt includes guarantees issued by the extra-budgetary units but excludes guarantees issued to them as they already feature in the general government debt. The methodology underlying the compilation of data on the external loans of general government sector in Table 2.12 is generally consistent with the IMF's "External debt statistics - guide for compilers and users". Debt is recognised when disbursement of funds is effected.

Part 3 Exchange Rates, External Transactions and Positions

From 2008, statistics on exchange rates (Tables 3.1a-3.1b) show the end-of-period and the average bilateral exchange rates of the euro against other selected major currencies. The euro exchange reference rates are published by the ECB on a daily basis normally at 1415hrs.

The concepts and definitions used in the compilation of balance of payments and international investment position (IIP) statistics (Tables 3.2-3.4) are generally in line with the *IMF Balance of Payments Manual* (BPM5) and in accordance with ECB Guideline 2004/15 (as amended). Credit entries are recorded for e.g. exports, income receivable, and financial transactions reflecting reductions in the economy's foreign assets or increases in its foreign liabilities. Conversely, debit entries are recorded for e.g. imports, income payable, and financial transactions reflecting increases in assets or decreases in liabilities. The concepts of economic territory, residence, valuation and time of recording are broadly identical to those used in the compilation of monetary statistics. The IIP statistics are based on positions vis-à-vis nonresidents of Malta and are, in most cases, valued at current market prices. Up to the end of 2007, official reserve assets (Table 3.3) comprised gold, claims on the IMF, and liquid claims held by the Central Bank of Malta on entities resident outside Malta, mainly central banks, other banks and governments, in line with the *IMF's Balance of Payments Manual* (BPM5). From 2008, official reserve assets correspond to the part of the reserve assets of the Eurosystem held by the Central Bank of Malta, and are confined to gold, claims on the IMF, and liquid claims held by the Central Bank of Malta on entities resident outside the euro area and denominated in currencies other than the euro. All euro-denominated assets, and assets denominated in any currency representing claims on entities resident in the euro area held by the Bank and classified as official reserve assets up to the end of 2007, were on Malta's entry into the euro area reclassified as portfolio investment or other investment, depending on the nature of the instrument.

Latest trade data are based on the respective NSO press release.

The concepts used in the compilation of gross and net external debt generally comply with the IMF's "External debt statistics – guide for compilers and users (2003)". Gross external debt data

are fully reconcilable with the data shown in the IIP. The external debt of the MFIs is also being shown separately as a memorandum item as such debt is fully backed by foreign assets of these institutions. The net external debt position is equal to gross external debt less gross external assets in the form of debt instruments.

Part 4 Real Economy

National accounts and other general economic statistics are mostly produced by the NSO in accordance with ESA 95 standards except for the labour market indicators in Table 4.3, which are based on the ETC's administrative records, and the RPI (Tables 4.8-4.9). Data on development permits (Tables 4.6-4.7) are taken from the Malta Environment and Planning Authority (MEPA).

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

The RPI covers all monetary consumption expenditure incurred by Maltese residents weighted according to the spending pattern derived from the Household Budgetary Survey 2008/9. The HICP, by contrast, (Table 4.10) covers all household final consumption expenditure irrespective of nationality or residence status. Consequently, the HICP uses weights that cover not only resident private and institutional household expenditure but also expenditure by tourists in Malta. The differences in these weighting schemes account for the significant monthly disparities between the RPI and the HICP. The sources of data used in the compilation of the Central Bank of Malta's property prices index (Table 4.5) are the advertisements for the sale of properties in all localities in Malta and Gozo carried in the property section of a local Sunday newspaper. Data for a particular quarter are derived from the newspapers published on the first Sunday of each month of that quarter. The property types include flats and maisonettes, both in shell and in finished form, together with terraced houses, townhouses, houses of character and villas. Indices for each property type are derived on the basis of median prices weighted by the number of observations in each property category. The overall index is a Fischer chained index, calculated as the square root of the product of the chained Laspeyres and the chained Paasche indices. Annual data are derived as an average of the quarterly indices. Prices of commercial properties are excluded from the index.