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Address
Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone
(+356) 2550 0000

Fax
(+356) 2550 2500

Website
http://www.centralbankmalta.org

E-mail
info@centralbankmalta.com

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Since during the period covered by this Review the Maltese lira was the relevant currency, data presented in tables and charts refer to the Maltese lira alone. Euro equivalents, converted at the official rate of MTL/EUR 0.4293, have been inserted into the text to help the reader. Figures in tables may not add up due to rounding.

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ABBREVIATIONS

COICOP	Classification of Individual Consumption by Purpose
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ecu	european currency unit
EEA	European Economic Area
EMU	Economic and Monetary Union
ERM II	exchange rate mechanism II
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ETC	Employment and Training Corporation
EU	European Union
FI	fungibility issue
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LFS	Labour Force Survey
MIGA	Multilateral Investment Guarantee Agency
MFI	Monetary Financial Institution
MFSA	Malta Financial Services Authority
MSE	Malta Stock Exchange
NACE Rev. 1	Statistical classification of economic activities in the European Community
NPISH	Non-Profit Institutions Serving Households
NSO	National Statistics Office
OECD	Organisation for Economic Co-Operation and Development
OMFI	Other Monetary Financial Institution
OPEC	Organisation of Petroleum Exporting Countries
RPI	Retail Prices Index
UNDP	United Nations Development Programme
WTO	World Trade Organisation

ECONOMIC SURVEY

1. FOREWORD

After having kept official interest rates unchanged since May 2007, on 28 December 2007 the Central Bank of Malta aligned its official interest rates with those of the ECB. This decision was taken in anticipation of Malta's adoption of the euro as from 1 January 2008 at the rate of MTL/EUR 0.4293, the fixed rate which had prevailed since the Maltese lira's entry into ERM II. The Bank's central intervention rate was thus reduced by 25 basis points to 4.0%, identical to the minimum bid rate on the main refinancing operations set by the ECB. This completed the process of convergence of official interest rates in Malta with those of the euro area.

As from 1 January 2008 the stance of monetary policy in Malta is no longer determined by the Central Bank of Malta but rather by the ECB's Governing Council, of which the Governor is a member. Consequently, the Monetary Policy Advisory Council was dissolved at the end of December. Monetary policy decisions will reflect developments in the euro area as a whole, with the primary objective remaining that of price stability.

Ahead of full participation in EMU, the Bank continued to align its practices with those of the ECB. In November it removed all the remaining exemptions from the Directive governing minimum reserve requirements. As a result, credit institutions that were formerly exempt from the Directive placed reserve deposits in euro with the Bank. This boosted the Bank's net foreign assets, which rose by 27.5% over the month to Lm 1.1 billion (EUR 2.6 billion).

Meanwhile, monetary data up to November continued to indicate robust growth in M3, which exceeded 11% year-on-year. This reflected the continued expansion of deposits with an agreed maturity of up to two years. The M1 component, on the other hand, extended its downward trend, contracting by 4.8% as the public continued to reduce its cash holdings ahead of the euro changeover. Domestic credit also continued to rise at a rapid pace, expanding by around 13% on an annual basis. Almost half of the overall increase was attributable to higher lending for house purchases.

During the third quarter economic activity remained sustained, with real GDP rising by 4.1% on an annual basis. Growth was mainly driven by vigorous private consumption, with an additional boost from higher government consumption. In contrast, gross fixed capital formation was lower, reflecting the completion of the Mater Dei hospital, although private sector investment increased. Net exports also contributed negatively to growth as imports rose faster than exports. In nominal terms, GDP rose by 6.5%, with growth being skewed in favour of higher profits generated by the services sector.

The buoyancy of the economy was also reflected in labour market developments. According to LFS data employment growth during the third quarter was slightly above 2% annually. In the main this was concentrated in the services sector and was also driven by higher part-time employment figures. As a result, the unemployment rate fell further, to 6.2%, 0.6 percentage points less than a year earlier.

The downward trend in the HICP twelve-month moving average inflation rate persisted until October 2007, when it fell to 0.3%. In November, however, it edged up to 0.5% as the year-on-year inflation rate accelerated to 2.9%. This reflected the elimination of the base effect stemming from lower hotel accommodation prices. In addition, although electricity prices remained below their level a year earlier, fuel and food prices exerted further upward pressure on inflation.

The surplus on the current account of the balance of payments increased during the third quarter of 2007 compared to the corresponding period of 2006. This followed improvements in the balances on income and current transfers. In contrast, the services balance was virtually unchanged, while the merchandise trade gap widened slightly. Meanwhile, excluding movements in reserve assets, net outflows were recorded on the capital and financial account, against a small net inflow a year earlier.

The fiscal position in the first nine months of 2007 was characterised by a widening of the general government deficit. Revenue remained stable on a year earlier, as strong growth in tax revenues was offset by a lower intake of EU funds. Recurrent expenditure rose, however, driven by higher payments on social benefits and subsidies.

Responses to the Bank's revised business survey indicated general stability in the performance of the services sector during the fourth quarter of 2007 compared to the third. Most respondents reported stability in turnover, costs, selling prices and profits. Participants also expressed a generally positive outlook for the first three months of 2008. Other similar indicators showed an improvement in industrial confidence and stable consumer sentiment.

2. THE INTERNATIONAL ENVIRONMENT

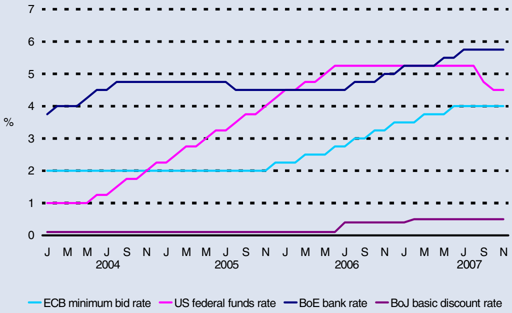
The world economy

The third quarter of 2007 was characterised by turbulent conditions in financial markets stemming from the crisis in the high-risk end of the US mortgage market. Despite concern about the consequences for the world economy, real GDP growth accelerated in the major advanced economies, while various emerging countries, including China and India, continued to grow at a strong pace.

Economic and monetary developments

In the United States, real GDP growth accelerated from 1.9% in the second quarter to 2.8% in the third (see Table 2.1). As the depreciation of the dollar spurred net exports, the earlier decline in private investment moderated while growth in private consumption remained stable. A slowdown in the annual rate of increase in energy costs led to a fall in the average inflation rate to 2.4% in the third quarter from 2.7% in the second (see Table 2.2). Meanwhile, in the labour market the unemployment rate edged up by 0.1 percentage points to 4.6%.

Chart 2.1
OFFICIAL INTEREST RATES
(end of month)



Sources: ECB; Federal Reserve; Bank of England; Bank of Japan.

Over the quarter the Federal Reserve took several measures to promote orderly conditions in the financial markets. In August it cut the discount rate by 50 basis points, but left the federal funds rate unchanged. This target rate was subsequently lowered by half a percentage point in September and by a further 25 basis points in October, to 4.5% (see Chart 2.1).

In the third quarter of 2007, growth in the euro area rose to 2.7% from 2.5% in the preceding quarter. While the growth rate in total consumption was practically unchanged, exports expanded at an accelerated pace, as did imports. Meanwhile, third-quarter unemployment eased by

Table 2.1
REAL GDP

% change compared with the same quarter a year earlier

	2006		2007			
	Q3	Q4	Q1	Q2	Q3	Q4[1]
United States	2.4	2.6	1.5	1.9	2.8	2.5
Euro area	2.8	3.3	3.2	2.5	2.7	2.2
United Kingdom	3.0	3.3	3.1	3.2	3.3	2.7
Japan	1.9	2.5	2.8	1.6	2.0	0.9

[1] Forecasts.

Sources: Bank of Japan; Bureau of Economic Analysis, US; Consensus Forecasts; Eurostat; National Statistics, UK.

Table 2.2
CONSUMER PRICES

Average change compared with the same quarter a year earlier (%)

	2006		2007			
	Q3	Q4	Q1	Q2	Q3	Q4[1]
United States	3.3	1.9	2.4	2.7	2.4	3.8
Euro area	2.1	1.8	1.8	1.9	1.9	2.8
United Kingdom	2.4	2.7	2.9	2.6	1.8	2.1
Japan	0.6	0.3	-0.1	-0.1	-0.1	0.2

[1] Forecasts.

Sources: Consensus Forecasts; Eurostat; US Bureau of Labor Statistics; Bank of Japan.

0.1 percentage points from the previous quarter to 7.4%, while the average annual inflation rate remained unchanged at 1.9%, although it accelerated in subsequent months.

The ECB kept the minimum bid rate on its main refinancing operations unchanged at 4.0% throughout the third quarter and into the last. This notwithstanding, the ECB emphasised that the outlook for price stability remained subject to upside risks, and against this backdrop the Bank reiterated that it stood ready to counter these risks.

The British economy expanded by 3.3% in the three months to September, 0.1 percentage points faster than in the previous quarter. Consumption and capital investment were the main sources of growth. Inflationary pressures eased, with the annual CPI decelerating to 1.8%, from 2.6% in the second quarter, on account of lower utility prices. The jobless rate was unchanged at 5.4%.

In July, the Bank of England lifted the official rate paid on commercial bank reserves by 0.25 percentage points to 5.75% to counter risks to price stability. The Bank kept the rate on hold for the remainder of the quarter and into the third. In September, however, the Bank took strong measures to boost liquidity in the banking system mainly by providing relief to a major mortgage lender affected by liquidity difficulties.

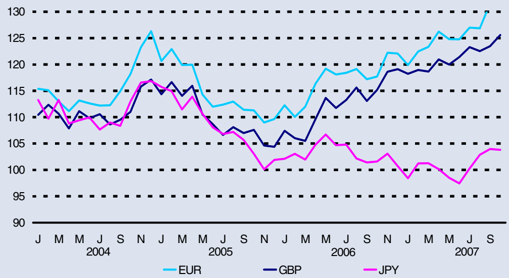
Growth in Japan, while slower than in other advanced economies, accelerated from 1.6% to 2.0% in the third quarter, driven by stronger exports. At the same time deflationary conditions persisted, with consumer prices falling by 0.1%. On the other hand, unemployment remained unchanged at 3.8%. During the third quarter and into the fourth, the Bank of Japan kept the uncollateralized overnight call rate, its benchmark short-term interest rate, on hold at 0.5%.

In the other Asian economies real GDP growth eased slightly. In China it fell to 11.5% and in India to 8.9%, as both countries implemented monetary policy measures to counteract inflation. This notwithstanding, the two economies were expected to remain major drivers of global economic growth in 2007.

Currency markets

The US dollar depreciated further against the euro and the pound sterling in early July. A partial recovery lasted through mid-August, following news of European exposure to the sub-prime crisis (see Chart 2.2 and Table 2.3). The

Chart 2.2
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR*
(index of end-of-month rates, Jan. 2003=100)



*A higher index level represents a nominal appreciation of the currency against the US dollar.

Source: Reuters.

subsequent renewal of downward pressure on the dollar in late August followed from a deterioration in the US economic outlook and an anticipated reduction in the federal funds target. Over the quarter as a whole, the US dollar lost 5.4% against the euro and 1.7% vis-à-vis sterling.

Against the Japanese yen, the US dollar and the euro depreciated by 6.3% and 1.2%, respectively, influenced by the unwinding of carry trade positions in the context of the heightened volatility in financial markets (see Chart 2.3).

In July and August the euro was generally stable against the pound sterling, before appreciating strongly throughout September as the sub-prime tension spread to the British financial sector.

In October and November the US dollar generally continued its decline against the euro and the pound on expectations of further cuts in US interest rates. In terms of the yen, the dollar declined further during the same two months.

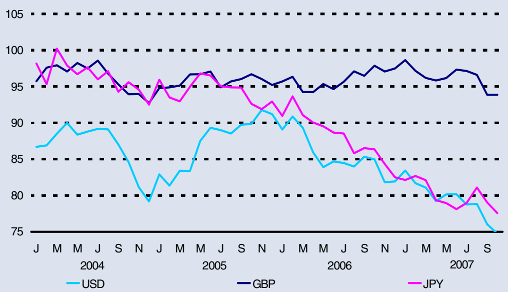
Over the same period the euro appreciated vis-à-vis the British pound. Against the Japanese unit, the euro depreciated in early October, before changing course in the rest of the month. November was characterised by heightened volatility in the JPY/EUR rate.

Table 2.3
EXCHANGE RATES OF SELECTED CURRENCIES AGAINST THE US DOLLAR - THIRD QUARTER 2007

	USD/EUR	USD/GBP	JPY/USD
Average for July	1.3714	2.0335	121.59
Average for August	1.3628	2.0108	116.71
Average for September	1.3886	2.0178	115.00
Average for the quarter	1.3743	2.0207	117.77
Closing rate on 28.06.07	1.3466	2.0022	122.86
Closing rate on 28.09.07	1.4199	2.0363	115.16
Lowest exchange rate vs the US dollar during the quarter	1.3398 (16 Aug.)	1.9783 (17 Aug.)	123.43 (09 July)
Highest exchange rate vs the US dollar during the quarter	1.4199 (28 Sep.)	2.0618 (24 July)	113.27 (17 Aug.)
% appreciation (+)/depreciation (-) of the currency vs the US dollar from closing rate on 28.06.07 to closing rate on 28.09.07	5.4	1.7	6.3

Source: Reuters.

Chart 2.3
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE EURO*
(index of end-of-month rates, Jan. 2003=100)



*A higher index level represents a nominal appreciation of the currency against the euro.
Source: Reuters.

