



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 5/2018

Date of issue: 16 May 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 11 May 2018. Figures in tables may not add up due to rounding.*

ISSN 2410-8294 (online)

## ECONOMIC UPDATE 5/2018

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

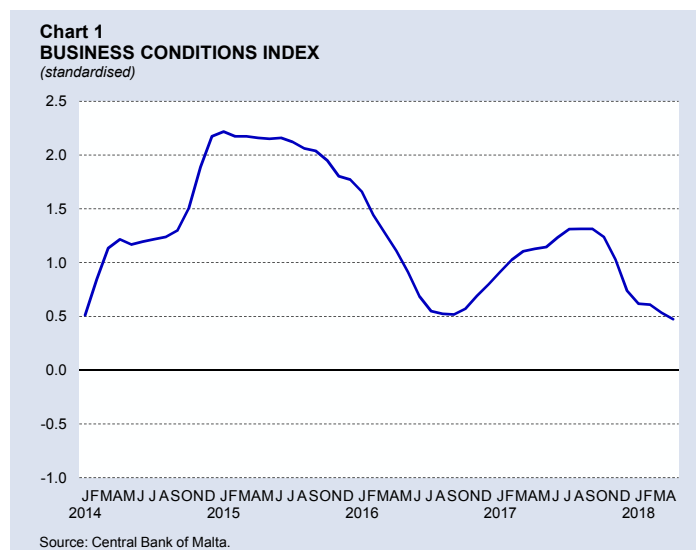
In April, the Bank's Business Conditions Index (BCI) remained broadly unchanged on a month earlier, while continuing to suggest above-average conditions. Economic sentiment fell, reflecting weaker sentiment across all sectors. In March, retail sales and tourism activity grew at a strong pace in annual terms, while industrial production contracted at a slower rate. 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 historically new low. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) remained unchanged at 1.3% in March. While the annual rate of change of Maltese residents' deposits decelerated to 5.7%, annual growth in credit to residents accelerated to 2.0%. As regards fiscal developments, the cash-based Consolidated Fund recorded a larger deficit compared with March 2017.

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

In April, the Central Bank's BCI remained broadly unchanged over the previous month (see Chart 1). The index stood at 0.5, approximately the same value as in March, and below its value a year earlier. The BCI continued to show above average conditions, and was affected by a slowdown in industrial production, and a decrease in unemployment.

### Business and consumer confidence indicators

In April 2018, the Economic Sentiment Indicator (ESI) edged further down to 111, from 119 in the preceding month, while remaining above its long-term average of 100 (see Table 1).<sup>3,4</sup> Lower sentiment was registered within all sectors.



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

Source: European Commission.

The largest decline was registered in the industrial confidence indicator which fell to -4 in April from 11 in the preceding month, and stood below its long-term average of -3.<sup>5</sup> April's fall in sentiment was largely driven by firms' expectations of production in the following months, which fell significantly, turning negative during the month. Stock levels also contributed to the fall in sentiment.<sup>6</sup> On the other hand, a small net percentage of firms assessed order books to be above normal. Supplementary survey data show that, on balance, a smaller share of respondents expected their employment to increase in subsequent months. On balance, respondents anticipated a fall in selling prices in the three months ahead.

Confidence in the retail sector also declined further in April, falling to 1, from 6 in March.<sup>7</sup> Following this decline, sentiment in this sector fell slightly below its long-term average of 2. The recent drop in sentiment was driven by retail firms' expectations of business activity in the next 3 months and higher stock levels. On the other hand, firms' assessment of past business activity improved compared with the preceding month. Additional survey data for this sector indicate that on balance, firms predicted both employment and prices to fall 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> Above normal stocks of finished goods have a negative effect on the overall 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.

In April, confidence in the services sector contracted to 29, from 33 in the preceding month, though it remained above its long-term average.<sup>8</sup> Lower sentiment was driven by both firms' assessment of the business situation and evolution of demand over the preceding three months. Meanwhile, respondents' demand expectations for the three months ahead were more optimistic. In fact, additional survey data indicate that both employment and price expectations were more optimistic than in March.

