



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 3/2018

Date of issue: 16 March 2018

© Central Bank of Malta, 2018

**Address**

Pjazza Kastilja  
Valletta VLT 1060  
Malta

**Telephone**

(+356) 2550 0000

**Fax**

(+356) 2550 2500

**Website**

<https://www.centralbankmalta.org>

**E-mail**

[info@centralbankmalta.org](mailto:info@centralbankmalta.org)

*All rights reserved. Reproduction is permitted provided that the source is acknowledged.*

*The cut-off date for information in this publication is 13 March 2018. Figures in tables may not add up due to rounding.*

ISSN 2410-8294 (online)

## ECONOMIC UPDATE 3/2018

### Summary<sup>1</sup>

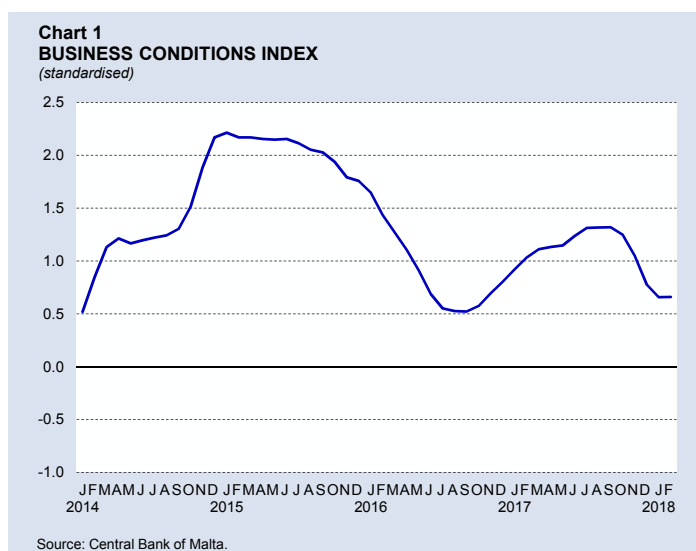
In February, the Bank's Business Conditions Index (BCI) was unchanged on a month earlier, and continued to suggest above-average conditions. Economic sentiment edged up, reflecting gains across all sectors except services. In January, retail sales and tourism activity grew in annual terms, while industrial production contracted slightly. Labour market conditions remained favourable, with the number of registered unemployed declining on an annual basis and Eurostat's measure of the unemployment rate falling further to a new record low. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) eased to 1.2% in January. Meanwhile, the annual rate of change of Maltese residents' deposits rose to 7.9%, while credit to residents increased by 1.7%. As regards fiscal developments, in the first month of the year, the cash-based Consolidated Fund showed a narrower deficit compared with January 2017.

### Central Bank's Business Conditions Index (BCI)<sup>2</sup>

In February, the Central Bank's BCI remained unchanged over the previous month (see Chart 1). The index stood at 0.7, unchanged from its revised value in January and slightly below its value a year earlier. The BCI, which continued to show above average conditions, was affected by continued strength in economic sentiment and lower unemployment.

### Business and consumer confidence indicators

In February 2018, the Economic Sentiment Indicator (ESI) edged up to 121, from 119 in the preceding month, thus remaining above its long-term average of 100 (see Table 1).<sup>3,4</sup> Higher sentiment was registered among all sub-sectors, except within the services sector where confidence declined, though from an elevated level.



<sup>1</sup> The cut-off date for information in this note is 13 March 2018.

<sup>2</sup> The methodology underlying the BCI has been updated for the sake of clarity. For further details on the changes carried out in the index, see Ellul, R., (2018), "Updates to the BCI," Central Bank of Malta.

<sup>3</sup> The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

<sup>4</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from November 2002.

**Table 1**  
**BUSINESS AND CONSUMER SURVEYS**

*Balances; percentage points; seasonally adjusted*

	2016	2017	2018	
			Jan.	Feb.
<b>Economic Sentiment Indicator</b>	<b>108</b>	<b>114</b>	<b>119</b>	<b>121</b>
<b>Industrial confidence indicator</b>	<b>0</b>	<b>8</b>	<b>6</b>	<b>13</b>
Assessment of order-book levels	-18	-5	-23	5
Assessment of stocks of finished products	2	-2	5	-1
Production expectations for the months ahead	19	27	45	35
<b>Retail trade confidence indicator</b>	<b>7</b>	<b>9</b>	<b>16</b>	<b>23</b>
Business activity, past 3 months	17	15	38	26
Stocks of finished goods	9	5	22	3
Business activity, next 3 months	14	16	32	47
<b>Consumer confidence indicator</b>	<b>2</b>	<b>8</b>	<b>25</b>	<b>27</b>
Financial situation over the next 12 months	5	9	18	23
General economic situation over the next 12 months	13	19	32	33
Unemployment expectations over the next 12 months	-13	-18	-30	-29
Savings over next 12 months	-24	-14	17	25
<b>Construction confidence indicator</b>	<b>-8</b>	<b>13</b>	<b>27</b>	<b>29</b>
Evolution of your current overall order books	-22	2	21	29
Employment expectations over the next 3 months	6	24	34	29
<b>Services confidence indicator</b>	<b>26</b>	<b>31</b>	<b>38</b>	<b>30</b>
Business situation development over the past 3 months	22	27	32	27
Evolution of the demand over the past 3 months	29	33	36	38
Expectation of the demand over the next 3 months	27	32	46	25

Source: European Commission.