Commodity markets

Oil

The price of Brent crude oil generally rose during the third quarter of 2007, propelled by a tighter situation in the oil market and continuing geopolitical tension (see Chart 2.4). Moreover, despite OPEC's decision to increase production, supply concerns remained acute owing to falling inventories in the US and preoccupation about production disruptions in the hurricane season. On the other hand, global financial turmoil and the possibility of reduced energy demand exerted downward pressure on energy prices. Nevertheless the price of Brent crude oil reached an all-time high of USD82.07 per barrel at the end of September, 12.0% above its end-June level. Afterwards, oil prices remained on an upward trend, reaching a new peak of around USD96 in November.

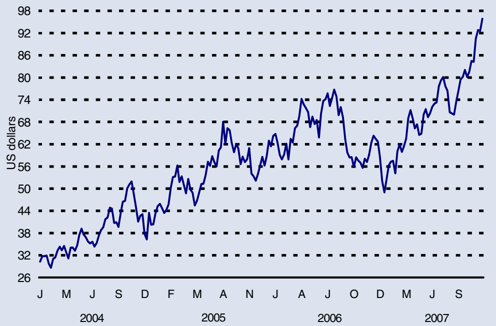
Gold

Gold ended the September quarter at USD743.70 per ounce, representing an increase of 14.6% over the previous quarter (see Chart 2.5). The rise was supported by the depreciation of the US dollar and higher oil prices. Moreover, in the light of its safe haven attributes, demand for gold was boosted by tension in the financial markets. Going into the last quarter, gold prices rose further reaching USD831.80 in the first week of November.

Other commodities

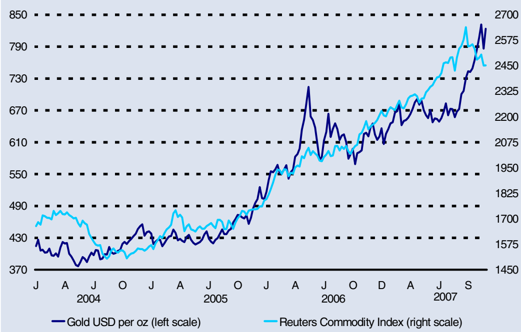
The Reuters Commodity Index, which excludes gold and oil products, rose by 6.3% during the third quarter of 2007, spurred by higher food prices (see Chart 2.5).[1] Cereal prices rose in the aftermath of poor harvests and higher demand by fast growing emerging economies and also for biofuels. Commodity prices continued to increase in the first half of October, before receding during the remainder of the month and in November.

Chart 2.4
PRICE OF OIL ($/BARREL)
(Brent crude; end of week)



Source: Reuters.

Chart 2.5
COMMODITY PRICES
(end of week)



Source: Reuters.

[1] The Reuters Commodity Index is a weighted index of the prices of seventeen commodities that include food, beverages, vegetable oils, agricultural raw materials and metals, but exclude oil and gold.

3. MONETARY AND FINANCIAL DEVELOPMENTS

The Central Bank of Malta left its central intervention rate unchanged at 4.25% during the third quarter of 2007. As a result, money market rates were broadly stable during the period. In the capital market, yields on both 5-year and 10-year government bonds declined considerably, while equity prices recovered.

During the quarter, broad money (M3) expanded, boosted by a rise in domestic credit – driven almost entirely by lending to the non-bank private sector – and an increase in the net foreign assets of the banking system. The rise in the latter was also partly reflected in a rise in the other counterparts of M3, which did not, however, have a direct effect on monetary growth.

The monetary base

The monetary base (M0) contracted for the third consecutive quarter, falling by Lm25.2 million (EUR 58.9 million), or 4.0%, during the third quarter of 2007 (see Table 3.1).[1] This drop stemmed entirely from a sizeable contraction in currency in issue, which led to increased deposits with the banking system. In turn, the latter resulted in higher holdings of reserve deposits, which are included with bank deposits with the Central Bank of Malta.

Table 3.1
THE MONETARY BASE AND ITS SOURCES
Lm millions

	2007 June	2007 Sep.	Change Amount	Change %
Currency in issue	443.4	397.4	-46.0	-10.4
Bank deposits with the Central Bank of Malta[1]	189.5	210.2	20.8	11.0
Monetary base (M0)	**632.9**	**607.6**	**-25.2**	**-4.0**
Central Bank of Malta assets				
Foreign assets	894.5	926.7	32.2	3.6
Claims on central government	73.4	94.1	20.6	28.1
Fixed and other assets	16.0	17.7	1.6	10.3
less				
Remaining liabilities				
Government deposits	151.5	148.3	-3.2	-2.1
Other deposits	2.7	14.4	11.7	+
Foreign liabilities	35.5	35.6	0.0	0.1
Other liabilities	76.1	141.1	65.0	85.4
Shares and other equity	85.2	91.4	6.2	7.2

+ indicates a value exceeding +/- 100%

[1]Excluding term deposits, which are shown with other liabilities.

[1] M0 is a measure of the Central Bank of Malta's monetary liabilities and consists of currency in issue and bank deposits with the Bank, excluding term deposits.

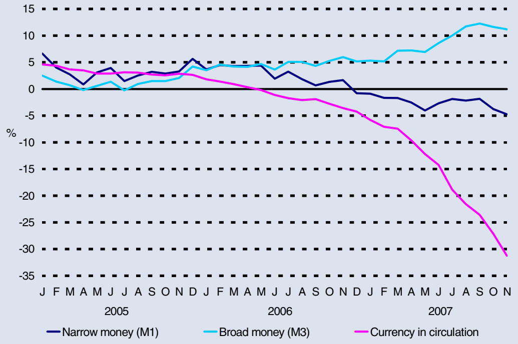
The Bank countered the increase in liquidity in the banking system by absorbing more funds through auctions of term deposits, reflected in a rise in 'other liabilities'. Increases in the Bank's net foreign assets and in its claims on central government dampened the drop in M0.

Monetary aggregates

Broad money grew by 4.9% during the third quarter of 2007 (see Table 3.2). With higher interest rates resulting in an increased demand for bank deposits, the annual growth rate of M3 extended its upward trend evident since the beginning of the year, reaching 12.3% in September (see Chart 3.1).

Narrow money (M1) was stable during the September quarter, as a sizeable drop in currency in circulation was offset by a comparable increase, in absolute terms, in deposits withdrawable on demand. The former contracted for the fifth quarter in a row, falling by 11.3% from its end-June level. This reflected a decreased demand for cash in the face of the imminent euro changeover, as well as a rise in the opportunity cost of holding

Chart 3.1
MONETARY AGGREGATES
(% change on previous year)



currency in an environment of rising interest rates. In contrast, the 3.9% rise in deposits withdrawable on demand was mainly driven by higher balances belonging to both private and public non-financial companies, almost three-fifths of which were denominated in foreign currency. Deposits belonging to public non-financial companies were exceptionally augmented by the sale of shares in one firm to foreign investors. Although it remained negative, the annual growth rate of M1 picked up in

Table 3.2
MONETARY AGGREGATES
% changes on the previous quarter

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Narrow money (M1)	**-0.9**	**-0.1**	**-1.9**	**0.1**	**0.0**
Currency in circulation	-0.4	-2.1	-5.2	-7.2	-11.3
Deposits withdrawable on demand	-1.1	0.7	-0.5	3.0	3.9
Intermediate money (M2)	**1.5**	**2.1**	**2.1**	**2.6**	**4.9**
Narrow money (M1)	-0.9	-0.1	-1.9	0.1	0.0
Deposits redeemable at notice up to 3 months	-2.3	1.6	-3.8	18.4	9.3
Deposits with agreed maturity up to 2 years	4.5	4.6	6.6	4.9	9.6
Broad money (M3)[1]	**1.5**	**2.1**	**2.1**	**2.6**	**4.9**

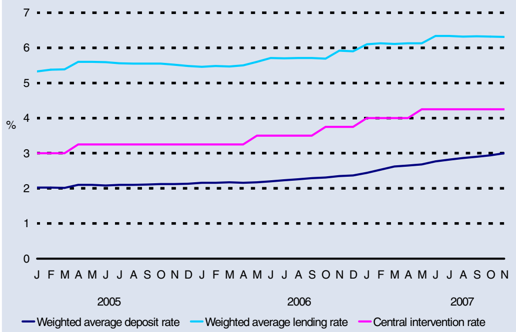
[1] Since the amount of marketable instruments issued by the MFI sector is negligible, M2 is equal to M3.

September, rising to -1.8% from -2.7% three months earlier (see Chart 3.1).

During the period under review, intermediate money (M2) increased by 4.9%, driven almost entirely by considerable growth in deposits with an agreed maturity of up to two years, which expanded by 9.6% during the quarter (see Table 3.2). In turn, this was principally attributable to an increase in Maltese lira denominated deposits belonging to households. Continued strong growth in deposits with an agreed maturity of up to two years reflected higher deposit interest rates and new products offered by banks, which increased investors' demand for monetary assets, and, to a lesser extent, funds deposited under the Special Registration Scheme.[2] Consequently, year-on-year growth in these deposits accelerated to 28.2% in September from 22.2% in June. At the same time, the increase in deposits redeemable at notice up to three months was moderate in absolute terms. Foreign currency deposits in M2 expanded by 10.2%, on a par with the increase registered in the previous quarter, reflecting growth in corporate balances.

With official interest rates remaining unchanged, bank lending rates were stable during the third quarter of 2007. The weighted average interest rate on Maltese lira loans fell by just one basis point to 6.33% in September (see Chart 3.2). In contrast, the weighted average interest rate on all Maltese lira deposits rose by 13 basis points during the period, reaching 2.90% at end-September, as higher rates were applied to new deposits, reflecting the continued impact of increases in official interest rates during the first half of the year. Average interest rates on demand, savings and time deposits all increased during the quarter, ending September at 0.79%, 1.72% and 3.80%, respectively.

Chart 3.2
DEPOSIT AND LENDING RATES
(end of month)



In November, the annual growth rate of M1 decelerated considerably, reaching -4.8%, as the downward trend in currency in circulation continued. At the same time, year-on-year growth in M3 slowed down slightly from the end-September level, falling to 11.2%. Additionally, while the weighted average deposit rate rose to 3.00% in November, the corresponding lending rate eased to 6.31%.

Counterparts of monetary expansion

An increase in credit to the non-bank private sector coupled with a rise in net foreign assets belonging to the banking system were the principal factors contributing to monetary growth in the third quarter of 2007. Movements in the other counterparts of M3 had no impact on monetary aggregates but mirrored changes in the net foreign assets of the banking system and domestic credit instead.

Although domestic credit expanded further, it did so at a slower pace, growing by 0.9%, as opposed to 1.6% recorded in the June quarter (see Table 3.3). Growth stemmed from a rise in claims

[2] The Special Registration Scheme was launched on 23 April 2007. Its purpose was to provide individuals residing in Malta with a one-time opportunity to regularise their position in respect of their holdings of eligible assets in those cases where the associated income had not been declared for the purposes of the Income Tax Act.

Table 3.3

COUNTERPARTS OF MONETARY GROWTH

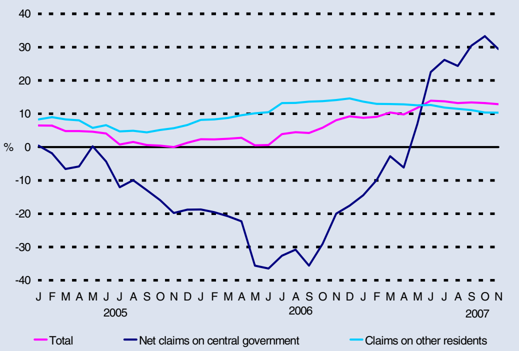
% changes on the previous quarter

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Broad money (M3)	**1.5**	**2.1**	**2.1**	**2.6**	**4.9**
Domestic credit	**1.4**	**5.4**	**4.8**	**1.6**	**0.9**
Net claims on central government	-9.5	13.4	19.4	0.0	-3.7
Claims on other residents	3.1	4.4	2.7	1.9	1.7
Net foreign assets	**4.1**	**-0.4**	**-0.6**	**3.5**	**8.5**
Central Bank of Malta	4.9	-3.2	-5.9	-4.0	3.7
Banks	3.4	2.1	3.9	9.4	11.8
less					
Other counterparts of M3[1]	**4.6**	**4.5**	**3.3**	**2.0**	**2.4**

[1] Other counterparts of M3 include the capital base of the MFI sector, deposits with terms to maturity exceeding two years, longer-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets. They are equal to the difference between M3 and the sum of domestic credit and net foreign assets.

on other residents, which outweighed a drop in net claims on central government. On a year-on-year basis, domestic credit growth slowed down, falling to 13.4% from 13.9% at end-June (see Chart 3.3).

Chart 3.3
DOMESTIC CREDIT
(% change on previous year)



Claims on other residents grew by 1.7%, which was a less rapid rate than in previous quarters. Loans, which account for more than 95% of total claims, rose by 1.6%, boosted by the half-yearly debiting of accrued interest to borrowers' loan accounts in September. Demand for credit stemmed almost entirely from the non-bank private sector. Lending to this sector expanded by 1.6%, driven mainly by further underlying lending to households – primarily to finance house purchases – and to the 'real estate, renting & business activities' category. In contrast, credit to the transport & communications industry and the hotels & restaurants sector dropped (see Table 3.4). On an annual basis, growth in claims on other residents persisted on its downward trend, slowing down to 11.1% from 12.6% three months earlier and a recent high of almost 15% in December 2006.

Net claims on central government contracted by 3.7% during the period under review, as a sizeable drop in the banking system's Treasury bill portfolio exceeded a rise in its holdings of Malta Government Stocks. Nevertheless, due to an even sharper drop in net claims on central government in September 2006, the annual growth rate of net claims on central government accelerated from 22.5% in June to 30.5% in September.