Consumer confidence declined, going to 23 from 26 in March. Notwithstanding this decrease, consumer confidence remained well above the long-term average of -17.<sup>9</sup> The decline in sentiment was driven by all sub-components with the main driver being fewer consumers predicting an improvement in the general economic situation over the next twelve months.<sup>10</sup> Conversely a larger share of respondents expected to make fewer major purchases in the following 12 months. At the same time, fewer consumers anticipated higher inflation in the 12 months ahead.

Similar to other sectors, confidence in the construction sector fell marginally, from 26 in March to 25 in April. However, it remained well above its long-term average of -18.<sup>11</sup> The recent drop was solely driven by weaker, though still positive, order books. On the other hand, more firms expected employment to rise in the following three months. Other survey data indicate that in comparison with March, a smaller share of respondents reported an increase in building activity over the preceding three months, while on balance a larger share anticipated prices to increase.

## 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 4.8% in March, following a fall of 7.5% in February (see Table 2).<sup>12</sup> The decrease in March was largely driven by lower production of food as well as computer electronic and optical products. Smaller declines were also recorded in other sub-sectors, in particular among manufacturers of rubber and plastics. These losses offset increased production within the beverages and printing and reproduction of recorded media sub-sectors as well as among manufacturers of pharmaceuticals. Output also rose among firms involved in the repair and installation of machinery and equipment and within the energy sector.

During March, growth in retail trade, which is a short-term indicator of final domestic demand, accelerated further. Calendar day-adjusted data show that the volume of retail trade increased at an annual rate of 8.6%, following an 8.1% rise in February.

<sup>8</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>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 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*

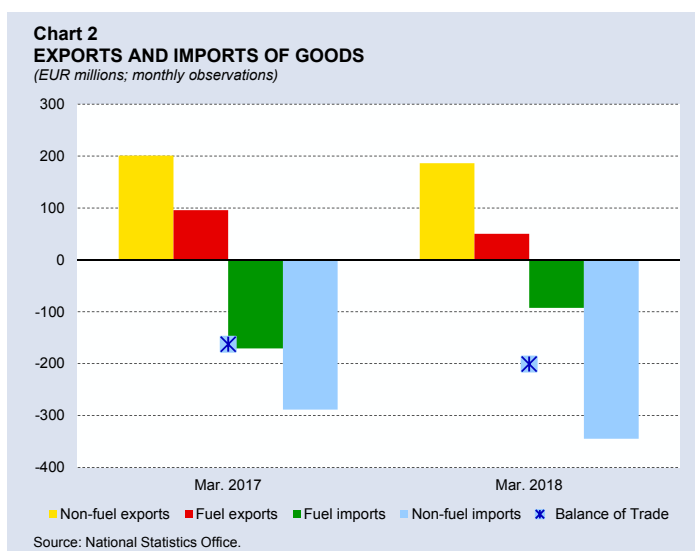
	2016	2017	2017										2018		
			Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
<b>Industrial production</b>	-4.3	4.1	3.0	5.0	2.7	0.4	6.2	9.5	0.2	2.5	0.6	-1.3	-7.5	-4.8	
<b>Retail trade</b>	2.5	4.0	7.4	6.6	5.2	2.8	3.2	9.0	4.4	0.1	7.7	6.6	8.1	8.6	
<b>Number of tourist arrivals</b>	10.2	15.7	21.0	13.0	17.2	11.4	12.4	14.0	11.6	15.8	15.0	19.9	17.8	18.6	
<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	
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	
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	
<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	
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	
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	
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	

Sources: National Statistics Office; Eurostat.

Meanwhile, the number of inbound tourists increased by 18.6% on a year earlier, after rising by 17.8% in February. Nights stayed grew by 26.9%, as both nights spent in private and collective accommodation increased on a year earlier, though the rise was more pronounced in the former. Tourist spending in Malta rose by 20.2%, after increasing by a more modest 4.7% in February. All categories of expenditure reported gains.

In the first quarter of 2018, there were 17 cruise liner calls, 17 less than a year earlier. Foreign passengers decreased to 69,725, from 85,133 in the same period of 2017.

