



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 7/2018

Date of issue: 18 July 2018

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*The cut-off date for information in this publication is 16 July 2018. Figures in tables may not add up due to rounding.*

ISSN 2410-8294 (online)

## ECONOMIC UPDATE 7/2018

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

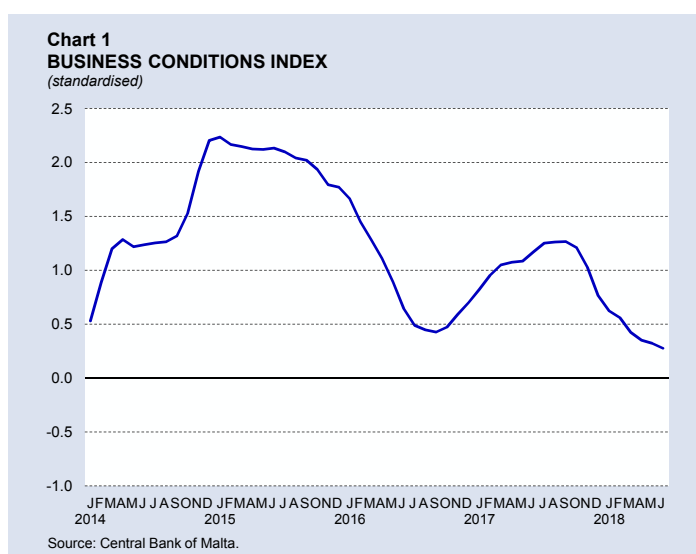
In June, the Bank's Business Conditions Index (BCI) remained unchanged over the previous month, and continued to suggest above-average economic conditions. Economic sentiment edged down slightly, as lower confidence in the construction, services and retail sectors offset higher sentiment within industry and among consumers. In May, tourism activity continued to grow at a strong pace in annual terms, while industrial production and retail trade contracted. 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 to a new record low. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) picked up in May, reaching 1.7%. In May, the annual rate of change of Maltese residents' deposits and the annual growth in credit to residents accelerated, standing at 7.7% and 2.4% respectively. As regards fiscal developments, the cash-based Consolidated Fund recorded a surplus, in contrast to a deficit in May 2017.

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

In June, the Central Bank's BCI remained unchanged over the previous month, at 0.3 and thus continued to show above-average conditions (see Chart 1). It was affected by a slowdown in industrial production, which was offset by a decrease in unemployment.

### Business and consumer confidence indicators

In June 2018, the Economic Sentiment Indicator (ESI) edged down to 118, from 119 in the preceding month, and remained above its long-term average of 101 (see Table 1).<sup>3,4</sup> Lower sentiment was registered within the



<sup>1</sup> The cut-off date for information in this note is 16 July 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.	Mar.	Apr.	May	June
<b>Economic Sentiment Indicator</b>	<b>108</b>	<b>114</b>	<b>123</b>	<b>121</b>	<b>119</b>	<b>111</b>	<b>119</b>	<b>118</b>
<b>Construction confidence indicator</b>	<b>-8</b>	<b>13</b>	<b>27</b>	<b>29</b>	<b>26</b>	<b>25</b>	<b>38</b>	<b>25</b>
Evolution of your current overall order books	-22	2	21	29	26	16	33	18
Employment expectations over the next 3 months	6	24	34	29	27	34	43	32
<b>Services confidence indicator</b>	<b>26</b>	<b>31</b>	<b>38</b>	<b>30</b>	<b>33</b>	<b>29</b>	<b>40</b>	<b>30</b>
Business situation development over the past 3 months	22	27	32	27	34	25	31	26
Evolution of the demand over the past 3 months	29	33	36	38	38	34	41	30
Expectation of the demand over the next 3 months	27	32	46	25	26	29	49	35
<b>Retail trade confidence indicator</b>	<b>7</b>	<b>9</b>	<b>16</b>	<b>23</b>	<b>6</b>	<b>1</b>	<b>10</b>	<b>0</b>
Business activity, past 3 months	17	15	38	26	3	8	13	8
Stocks of finished goods	9	5	22	3	3	7	12	4
Business activity, next 3 months	14	16	32	47	17	3	28	-4
<b>Industrial confidence indicator</b>	<b>0</b>	<b>8</b>	<b>16</b>	<b>14</b>	<b>11</b>	<b>-4</b>	<b>5</b>	<b>11</b>
Assessment of order-book levels	-18	-5	-2	6	-2	1	-2	19
Assessment of stocks of finished products	2	-2	1	-1	5	13	3	7
Production expectations for the months ahead	19	27	51	35	40	-1	20	20
<b>Consumer confidence indicator</b>	<b>2</b>	<b>8</b>	<b>25</b>	<b>27</b>	<b>26</b>	<b>23</b>	<b>22</b>	<b>23</b>
Financial situation over the next 12 months	5	9	18	23	20	17	14	17
General economic situation over the next 12 months	13	19	32	33	34	28	27	26
Unemployment expectations over the next 12 months	-13	-18	-30	-29	-32	-31	-33	-30
Savings over next 12 months	-24	-14	17	25	17	15	14	20

Source: European Commission.

construction, services and retail sectors. This decline was partly offset by increased sentiment within industry and among consumers.