The industrial confidence indicator rose from 6 to 13 in February, thus rising further above its long-term average of -3.<sup>5</sup> February's increase in sentiment was largely driven by firms' assessment of order books. Stock levels also contributed positively to the overall indicator, while fewer firms expected production to rise in the following months.<sup>6</sup> Supplementary survey data show that, on balance, a larger share of respondents expected their employment to increase in the subsequent months. While firms had expected selling prices to remain unchanged in January, in February respondents on balance expected selling prices to rise in the three months ahead.

In the retail sector, sentiment rose to 23 in February, from 16 in January, well above its long-term average of 2.<sup>7</sup> The recent increase in sentiment was driven by lower stock levels and improved expectations of business activity for the three months ahead.<sup>8</sup> These offset a less upbeat assessment of business activity in the preceding three months. Additional survey data for this sector indicate that the share of firms expecting employment to rise was broadly unchanged from January, while on balance more firms expected prices to rise in the three months ahead.

<sup>5</sup> 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.

<sup>6</sup> Below normal stocks of finished goods have a positive effect on the overall indicator. Thus, a rise in the share of firms registering below normal stocks of finished goods has a positive effect on the overall industrial confidence indicator.

<sup>7</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>8</sup> A fall in the share of respondents registering above normal stocks of finished goods has a positive effect on the overall industrial confidence indicator.

Consumer confidence also rose, reaching 27 in February, from 25 a month earlier, thus rising further above the long-term average of -18.<sup>9</sup> The rise in sentiment was driven by all sub-components except for unemployment expectations. On balance, fewer respondents expected unemployment to fall.<sup>10</sup> Additional information shows that a smaller share of respondents expected to make fewer major purchases in the following 12 months. At the same time, more consumers expected higher inflation in the following 12 months.

Confidence in the construction sector rose to 29 from 27 in January, well above its long-term average of -18.<sup>11</sup> This was solely driven by an improved assessment of order books, while fewer respondents expect employment to rise in the months ahead. Other survey data indicate that in comparison with January, the same share of respondents reported an increase in building activity over the preceding three months, while a larger share expected prices to increase.

In contrast to the afore-mentioned sectors, confidence in the services sector fell to 30 from 38 in the preceding month.<sup>12</sup> Despite this sharp decline, sentiment remained above its long-term average. Lower sentiment was driven by both firms' assessment of the business situation over the preceding three months and demand expectations for the three months ahead. Meanwhile, respondents' assessment of the evolution of demand over the preceding three months rose marginally. Additional survey data indicate that employment expectations were less optimistic than in January. Also, a smaller share of respondents expected prices to rise in the three months ahead, compared with the preceding month.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, declined at an annual rate of 1.3% in January, following a rise of 0.6% in December (see Table 2).<sup>13</sup> In January, growth was mostly driven by increased production within the pharmaceutical sub-sector, as well as among firms involved in the repair and installation of machinery and equipment. Output also rose among manufacturers of rubber and plastics. On the other hand, output fell significantly among manufacturers of computer, electronic and optical products, as well as among firms producing food and beverages. Smaller declines were also recorded within energy as well as in the printing and paper sub-sectors.

In January, growth in retail trade, which is a short-term indicator of final domestic demand, moderated. Calendar day-adjusted data show that the volume of retail trade increased at an annual rate of 5.8%, following a 12.5% rise in December.

Meanwhile, the number of inbound tourists grew by 19.9% on a year earlier, following a 15.0% rise in December. Nights stayed grew by 15.1%, with most of this increase emanating from nights

<sup>9</sup> 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.

<sup>10</sup> A fall in unemployment expectations has a positive effect on the overall indicator. Thus, fewer respondents expecting unemployment to fall has a negative effect on the overall indicator.

<sup>11</sup> 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.

<sup>12</sup> 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 in the subsequent three months.

<sup>13</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data however, are used for the components.