Customs data show that the merchandise trade deficit stood at €200.8 million in March, a widening of €38.2 million on the third month of 2017 (see Chart 2). This occurred as the drop in exports outweighed that in imports. The former declined by €60.3 million, whereas imports dropped by €22.1 million. The dips in imports and exports were mainly driven by a decline in trade in fuels. Excluding trade in fuels, the merchandise trade deficit widened to €158.5 million, a deterioration of €70.9 million on March 2017. This was predominantly driven by increased imports of machinery and transport equipment,



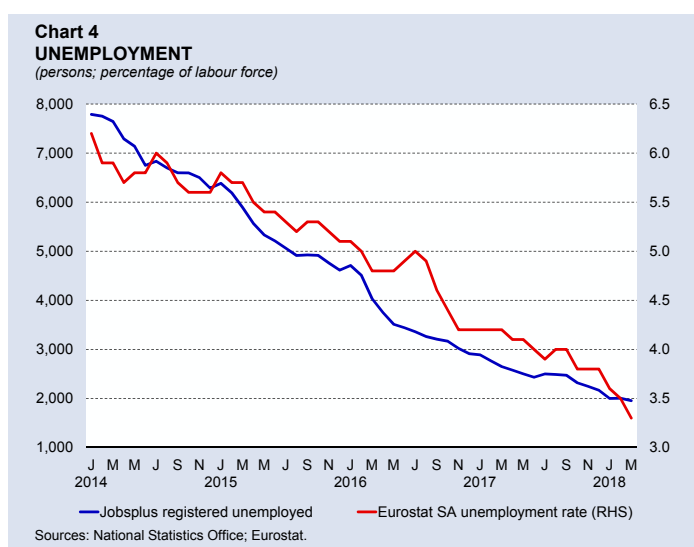
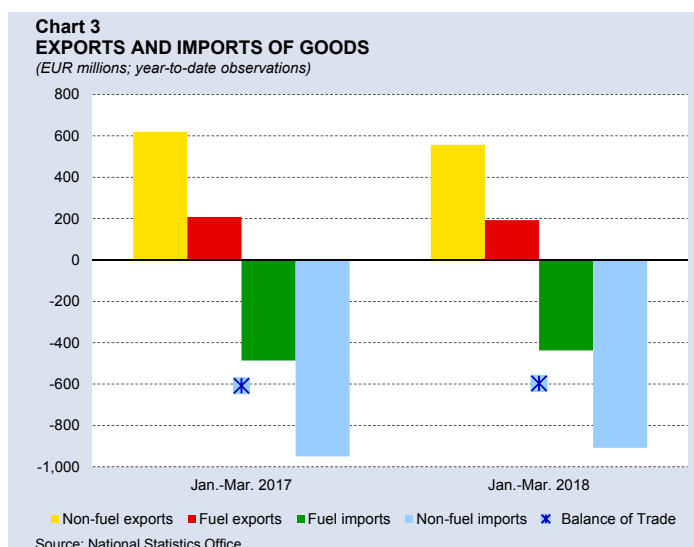
although a decrease in non-fuel exports also contributed.

During the first quarter of 2018 imports declined at a faster pace than exports. As a result, the visible trade gap narrowed by €11.4 million when compared with the same period of 2017, standing at €596.8 million (see Chart 3).

### Labour market

Jobsplus data show that in March the number of persons on the unemployment register dropped further to 1,954, from 2,649 a year earlier, and from 2,005 in February 2018 (see Chart 4).

Eurostat's estimate of the seasonally-adjusted unemployment rate also declined, falling to 3.3%, from 3.5% in the preceding month and 4.2% in the corresponding month of 2017. 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.