The sharpest decline in sentiment was registered in the construction sector, where confidence fell back to 25, from 38 in May.<sup>5</sup> Despite this decline, sentiment remained well above its long-term average of -17. Both the assessment of current order books and, to a lesser extent, of employment expectations weakened compared with May. Other survey data indicate that in comparison with May, a larger share of respondents reported an increase in building activity over the preceding three months. Also, more firms anticipated an increase in prices.

The services sector also posted a significant decline in confidence.<sup>6</sup> In June, confidence in this sector fell to 30, from 40 in the preceding month, though it too remained above its long-term average of 23. Less optimistic demand expectations for the three months ahead were the main driver, followed closely by respondents' assessment of past demand. A less positive assessment of the business situation over the past 3 months also contributed. Additional survey data indicate that in June, employment expectations were less optimistic than in the preceding month. Also, fewer respondents anticipated a fall in prices.

<sup>5</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>6</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.

In the retail sector the confidence indicator fell to 0, from 10 in May.<sup>7</sup> Following this decline, sentiment in this sector fell below its long-term average of 2. The recent fall in sentiment was driven in large part by retailers' assessment of business activity over the next 3 months, which turned negative for the first time since May 2017.<sup>8</sup> Additional survey data indicate that on balance, firms predicted a rise in both employment and prices in the three months ahead.

In contrast to the lower sentiment in the above sectors, industrial confidence improved further, after turning positive in the preceding month.<sup>9</sup> Indeed, sentiment rose to 11, from 5 in May, thus standing above its long-term average of -3. The rise in sentiment in June was solely driven by firms' assessment of order books, which rose significantly, after turning slightly negative in the preceding month. On the other hand, on balance, more firms assessed stock levels to be above normal. Meanwhile, production expectations remained unchanged in the month under review. Supplementary survey data show that a larger share of respondents expected to increase their employment in subsequent months. On balance, while firms previously expected selling prices to increase, in June they anticipated a fall in selling prices in the three months ahead.

Consumer confidence edged up slightly to 23 from 22 in May, thus remaining well above the long-term average of -17.<sup>10</sup> The rise in sentiment was driven by consumers' expectations of their savings and financial situation over the following 12 months. On the other hand, fewer respondents expected unemployment to fall.<sup>11</sup> Also, on balance, a marginally smaller share of consumers expected the general economic situation to improve. Additional survey data show that a smaller share of respondents expected to make fewer major purchases in the following 12 months, while more consumers anticipated higher inflation in the 12 months ahead.

## 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 1.1% in May, following a fall of 3.8% in April (see Table 2).<sup>12</sup> The decrease in May was largely driven by lower production of food products and computer, electronics and optical products. Smaller declines were also recorded in other sub-sectors, in particular among firms producing rubber and plastics and pharmaceutical products. Output also fell in the "other manufacturing" sub-sector, which includes medical and dental instruments, toys and related products. These losses offset increased production within firms involved in the printing and reproduction of recorded media. Output also rose among firms involved in the production of beverages and in the repair and installation of machinery and equipment as well as within the energy sector.

<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> Above normal stocks of finished goods have a negative effect on the overall indicator. Thus a fall in the balance of firms reporting above normal stock levels has a positive effect on the overall indicator.

<sup>9</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>10</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>11</sup> A fall in unemployment expectations has a positive effect on the overall indicator. Thus, more respondents expecting unemployment to fall has a positive effect on the overall indicator.

<sup>12</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

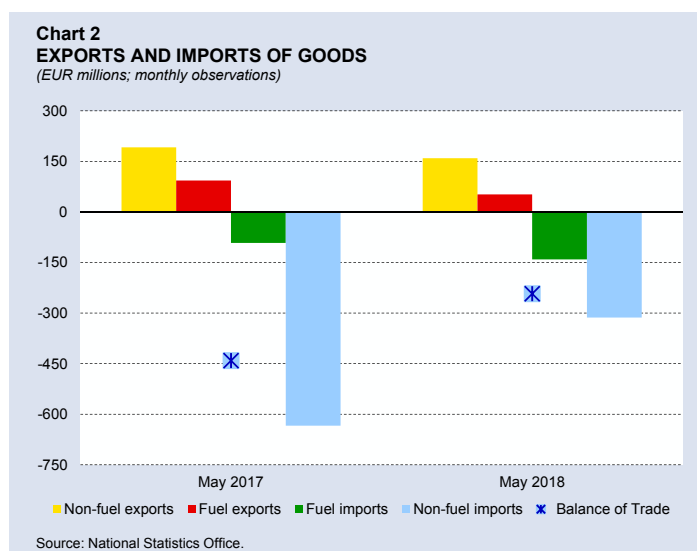
	2016	2017	2017												2018		
			Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	
<b>Industrial production</b>	-4.3	4.1	3.0	5.0	2.7	0.4	6.2	9.5	0.2	2.5	0.6	1.4	-5.1	-2.6	-3.8	-1.1	
<b>Retail trade</b>	3.3	3.9	7.2	6.5	5.1	2.6	3.1	9.0	4.5	1.0	8.0	7.5	6.3	4.6	-2.9	-1.8	
<b>Number of tourist arrivals</b>	10.2	15.7	21.0	13.0	17.2	11.4	12.4	14.0	11.6	15.8	15.0	19.9	17.8	18.6	17.0	19.3	
<b>Number of nights stayed</b>	5.7	10.3	15.0	11.9	9.6	8.9	8.5	13.1	6.2	7.1	17.3	15.1	11.2	26.9	16.9	20.2	
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	19.1	56.1	26.7	21.9	
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	7.4	14.6	11.0	19.0	
<b>Tourist expenditure</b>	4.3	13.9	24.9	9.5	14.3	11.4	10.4	16.7	10.2	18.3	24.3	16.1	4.7	20.2	3.9	16.6	
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	15.4	27.2	15.1	29.7	
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	8.5	19.8	3.4	10.6	
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	-5.0	15.0	-3.6	12.6	