The net foreign assets of the banking system grew at a much faster pace during the September quarter, expanding by 8.5% as opposed to 3.5% during the previous three months. Consequently,

Table 3.4

CLAIMS ON OTHER RESIDENTS[1]

Lm millions

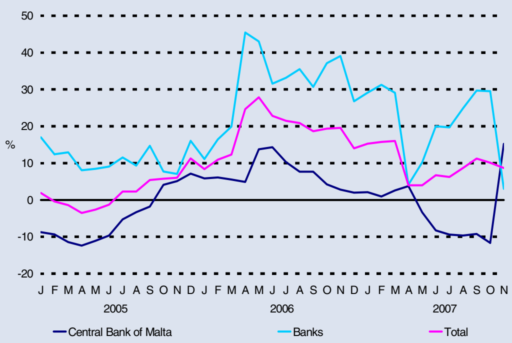
	2007	2007	Change	
	June	Sep.	Amount	%
Total claims	**2,631.6**	**2,675.5**	**44.0**	**1.7**
Claims on the non-bank private sector	2,488.1	2,530.4	42.3	1.7
of which loans and advances	2,435.9	2,475.7	39.8	1.6
Claims on the non-bank public sector	142.7	144.3	1.6	1.1
of which loans and advances	118.8	120.5	1.8	1.5
Claims on other general government[2]	0.8	0.8	0.0	0.0
of which loans and advances	0.8	0.8	0.0	0.0
Total loans and advances	**2,555.6**	**2,597.1**	**41.5**	**1.6**
Electricity, gas & water supply	75.7	76.7	1.0	1.3
Transport, storage & communication	146.6	134.4	-12.2	-8.3
Agriculture & fishing	8.5	10.7	2.2	25.6
Manufacturing	115.6	118.1	2.5	2.2
Construction	268.5	276.8	8.2	3.1
Hotels & restaurants	207.8	201.1	-6.6	-3.2
Wholesale & retail trade; repairs	316.4	319.1	2.7	0.8
Real estate, renting & business activities	287.0	303.2	16.2	5.6
Households	1,044.8	1,083.6	38.7	3.7
Other[3]	84.6	73.4	-11.1	-13.1

[1] Claims on other residents consist mainly of loans and advances and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies. Interbank claims are excluded.

[2] In Malta, this refers to the local councils.

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

Chart 3.4
NET FOREIGN ASSETS
(% change on previous year)



on a year-on-year basis, the banking system's net foreign assets were up by 11.2% in September, compared with an increase of 6.7% in June (see Chart 3.4).

After three consecutive quarters of negative growth, the net foreign assets of the Central Bank of Malta halted their downward trend, rising by 3.7% during the September quarter. Payments received from the EU Commission, proceeds from the divestment of equity held by a public non-financial corporation in an associated company and net tax receipts from foreign-owned companies were the main factors driving the increase. However, growth was dampened by foreign currency sales to banks.

The net foreign assets of the rest of the banking system surged by 11.8%, principally reflecting foreign direct investment into the telecommunications sector, privatisation proceeds, an inflow of equity capital into one foreign-owned bank and an increase in revaluation reserves.

The other counterparts of M3 expanded by 2.4% during the quarter, boosted by the share capital inflow into the banking system, the increase in revaluation reserves and the transfer of accrued interest referred to earlier.

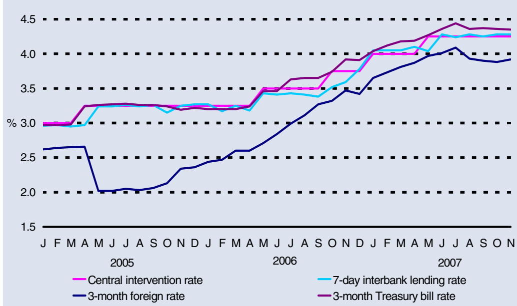
Going into the fourth quarter, the annual rate of growth of domestic credit decelerated further, dipping to 12.9% in November. The annual growth rate of the net foreign assets of the banking system also slowed down, reaching 8.7%.

The money market

During the third quarter of 2007, liquidity in the banking system remained ample and the Bank continued to absorb surplus funds from the rest of the banking system through weekly auctions of 7-day term deposits. Since the level of excess liquidity exceeded that in the previous quarter, the volume of funds absorbed increased, with the average weekly level of term deposits rising to Lm107.4 million (EUR 250.2 million), from Lm88.7 million (EUR 206.6 million) in the second quarter. As the central intervention rate was held constant during the period under review, the interest rate floor on these deposits stood unchanged at 4.20%.

Turnover in the interbank market increased during the third quarter, rising by over one-fifth to Lm50.8 million (EUR 118.3 million). Liquidity within the banking sector was asymmetrically distributed, with one bank accounting for around 87% of total borrowings. The maturity of interbank loans ranged from one to 94 days, with

Chart 3.5
MONEY MARKET INTEREST RATES
(end of month)



Sources: Central Bank of Malta; Reuters.

loans of up to one week being the most common. The interest rate on 7-day loans went down by 3 basis points during the quarter, ending September at 4.25% (see Chart 3.5).

The Treasury resorted less frequently to short-term financing during the third quarter, issuing Lm113.8 million (EUR 265.1 million) worth of bills as opposed to Lm147.2 million (EUR 342.9 million) in the June quarter. At the same time, with the amount of maturing bills rising, the amount of bills outstanding dropped by 19.4% to Lm158.1 million (EUR 368.3 million) at end-September. The three-month bill accounted for more than half of the total amount issued, with the rest consisting mainly of six-month and nine-month bills. Banks bought around two-thirds of the bills issued during the quarter, while insurance companies took up most of the remainder. The yield on the three-month Treasury bill rose marginally during the period reviewed, reaching 4.37% in September.

During the third quarter, turnover in the secondary market for Treasury bills dropped to Lm10.0 million (EUR 23.3 million), from Lm11.2 million (EUR 26.1 million) in the previous quarter. Transactions involving the Bank amounted to 95% of the total, with the Bank making purchases worth Lm8.8 million (EUR 20.5 million). In line with primary market developments, secondary market rates were stable during the period under review, with the yield on the three-month bill reaching 4.37% at end-September, from 4.36% three months earlier.

The three-month premium on the Maltese lira over the euro widened from 35 basis points in June to 47 basis points at end-September, as the marginal increase in the three-month Treasury bill rate was coupled with a significant drop in the corresponding euro rate (see Chart 3.5).[3,4] The latter reflected increased demand for less risky assets in the light of the ongoing turmoil in international financial markets.

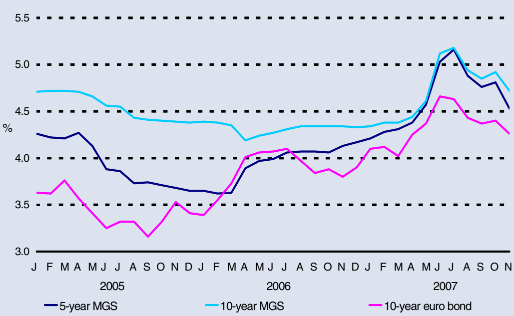
Going into the fourth quarter, primary market Treasury bill yields fell to 4.35% in November, while those on secondary market Treasury bills rose to 3.92%. At the same time, the short-term interest rate premium on the Maltese lira declined by 4 basis points, ending November at 43 basis points, as the drop in domestic primary market yields was coupled with a rise in the corresponding euro area rates.

The capital market

There was no activity in the primary bond and equity markets during the third quarter of 2007.

Turnover in the secondary market for government bonds during the September quarter halved, reaching Lm32.4 million (EUR 75.4 million). The

Chart 3.6
GOVERNMENT BOND YIELDS
(end of month)



Sources: Central Bank of Malta, ECB.

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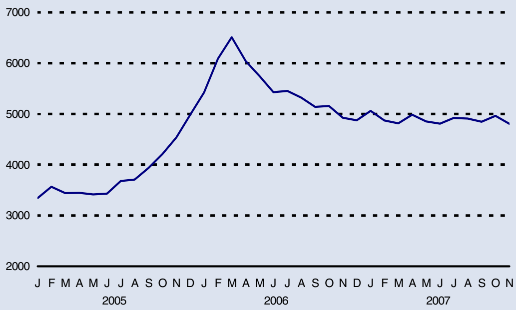
[3] The foreign interest rate shown in Chart 3.5 is computed as a basket-weighted average of the relevant interest rates on the euro, the pound sterling and the US dollar until April 2005. The secondary market rate on three-month euro area government securities is shown thereafter.

[4] Up to March 2007 secondary market yields are calculated on the basis of remaining days to maturity divided by 365 days, while from April 2007 yields are calculated on the basis of remaining days to maturity divided by 360 days.

Chart 3.7
MALTA STOCK EXCHANGE SHARE INDEX
(end of month)



Source: MSE.

Central Bank of Malta, acting as market-maker, was a net buyer in the market and accounted for just over 80% of the value traded. Trading focused on short-term and medium-term bonds. Mirroring a decline in bond yields in the euro area, as can be seen in Chart 3.6, yields on both 5-year and 10-year government securities fell by 27 basis points, ending September at 4.76% and 4.85%, respectively. The spread between domestic and euro area 10-year bond yields widened marginally to 48 basis points.

Activity in the secondary market for corporate bonds declined during the third quarter of 2007, with turnover falling to Lm0.9 million (EUR 2.1 million) from Lm1.6 million (EUR 3.7 million) in the preceding quarter. Trading was mostly concentrated in five major securities, which accounted for around 55% of total turnover. On average, corporate bond yields increased during the quarter in thin trading conditions.

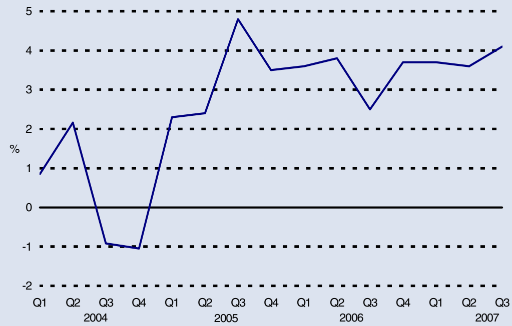
Trading in the equity market fell for the sixth quarter in a row, dropping to Lm5.8 million (EUR 13.5 million), from Lm6.7 million (EUR 15.6 million) in the June quarter. Bank shares accounted for more than three-fifths of the total turnover. Equity prices recovered, after declining for the previous two quarters, resulting in a 0.8% rise in the MSE share index over the three month period. The latter ended the quarter at 4,846.8 (see Chart 3.7).

Going into the fourth quarter of 2007, yields on 5-year and 10-year government bonds declined, reaching 4.53% and 4.72% respectively in November. Meanwhile, by the end of November, the MSE share index declined by 0.8% over the end-September level.

4. OUTPUT, EMPLOYMENT AND PRICES

The third quarter provided additional evidence of economic expansion as GDP growth accelerated to 4.1% and the unemployment rate declined to 6.2%. Owing mainly to higher food prices, the annual inflation rate edged upwards during the quarter. This notwithstanding, the moving-average measure of inflation continued on its declining trend.

Chart 4.1
REAL GDP GROWTH
(% change on a year earlier)



Source: NSO.

Gross Domestic Product

Robust growth in the third quarter brought the expansion in real GDP for the first nine months of 2007 to 3.8% (see Chart 4.1). As in recent quarters, the impetus came primarily from higher private

Table 4.1
GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
	Annual percentage changes				
Household final consumption expenditure	1.6	4.3	2.8	6.8	6.9
Government final consumption expenditure	6.0	7.5	-2.7	2.6	3.1
Gross fixed capital formation	1.2	-5.0	-11.1	5.1	-3.0
Domestic demand	**2.8**	**-5.2**	**-1.7**	**3.1**	**8.6**
Exports of goods & services	10.8	13.3	0.1	-6.7	0.6
Imports of goods & services	11.1	2.7	-5.3	-6.3	5.0
Gross domestic product	**2.5**	**3.7**	**3.7**	**3.6**	**4.1**
GDP deflator	**2.6**	**2.9**	**2.7**	**2.1**	**2.3**
	Percentage point contributions				
Household final consumption expenditure	1.1	3.0	1.8	4.4	4.5
Government final consumption expenditure	1.1	1.5	-0.5	0.5	0.6
Gross fixed capital formation	0.2	-1.0	-2.7	0.9	-0.6
Changes in inventories	0.4	-9.3	-0.5	-2.4	4.1
Domestic demand	**2.8**	**-5.9**	**-2.0**	**3.4**	**8.6**
Exports of goods & services	10.0	12.4	0.1	-6.7	0.6
Imports of goods & services	-10.4	-2.8	5.6	7.0	-5.1
Net exports	**-0.3**	**9.6**	**5.7**	**0.2**	**-4.5**
Gross domestic product	**2.5**	**3.7**	**3.7**	**3.6**	**4.1**

Source: NSO.

consumption, which was up by 6.9% in the third quarter. Government consumption, which increased by 3.1%, also contributed (see Table 4.1). In contrast, although private sector investment increased, gross fixed capital formation declined by 3.0%, reflecting the completion of the Mater Dei hospital. During the first three quarters of 2007, consumption grew by 5.6% while investment was down 3.6%.

Meanwhile, after three consecutive quarters of positive growth, net exports contracted as a sharp rise in imports offset a modest expansion in exports. As a result, the contribution of net exports to third quarter growth was a negative 4.5 percentage points.

Import and export price indices for the three-month period, however, indicated a further improvement in the terms of trade, with a 4.2% rise in export prices exceeding an increase of 0.8% in import prices. With GDP growing by 6.5% in nominal terms over the third quarter, the annual change in the overall GDP deflator edged upwards to 2.3%.

Gross national income in nominal terms expanded by 7.6% on a year earlier during the third quarter of 2007 as the rise in nominal GDP was coupled with increased net property income from abroad (see Table 4.2).