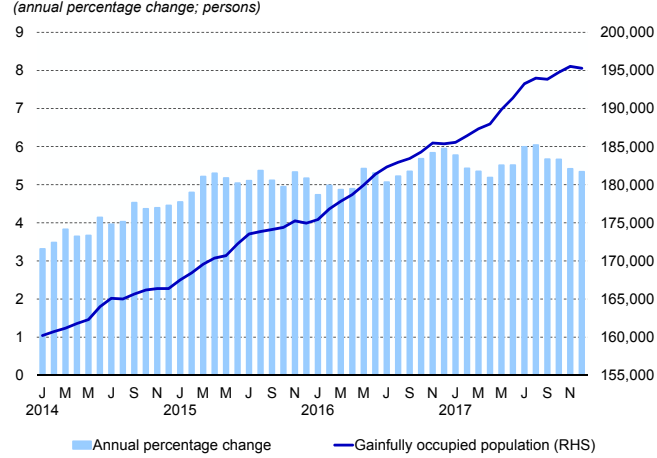
In line with developments in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

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

**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 Dec.	2017 Dec.	Annual change	
			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.



2017, and accounted for 41% of the overall rise in private market services employment. The 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.

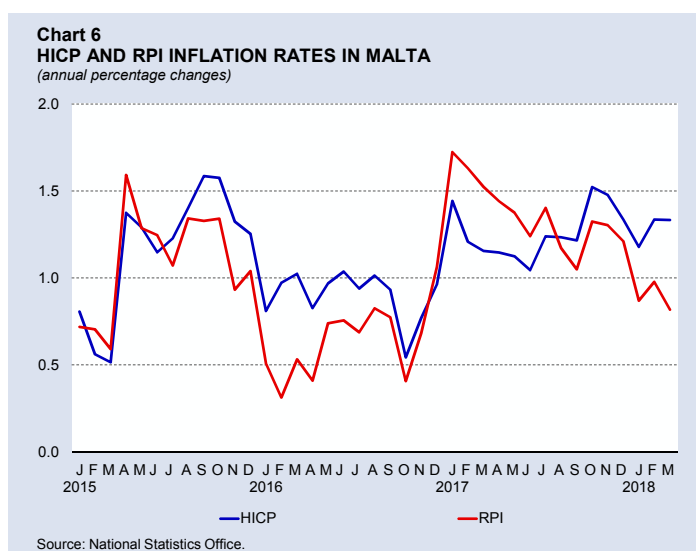
## Prices, costs and competitiveness

Consumer price pressures remained moderate in March, with annual HICP inflation unchanged from the previous month, at 1.3% (see Chart 6).

Services inflation accelerated slightly during the month, while unprocessed food inflation contracted at a slower pace. At the same time, inflation in the non-energy industrial goods component retreated following a strong pick-up in February. Inflation within the remaining components of the HICP index, namely processed food and energy, was unchanged when compared with February.

The Retail Price Index (RPI) also signalled moderate price pressures. RPI inflation eased to 0.8% in February, from 1.0% a month earlier (see Chart 6).<sup>13</sup> In particular, this reflected lower contributions from the food and the clothing and footwear components.

The Industrial Producer Price Index (PPI) continued to grow strongly during March, with annual growth going to 6.4% from 3.3% a month earlier.<sup>14</sup> This acceleration reflected faster growth in the prices of intermediate goods, which is the largest component of the index and includes items such as computers and electronics.



<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.

<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.

In contrast, inflation in consumer and capital goods remained negative, while energy inflation remained unchanged.

Malta's harmonised competitiveness indicators (HCI) continued to indicate a deterioration in international competitiveness during March. Annual growth in the nominal HCI, based on trade-weighted exchange rates, stood at 5.8%, while the real HCI, which also takes into account relative price pressures, grew by 8.7%.<sup>15</sup> Thus, unfavourable movements in the euro exchange rate were amplified by developments in relative prices with international trading partners.

## Public finance

In March 2018, the Consolidated Fund recorded a deficit of €79.6 million, €36.2 million higher than the deficit recorded in the same period a year earlier (see Table 4). Both government revenue and expenditure were on the rise, however the increase in expenditure was more pronounced. In turn, the primary balance registered a deficit of €60.0 million, €35.1 million more than the deficit registered in 2017.