Sources: National Statistics Office; Eurostat.

In May, growth in retail trade, which is a short-term indicator of private consumption, contracted further. Calendar day-adjusted data show that the volume of retail trade fell at an annual rate of 1.8%, following a fall of 2.9% in April.

Meanwhile, the number of inbound tourists increased by 19.3% on a year earlier, following a rise of 17.0% in April. In May, nights stayed grew by 20.2% in annual terms, reflecting increases in both private and collective accommodation. Tourist spending in Malta rose by 16.6%, after increasing by 3.9% in April. This mainly reflected higher spending on package holidays, the “other” category and air fares.

Customs data show that in May 2018, the merchandise trade deficit stood at €242.6 million, down from €441.2 million in the corresponding month of 2017 (see Chart 2). This was driven by a decline in imports which outpaced smaller contraction in exports. The former dropped by €271.9 million on a year earlier, whereas exports edged down by €73.3 million. The decline in imports was predominantly driven by lower registrations of ships and vessels, which were exceptionally high in May 2017. The drop in exports was mainly on account of lower fuel re-exports.

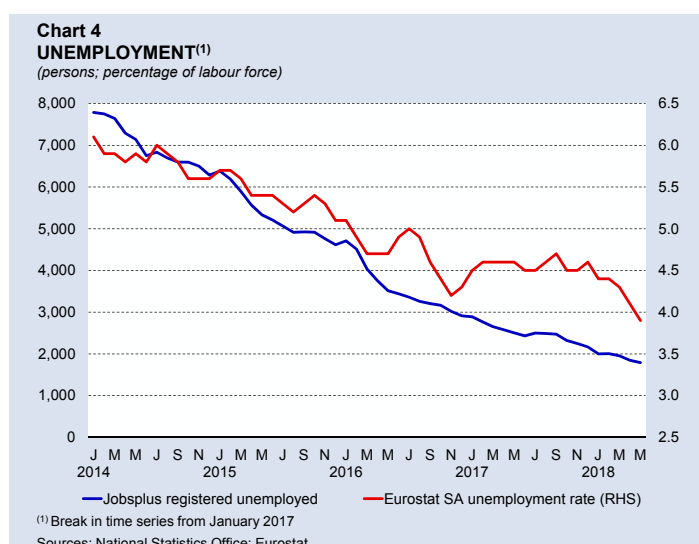
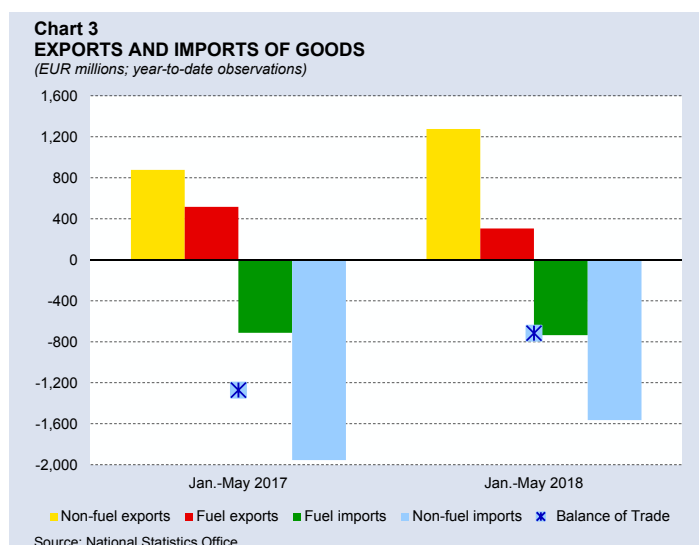


Partly reflecting developments in the month under review, the visible trade gap narrowed by €556.0 million during the first five months of 2018 when compared with the same period of 2017, and stood at €715.3 million (see Chart 3).

## Labour market

Jobsplus data show that in May the number of persons on the unemployment register dropped further to 1,791, from 2,502 a year earlier, and from 1,847 in April 2018 (see Chart 4).