Nominally-measured gross value added registered

Table 4.2
CONTRIBUTION OF SECTORAL GROSS VALUE ADDED TO NOMINAL GDP GROWTH
Percentage points

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Agriculture, hunting & forestry	0.1	0.0	0.0	-0.1	-0.1
Fishing	0.0	0.6	0.0	0.0	0.0
Manufacturing	-0.2	0.4	1.5	0.4	-0.1
Electricity, gas & water supply	0.0	0.5	0.3	0.1	-0.6
Construction	0.2	0.2	-0.3	0.8	0.1
Wholesale & retail trade	-0.4	-0.2	-0.2	-0.3	0.8
Hotels & restaurants	-0.2	-0.3	0.1	0.2	0.7
Transport, storage & communication	-0.1	0.2	0.3	0.5	0.6
Financial intermediation	1.1	-0.1	1.3	0.8	-0.2
Real estate, renting & business activities	1.5	1.8	1.2	1.2	1.5
Public administration	0.2	0.0	0.3	0.3	0.4
Education	0.1	0.3	0.1	0.2	0.3
Health & social work	0.3	0.0	0.2	0.5	0.2
Other community, social & personal services	1.9	2.6	1.1	0.9	2.6
Gross value added	**4.6**	**6.1**	**5.7**	**5.5**	**6.2**
Net taxation on production and imports	**0.5**	**0.8**	**0.8**	**0.3**	**0.3**
Annual nominal GDP growth (%)	**5.2**	**6.8**	**6.5**	**5.8**	**6.5**
Annual nominal GNI growth (%)	**4.9**	**11.1**	**6.3**	**5.7**	**7.6**

Source: NSO.

Chart 4.2
GROSS VALUE ADDED, EMPLOYMENT INCOME & OPERATING SURPLUS
(% change on a year earlier)

Source: NSO.

a year-on-year rise of 7.2% during the third quarter. This mainly reflected a double-digit growth in operating surplus. Still, employment income, the other major component, continued to rise at a steady pace, increasing by an annual 3.9% during the quarter (see Chart 4.2).

The largest contribution to growth came from the other community, social & personal services sector. During the third quarter, this sector's gross value added rose at a faster pace than that recorded during the first half of the year and contributed 2.6 percentage points to nominal GDP growth, mainly in the form of a higher operating surplus. Another driver of growth was the real estate, renting & business activities sector, whose gross value added increased by 11.2%, adding 1.5 points to nominal GDP growth. Together, these two sectors contributed 63% of the quarter's expansion in nominal income (see Table 4.2).

After declining in the previous four quarters, the wholesale & retail trade sector expanded significantly and posted sizable profits during the quarter under review, adding 0.8 percentage point to nominal growth. The continued recovery of the tourism industry during the September quarter boosted the profits of the hotels & restaurants sector for the second consecutive quarter. This, along with a smaller, but substantial, increase in the sector's employment income, contributed 0.7 percentage points to GDP growth.

Manufacturing

The upward trend in sales by the manufacturing sector was halted during the third quarter of 2007. These declined by 3.4% from year-ago levels, reflecting the continuing consolidation in firms catering to the domestic market combined with a marginal fall in exports (see Table 4.3).

Aside from the ongoing contraction in exports of clothing, overseas sales by the major electronics sector, consisting of producers of radio, TV & communication equipment, also dropped. Similarly, a fall in exports was recorded by the printing & publishing and food & beverages categories. Nevertheless, there were offsetting increases in exports of pharmaceuticals and electrical machinery & apparatus.

In the domestic market, sales reported in the September quarter declined, mainly due to the closure, in November 2006, of a tobacco producer, although sales by various other locally-oriented manufacturers were also slightly lower.

In the third quarter the manufacturing sector's investment expenditure was 65.7% above the year-ago level. Higher capital outlays were reported by producers of food & beverages and printed matter in particular.

Having levelled off in recent quarters, manufacturing employment was 705 below the year-ago level, reflecting to a large extent the layoffs in the clothing sector, which took place in the summer. With the quarterly gross wage bill of the manufacturing sector remaining virtually unchanged, the average wage was estimated to have increased by 3.5%.

Table 4.3
SELECTED MANUFACTURING INDICATORS
Year-on-year change

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Total sales (Lm millions)	**23.6**	**32.2**	**10.0**	**1.2**	**-9.2**
Exports (Lm millions)	**25.7**	**34.4**	**14.6**	**7.6**	**-0.5**
Radio, TV & communication equipment	31.0	32.5	-2.5	2.1	-9.5
Pharmaceuticals	4.6	7.1	3.3	2.3	7.9
Electrical machinery & apparatus	-3.9	-3.7	5.5	1.2	4.0
Food & beverages	-2.6	1.2	0.2	-0.9	-0.2
Printing & publishing	3.7	-0.4	5.1	1.6	-1.4
Clothing, textiles & leather	-6.2	-6.0	-1.1	-1.3	-2.7
Other	-0.9	3.8	4.1	2.7	1.4
Local sales (Lm millions)	**-2.1**	**-2.3**	**-4.6**	**-6.5**	**-8.7**
Food, beverages & tobacco	-3.6	-1.9	-4.8	-6.8	-7.3
Printing & publishing	0.1	0.2	0.6	0.7	0.2
Furniture	-0.1	0.0	-0.6	-0.3	0.3
Other	1.5	-0.6	0.2	0.0	-1.9
Investment (Lm millions)	**2.3**	**-2.1**	**5.8**	**-3.0**	**9.0**
Radio, TV & communication equipment	3.1	-4.3	-4.9	-7.1	-2.1
Pharmaceuticals	0.7	0.4	1.2	-0.2	1.0
Food, beverages & tobacco	-0.3	1.6	3.7	2.5	4.0
Printing & publishing	-0.7	0.7	6.3	0.1	3.8
Other	-0.5	-0.4	-0.6	1.7	2.3
Employment	**-928**	**-700**	**-108**	**53**	**-705**
Wages per employee (%)	**7.7**	**4.5**	**3.1**	**4.9**	**3.5**

Source: NSO.

Tourism

Activity in the tourism sector remained strong during the third quarter of 2007, with the number of visitors rising by 11.9%. Apart from the Italian market, all major country sources registered substantial gains (see Table 4.4).

After having decelerated during the previous quarter, tourist expenditure rose sharply, by 7.6%, during the September quarter. This was due to a substantial rise in non-package spending, which compensated for a drop in spending on package holidays. Residual expenditure, which excludes travel and accommodation costs, also rose significantly.

The buoyancy in the tourism market was reflected in an increase of 6.3% in total nights stayed. At 9.9 nights, the average stay surpassed the previous quarter's by 1.8, although the reduction from 10.4 nights recorded a year earlier reflected the underlying tendency towards shorter stays.

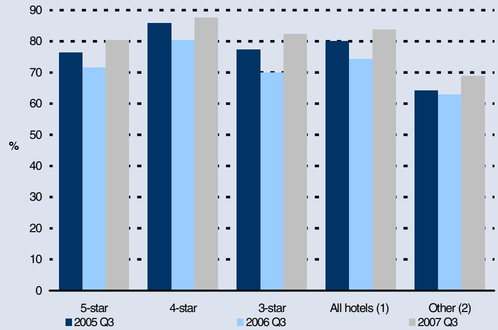
Occupancy rates rose across all accommodation types, with the most significant increases occurring at the lower end (see Chart 4.3). In the 3- and 2- star categories occupancy rates rose to 82% and 58%, respectively, compared with 70% and 31% a year earlier. While this was consistent with the overall recovery of the tourist industry, it also reflected the contraction of bed capacity in these two categories.

A survey carried out by the tourist industry covering the 3-star and higher accomodation categories confirms the positive trend in occupancy rates published by the NSO for the September quarter. The survey showed that the fastest rise in occupancy rates was in the 3-star sector, up by 13.7 percentage points to 94%.[1]

The number of day visitors arriving by cruise liners was also sharply higher, even though the year-on-year percentage increase was somewhat smaller than in the June quarter.

The 9% rise in tourist numbers in the first nine months of the year marked a sharp turnaround from the decline recorded in the same period of 2006. It indicated a larger market share in the southern Mediterranean region as the overall growth of this area was estimated at 6.7%.[2] Tourist spending rose by 5.7%, mainly driven by higher expenditure on non-package holidays.

Chart 4.3
OCCUPANCY RATES



(1) - Includes 2, 3, 4, 5-star hotels (2) - Includes guesthouses, hostels and holiday complexes
Source: NSO.

Table 4.4
TOURISM ACTIVITY
Year-on-year change (%)

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Departures	**-6.6**	**-2.1**	**7.0**	**6.0**	**11.9**
UK	-20.2	-6.4	1.7	7.7	17.7
Germany	-15.7	-9.3	-1.5	-7.4	4.4
France	-19.5	-6.6	-0.9	-18.7	17.2
Italy	21.3	38.4	33.4	-1.6	-6.2
Others	6.7	1.1	14.1	17.5	13.9
Expenditure	**0.2**	**-4.0**	**9.9**	**0.7**	**7.6**
Package	5.0	-5.3	-0.4	-16.7	-7.2
Non-package: airfares	-12.3	-1.1	26.5	32.8	36.0
Non-package: accommodation	-11.2	-22.7	9.3	31.1	71.3
Other	-0.4	1.6	18.1	10.7	10.5
Nights stayed	**-2.4**	**-7.7**	**-3.5**	**-3.6**	**6.3**
Cruise passengers	**42.5**	**8.4**	**2.0**	**29.0**	**22.1**

Source: NSO.

[1] BOV-MHRA Hotel Survey, December 2007.
[2] Information through August 2007 was taken from UNWTO *World Tourism Barometer*, October 2007, volume 5.

While the number of nights stayed increased, the average length of stay continued to decline, apparently reflecting changing behaviour in the tourist market brought about by the increased participation of low cost airlines. Meanwhile, the number of cruise liner passengers continued to expand at double-digit rates, although at 23.3% the growth rate was 10.1 percentage points short of the increase reported in the first nine months of 2006.

More recent data show that the strong performance of the tourism sector continued into the last months of 2007, with substantial increases in both tourist numbers and expenditure.

Labour market

The recent upward trend in employment continued during the third quarter of 2007, with the LFS showing an increase of 2.1% in total employment, mainly in the form of part-time positions, while the ETC reported a rise of 1.6% in full-time jobs during the year to August.

Labour Force Survey

The LFS reported a marginal increase of 0.2% in full-time employment coupled with a 13.8% rise in part-timers (see Table 4.5). The unemployment rate dipped to 6.2%, the lowest recorded since the first quarter of 2001.

Table 4.5
LABOUR MARKET INDICATORS BASED ON THE LFS

	2006		2007			*Year-on-year change (%)*
	Q3	Q4	Q1	Q2	Q3	Q3 2007
Labour supply	**164,869**	**163,752**	**164,905**	**166,653**	**167,278**	**1.5**
Unemployed	11,129	11,009	11,216	11,073	10,348	-7.0
Employed	153,740	152,743	153,689	155,580	156,930	2.1
By type of employment:						
Full-time	138,070	136,919	137,642	138,391	138,304	0.2
Full-time with reduced hours [1]	1,696	1,931	2,145	2,593	2,723	60.6
Part-time	13,974	13,893	13,902	14,596	15,903	13.8
By economic sector:						
Private	107,985	107,538	108,049	109,467	110,266	2.1
Public	45,755	45,205	45,640	46,113	46,664	2.0
Activity rate (%)	**59.6**	**59.1**	**59.2**	**59.6**	**59.9**	
Male	79.4	79.5	79.8	78.8	78.8	
Female	39.6	38.4	38.4	40.3	40.6	
Employment rate (%)	**55.5**	**55.1**	**55.1**	**55.7**	**56.1**	
Male	74.5	74.5	74.5	74.3	74.5	
Female	36.4	35.4	35.5	36.8	37.5	
Unemployment rate (%)	**6.8**	**6.7**	**6.8**	**6.6**	**6.2**	
Male	6.1	6.2	6.6	5.6	5.5	
Female	8.1	7.8	7.3	8.7	7.6	
Average annual gross salary (annual growth rate, %)	**6.5**	**3.5**	**2.4**	**2.1**	**0.6**	

[1]This estimate may under-represent the actual figure.
Source: NSO.

Additional employment was recorded in four main sectors: the real estate, renting & business activities sector, hotels & restaurants, transport, storage & communication and the other community, social & personal services sector.

At 56.1%, the employment rate was 0.6 percentage points higher than a year earlier, while the activity rate remained stable just below the 60% level.

The average gross annual salary rose by 0.6%, as higher pay – particularly in the electricity, gas & water supply sector and in construction – was offset by reduced compensation in various other sectors, including real estate, renting & business activities.

Administrative records

According to the ETC's administrative records, the labour supply grew by 1.1% over the year to August 2007. As a result of slightly faster growth in the gainfully occupied there was a drop of 8.1% over the previous twelve months in the number of registered unemployed, reducing the unemployment rate by half a percentage point to 4.4% (see Chart 4.4 and Table 4.6).

While employment in the public sector decreased by 1.3% year-on-year, that in the private sector rose by 3.0%, with employment growth in market services more than offsetting the ongoing decline in direct production. New employment was observed mainly in real estate, renting & business activities and in the other community, social & personal services sector. Conversely, employment fell in manufacturing, due to factory closures in the clothing sub-sector.