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

EUR millions

	2017		2018		Change	
	Jan.-Mar.	Jan.-Mar.	Mar.	Mar.	Amount	%
<b>Revenue</b>	<b>827.2</b>	<b>858.7</b>	<b>228.5</b>	<b>233.3</b>	<b>4.7</b>	<b>2.1</b>
<b>Direct tax</b>	<b>350.3</b>	<b>389.6</b>	<b>108.4</b>	<b>116.2</b>	<b>7.8</b>	<b>7.2</b>
Income tax	215.4	246.5	65.1	71.9	6.8	10.4
Social security contributions <sup>(1)</sup>	134.9	143.1	43.3	44.2	1.0	2.3
<b>Indirect tax</b>	<b>355.9</b>	<b>377.8</b>	<b>98.6</b>	<b>92.3</b>	<b>-6.3</b>	<b>-6.4</b>
Value Added Tax	188.2	218.4	43.9	40.3	-3.6	-8.2
Customs and excise duties	72.9	69.5	22.7	20.0	-2.7	-12.0
Licences, taxes and fines	94.8	89.9	32.0	32.0	0.0	0.2
<b>Non-tax<sup>(2)</sup></b>	<b>120.9</b>	<b>91.3</b>	<b>21.5</b>	<b>24.8</b>	<b>3.3</b>	<b>15.1</b>
<b>Expenditure</b>	<b>840.0</b>	<b>919.6</b>	<b>272.0</b>	<b>312.9</b>	<b>40.9</b>	<b>15.0</b>
<b>Recurrent</b>	<b>796.2</b>	<b>872.3</b>	<b>261.0</b>	<b>291.4</b>	<b>30.4</b>	<b>11.7</b>
Personal emoluments	183.5	202.2	66.1	71.2	5.2	7.8
Operational and maintenance	45.2	46.4	11.5	13.3	1.8	15.2
Programmes and initiatives <sup>(1)</sup>	421.8	474.4	138.5	162.1	23.6	17.0
Contributions to entities	90.3	93.4	26.4	25.3	-1.1	-4.3
Interest payments	55.3	55.9	18.5	19.6	1.1	5.8
<b>Capital</b>	<b>43.8</b>	<b>47.3</b>	<b>11.0</b>	<b>21.4</b>	<b>10.5</b>	<b>95.4</b>
<b>Primary balance<sup>(3)</sup></b>	<b>42.5</b>	<b>-5.0</b>	<b>-24.9</b>	<b>-60.0</b>	<b>-35.1</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-12.8</b>	<b>-60.9</b>	<b>-43.4</b>	<b>-79.6</b>	<b>-36.2</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>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.

Government revenue increased by €4.7 million or 2.1% when compared with March 2017. This was driven by higher direct taxes, which yielded €7.8 million more in annual terms, largely on account of higher income tax receipts. However, this rise was largely offset by lower intakes from value added tax and customs and excise duties. Meanwhile, non-tax income grew by €3.3 million, largely due to higher income from rents.

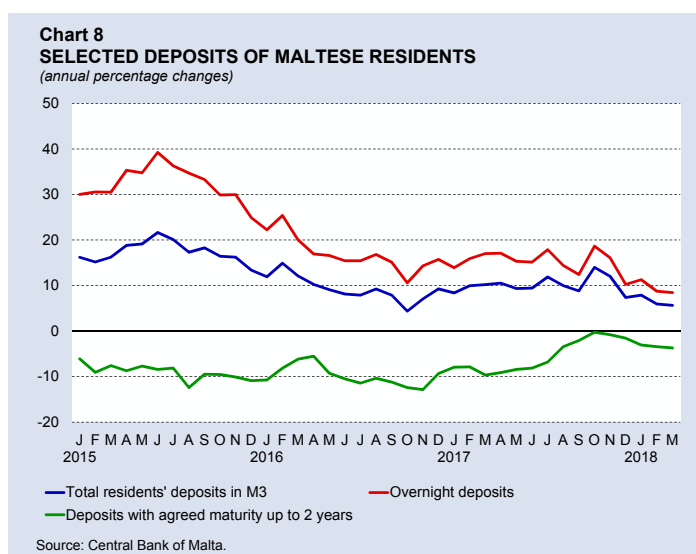
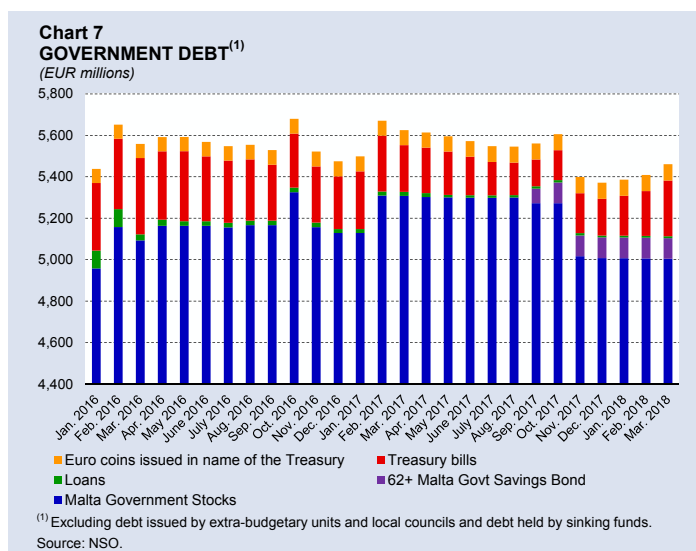
Total government expenditure increased by €40.9 million or 15.0% when compared with the corresponding period of 2017. Government recurrent expenditure rose by €30.4 million and was chiefly driven by higher outlays from programmes and initiatives mainly due to health. This was augmented by higher expenditure on other components of recurrent expenditure including personal emoluments, operations and maintenance and interest payments. Moreover, capital expenditure was €10.5 million higher than in March 2017.