Eurostat's estimate of the seasonally-adjusted unemployment rate also declined, falling to 3.9%, from 4.6% in the corresponding month of 2017 and 4.1% in the preceding month. The latest reading is the lowest ever recorded for Malta.



## BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in December 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.3% on a year earlier, reaching 195,274 (see Chart 5). The rate of growth fell marginally from the preceding month, as well as from the 5.9% recorded a year earlier.

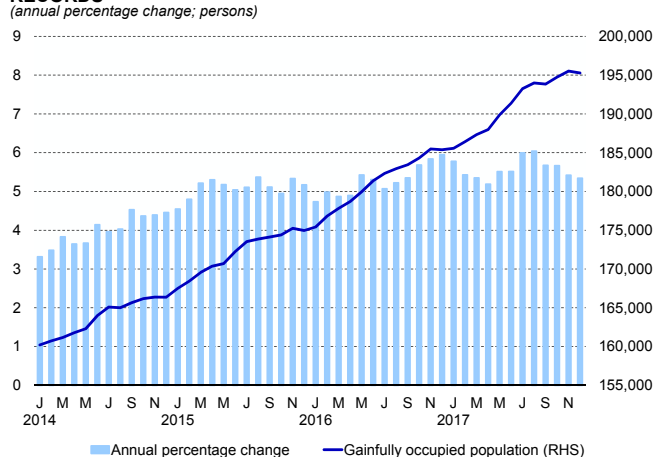
In line with developments in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 8,690, or 6.2%, on the same month of 2016. Employment growth in this sector continued to be driven by market services, with the number of full-time job holders increasing by 7,964, or 7.5% in annual terms.

This rise was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,293 in the year to December 2017, and accounted for 41% of the overall rise in private market services employment. The

**Chart 5**  
**GAINFULLY OCCUPIED POPULATION BASED ON JOBSPLUS RECORDS**  
(annual percentage change; persons)



Source: National Statistics Office.

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

Persons; annual percentage changes

	2016	2017	Annual change	
	Dec.	Dec.	Number of persons	%
<b>Labour supply</b>	<b>188,286</b>	<b>197,441</b>	<b>9,155</b>	<b>4.9</b>
Gainfully occupied <sup>(1)</sup>	185,374	195,274	9,900	5.3
Registered unemployed	2,912	2,167	-745	-25.6
<b>Unemployment rate (%)</b>	<b>1.5</b>	<b>1.1</b>		
<b>Private sector</b>	<b>140,057</b>	<b>148,747</b>	<b>8,690</b>	<b>6.2</b>
<b>Direct production<sup>(2)</sup></b>	<b>33,291</b>	<b>34,017</b>	<b>726</b>	<b>2.2</b>
Of which:				
Manufacturing	20,669	21,032	363	1.8
Construction	9,925	10,300	375	3.8
<b>Market services</b>	<b>106,766</b>	<b>114,730</b>	<b>7,964</b>	<b>7.5</b>
Wholesale and retail trade	25,767	26,075	308	1.2
Transportation and storage	8,086	8,449	363	4.5
Accommodation and food service activities	11,688	12,414	726	6.2
Information and communication	6,412	6,677	265	4.1
Financial and insurance activities	8,408	9,012	604	7.2
Real estate, professional and administrative activities <sup>(3)</sup>	25,513	28,806	3,293	12.9
Arts, entertainment and recreation	6,993	8,083	1,090	15.6
Education	5,147	5,440	293	5.7
Other	8,752	9,774	1,022	11.7
<b>Public sector</b>	<b>45,317</b>	<b>46,527</b>	<b>1,210</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.



number of persons employed in the arts, entertainment and recreation sector also grew significantly in annual terms, going up by 1,090 persons. Employment also increased within the private health care sector.

Meanwhile, employment in direct production within the private sector grew by 726, or 2.2%, on a year earlier. Growth was recorded within both the manufacturing and construction sectors.

Public sector jobs rose by 1,210, 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 23.8% in December 2017 from 24.4% a year earlier.

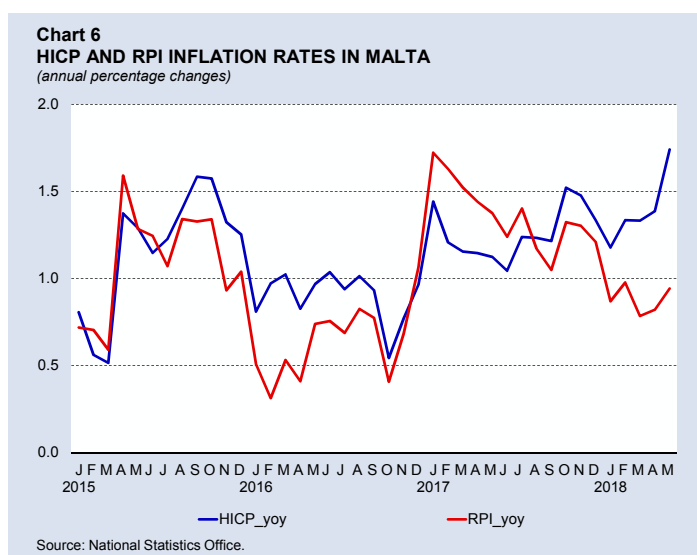
## Prices, costs and competitiveness

Annual inflation as measured by the Harmonised Index of Consumer Prices (HICP) picked up in May, reaching 1.7% from 1.4% a month earlier (see Chart 6). This increase was mainly driven by services, while unprocessed food inflation turned moderately positive.