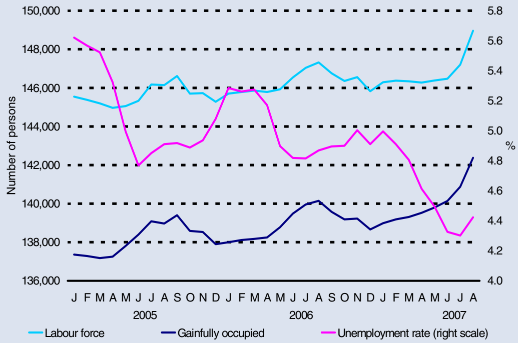
More recent data show that persons on the

Table 4.6
LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS [1]

	2006		2007			*Year-on-year change (%)*
	Aug.	Dec.	Mar.	June	Aug.	Aug. 2007
Labour supply	**147,318**	**145,827**	**146,336**	**146,470**	**148,963**	**1.1**
Gainfully occupied [2]	140,146	138,666	139,303	140,133	142,373	1.6
Registered unemployed	7,172	7,161	7,033	6,337	6,590	-8.1
Unemployment rate (%)	**4.9**	**4.9**	**4.8**	**4.3**	**4.4**	
Private sector	**96,615**	**95,382**	**96,242**	**97,191**	**99,486**	**3.0**
Direct production	33,202	32,669	32,989	32,993	32,711	-1.5
Market services	63,413	62,713	63,253	64,198	66,775	5.3
Public sector	**42,979**	**42,827**	**42,614**	**42,496**	**42,424**	**-1.3**
Temporary employment	**552**	**457**	**447**	**446**	**463**	**-16.1**
Part-time jobs	**43,952**	**43,900**	**44,358**	**46,304**	**47,513**	**8.1**
Primary	24,770	24,355	24,704	26,188	26,784	8.1
Secondary [3]	19,182	19,545	19,654	20,116	20,729	8.1

[1] Figures for September 2007 were not available at the time of writing.
[2] This category measures full-time employment.
[3] This category includes employees holding both a full-time job and a part-time job.
Source: NSO.

Chart 4.4
LABOUR MARKET TRENDS



Source: NSO.

Chart 4.5
REGISTERED UNEMPLOYED

Source: NSO.

unemployment register numbered 6,623 in November, a contraction of almost 10% on a year earlier (see Chart 4.5).

Consumer prices

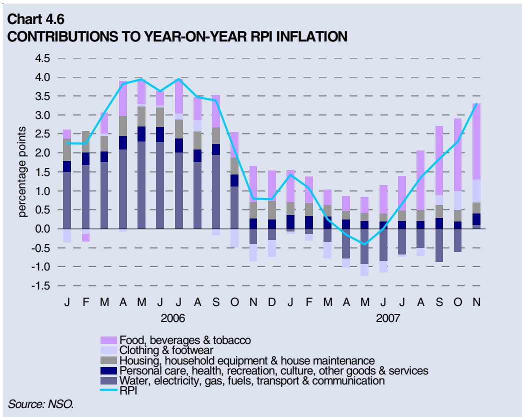
Retail Price Index

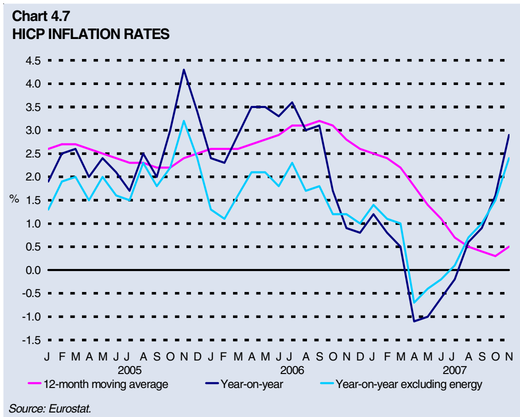
The year-on-year retail price inflation rate rose from zero in June to 1.8% in September. The average year-on-year inflation rate for the third quarter was 1.5 percentage points above the second quarter's (see Table 4.7). Meanwhile, the twelve-month moving average rate of inflation, which reacts with a lag to recent price movements, continued on its declining trend, falling to 0.8% in September from 1.4% in June.

Table 4.7
INFLATION RATES OF COMMODITY SECTIONS IN THE RPI

	Year-on-year change (%)			*Average change (%)*		
	July	Aug.	Sep.	Q1	Q2	Q3
Food	3.6	6.2	7.1	2.3	1.9	5.6
Beverages & tobacco	1.3	2.3	2.8	1.7	1.4	2.1
Clothing & footwear	-0.9	-3.2	4.3	-2.8	-3.9	0.1
Housing	3.2	2.9	3.0	3.3	2.2	3.0
Water, electricity, gas & fuels	-9.2	-6.5	-7.5	-1.7	-11.1	-7.8
Household equipment & house maintenance	0.3	0.7	1.4	0.8	0.4	0.8
Transport & communications	-1.6	-1.2	-2.6	-0.6	-2.1	-1.8
Personal care & health	1.6	1.6	1.9	1.9	1.6	1.7
Recreation & culture	1.3	1.0	1.7	1.9	1.7	1.3
Other goods & services	0.0	0.4	0.4	1.1	-0.3	0.3
RPI	**0.7**	**1.4**	**1.8**	**0.9**	**-0.2**	**1.3**

Source: NSO.





Upward pressure during the third quarter came mainly from food prices, which rose by 5.6%, reflecting the surge toward the end of the quarter in fish, fruit, vegetable and cereal prices. This sub-index contributed 1.3 percentage points to the average inflation rate during the quarter (see Chart 4.6). In addition, clothing & footwear prices reversed their declining trend, increasing by 4.3% in September. On the other hand, fuel-related prices remained on a declining path, dropping by an average of 7.8% during the quarter.

On the basis of the Central Bank of Malta's measure, core inflation, an indicator of inflation persistence, increased from 1.0% in June to 1.6% in September.

In November the annual inflation rate rose to 3.3%, reflecting a continued increase in the prices of food and of clothing & footwear, as well as a rise in energy-related prices.

Harmonised Index of Consumer Prices

The HICP-based inflation rate paralleled developments in the RPI, turning positive during the third quarter, when it averaged 0.4%, an increase of 1.3 percentage points from the previous quarter. Meanwhile, the twelve-month moving average rate continued to decline, reaching 0.4% by September (See Chart 4.7).

The slightly slower pace of HICP inflation compared with the trend in the RPI is attributable to the lower weight assigned to food and the direct inclusion of hotel and restaurant prices, which during the quarter were on a declining path, in the HICP.

In parallel with changes in the RPI, more recent data indicated an acceleration in the HICP annual inflation rate, to 2.9% in November, the highest level since September 2006. This mainly reflected further upward pressure from fuel and food prices together with the stabilisation of hotel accomodation prices.

Residential property prices

House price inflation remained subdued during the September quarter, when advertised residential property prices advanced by 1.1% on a year earlier. While the increase was higher than that registered in the previous quarter, it remained below the 1.8% rise recorded in the same quarter of 2006 (see Chart 4.8).

Chart 4.8
RESIDENTIAL PROPERTY PRICES
(% change on a year earlier)

This modest rate of expansion reflected unchanged asked prices for finished flats, which account for almost half of sampled properties. In addition, prices of town houses and flats in shell form fell by 9.4% and 4.5%, respectively, from year-ago levels, while those for maisonettes in finished form contracted by 3.5%, the fourth consecutive quarterly decline.

Meanwhile, prices of maisonettes in shell form went up by 1.0%, a slower annual rate than in the same period of 2006. At the same time, asked prices for terraced houses increased by 8.3%, while those for houses of character and villas accelerated by 16.4% and 6.4%, respectively.

Data for the last quarter of 2007 indicate that advertised residential property prices were almost unchanged on a year earlier.

Box 1: BUSINESS AND CONSUMER CONFIDENCE

Business perceptions survey[1]

The Bank's survey on the perceptions of business operators in the service and construction industries indicated general stability in fourth-quarter performance compared with the previous three months. While more than half of respondents quoted unchanged turnover levels, the remainder reported a net increase in sales, though the rise was on a smaller scale than in recent periods. Similarly, over half of the participants in the survey recorded unchanged profits, selling prices and costs, while the remainder indicated mild upward cost pressures and lower selling prices. With regard to their labour complement, around 70% of participants quoted unchanged employment levels, with the remaining respondents being virtually equally split between indications of higher and lower employment levels (see Chart 1).

The overall outlook for the first quarter of 2008 was generally positive. The balance of replies on turnover, profits and employment remained positively skewed, a pattern which has prevailed since the inception of this revised survey. In addition, despite evidence of continuing cost pressure, the majority projected stable selling prices for the first three months of 2008. In turn, the balance of respondents also expected an expansion in their workforce, as shown in Chart 1.

With regard to the longer term, around two-thirds of survey participants intended to increase their investment outlays while almost none were considering a reduction. Concurrently, the balance of respondents expected to expand their workforce over the next year.

Industrial confidence

The European Commission's industry survey for Malta showed that the seasonally-adjusted indicator of industrial confidence moved into positive territory, rising to 6 in September (see Chart 2). This mostly reflected declining stocks of finished goods, even if production expectations deteriorated marginally and order books were virtually stable.

Data by main industrial groupings indicate that the improved sentiment in the intermediate

Chart 1
KEY BUSINESS PERCEPTIONS SURVEY RESULTS
(balance of replies in percentage points)

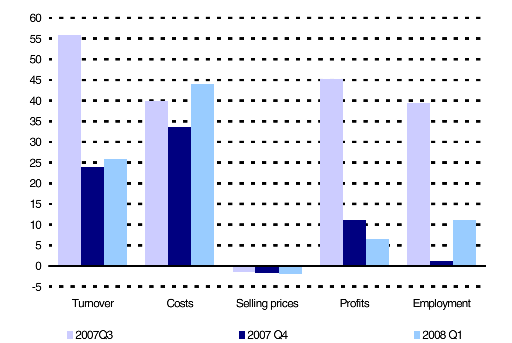
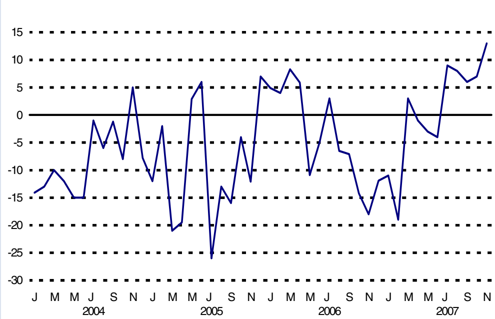


Chart 2
INDUSTRIAL CONFIDENCE INDICATOR
(seasonally adjusted)



Source: European Commission.

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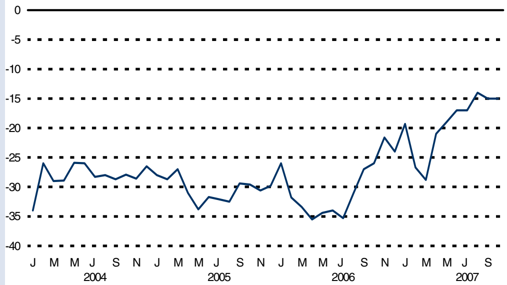
[1] Fieldwork was carried out between November and December 2007.

goods segment was mainly due to a drawdown of stocks of finished goods although, to a lesser extent, a pick-up in order books also contributed. In contrast, sentiment deteriorated in the investment and consumer goods categories on account of declining production expectations, but remained in positive territory.

Latest data indicate that the confidence of manufacturing firms continued to improve, with the seasonally-adjusted index rising to 13 in November, driven by a pick-up in production expectations.

Chart 3
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted)



Source: European Commission.

Consumer confidence

On the basis of the European Commission's consumer confidence survey for Malta, there was a small improvement in consumer sentiment during the third quarter, with the seasonally-adjusted indicator rising from -17 in June to -15 in September (see Chart 3). This was attributed to optimism with respect to employment prospects and the personal financial situation of households in the subsequent twelve months. However, this positive outlook was offset by some uncertainty about the general outlook on the economy. Meanwhile, expectations for consumers' ability to save remained stable.

A later survey indicates that consumer sentiment dipped slightly in October from the previous month. Thus, while respondents were more optimistic with regard to general economic conditions and unemployment, their view on their personal financial situation and ability to save deteriorated.

5. THE BALANCE OF PAYMENTS AND THE MALTESE LIRA

During the third quarter of 2007 the surplus on the current account of the balance of payments increased on a year earlier. This stemmed from a drop in net investment income outflows and a higher surplus on current transfers. The capital and financial account recorded a negative balance as against small net inflows a year earlier.[1] The overall surplus on the combined current and capital and financial accounts led to a rise in reserve assets, which, however, grew at a slower pace than in the third quarter of 2006. Errors and omissions remained positive but declined.[2]

Over the first nine months of the year, the deficit on the current account contracted as a result of a marked narrowing of the merchandise trade gap. The capital and financial account balance posted net outflows, with reserves falling during this period. This contrasts with strong net inflows and rising reserve assets, which were driven by privatisation proceeds, recorded in the same period of 2006.

In the light of the EU Council's decision to allow Malta to enter the euro area from January 2008, the ECOFIN Council, in agreement with the Maltese authorities, set the permanent conversion rate for the Maltese lira against the euro at the lira's central parity rate in ERM II of MTL/EUR 0.4293. This had a positive impact on the Maltese currency which, throughout the quarter reviewed, maintained an unchanged level against the euro. Thus, mirroring the euro's fluctuations against major currencies, the lira extended its appreciating trend against the US dollar but lost ground against the Japanese yen. In terms of the pound sterling, against which it had weakened in the previous quarter, it recovered during the quarter reviewed.

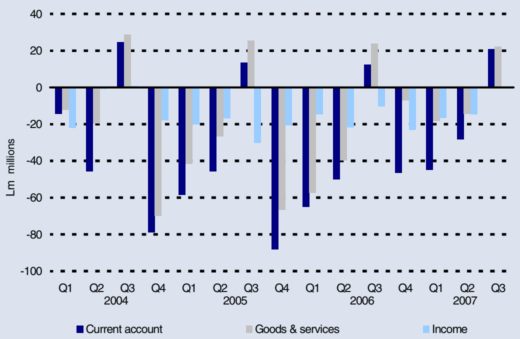
The current account

In line with the established seasonal pattern, the current account recorded a surplus of Lm20.9 million (EUR 48.7 million) in the third quarter of 2007. This mostly reflected strong receipts relating to tourism, recorded under the services account (see Table 5.1 and Chart 5.1). On a year-on-year basis, the current account surplus rose by Lm8.6 million (EUR 20.1 million), continuing the trend improvement in evidence since the end of 2005. Lower net investment income outflows and a higher net surplus on transfers were dampened by a wider merchandise trade gap. Meanwhile, the positive balance on services was up marginally.