**Table 2**  
**ACTIVITY INDICATORS**

*Annual percentage changes*

	2016	2017	2017										2018
			Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	
<b>Industrial production</b>	<b>-4.3</b>	<b>4.1</b>	<b>3.1</b>	<b>5.0</b>	<b>2.7</b>	<b>0.4</b>	<b>6.2</b>	<b>9.5</b>	<b>0.2</b>	<b>2.5</b>	<b>0.6</b>	<b>-1.3</b>	
<b>Retail trade</b>	<b>2.2</b>	<b>5.3</b>	<b>6.3</b>	<b>5.7</b>	<b>4.1</b>	<b>2.9</b>	<b>5.5</b>	<b>9.5</b>	<b>6.1</b>	<b>5.5</b>	<b>12.5</b>	<b>5.8</b>	
<b>Number of tourist arrivals</b>	<b>10.2</b>	<b>15.7</b>	<b>21.0</b>	<b>13.0</b>	<b>17.2</b>	<b>11.4</b>	<b>12.4</b>	<b>14.0</b>	<b>11.6</b>	<b>15.8</b>	<b>15.0</b>	<b>19.9</b>	
<b>Number of nights stayed</b>	<b>5.7</b>	<b>10.3</b>	<b>15.0</b>	<b>11.9</b>	<b>9.6</b>	<b>8.9</b>	<b>8.5</b>	<b>13.1</b>	<b>6.2</b>	<b>7.1</b>	<b>17.3</b>	<b>15.1</b>	
Private accommodation	13.5	16.7	21.4	31.2	12.5	12.5	17.8	23.8	11.3	-2.0	13.8	10.5	
Collective accommodation	1.0	6.0	11.4	1.5	7.7	5.9	-0.6	4.7	3.0	12.3	20.0	18.5	
<b>Tourist expenditure</b>	<b>4.3</b>	<b>13.9</b>	<b>24.9</b>	<b>9.5</b>	<b>14.3</b>	<b>11.4</b>	<b>10.4</b>	<b>16.7</b>	<b>10.2</b>	<b>18.3</b>	<b>24.3</b>	<b>16.1</b>	
Package expenditure	-6.5	3.2	11.8	-6.4	3.4	-5.6	-5.8	10.4	15.0	23.9	21.0	30.9	
Non-package expenditure	11.3	19.8	42.2	25.5	18.8	22.5	18.3	21.2	0.4	10.9	23.8	32.4	
Other	8.2	17.3	21.7	9.9	19.1	15.4	15.7	17.8	14.8	20.5	26.4	-2.7	

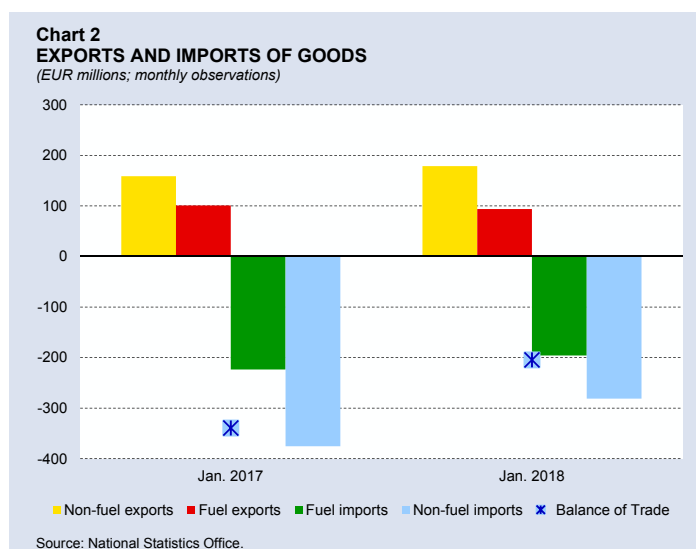
Sources: National Statistics Office; Eurostat.

spent in collective accommodation. Tourist spending in Malta rose by 16.1% in annual terms. Spending on both non-package and package holidays increased while the 'other' expenditure category registered a decline.

In the fourth quarter of 2017, the total occupancy rate in collective accommodation establishments rose to 58.2% from 56.8% in the fourth quarter of 2016. Higher occupancy rates were recorded in the two-star, three-star and the "other establishments" categories. On the contrary, occupancy rates in five-star hotels, and to a much lesser extent, in 4-star establishments declined on the same quarter a year earlier.

In the final quarter of 2017, there were 94 cruise liner calls, nine more than a year earlier. Foreign passengers increased to 185,479, from 175,819 in the same period of 2016.

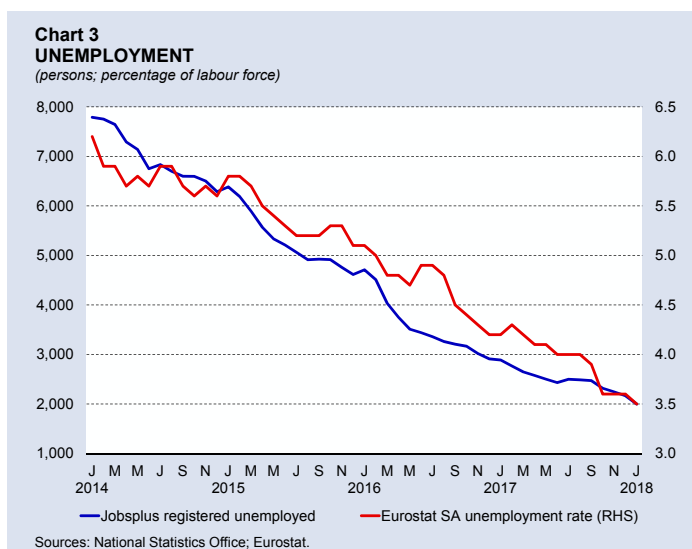
Preliminary Customs data show that the merchandise trade deficit stood at €204.5 million in January, a narrowing of €134.7 million on the first month of 2017 (see Chart 2). This arose as imports declined and exports expanded on their year ago levels. The former fell by €121.8 million, whereas exports rose by €12.9 million. The decline in imports was mainly driven by a fall in registration of ships and aircraft, and to a lesser extent fuels. Excluding trade in fuels, the merchandise trade deficit narrowed by €114.2 million compared with January 2017.