Among the main HICP subcomponents, services inflation accelerated strongly when compared with April. This was driven by developments in recreational and personal services, particularly those related to the tourism sector. Food inflation picked up slightly owing to developments in vegetable prices, though inflation within this subcomponent remains weak from a historical perspective. Meanwhile, inflation within the non-energy industrial goods subcomponent eased during May, as the strong growth rates in prices for household durables recorded previously moderated. Energy inflation was unchanged from April.

Inflation as measured by the Retail Price Index (RPI) continued to signal contained price pressures during May, though annual growth picked up marginally to 0.9%, from 0.8% a month earlier (see Chart 6). RPI inflation is currently being held back by annual contractions in clothing and footwear prices, while food inflation, though still one of the main contributors of RPI inflation, is low from a historical perspective. The contrasting developments in the overall HICP and RPI inflation rates during May mainly reflects the coverage of tourism services in the HICP basket, which are not included in the RPI basket.<sup>13</sup>

Cost inflation, as measured by the Industrial Producer Price



<sup>13</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.

Index (PPI), eased somewhat during May, with annual growth going to 5.6% from 6.7% a month earlier.<sup>14</sup> Nonetheless, cost inflation remains strong from a historical perspective, and wholly reflects price pressures within the intermediate goods subcomponent, the largest in the index. This subcomponent comprises a wide range of items, including computers and electronics. In contrast, inflation in the remaining subcomponents of the PPI index, namely consumer goods, capital goods, and energy, remained zero or negative during May.

Malta's harmonised competitiveness indicators (HCI) continued to indicate a deterioration in international competitiveness during May. Annual growth in the nominal HCI, based on trade-weighted exchange rates, stood at 3.6%, while the real HCI, which also takes into account relative price pressures, grew by 5.1%.<sup>15</sup> This suggests that movements in the euro exchange rate and developments in relative prices vis-à-vis international trading partners over the past year have negatively impacted Malta's competitiveness. Nonetheless, the extent of this deterioration was more moderate when compared with April.

## Public finance

In May 2018, the Consolidated Fund recorded a surplus of €17.9 million, an amelioration of €41.7 million when compared with the deficit registered in May 2017 (see Table 4). This development

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

EUR millions

	2017	2018	2017	2018	Change	
	Jan.-May	Jan.-May	May	May	Amount	%
<b>Revenue</b>	<b>1,475.8</b>	<b>1,475.1</b>	<b>322.6</b>	<b>323.6</b>	<b>1.0</b>	<b>0.3</b>
<b>Direct tax</b>	<b>671.4</b>	<b>726.8</b>	<b>132.4</b>	<b>155.6</b>	<b>23.2</b>	<b>17.5</b>
Income tax	441.7	479.4	86.2	100.8	14.5	16.8
Social security contributions <sup>(1)</sup>	229.7	247.4	46.2	54.8	8.6	18.7
<b>Indirect tax</b>	<b>581.2</b>	<b>619.5</b>	<b>158.3</b>	<b>153.4</b>	<b>-4.9</b>	<b>-3.1</b>
Value Added Tax	323.4	339.8	110.8	101.0	-9.8	-8.8
Customs and excise duties	114.9	119.0	20.9	25.1	4.2	20.2
Licences, taxes and fines	142.9	160.6	26.6	27.3	0.7	2.6
<b>Non-tax<sup>(2)</sup></b>	<b>223.2</b>	<b>128.8</b>	<b>31.9</b>	<b>14.6</b>	<b>-17.2</b>	<b>-54.1</b>
<b>Expenditure</b>	<b>1,478.4</b>	<b>1,553.1</b>	<b>346.4</b>	<b>305.7</b>	<b>-40.7</b>	<b>-11.7</b>
<b>Recurrent</b>	<b>1,351.0</b>	<b>1,421.9</b>	<b>296.7</b>	<b>267.7</b>	<b>-29.0</b>	<b>-9.8</b>
Personal emoluments	308.6	335.3	64.4	64.6	0.2	0.3
Operational and maintenance	77.7	79.9	17.6	18.9	1.2	6.9
Programmes and initiatives <sup>(1)</sup>	719.9	756.7	163.7	137.9	-25.7	-15.7
Contributions to entities	155.2	164.7	35.4	35.9	0.4	1.2
Interest payments	89.6	85.2	15.5	10.4	-5.1	-32.7
<b>Capital</b>	<b>127.4</b>	<b>131.2</b>	<b>49.7</b>	<b>38.0</b>	<b>-11.7</b>	<b>-23.6</b>
<b>Primary balance<sup>(3)</sup></b>	<b>87.0</b>	<b>7.2</b>	<b>-8.3</b>	<b>28.3</b>	<b>36.6</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-2.6</b>	<b>-78.0</b>	<b>-23.8</b>	<b>17.9</b>	<b>41.7</b>	<b>-</b>

<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are netted out 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.