Merchandise trade

The trade gap widened in the period from July to September. According to balance of payments data, imports rose by Lm5.2 million (EUR 12.0 million) on a year earlier, outweighing export gains totalling Lm3.1 million (EUR 7.1 million). At the same time, Customs data for the same period

Chart 5.1
CURRENT ACCOUNT: BALANCES ON MAIN COMPONENTS



Source: NSO.

[1] In this Chapter, movements in external reserves are excluded from the capital and financial account.

[2] Negative errors and omissions imply an underestimation of the current account deficit and/or an overestimation of net inflows on the capital and financial account. Conversely, an overestimation of the current account deficit and/or an underestimation of net capital and financial account inflows results in positive errors and omissions.

Table 5.1

BALANCE OF PAYMENTS SUMMARY[1]

Lm millions

	2006 Q3 credit	2006 Q3 debit	2007 Q3 credit	2007 Q3 debit
Current account balance	**12.3**		**20.9**	
Goods		108.1		110.2
Services	132.0		132.4	
Transport	14.5		16.0	
Travel	77.6		89.3	
Other services	40.0		27.1	
Income		21.7		14.7
Current transfers	10.0		13.3	
Capital and financial account balance[2]	**1.4**			**5.4**
Capital account balance	13.3		11.5	
Financial account balance		12.0		16.9
Direct investment	84.4		129.9	
Portfolio investment	147.0		342.6	
Financial derivatives		5.1	19.7	
Other investment		238.3		509.1
Movements in reserves[3]		**39.2**		**31.6**
Net errors and omissions	**25.6**		**16.1**	

[1] Provisional.

[2] Excludes movements in official reserves.

[3] Excludes revaluation adjustments.

Source: NSO.

showed a similar pattern, with the merchandise trade deficit going up by Lm2.1 million (EUR 4.7 million), or 1.6% (see Table 5.2).[3]

On the basis of Customs data, export values rose by Lm4.7 million (EUR 10.9 million), or 2.0%, mainly on account of higher foreign sales of chemicals, as the performance of the pharmaceuticals industry continued to gather momentum. In contrast, those of printed matter and electrical machinery & transport equipment contracted. Imports also increased, rising by Lm6.8 million (EUR 15.8 million), or 1.9%, partly stemming from a higher fuel bill. The latter reflected additions to inventories, though accelerating oil prices also contributed.

[3] In the compilation of the balance of payments, Customs statistics on merchandise trade are adjusted for coverage, valuation and timing. Customs data incorporate insurance and freight costs, which are reported in the services account in the balance of payments. As a result, the figures for imports and exports of goods shown in Table 5.1 do not tally with those of Table 5.2.

Table 5.2
MERCHANDISE TRADE
based on Customs data, Lm millions

	2006 Q3	2007 [1] Q3	Change Amount	Change %
Imports	**359.1**	**365.9**	**6.8**	**1.9**
Industrial supplies	182.4	170.1	-12.3	-6.7
Capital goods & others	58.8	51.2	-7.6	-12.9
Consumer goods	87.3	94.5	7.2	8.2
Fuel & lubricants	30.6	50.1	19.5	63.7
Exports	**230.0**	**234.7**	**4.7**	**2.0**
Trade deficit	**129.1**	**131.2**	**2.1**	**1.6**

[1] Provisional

Source: NSO.

Moreover, payments for consumer goods increased, particularly for food and beverages, which may reflect rising global prices of food. In contrast, imports of industrial supplies, mainly electrical machinery & transport equipment, fell, mirroring the drop in exports in this category. A decline in imports of capital goods was also recorded.

During October the trade gap widened by a further Lm6.6 million (EUR 15.4 million), or 15.2%, on a year earlier, entirely on account of a fall in exports. Lower sales of food and machinery & transport equipment outweighed further growth in sales of pharmaceuticals.

Services, income and transfers

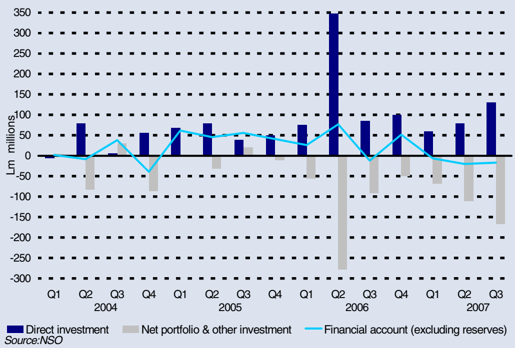
Although the surplus on services grew marginally, adding just Lm0.4 million (EUR 0.9 million), this masked significant changes in the account. Net receipts from travel expanded by 15.1%, as increased expenditure by inbound tourists offset a marginal rise in spending by residents travelling abroad. This was complemented by higher net transport income. However, significantly larger payments of fees and commissions by banks drove down the surplus on 'other services'.

On the income account, a contraction in profits due to non-residents on their direct investments in Malta and increased income from portfolio investments by residents abroad led to a Lm7.0 million (EUR 16.4 million) reduction in net outflows. At the same time, tax payments by companies engaged in international business, which are fairly volatile, boosted the surplus on transfers by Lm3.3 million (EUR 7.6 million).

The capital and financial account

During the third quarter of 2007 the balance on the capital and financial account turned negative. Net outflows totalled Lm5.4 million (EUR 12.5 million), as against a small net positive balance a year earlier (see Table 5.1). The surplus on capital transactions fell by Lm1.8 million (EUR 4.3 million) on account of lower receipts from the EU. Meanwhile, net outflows on the financial account increased (see Chart 5.2). This was because net outflows on the combined portfolio and other investment accounts rose as banks stepped up

Chart 5.2
FINANCIAL ACCOUNT



Source:NSO

their long-term lending to non-residents. On the other hand, direct investment in Malta expanded sharply, boosted by the sale of equity capital to non-residents and privatisation proceeds. Additional inflows were posted on the derivatives account.

Reflecting these developments, reserve assets grew by Lm31.6 million (EUR 73.7 million), as against a Lm39.2 million (EUR 91.4 million) rise a year earlier. Errors and omissions remained positive, but declined by Lm9.5 million (EUR 22.0 million).

Year-to-date developments

In the first nine months of 2007, the current account deficit almost halved on a year earlier, to

Table 5.3
BALANCE OF PAYMENTS SUMMARY[1]
Lm millions

	2006 Q1-Q3		2007 Q1-Q3	
	credit	debit	credit	debit
Current account balance		**103.0**		**52.1**
Goods		345.9		279.7
Services	273.1		269.3	
Transport	29.5		35.9	
Travel	137.6		151.2	
Other services	105.9		82.1	
Income		57.1		54.4
Current transfers	27.0		12.6	
Capital and financial account balance[2]	**127.0**			**30.1**
Capital account balance	36.7		13.6	
Financial account balance	90.3			43.7
Direct investment	506.2		268.2	
Portfolio investment		712.3	93.9	
Financial derivatives	9.5		33.2	
Other investment	286.9			439.0
Movements in reserves[3]		**54.6**	**63.2**	
Net errors and omissions	**30.5**		**19.1**	

[1] Provisional.
[2] Excludes movements in official reserves.
[3] Excludes revaluation adjustments.
Source: NSO.

Lm52.1 million (EUR 121.4 million). A marked reduction in the merchandise trade gap and lower net investment income outflows were offset by a drop in the surplus balances on services and transfers (see Table 5.3).

Balance of payments figures show the goods deficit contracting by Lm66.2 million (EUR 154.3 million) on a year earlier, as exports rose and imports fell. Similarly, on the basis of Customs data, the visible trade gap declined by 15.9% on the comparable period of 2006 (see Table 5.4).

Increased sales abroad of pharmaceuticals and printed matter, as well as the expansion in oil bunkering activity in Malta, were the major factors behind a 3.9% rise in export values. In contrast, imports dropped by 3.6%. The contraction in imports since the beginning of the year partly mirrored a base effect: during the first nine months of 2006 purchases of capital goods had been high due to exceptional imports of machinery and seacraft as Maltese maritime services firms expanded their fleet. Imports of industrial supplies were also down on a year earlier, dropping across all sub-categories. In contrast, the fuel bill rose significantly, as did purchases of food & beverages, reflecting increased activity and rising international commodity prices.

In the first three quarters of 2007, a positive balance of Lm269.3 million (EUR 627.3 million) was recorded on the services account, down by 1.4% on the comparable period in 2006. A lower surplus on the 'other services' account reflected a rise in payments by banks that outweighed increased inflows from the activities of the on-line gaming industry. On the other hand, stronger surpluses on travel and on transport were posted. Reflecting the pick-up in the tourism sector, net travel receipts rose as increased expenditure by inbound tourists offset higher spending by residents travelling abroad. Moreover, higher receipts from sea transport services drove up the positive balance on the transport account.

On the income account, net outflows contracted by Lm2.7 million (EUR 6.3 million), as increased portfolio investment earnings by residents outweighed higher profits from direct investment

Table 5.4
MERCHANDISE TRADE
based on Customs data, Lm millions

	2006	2007 [1]	Change	
	Q1-Q3	Q1-Q3	Amount	%
Imports	**1,095.3**	**1,055.4**	**-39.9**	**-3.6**
Industrial supplies	527.8	499.4	-28.4	-5.4
Capital goods and others	197.1	152.5	-44.6	-22.6
Consumer goods	269.7	278.9	9.2	3.4
Fuel & lubricants	100.8	124.5	23.7	23.5
Exports	**677.5**	**704.2**	**26.7**	**3.9**
Trade deficit	**417.8**	**351.2**	**-66.6**	**-15.9**

[1] Provisional

Source: NSO.

in Malta due to non-residents. Meanwhile, the transfers account registered a surplus of Lm12.6 million (EUR 29.4 million), which was lower than that recorded in the same period of 2006. The decline was mainly attributable to volatile tax flows related to companies engaged in international business.

The balance on the capital and financial account turned to a negative Lm30.1 million (EUR 70.2 million), with net outflows rising by Lm157.1 million (EUR 366.0 million) on a year earlier. The cessation, at the beginning of the year, of temporary compensating grants relating to Malta's accession to the EU resulted in a smaller positive balance on the capital account. Moreover, on the financial account, net outflows were recorded, as against net inflows a year before. Direct investment in Malta, which had been boosted in the same period of 2006 by considerable privatisation proceeds and an increase in the equity base of foreign-owned banks, fell sharply. Conversely, lower net outflows were recorded on the combined portfolio and other investments accounts, which mostly reflect the activities of the banking sector. These stemmed from a sharp positive swing in the portfolio investment account. Meanwhile, net inflows relating to transactions in derivatives increased.

Against this backdrop, reserve assets contracted by Lm63.2 million (EUR 147.2 million), as against the increase of Lm54.6 million (EUR 127.1 million) recorded between January and September 2006. Errors and omissions remained positive but declined to Lm19.1 million (EUR 44.5 million).

The Maltese lira

During the third quarter of 2007, the Maltese lira's movements continued to mirror those of the euro (see Chart 5.4). Thus, as the euro firmed against the US dollar, the lira registered gains against the US currency, rising by 5.4% over the three-month period (see Table 5.5). Vis-à-vis the pound sterling, the lira rose by 3.7%, regaining the 1.2% loss posted over the previous quarter. However, the lira fell 1.2% against the yen, halting the upward trend against the Japanese currency evident since the third quarter of 2005.

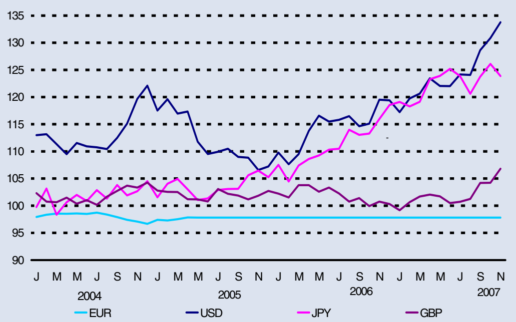
Between the third quarter of 2006 and the corresponding quarter of 2007, the Maltese unit gained, on average, 7.8% and 9.3% against the

Table 5.5
EXCHANGE RATES OF THE MALTESE LIRA[1]

	EUR	USD	GBP	JPY
Average for Q3 2007	0.4293	3.2011	1.5842	377.0
Average for Q3 2006	0.4293	2.9696	1.5842	345.0
Appreciation(+)/depreciation (-) of the MTL (%)	0.0	7.8	0.0	9.3
Closing rate for Q3 2007	0.4293	3.3075	1.6243	380.9
Closing rate for Q2 2007	0.4293	3.1367	1.5666	385.4
Appreciation(+)/depreciation (-) of the MTL (%)	0.0	5.4	3.7	-1.2

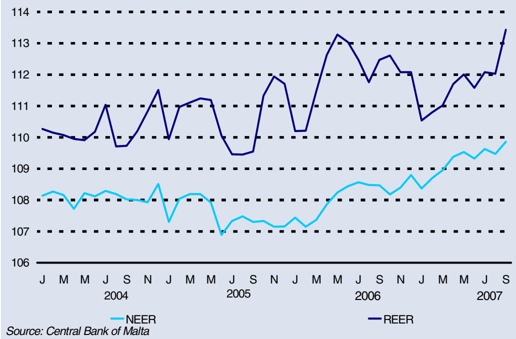
[1] The exchange rate of the Maltese lira against the euro is quoted in terms of units of the lira per euro. The other currencies, i.e. the USD, the GBP and the JPY, are quoted per one Maltese lira.