## Labour market

Jobsplus data show that in January, the number of persons on the unemployment register fell further on the same month a year earlier. These decreased to 2,000, from 2,889 a year earlier, and from 2,167 in December 2017 (see Chart 3).

Eurostat's estimate of the seasonally adjusted unemployment rate also declined, falling marginally to 3.5%, from 3.6% in the preceding month. This compares favourably with 4.2% in the corresponding month of 2017, and is the lowest rate ever recorded for Malta.



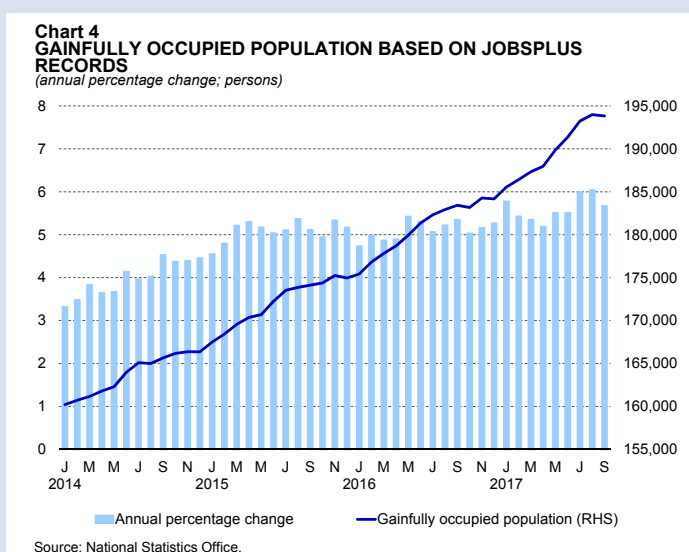
## BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in September 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.7% on a year earlier, reaching 193,842 (see Chart 4). The rate of growth fell marginally from the preceding two months, but was above 5.3% recorded a year earlier.

As in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 9,173, or 6.6%, on the same month of 2016. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 8,579, or 8.1% in annual terms. This increase was distributed among all major sectors within this category.

The sector incorporating real estate, professional



**Table 3**  
**LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS**

*Persons: annual percentage changes*

	2016 Sep.	2017 Sep.	Annual change	
			Number of persons	%
<b>Labour supply</b>	<b>186,646</b>	<b>196,314</b>	<b>9,668</b>	<b>5.2</b>
Gainfully occupied <sup>(1)</sup>	183,439	193,842	10,403	5.7
Registered unemployed	3,207	2,472	-735	-22.9
<b>Unemployment rate (%)</b>	<b>1.7</b>	<b>1.3</b>		
<b>Private sector</b>	<b>138,649</b>	<b>147,822</b>	<b>9,173</b>	<b>6.6</b>
<b>Direct production</b> <sup>(2)</sup>	<b>33,265</b>	<b>33,859</b>	<b>594</b>	<b>1.8</b>
Of which:				
Manufacturing	20,700	20,924	224	1.1
Construction	9,890	10,273	383	3.9
<b>Market services</b>	<b>105,384</b>	<b>113,963</b>	<b>8,579</b>	<b>8.1</b>
Wholesale and retail trade	25,554	26,052	498	1.9
Transportation and storage	8,061	8,388	327	4.1
Accommodation and food service activities	11,673	12,644	971	8.3
Information and communication	6,336	6,849	513	8.1
Financial and insurance activities	8,303	8,860	557	6.7
Real estate, professional and administrative activities <sup>(3)</sup>	25,128	28,362	3,234	12.9
Arts, entertainment and recreation	6,707	7,852	1,145	17.1
Education	5,118	5,378	260	5.1
Other	8,504	9,578	1,074	12.6
<b>Public sector</b>	<b>44,790</b>	<b>46,020</b>	<b>1,230</b>	<b>2.7</b>

<sup>(1)</sup> This category measures full-time employment.

<sup>(2)</sup> This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.

<sup>(3)</sup> This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.

Source: National Statistics Office.

and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,234 in the year to September 2017, and accounted for 38% of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector and in accommodation and food services activities also increased significantly in annual terms, going up by 1,145 and 971 persons respectively.

Meanwhile, employment in direct production within the private sector grew by 594, or 1.8%, on a year earlier. Growth was mainly recorded within the construction and manufacturing sectors. Employment in education also increased, although only marginally.

Public sector jobs rose by 1,230, or 2.7%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education. These offset falls in other sectors, such as health and construction. Nevertheless, the share of public sector employment declined, to 23.7% in September 2017 from 24.4% a year earlier.