<sup>14</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>15</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.

mainly reflects lower government expenditure as the increase in total revenue was marginal. As a result, the primary balance recorded a surplus of €28.3 million, an improvement from a deficit of €8.3 million in the same month a year earlier.

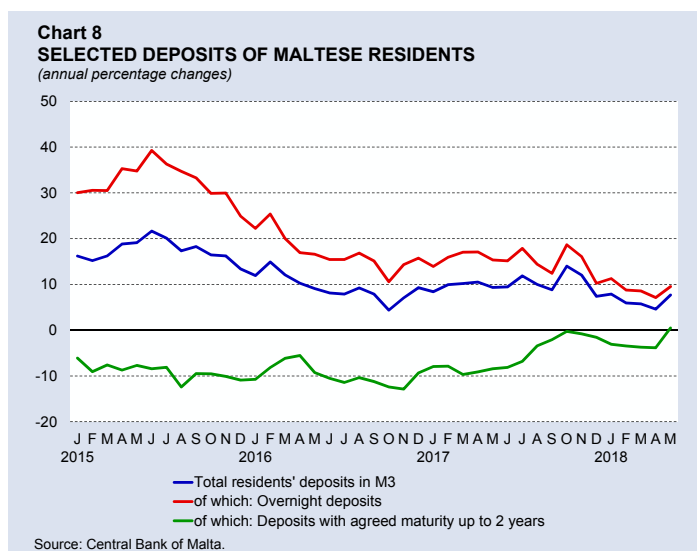
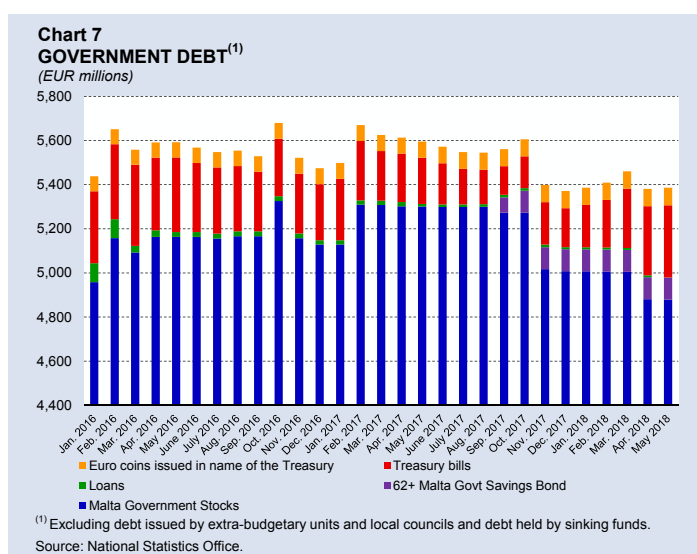
Government revenue rose by €1.0 million when compared with a year earlier, equivalent to 0.3%. Revenue from direct taxes increased by €23.2 million mainly as a result of higher income taxes. However, this rise was largely offset by lower non-tax income and indirect taxes. The former declined by €17.2 million, mainly due to a drop in inflows from the Individual Investor Programme (IIP), while the latter decreased due to lower value added taxes.

Total government expenditure decreased by €40.7 million or 11.7% when compared with the corresponding period of 2017, due to a drop in both recurrent and capital expenditure. The former decreased mainly due to lower outlays on programmes and initiatives, partly as a result of higher expenditure on EU Presidency in May 2017. At the same time interest payments also declined.

In May, the total stock of central government debt, excluding debt issued by extra-budgetary units and debt held by sinking funds rose by €4.8 million when compared with April 2018, to reach €5,386.2 million (see Chart 7). This rise was largely due to higher outstanding amounts of Treasury bills in issue, which offset a decline in 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) picked up to 7.7% in May, from 4.6% a month earlier (see Chart 8). Although robust, growth in M3 deposits remains below the average observed since 2014.