Chart 5.3
EXCHANGE RATE MOVEMENTS OF THE MALTESE LIRA*
(index of end-of-month rates, January 2003 =100)



*A higher index reflects a nominal appreciation of the Maltese lira against the respective currency.

Chart 5.4
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES OF THE MALTESE LIRA
(monthly indices, 1995 = 100)



Source: Central Bank of Malta

US and Japanese currencies, respectively. However, over the same period, fluctuations against the pound sterling evened out, with the domestic currency remaining unchanged from a year earlier.

Over October and November, the lira continued to gain ground against the US dollar, moving up by 4.0%. Against the pound sterling it appreciated by a further 2.5%, while in terms of the Japanese yen it edged up marginally.

Due to its fixed link to the euro, the Maltese lira continued to strengthen in nominal effective terms, with the NEER index gaining half a percentage point between end-June and end-September 2007. The Real Effective Exchange Rate (REER) of the lira, which is an indicator of competitiveness, also extended its general upward trend (see Chart 5.4). Thus, as the nominal appreciation of the lira was reinforced by a faster rise in consumer prices in Malta than in its main trading partners and competitors, the index increased by 1.7%.

6. GOVERNMENT FINANCE[1]

During the first nine months of 2007 the general government deficit expanded on a year earlier as expenditure grew at a faster pace than revenue. Similarly, the deficit on the Consolidated Fund widened, albeit marginally, during this period as the absolute increase in expenditure just outweighed the rise in revenue. As discussed in Box 2, according to the Government's fiscal projections this widening should have been reversed in the final quarter of the year, largely on the basis of a projected expansion in revenue. General government debt increased in the period under review.

General government balance[2]

In the third quarter of 2007 the general government deficit widened by Lm2.0 million (EUR 4.7 million) over a year earlier, as a drop in revenue was coupled with a marginal rise in expenditure (see Table 6.1). As a result, during the first nine months of the year the deficit

Table 6.1
GENERAL GOVERNMENT BALANCE
Lm millions

	2006 Q3	2007 Q3	2006 Q1-Q3	2007 Q1-Q3	Change Amount	%
Revenue	**222.2**	**220.4**	**625.2**	**625.5**	**0.3**	**0.0**
Taxes on production and imports	84.0	84.8	238.6	245.0	6.3	2.7
Current taxes on income and wealth	65.0	72.1	163.8	186.0	22.2	13.6
Social contributions	42.1	39.4	117.9	120.2	2.3	2.0
Capital and current transfers	18.7	10.4	53.4	17.9	-35.5	-66.4
Other	12.4	13.8	51.5	56.4	4.9	9.5
Expenditure	**233.8**	**234.0**	**688.1**	**701.7**	**13.6**	**2.0**
Intermediate consumption	29.3	30.5	81.7	84.5	2.8	3.4
Compensation of employees	72.7	75.9	217.8	224.6	6.8	3.1
Subsidies	7.5	12.3	26.5	34.4	7.9	29.8
Interest	23.3	18.8	61.0	56.0	-5.0	-8.2
Social benefits	65.4	67.8	199.8	212.0	12.2	6.1
Gross fixed capital formation	19.6	15.4	58.4	61.1	2.7	4.6
Other	15.9	13.3	42.9	29.1	-13.8	-32.3
Primary balance	**11.6**	**5.1**	**-1.8**	**-20.2**	**-18.3**	**-**
General government balance	**-11.7**	**-13.7**	**-62.9**	**-76.2**	**-13.3**	**-**

Source: NSO.

[1] The cut-off date for information contained in this Chapter is 11 January 2008.
[2] Captures central government, including extra-budgetary units and local government. General government data are compiled on an accrual basis. In contrast, the Consolidated Fund captures most of the transactions of central government on a cash basis.

expanded by Lm13.3 million (EUR 31.0 million) on the corresponding period of 2006. The primary deficit, which is obtained by deducting interest payments from expenditure, also widened.

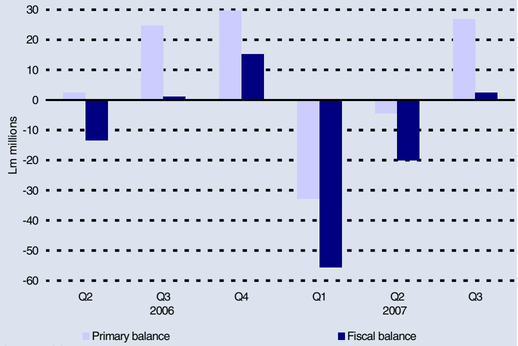
During the first nine months of 2007 general government revenue remained broadly unchanged on a year earlier. Tax receipts grew rapidly, particularly from taxes on income and wealth. At the same time, 'other' revenue increased significantly, mainly reflecting higher market output, mainly generated by extra-budgetary units. However, capital and current transfers contracted sharply on account of lower funding received from the EU. This reflects a shift in the nature of EU funding away from automatic budgetary compensation in the years immediately following EU accession towards project-related funding within the financial framework for the period from 2007 to 2013.

Expenditure was 2.0% higher than a year earlier, mainly driven by recurrent spending. Almost all major categories of expenditure increased, with outlays on social security benefits and subsidies accounting for a significant proportion of the rise. The former mainly reflected retirement pensions and energy support measures to households, while energy-related transfers accounted for the increase in subsidies.[3] Growth in compensation of employees picked up, but remained in line with the collective agreement covering the Civil Service. In contrast, on an accrual basis, interest payments decreased. Moreover, 'other' expenditure fell sharply as a result of the sale of land during the second quarter, which is recorded as negative spending.

Consolidated Fund developments

In line with seasonal patterns, after having recorded a deficit in the previous two quarters, the

Chart 6.1
CONSOLIDATED FUND DEVELOPMENTS



Source: NSO.

balance on the Consolidated Fund swung into surplus during the third quarter of 2007, as revenue exceeded expenditure by Lm2.4 million (EUR 5.6 million) (see Chart 6.1 and Table 6.2). This surplus was larger than that registered a year earlier as, on account of higher tax receipts, revenue increased more rapidly than expenditure. Nevertheless, the Consolidated Fund deficit for the first nine months of 2007 rose marginally on a year earlier, to Lm73.3 million (EUR 170.7 million). Similarly, with the absolute rise in expenditure, excluding interest payments, exceeding that in revenue, the primary deficit widened slightly. Data for the first eleven months indicate that the deficit continued to grow as expenditure grew at a faster pace than revenue.

Revenue

Between January and September 2007, revenue was Lm13.6 million (EUR 31.7 million), or 2.3%, higher than that registered in the same period of 2006 (see Table 6.2). This was due to higher tax proceeds, in particular from direct taxes, which offset a drop in non-tax revenue.

Direct tax receipts increased by 9.3% on a year earlier. Despite the reduction in average effective

[3] In the 2007 Budget, the Government announced that families eligible for non-contributory benefits would be awarded vouchers redeemable on the payment of utility bills to counter the impact of higher water and electricity charges.

Table 6.2
GOVERNMENT BUDGETARY OPERATIONS
Lm millions

	2006 Q3	2007 Q3	2006 Q1-Q3	2007 Q1-Q3	Change Amount	Change %
Revenue	**223.8**	**228.6**	**589.7**	**603.3**	**13.6**	**2.3**
Direct tax	**108.0**	**111.7**	**247.4**	**270.3**	**22.9**	**9.3**
Income tax	73.8	79.9	155.3	176.5	21.2	13.7
Social security contributions[1]	34.2	31.8	92.1	93.8	1.7	1.8
Indirect tax	**88.7**	**87.3**	**249.8**	**256.4**	**6.6**	**2.6**
Value Added Tax	44.3	45.3	125.2	129.4	4.2	3.4
Customs and excise duties	21.0	19.9	54.0	55.0	1.0	1.9
Licences, taxes and fines	23.4	22.1	70.7	71.9	1.2	1.7
Non-tax[2]	**27.0**	**29.5**	**92.5**	**76.7**	**-15.8**	**-17.1**
Expenditure	**222.6**	**226.3**	**662.6**	**676.6**	**14.0**	**2.1**
Recurrent[1]	**194.9**	**199.8**	**582.9**	**603.4**	**20.5**	**3.5**
Personal emoluments	47.0	47.9	141.2	143.7	2.5	1.8
Programmes and other operational expenditure[3]	107.1	112.1	326.7	345.9	19.2	5.9
Contributions to entities	17.2	15.2	52.1	50.8	-1.3	-2.5
Interest payments	23.6	24.6	62.9	63.0	0.1	0.2
Capital	**27.7**	**26.4**	**79.7**	**73.3**	**-6.4**	**-8.0**
Primary balance[4]	**24.8**	**26.9**	**-10.0**	**-10.3**	**-0.3**	**-**
Consolidated Fund balance[5]	**1.2**	**2.4**	**-72.9**	**-73.3**	**-0.4**	**-**

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

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

[3] Includes programmes & initiatives and operational & maintenance expenditure.

[4] Revenue less expenditure excluding interest payments.

[5] Revenue less expenditure.

Source: NSO.

tax rates from January 2007, income tax receipts yielded 13.7% more and accounted for more than four-fifths of the increase in direct tax revenue. Higher yields from capital gains tax, reflecting two large equity sales, and from withholding taxes on bank deposits boosted income tax revenues. At the same time, social security contributions added 1.8%. The entry into force, in January 2007, of lower contribution rates for part-time employees appears to have dampened the rate of growth of social security contributions, despite buoyancy in the labour market.

When compared to the corresponding period of 2006, indirect tax proceeds expanded by 2.6%, with VAT accounting for more than three-fifths of the increase. Revenues from customs & excise duties and from licences, taxes & fines were also higher, rising by 1.9% and 1.7%, respectively.

In contrast, non-tax revenue declined by 17.1%, entirely on account of lower grants received from the EU on account of the shift in the composition of funding referred to earlier. This outweighed increases in Central Bank of Malta profits transferred to Government and in the proceeds from the Special Registration Scheme.[4]

Expenditure

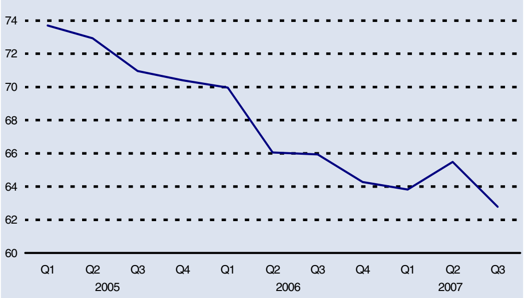
During the first three quarters of the year expenditure grew by Lm14.0 million (EUR 32.6 million), or 2.1%, over the comparable period of 2006. Recurrent spending picked up, but was partly offset by lower capital outlays. The former rose by 3.5%, with programmes and other operational expenditure accounting for more than four-fifths of the increase. In turn, this mainly reflected higher outlays on social security benefits – mostly on retirement pensions. In addition, spending on new measures to offset the impact of increased energy costs added Lm5.1 million (EUR 11.9 million), while higher expenditure on medical supplies also contributed. Spending on personal emoluments and interest payments remained contained. In contrast, contributions to government entities declined marginally, but this largely reflected a reclassification from this spending category to programmes and other operational expenditure.[5]

Capital spending contracted by 8.0% over a year earlier, reflecting lower outlays on the new state hospital that offset higher spending on waste treatment and roads.

General government debt[6]

The general government deficit registered during the first nine months of 2007 was financed by additional long-term borrowing, by reductions in holdings of government deposits and by the sale of equity. Consequently, during this period general government debt increased by 2.2% to Lm1,427.2 million (EUR 3,324.5 million) (see Table 6.3). With GDP growing at a faster pace, however, the debt-to-GDP ratio extended its downward trend and declined to 62.8% (see Chart 6.2).[7]

Chart 6.2
GENERAL GOVERNMENT DEBT
(% of GDP; GDP data are 4-quarter moving sums)



Source: NSO.

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[4] The Special Registration Scheme was launched in April 2007 to provide individuals residing in Malta with a one-time opportunity to regularise their position in respect of their holdings of eligible assets in those cases where the associated income had not been declared for the purposes of the Income Tax Act. The Scheme closed on 31 August 2007.

[5] Until 2006 Malta Freeport interest payments were classified under contributions to government entities. As from 2007 these were classified under programmes and initiatives.

[6] Excludes general government debt held by extra-budgetary units, local government and the Sinking Fund.

[7] The GDP figure used in calculating this ratio is a four-quarter sum up to the third quarter of 2007.

Table 6.3

GENERAL GOVERNMENT DEBT

Lm millions

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
General government debt[1]	**1,408.6**	**1,396.3**	**1,407.0**	**1,464.5**	**1,427.2**
Securities	1,287.2	1,284.1	1,295.6	1,353.3	1,315.2
Short-term	153.6	160.5	171.7	196.2	158.1
Long-term	1,133.7	1,123.7	1,123.9	1,157.1	1,157.1
Loans	121.4	112.2	111.4	111.2	112.1
Short-term	13.4	10.1	10.7	10.8	11.6
Long-term	107.9	102.1	100.7	100.4	100.5

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

Source: NSO.

The increase in debt in the first nine months of 2007 reflected further issues of long-term securities as the Government pursued its policy of reducing its dependence on short-term borrowing. The amount of short-term securities – which consist of Treasury bills – thus decreased slightly, as did loans outstanding, driven by repayments of long-term foreign borrowings. Consequently, at the end of September 2007 the share of short-term securities in the total debt stood at 11.1%, or 0.4 percentage points less than in December 2006. Meanwhile, long-term securities accounted for 81.1% of the debt, with their share rising from 80.5% nine months earlier.