In March, the total stock of central government debt increased by €51.7 million when compared with February 2018, to reach €5,460.7 million (see Chart 7). This was largely due to higher Treasury bills outstanding.

## Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) decelerated to 5.7% in March 2018, from 5.9% a month earlier (see Chart 8). Growth in M3 deposits has recently held below the average observed since 2014, suggesting a normalisation from the historically strong growth rates observed in recent years.

Overnight deposits remained the main driver behind growth in residents' M3 deposits, though growth in this category slowed to 8.4% in March, from 8.8% a month earlier. Nonetheless, the pace of expansion remains strong, suggesting a continued preference for holding liquid assets in an environment of

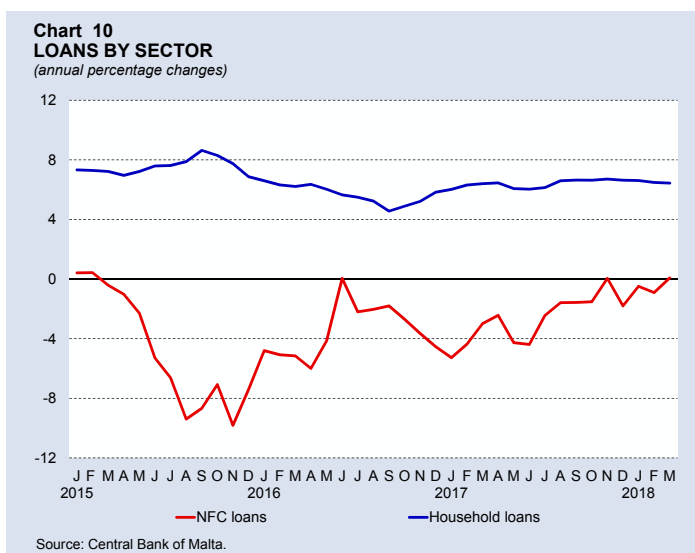
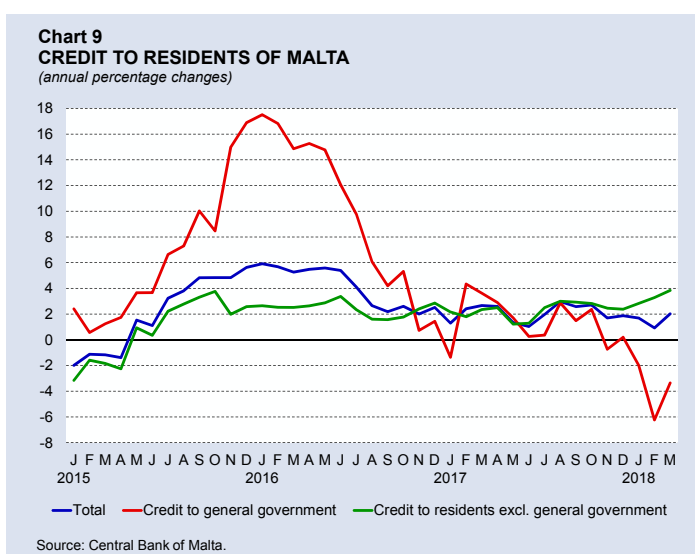


low interest rates and robust economic activity. On the other hand, longer-term time deposits continued to contract.