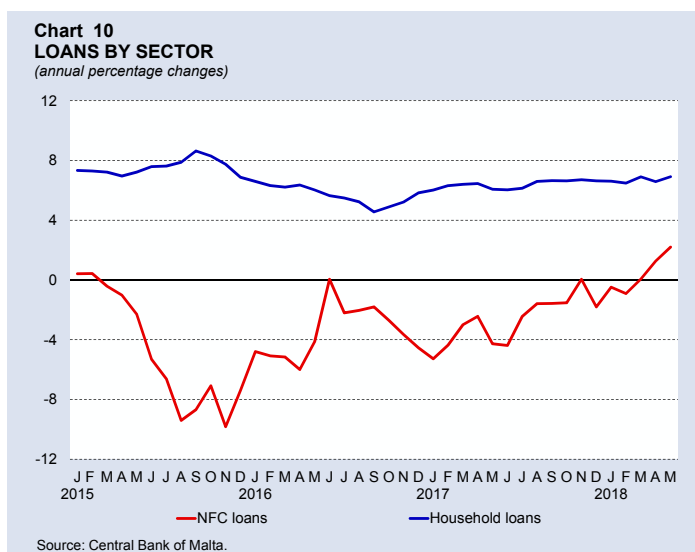
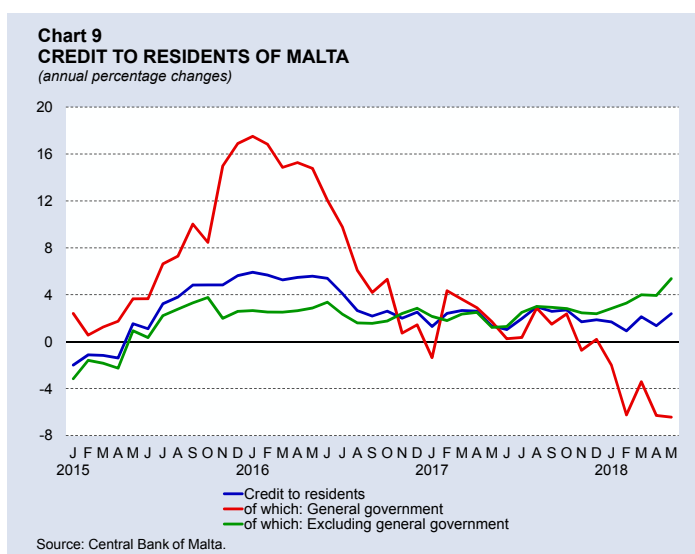


Overnight deposits remained the main driver behind growth in residents' deposits, with growth in this category going up to 9.5% in May, from 7.1% a month earlier. This suggests a continued preference for holding liquid assets in an environment of low interest rates and robust economic activity. At the same time, growth in longer-term time deposits with a maturity of up to two years turned marginally positive, for the first time since 2014. This mainly reflected demand from non-financial corporations (NFC).

On the assets side of banks' balance sheets, annual growth in credit to Maltese residents accelerated to 2.4% in May, from 1.4% a month earlier (see Chart 9). While credit to general government continued to contract, credit to residents excluding general government expanded at a faster pace. Indeed, annual growth in loans, which comprise the bulk of this component, accelerated to 5.3% during the month under review.

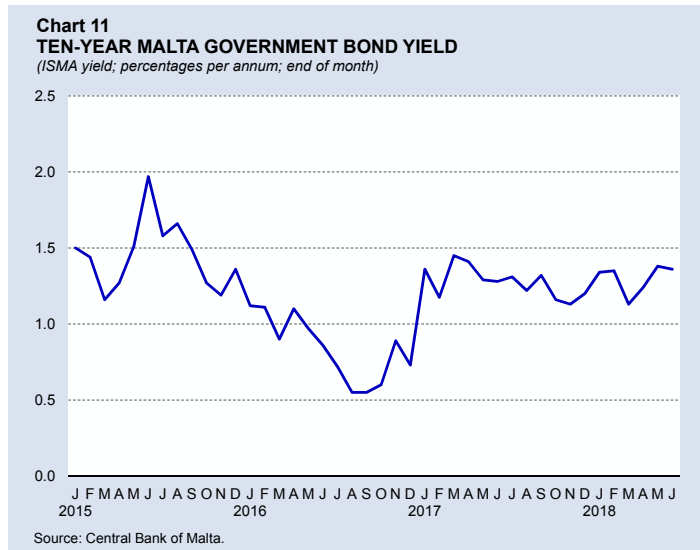
Growth in loans to residents outside the general government sector remained supported mainly by lending to households (see Chart 10), which rose at an annual rate of 6.9% in May. Growth in mortgage loans to households remained robust, while growth in consumer credit and other lending turned positive for the first time since 2012. At the same time, loans to NFCs continued to recover, with annual growth rising to 2.2% in May. This partly reflects developments in lending to the construction and real estate sectors.

The composite interest rate paid by MFIs on residents' euro-denominated deposits remained unchanged at 0.36% in May when compared with a month earlier. Similarly, the composite rate charged on outstanding loans was unchanged at 3.61%. As a result, the spread between the two rates remained unchanged at 325 basis points. Compared with their respective levels a year earlier, the deposit rate was 7 basis points lower



while the loan rate had fallen by 5 basis points.

In the capital market, the secondary yield on ten-year Maltese government bonds remained broadly unchanged at 1.4% in June when compared with May (see Chart 11). At the same time, the Malta Stock Exchange (MSE) Equity Price Index rose by 1.3%, while the MSE Total Return Index, which accounts for changes in both equity prices and dividends, gained 1.8%.



## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2016	2017	2017	2017	2017	2018	2018	2017	2017	2017	2017	2017	2017	2017	2018	2018	2018	2018	2018	2018
			Q2	Q3	Q4	Q1	Q2	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
<b>Prices and costs</b>																				
HICP inflation	0.9	1.3	1.1	1.2	1.4	1.3	-	1.0	1.2	1.2	1.2	1.5	1.5	1.3	1.2	1.3	1.3	1.4	1.7	-
RPI inflation	0.6	1.4	1.4	1.2	1.3	0.9	-	1.2	1.4	1.2	1.0	1.3	1.3	1.2	0.9	1.0	0.8	0.8	0.9	-
Industrial producer price inflation	-0.3	1.6	0.4	3.0	3.3	4.3	-	1.2	2.9	3.1	3.1	3.2	3.4	3.3	3.1	3.3	6.4	6.7	5.6	-
HCI (nominal)	2.3	1.7	0.7	2.9	3.4	5.2	4.1	1.6	2.5	3.2	2.9	2.8	3.2	4.0	4.1	5.9	5.8	5.8	3.5	-
HCI (real)	3.1	1.8	-0.1	3.9	4.8	7.9	6.1	1.7	3.5	4.3	3.8	4.0	4.5	5.8	5.8	9.0	8.8	9.2	5.1	-
Unit labour costs, whole economy <sup>(1)</sup>	1.7	0.4	0.8	0.0	0.4	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	2.8	1.8	1.8	1.3	1.8	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.0	1.4	0.9	1.4	1.4	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.5	5.3	5.8	5.3	4.9	5.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																				
Nominal GDP	2.2	3.9	2.3	7.6	2.0	6.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.2	6.4	7.3	7.3	4.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	2.8	3.9	4.6	3.4	2.4	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-2.7	-0.9	-7.6	15.4	-4.7	10.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	1.7	-7.6	-27.5	-6.6	0.2	-15.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.5	4.3	6.9	3.2	5.9	-0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	-0.9	-4.5	-0.5	3.5	-4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																				
LFS unemployment rate (% of labour force) <sup>(2)</sup>	4.7	4.7	4.7	4.7	4.5	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment <sup>(3)</sup>	-	-	-	-	-	5.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.3	5.6	5.4	5.9	5.5	-	-	5.5	6.0	6.0	5.7	5.7	5.4	5.3	-	-	-	-	-	-
<b>Balance of payments</b>																				
Current account (as a % of GDP) <sup>(4)</sup>	7.0	13.6	11.7	12.9	13.6	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																				
Maltese residents' deposits and loans																				
Overnight deposits	15.7	10.2	15.2	12.4	10.2	8.6	-	15.2	17.9	14.4	12.4	18.6	16.1	10.2	11.3	8.8	8.6	7.1	9.5	-
Deposits with agreed maturity up to 2 years	-9.3	-1.6	-8.1	-2.1	-1.6	-3.7	-	-8.1	-6.8	-3.4	-2.1	-0.3	-0.8	-1.6	-3.1	-3.4	-3.7	-3.8	0.5	-
Total residents' deposits in M3	9.3	7.4	9.5	8.8	7.4	5.8	-	9.5	11.9	10.0	8.8	14.0	12.0	7.4	7.9	5.9	5.8	4.6	7.7	-
Credit to general government	1.4	0.2	0.3	1.5	0.2	-3.4	-	0.3	0.4	2.9	1.5	2.4	-0.7	0.2	-2.0	-6.2	-3.4	-6.3	-6.4	-
Credit to residents (excl. general government)	2.9	2.4	1.3	2.9	2.4	4.0	-	1.3	2.5	3.0	2.9	2.8	2.5	2.4	2.8	3.3	4.0	3.9	5.4	-
Total credit	2.5	1.9	1.0	2.6	1.9	2.1	-	1.0	2.0	3.0	2.6	2.7	1.7	1.9	1.7	0.9	2.1	1.4	2.4	-
10-year interest rate (%) <sup>(5)</sup>	0.7	1.2	1.3	1.3	1.2	1.1	1.4	1.3	1.3	1.2	1.3	1.2	1.1	1.2	1.3	1.4	1.1	1.2	1.4	1.4
Stock prices: Malta Stock Exchange Index <sup>(6)</sup>	4.5	-3.3	-0.4	1.1	-3.9	-0.8	-2.5	1.3	0.3	-1.5	1.1	-0.9	-5.6	2.7	-0.7	0.4	-0.5	-4.3	0.5	1.3
<b>General government finances (% of GDP)</b>																				
Surplus (+) / deficit (-) <sup>(4)</sup>	1.0	3.9	2.1	3.3	3.9	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(7)</sup>	56.2	50.7	55.0	53.4	50.7	50.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-

<sup>(1)</sup> Four-quarter moving averages.<sup>(2)</sup> The LFS unemployment rate for 2017 and the first quarter of 2018 is updated with the latest demographic revisions published by the NSO on 12 February 2018.<sup>(3)</sup> LFS employment figures have been updated on the basis of the latest demographic revisions from the first quarter of 2017. Accordingly, annual growth rates consistent with these revisions are shown from Q1 2018.<sup>(4)</sup> Four-quarter moving sums.<sup>(5)</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>(6)</sup> Period-on-period percentage changes, based on end-of-month data.<sup>(7)</sup> GDP data are four-quarter moving sums.

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