## Prices, costs and competitiveness

Consumer price pressures eased slightly in January when compared with the previous month, with annual HICP inflation falling to 1.2% from 1.3% a month earlier (see Chart 5).

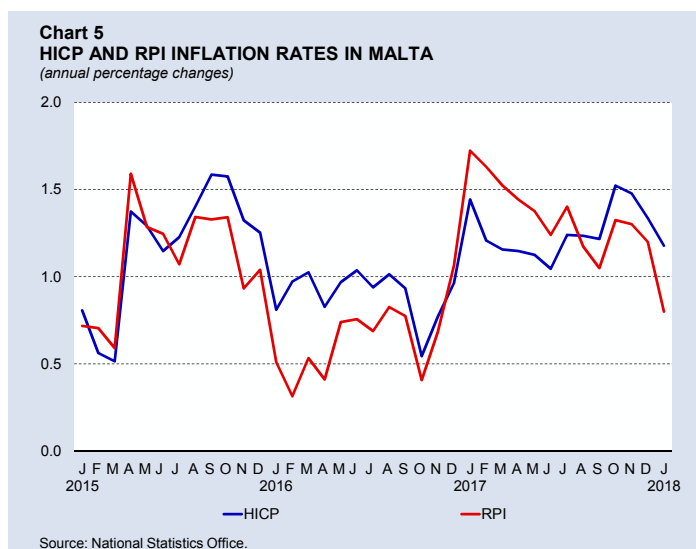
Food inflation eased during the month under review, reflecting a deceleration in processed food inflation and a further annual contraction in vegetable prices. Services inflation also decelerated, mainly on account of weaker increases in the prices of services related to transport. Energy inflation fell to zero in January, as the increase in transport fuel prices in January 2017 dropped out of the annual inflation rate.

These downward movements were partly counterbalanced by higher inflation within the non-energy industrial goods (NEIG) component, as higher prices for durable goods such as motor vehicles offset continued weakness in the semi-durables category.

With regard to inflation as measured by the Retail Price Index (RPI), price pressures eased to 0.8% in January, compared with 1.2% a month earlier.<sup>14</sup> This drop was largely driven by lower contributions from the food and the clothing and footwear components.

Cost inflation remained robust in January, with the Industrial Producer Price Index (PPI) rising at an annual rate of 3.1%.<sup>15</sup> PPI inflation eased slightly from the 3.4% recorded in December, reflecting slower growth in the prices of capital goods and a faster fall in consumer goods prices. In contrast, intermediate goods prices, which is the largest component in the index and includes computer, electronic and optical products, picked up further.

With regard to international price competitiveness, Malta's harmonised competitiveness indicator (HCI) accelerated marginally during January. The nominal HCI rose by 4.1% on an annual basis, while growth in the real HCI, which also takes into account relative price pressures, edged up to 5.9%.<sup>16</sup> These figures as well as those recorded in recent months suggest a deterioration in Malta's international competitiveness, with unfavourable movements in the euro exchange rate compounded by developments in relative prices with international trading partners. Preliminary data show that annual growth in the HCIs accelerated further in February.



<sup>14</sup> The RPI differs from the HICP in that RPI weights are based on expenditure by Maltese households, while HICP weights reflect expenditure patterns in Malta, including tourists.

<sup>15</sup> The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>16</sup> The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

## Public finance

During the first month of 2018, the Consolidated Fund balance recorded a deficit of €13.1 million, €2.8 million less than that registered in January 2017 (see Table 4). This occurred as the rise in government revenue was more pronounced than that in expenditure. In turn, the primary balance registered a surplus of €5.2 million, an improvement of €3.5 million over that registered last year.

Total government revenue rose by €15.0 million or 5.8%, when compared with a year earlier. This mainly reflected higher income from direct taxes, principally income tax. Indirect taxes contributed to a lesser extent, adding €5.4 million. On the other hand, non-tax income declined by €13.9 million, partly as a result of a decline in grants received from the EU as well as lower rents.

Government expenditure increased by €12.3 million, or 4.4% when compared with January 2017. This was mainly driven by higher spending on personal emoluments and contributions to government entities. Meanwhile, capital expenditure was €0.7 million lower than that recorded in January 2017.