On the assets side of banks' balance sheets, annual growth in credit to Maltese residents rose to 2.0% in March from 0.9% a month earlier (see Chart 9). Credit to general government contracted at a slower rate of 3.4%, as increased bank holdings of Treasury Bills offset a contraction in holdings of Malta Government Stocks. In contrast, credit to other residents remained robust, with annual growth accelerating to 3.8% from 3.3% a month earlier. This mainly reflected a faster expansion in loans, the largest component of credit to other residents.

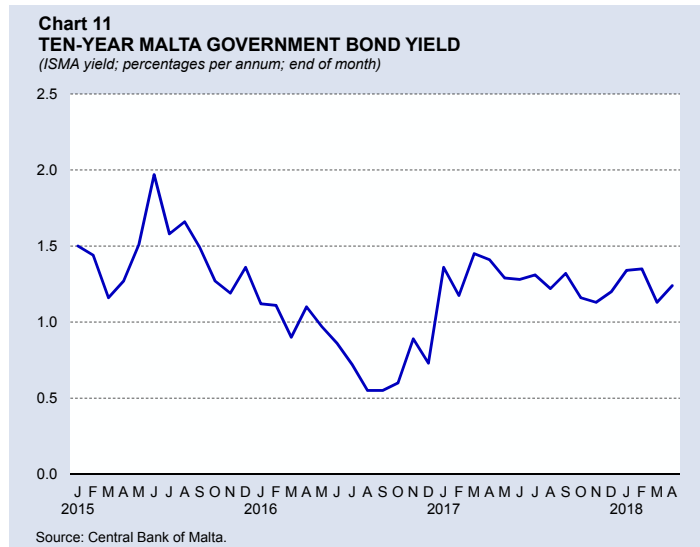
Growth in loans to other residents accelerated to 4.1% in March, supported by continued strong growth in lending to households (see Chart 10). Household loans grew at an annual rate of 6.4%, as a continued strong increase in mortgage loans offset declines in consumer credit and other loans. At the same time, loans to NFCs rose marginally, by 0.1%. This was the first month of positive annual growth since 2015. These developments continue to suggest a continued shift in banks' loan portfolios towards households and away from NFCs. In part, the decline in credit to NFCs also highlights firms' use of alternative funding sources, as well as a structural shift towards less capital-intensive industries.

In March, the composite interest rate paid by MFIs on residents' euro-denominated deposits stood unchanged at 0.37% when compared with a month earlier. This is 8 basis points lower than the rate registered in the same period a year ago. The composite rate charged on outstanding loans rose slightly by 2 basis points when compared with the previous month, to 3.64%, but was unchanged when compared with a year earlier. These developments led to a widening of the spread between the composite loan and deposit rates applied to residents to 328 basis points,



from 319 basis points in March 2016.

In the capital market, the secondary yield on ten-year Maltese government bonds rose slightly to 1.2% in April, from 1.1% a month earlier (see Chart 11). At the same time, the Malta Stock Exchange (MSE) Equity Price Index dropped by 4.3%, while the MSE Total Return Index, which accounts for changes in both equity prices and dividends, lost 2.9%.



## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2016	2017	2017	2017	2017	2018	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2018	2018	2018	2018	
			Q1	Q2	Q3	Q4	Q1	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
<b>Prices and costs</b>																					
HICP inflation	0.9	1.3	1.3	1.1	1.2	1.4	1.3	1.2	1.1	1.1	1.0	1.2	1.2	1.2	1.5	1.5	1.3	1.2	1.3	1.3	-
RPI inflation	0.6	1.4	1.6	1.4	1.2	1.3	0.9	1.5	1.4	1.4	1.2	1.4	1.2	1.0	1.3	1.3	1.2	0.9	1.0	0.8	-
Industrial producer price inflation	-0.3	1.6	-0.5	0.4	3.0	3.3	4.3	-0.2	-0.9	1.0	1.2	2.9	3.1	3.1	3.2	3.4	3.3	3.1	3.3	6.4	-
HCI (nominal)	2.3	1.7	-0.1	0.7	2.9	3.4	5.2	0.2	-0.4	0.8	1.6	2.5	3.2	2.9	2.8	3.2	4.0	4.1	5.9	5.8	-
HCI (real)	3.2	1.9	-1.2	-0.1	3.9	4.8	7.9	-0.7	-2.0	0.1	1.7	3.5	4.3	3.9	4.0	4.5	5.8	5.9	9.0	8.7	-
Unit labour costs, whole economy <sup>(1)</sup>	1.5	0.0	1.1	0.5	-0.4	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	3.0	1.1	1.9	1.9	1.4	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.4	1.2	0.7	1.4	1.8	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.4	4.9	4.9	5.7	4.8	4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																					
Nominal GDP	7.1	9.0	8.7	10.0	10.4	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.5	6.6	6.8	7.6	7.6	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.0	4.2	6.0	5.6	4.1	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-2.7	-0.3	-4.4	-6.8	16.1	-3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	1.6	-7.4	7.7	-27.3	-6.6	-0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.5	1.6	-1.2	4.2	-0.6	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	-3.0	-3.4	-5.9	-2.8	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																					
LFS unemployment rate (% of labour force)	4.7	4.0	4.2	4.1	4.0	3.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	3.2	3.4	2.7	2.5	3.1	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.3	5.6	5.5	5.4	5.9	5.5	-	5.3	5.2	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>(2)</sup>	7.0	12.6	7.8	11.0	11.5	12.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																					
Maltese residents' deposits and loans																					
Overnight deposits	15.7	10.2	17.0	15.2	12.4	10.2	8.4	17.0	17.1	15.3	15.2	17.9	14.4	12.4	18.6	16.1	10.2	11.3	8.8	8.4	-
Deposits with agreed maturity up to 2 years	-9.3	-1.6	-9.7	-8.1	-2.1	-1.6	-3.7	-9.7	-9.1	-8.4	-8.1	-6.8	-3.4	-2.1	-0.3	-0.8	-1.6	-3.1	-3.4	-3.7	-
Total residents' deposits in M3	9.3	7.4	10.2	9.5	8.8	7.4	5.7	10.2	10.5	9.3	9.5	11.9	10.0	8.8	14.0	12.0	7.4	7.9	5.9	5.7	-
Credit to general government	1.4	0.2	3.6	0.3	1.5	0.2	-3.4	3.6	2.9	1.7	0.3	0.4	2.9	1.5	2.4	-0.7	0.2	-2.0	-6.2	-3.4	-
Credit to residents (excl. general government)	2.9	2.4	2.4	1.3	2.9	2.4	3.8	2.4	2.5	1.2	1.3	2.5	3.0	2.9	2.8	2.5	2.4	2.8	3.3	3.8	-
Total credit	2.5	1.9	2.7	1.0	2.6	1.9	2.0	2.7	2.6	1.3	1.0	2.0	3.0	2.6	2.7	1.7	1.9	1.7	0.9	2.0	-
10-year interest rate (%) <sup>(3)</sup>	0.7	1.2	1.5	1.3	1.3	1.2	1.1	1.5	1.4	1.3	1.3	1.3	1.2	1.3	1.2	1.1	1.2	1.3	1.4	1.1	1.2
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	4.5	-3.3	1.9	-0.4	1.1	-3.9	-0.8	-0.4	-0.9	-0.8	1.3	0.3	-1.5	1.1	-0.9	-5.6	2.7	-0.7	0.4	-0.5	-4.3
<b>General government finances (% of GDP)</b>																					
Surplus (+) / deficit (-) <sup>(2)</sup>	1.0	3.9	2.0	2.1	3.3	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	56.2	50.8	56.6	55.0	53.4	50.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

<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.