**Table 4**  
**CONSOLIDATED FUND BALANCE**

EUR millions

	2017	2018	Change	
	Jan.	Jan.	Amount	%
<b>Revenue</b>	<b>261.2</b>	<b>276.2</b>	<b>15.0</b>	<b>5.8</b>
<b>Direct tax</b>	<b>124.0</b>	<b>147.6</b>	<b>23.6</b>	<b>19.0</b>
Income tax	79.9	96.4	16.5	20.6
Social security contributions <sup>(1)</sup>	44.1	51.2	7.1	16.1
<b>Indirect tax</b>	<b>90.1</b>	<b>95.4</b>	<b>5.4</b>	<b>6.0</b>
Value Added Tax	33.4	37.0	3.6	10.9
Customs and excise duties	27.8	26.3	-1.6	-5.6
Licences, taxes and fines	28.8	32.1	3.3	11.4
<b>Non-tax<sup>(2)</sup></b>	<b>47.1</b>	<b>33.2</b>	<b>-13.9</b>	<b>-29.5</b>
<b>Expenditure</b>	<b>277.0</b>	<b>289.3</b>	<b>12.3</b>	<b>4.4</b>
<b>Recurrent</b>	<b>267.0</b>	<b>280.0</b>	<b>13.0</b>	<b>4.9</b>
Personal emoluments	58.4	66.2	7.8	13.3
Operational and maintenance	19.4	17.4	-2.0	-10.5
Programmes and initiatives <sup>(1)</sup>	145.6	146.4	0.8	0.5
Contributions to entities	26.1	31.7	5.7	21.7
Interest payments	17.5	18.3	0.8	4.5
<b>Capital</b>	<b>10.0</b>	<b>9.3</b>	<b>-0.7</b>	<b>-6.9</b>
<b>Primary balance<sup>(3)</sup></b>	<b>1.7</b>	<b>5.2</b>	<b>3.5</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-15.9</b>	<b>-13.1</b>	<b>2.8</b>	<b>-</b>

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

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

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

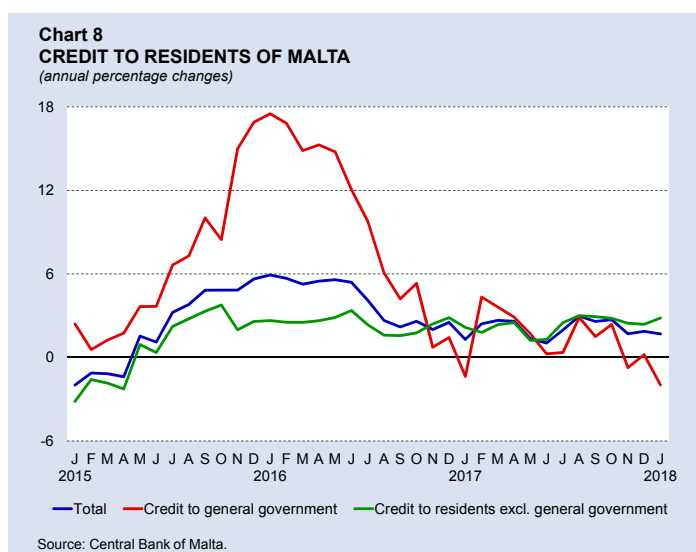
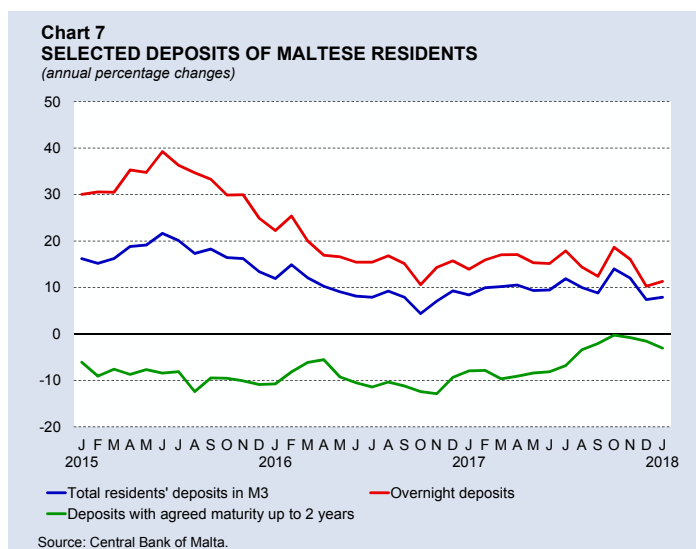
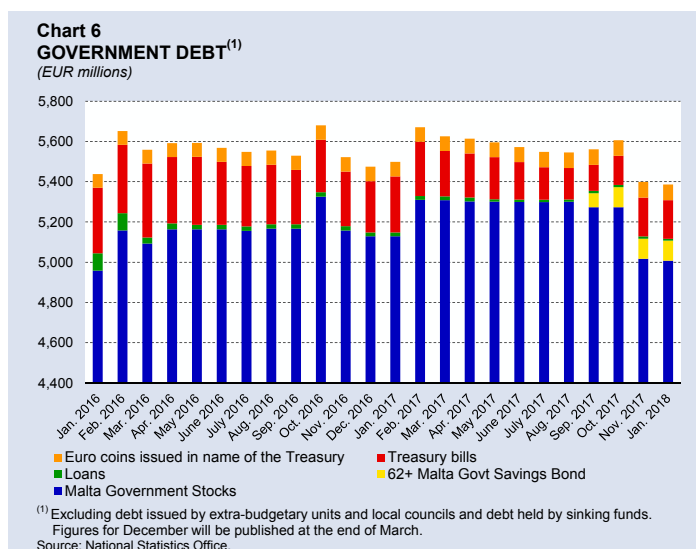
In January, the total stock of central government debt decreased by €12.6 million when compared with November 2017, to reach €5,386.3 million (see Chart 6). The drop in government debt was mainly attributed to a decrease in Malta Government Stocks outstanding as well as a slight decline in outstanding foreign loans.

## Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) remained robust in January 2018, at 7.9% (see Chart 7). Annual growth in residents' deposits has averaged over 12.0% since 2014.

Overnight deposits remained the main driver behind growth in residents' M3 deposits, with annual growth in this category standing at 11.3% in January. The strong pace of expansion in this category of deposits continues to indicate a continued preference for holding liquid assets, in an environment of low interest rates and robust economic activity. At the same time, time deposits continued to contract.

On the assets side of banks' balance sheets, annual growth in credit to Maltese residents stood at 1.7% in January, down slightly from 1.9% a month earlier (see Chart 8). The annual rate of change of credit to general government turned negative, at -2.0%, reflecting developments

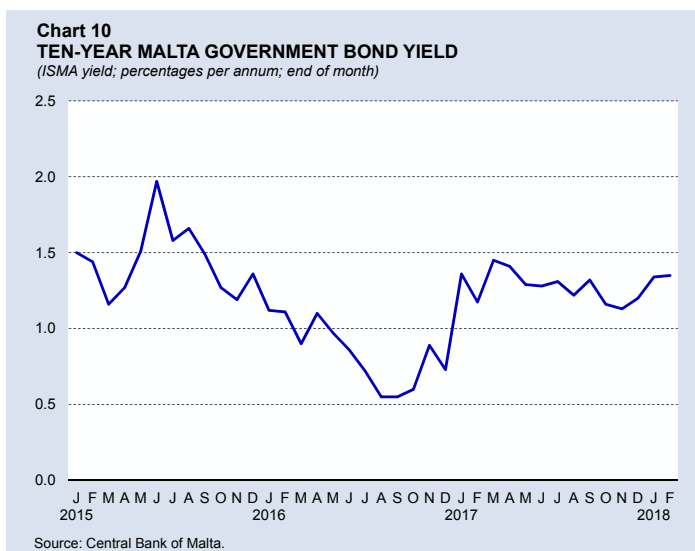
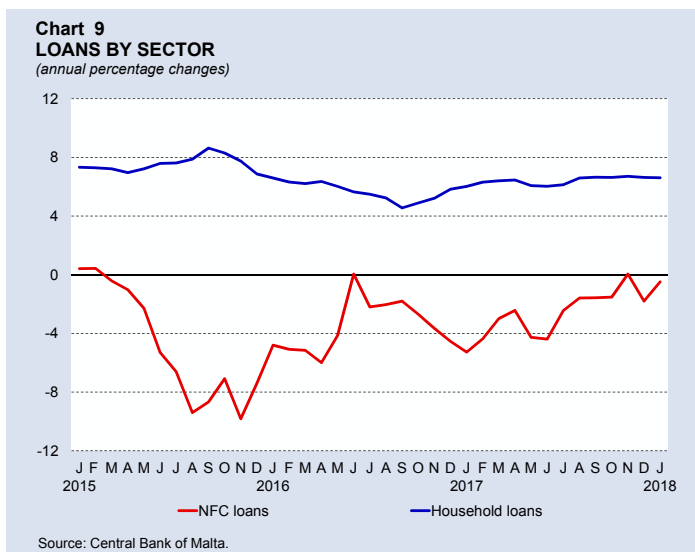


in banks' holdings of Malta Government Stocks. In contrast, credit to other residents remained robust, registering 2.8% annual growth, up from 2.4% a month earlier.

Growth in loans to other residents, the main component of credit, accelerated to 3.2%, supported by continued strong growth in lending to households and a weaker contraction in loans to NFCs (see Chart 9). Household loans grew at an unchanged annual rate of 6.6%, as continued growth in mortgage loans offset declines in consumer credit and other loans. Loans to NFCs contracted by 0.5%, after falling by an annual rate of 1.8% in December. This suggests that banks continued to shift their loan portfolios towards households and away from NFCs. In part, the decline in credit to NFCs also highlights firms' use of alternative funding sources, and a structural shift towards more labour-intensive industries.

The composite interest rate paid by MFIs on residents' euro-denominated deposits dropped marginally, by 1 basis point, when compared with the previous month, falling to 0.37% in January. This is 10 basis points lower than the rate registered in the same period a year earlier. The comparable rate charged on outstanding loans also fell by 1 basis point when compared with the previous month, to 3.63%. This was 4 basis points lower than in January 2017. The spread between the composite loan and deposit rates applied to residents widened to 326 basis points, from 320 basis points a year earlier.

In the capital market, the secondary yield on ten-year Maltese government bonds rose slightly to 1.4% in February 2018, from 1.3% in January (see Chart 10). At the same time, the Malta Stock Exchange (MSE) Equity Price Index rose by 0.4%, while the MSE Total Return Index, which accounts for changes in both equity prices and dividends, gained 0.3%.



# Annex 1

## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2016	2017	2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2018	2018
			Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
<b>Prices and costs</b>																					
HICP inflation	0.9	1.3	0.8	1.3	1.1	1.2	1.4	1.4	1.2	1.2	1.1	1.1	1.0	1.2	1.2	1.2	1.5	1.5	1.3	1.2	-
RPI inflation	0.6	1.4	0.7	1.6	1.4	1.2	1.3	1.7	1.6	1.5	1.4	1.4	1.2	1.4	1.2	1.0	1.3	1.3	1.2	0.9	-
Industrial producer price inflation	-0.3	1.6	-0.4	-0.5	0.4	3.0	3.3	-1.0	-0.3	-0.2	-0.9	1.0	1.2	2.9	3.1	3.1	3.2	3.4	3.4	3.1	-
HCI (nominal)	2.3	1.7	1.7	-0.1	0.7	2.9	3.4	0.4	-0.8	0.2	-0.4	0.8	1.6	2.5	3.2	2.9	2.8	3.2	4.0	4.1	5.9
HCI (real)	3.2	1.8	1.9	-1.2	-0.1	3.9	4.8	-0.3	-2.6	-0.7	-2.0	0.1	1.7	3.5	4.3	3.9	4.0	4.5	5.8	5.9	9.1
Unit labour costs, whole economy <sup>(1)</sup>	1.5	0.0	1.5	1.1	0.5	-0.4	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	3.0	1.1	3.0	1.9	1.9	1.4	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.4	1.2	1.4	0.7	1.4	1.8	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.4	-	4.9	5.2	4.5	4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																					
Nominal GDP	7.1	9.0	7.0	8.7	10.0	10.4	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.5	6.6	5.7	6.8	7.6	7.6	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.0	4.2	2.9	6.0	5.6	4.1	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-2.7	-0.3	-11.6	-4.4	-6.8	16.1	-3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	1.6	-7.4	6.2	7.7	-27.3	-6.6	-0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.5	1.6	8.3	-1.2	4.2	-0.6	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	-3.0	3.6	-3.4	-5.9	-2.8	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																					
LFS unemployment rate (% of labour force)	4.7	-	4.2	4.2	4.1	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	3.1	-	3.2	2.7	2.5	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.1	-	5.2	5.5	5.4	5.9	-	5.8	5.4	5.3	5.2	5.5	5.5	6.0	6.0	5.7	-	-	-	-	-
<b>Balance of payments</b>																					
Current account (as a % of GDP) <sup>(2)</sup>	6.5	-	6.5	7.3	10.9	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																					
Maltese residents' deposits and loans																					
Overnight deposits	15.7	10.2	15.7	17.0	15.2	12.4	10.2	13.9	15.9	17.0	17.1	15.3	15.2	17.9	14.4	12.4	18.6	16.1	10.2	11.3	-
Deposits with agreed maturity up to 2 years	-9.3	-1.6	-9.3	-9.7	-8.1	-2.1	-1.6	-7.9	-7.9	-9.7	-9.1	-8.4	-8.1	-6.8	-3.4	-2.1	-0.3	-0.8	-1.6	-3.1	-
Total residents' deposits in M3	9.3	7.4	9.3	10.2	9.5	8.8	7.4	8.4	9.9	10.2	10.5	9.3	9.5	11.9	10.0	8.8	14.0	12.0	7.4	7.9	-
Credit to general government	1.4	0.2	1.4	3.6	0.3	1.5	0.2	-1.4	4.3	3.6	2.9	1.7	0.3	0.4	2.9	1.5	2.4	-0.7	0.2	-2.0	-
Credit to residents (excl. general government)	2.9	2.4	2.9	2.4	1.3	2.9	2.4	2.2	1.8	2.4	2.5	1.2	1.3	2.5	3.0	2.9	2.8	2.5	2.4	2.8	-
Total credit	2.5	1.9	2.5	2.7	1.0	2.6	1.9	1.3	2.4	2.7	2.6	1.3	1.0	2.0	3.0	2.6	2.7	1.7	1.9	1.7	-
10-year interest rate (%) <sup>(3)</sup>	0.7	1.2	0.7	1.5	1.3	1.3	1.2	1.4	1.2	1.5	1.4	1.3	1.3	1.3	1.2	1.3	1.2	1.1	1.2	1.3	1.4
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	4.5	-3.3	3.7	1.9	-0.4	1.1	-3.9	1.8	0.4	-0.4	-0.9	-0.8	1.3	0.3	-1.5	1.1	-0.9	-5.6	2.7	-0.7	0.4
<b>General government finances (% of GDP)</b>																					
Surplus (+) / deficit (-) <sup>(2)</sup>	1.1	-	1.1	2.2	2.1	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	56.2	-	56.2	56.6	55.0	53.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period. In January and February 2017, in the absence of bonds qualifying within the recommended residual maturity, the benchmark yield was calculated as an average of bonds close to the agreed maturity range.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> GDP data are four-quarter moving sums.

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.