BOX 2: GOVERNMENT'S FISCAL OUTLOOK

According to the projections published with the Financial Estimates for 2008 and Malta's Stability Programme 2007 - 2010, the general government deficit is expected to have fallen below 2% of GDP in 2007, and to continue on a declining trend in the subsequent two years, before turning into a surplus in 2010. Likewise, the Consolidated Fund deficit is expected to have narrowed in 2007 and to continue falling in 2008, as revenue is set to grow faster than expenditure despite tax cuts. Meanwhile, the debt ratio is also projected to decline steadily over the forecast horizon.

General government

According to Malta's Stability Programme, which confirms the figures set out in the Budget Speech, the general government deficit is expected to have contracted to 1.6% of GDP in 2007 from 2.5% a year earlier (see Table 1).[1] The Programme presents the Government's economic policy goals, explains its medium-term budgetary objectives and includes medium-term projections for key economic variables.

Despite adjustments to the income tax bands, during 2007 revenue is projected to have expanded faster than expenditure, entirely on account of higher tax receipts. At the same time, expenditure growth is expected to have remained contained as a result of lower government employment and a reduction in gross fixed capital formation following the completion of the new state hospital. As a result, the primary surplus is expected to have increased to 1.7% of GDP from 1.0% in 2006.

With economic activity picking up, part of the improvement in the fiscal position reflects the favourable impact of the business cycle. Nevertheless, the budgetary stance did tighten, as indicated by the contraction in the cyclically-adjusted budget deficit. The reliance on

Table 1
STABILITY PROGRAMME: KEY FISCAL INDICATORS
% of GDP

	2006	2007	2008	2009	2010
Total revenue	41.6	41.0	40.9	39.9	39.5
Total expenditure	44.1	42.7	42.2	40.0	38.5
Interest payments	3.6	3.3	3.2	3.0	2.9
Budget balance	-2.5	-1.6	-1.2	-0.1	0.9
Primary balance	1.0	1.7	2.0	2.9	3.8
Cyclically adjusted budget balance	-1.7	-1.1	-1.0	-0.4	0.2
Gross debt	64.7	62.9	60.0	57.2	53.3

Source: Stability Programme 2007-2010, Ministry of Finance.

[1] As a new Member State of the euro area, Malta was required to submit a Stability Programme within six months of the Council Decision on its participation in the single currency. The Stability Programme was prepared in accordance with Council Regulation (EC) No. 1466/97 as amended by Council Regulation (EC) No. 1055/05.

temporary measures also diminished. During 2007, general government debt as a proportion of GDP is also expected to have fallen below 63% from 64.7% in 2006, mainly due to a rising primary surplus and faster GDP growth.

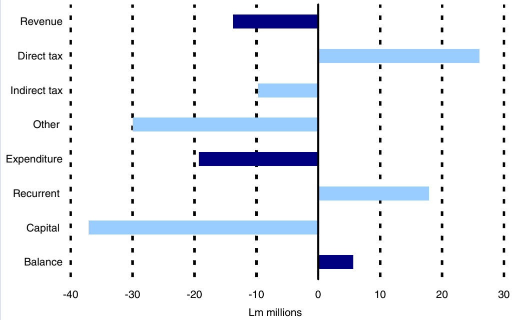
The Stability Programme includes forecasts of key fiscal variables for the period between 2007 and 2010. Despite the additional tax cuts announced in the 2008 Budget Speech, the deficit-to-GDP ratio is expected to continue on its downward trajectory over the forecast horizon, turning into a surplus of 0.9% in 2010. The reduction in the fiscal imbalance is mainly based on expenditure restraint, in particular spending on compensation of employees. The debt-to-GDP ratio should likewise maintain a downward trend, dropping to 53.3% at the end of the forecast horizon.

Consolidated Fund performance in 2007

The revised Financial Estimates show that the deficit on the Consolidated Fund is expected to have narrowed from Lm57.8 million (EUR 134.6 million) in 2006 to Lm48.9 million (EUR 113.9 million) in 2007. This is Lm5.6 million (EUR 13.0 million) less than the deficit approved in the 2007 Budget, with lower than expected expenditure outweighing a revenue shortfall (see Chart 1). Revenue is expected to have been below the approved estimates because of lower than expected inflows from grants and a downward revision to indirect tax proceeds. Together, these elements should have offset an upward revision in direct tax revenue that was due to additional proceeds from income tax and social security contributions. On the other hand, capital outlays are expected to have fallen short of the approved amounts, offsetting overruns on recurrent spending and accounting for the downward revision in expenditure.

According to the revised estimates, in 2007 revenues are expected to have expanded by 3.2% over 2006, with tax revenues being the sole contributor to this growth. Despite the cuts announced in the 2007 Budget, income tax receipts were projected to have grown by 12.1%, driven mainly by higher corporate profits (see Table 2). Revenue from social security contributions is also expected to have risen, by almost 7%, reflecting improved labour market conditions and an additional weekly payment in effect in 2007. Meanwhile, the proceeds from VAT are projected to have grown by 4.2%. Other indirect tax proceeds are also set to have expanded during 2007, mainly through higher excise duties on petroleum, though increased activity in the real estate sector is also projected to have boosted yields from duty on documents. In contrast, grants are expected to have declined, reflecting a shift in the nature of EU funding away from automatic budgetary compensation in the years immediately following EU accession towards funding related to the implementation of projects within the financial framework for the period from 2007 to 2013. Other non-tax revenue is also set to have declined as sales of land, which had boosted such revenues a year earlier, were not repeated in 2007.

Chart 1
CONSOLIDATED FUND PERFORMANCE IN 2007
(difference between revised and approved estimates)



Source: Ministry of Finance.

In 2007 expenditure is projected to have expanded by 2.0% over the previous year, with an increase in recurrent spending being partly

Table 2
BALANCE ON THE CONSOLIDATED FUND 2006-2008
Lm millions

	2006	2007			2008		
	Actual	Revised estimate	Change Amount	%	Approved estimate	Change Amount	%
Revenue	**877.3**	**905.2**	**28.0**	**3.2**	**960.3**	**55.1**	**6.1**
Direct tax	**391.5**	**431.7**	**40.2**	**10.3**	**461.9**	**30.2**	**7.0**
Income tax	256.6	287.7	31.2	12.1	312.5	24.8	8.6
Social security contributions[1]	134.9	144.0	9.1	6.7	149.3	5.3	3.7
Indirect tax	**338.3**	**361.8**	**23.4**	**6.9**	**374.6**	**12.8**	**3.5**
Value Added Tax	174.6	182.0	7.4	4.2	191.9	9.9	5.4
Customs and excise duties	69.2	79.4	10.2	14.7	79.2	-0.2	-0.2
Licences, taxes and fines	94.5	100.4	5.9	6.2	103.5	3.1	3.1
Non-tax	**147.5**	**111.8**	**-35.7**	**-24.2**	**123.8**	**12.1**	**10.8**
Grants	59.8	34.5	-25.2	-42.2	49.8	15.3	44.3
Expenditure	**935.1**	**954.1**	**19.0**	**2.0**	**989.7**	**35.6**	**3.7**
Recurrent[1]	**798.1**	**823.3**	**25.2**	**3.2**	**848.7**	**25.4**	**3.1**
Personal emoluments	203.1	207.1	4.0	2.0	208.8	1.7	0.8
Contributions to entities	73.7	67.2	-6.6	-8.9	69.1	1.9	2.9
Social security benefits	233.5	243.3	9.8	4.2	263.9	20.6	8.5
Interest payments	77.4	77.1	-0.3	-0.4	78.3	1.2	1.6
Other expenditure	210.4	228.7	18.3	8.7	228.6	-0.1	0.0
Capital	**137.0**	**130.8**	**-6.2**	**-4.6**	**141.0**	**10.2**	**7.8**
Consolidated Fund balance	**-57.9**	**-48.9**	**9.0**	**15.5**	**-29.4**	**19.5**	**39.9**

[1] Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.
Source: Ministry of Finance.

offset by an expected decline in capital expenditure. The latter is largely due to lower outlays on the new state hospital, which was completed during the year. On the other hand, growth in recurrent expenditure is expected to have been driven by higher social security benefits and energy subsidies, the latter being captured under 'other expenditure'.[2] Personal emoluments are expected to have grown in line with the public service collective agreement, whereas interest payments are projected to have declined marginally.

The revised estimates for 2007 entail a better

[2] As from 2007, the latter also includes payments of interest on behalf of Malta Freeport, which were previously classified under 'contributions to entities'.

fourth quarter outturn than in 2006, since data for the first nine months of the year still show a wider deficit compared to a year earlier. The achievement of the 2007 targets hinges on an acceleration in tax revenues in the final quarter, as well as a pick-up in grants compared to the first nine months of the year. On the other hand, the revised estimates imply a slowdown in recurrent expenditure growth during the last three months of 2007 and a recovery in capital spending compared with the nine-month pattern.

Consolidated Fund performance in 2008

In 2008 the deficit on the Consolidated Fund is expected to continue to narrow, contracting by Lm19.5 million (EUR 45.4 million) to just under Lm30.0 million (EUR 69.9 million). Revenue is again expected to rise faster than expenditure, underpinned by strong economic activity and an increased take-up of EU funds. Indeed, a further reduction in average effective income tax rates was announced, which is expected to depress income tax receipts by Lm12.0 million (EUR 27.9 million). Minor reductions to property related taxes were also announced. Despite these adjustments, revenue is expected to increase by 6.1%. Tax revenues are projected to slow down compared to 2007. The reduction in effective tax rates is expected to restrain growth in income tax receipts to around 9%, which still remains buoyant. In turn, indirect taxes are projected to decelerate, despite an increase of over 5% in VAT proceeds, with customs and excise duties set to decline marginally after strong growth in 2007.

On the other hand, recurrent expenditure growth is projected to be contained at just over 3%. Spending on personal emoluments, in particular, is expected to rise only marginally. However, expenditure on social security benefits will accelerate, boosted by the announced extension in the eligibility for children's allowance that is expected to push outlays up by an additional Lm5.0 million (EUR 11.6 million). Moreover, as EU grant receipts increase, capital expenditure is expected to regain momentum and rise by almost 8.0%.

GROWING THE ECONOMY IN THE EURO AREA: A POLICY PRESCRIPTION*

Michael C. Bonello
Governor of the Central Bank of Malta

I would first of all like to thank the President and the Council of the IFS for inviting me once again to this annual dinner and also to commend the Institute for the valuable contribution it continues to make to the development of the financial services industry in Malta.

This is the ninth consecutive time that I have been given the opportunity to share my thoughts with the members of the Institute and their guests. It is also the last time I do so as my term of office expires in September next year. As this will, therefore, be my valedictory address, I propose to cast a look back to the prospects for the Maltese economy as I saw them in November 1999 upon taking up my post with a view to assessing how the economy has evolved since then and suggesting what remains to be done.

On that occasion, I dwelt upon the challenges of globalization arising from three emerging trends. First, it was becoming increasingly difficult for countries to insulate their economies from processes and decisions originating elsewhere. Globalization, moreover, was producing an environment in which success would only be achieved by countries that had the ability to anticipate change and the capacity to adapt their productive structures fast enough to seize the new market opportunities ahead of their competitors. Finally, the increasingly free movement of the factors of production entailed a relative loss of policy autonomy, even for large and relatively self-reliant economies. I suggested that these trends were especially relevant for a small, open economy like Malta's, and one that was clearly living beyond its means at the time.

As you might recall, less than two years later the vulnerability of our economy was clearly exposed by two external events: the collapse of the technology stocks bubble and the ensuing sharp decline in demand for electronic components; and the increased aversion to flying following the 9/11 terrorist attack in New York. The impact of these shocks on the electronics and tourism sectors combined with some long-standing domestic factors to produce a stagnation in economic activity in the period 2002–2004. This was a stark reminder that there is no escape from the realities of a globalized world, and that the only valid response to international competition is to make the economy more efficient and flexible.

From stagnation to sustainable convergence

Today, some six years after those destabilizing events, the Maltese economy has come a long way. Most importantly, it has achieved a high degree of sustainable convergence with the euro area and is about to adopt the euro, a feat many believed unachievable in such a short time span. Here I would like to express my gratitude to the entire banking community, including the staff of the Central Bank of Malta, for their hard work and commitment in preparing for a smooth currency changeover.

How did this marked change in fortunes come about? Three factors at least played a role. Like

* Speech given at the Annual Dinner of the Malta Institute of Financial Services on 30 November 2007.

other small countries which leveraged their participation in regional economic groupings to overcome size and resource limitations, Malta has adapted its institutions and policies to the requirements of EU membership and is starting to derive the expected benefits. At the same time, under the pressure of globalization, polices have been implemented to start correcting endemic weaknesses. And finally, advantage has been taken of the cyclical upturn in external demand. As a result, the economy has grown by more than 3% in each year since 2005.

Recent measures have included the restructuring of the public and public-enterprise sectors, a wide-ranging privatization programme, the first stage of a pension reform, and the complete liberalisation of the trade and capital accounts. As a result, the public sector's profile in both product and resource markets has been reduced, and the price mechanism now plays a more prominent role in the allocation of resources.

Perhaps the most striking change has occurred in the fiscal situation. Having peaked at 48% of GDP in 2003, government expenditure declined to 42% of GDP in 2007. Similarly the fiscal deficit contracted from almost 8% of GDP in 1999 to below 2% this year, and the public debt/GDP ratio has gone from a peak of 73% in 2004 to 63% today. At the same time, the share of the public sector in total employment has shed five percentage points to 30%.

The private sector, meanwhile, has adjusted well to the changing composition of domestic and external demand. Between 2000 and 2006 the contribution of service providers to total employment rose from 65% to 70%, thanks largely to growth in financial and ICT-related services, while a leaner but more capital intensive manufacturing sector now employs 17% of all working persons, down from 23% in 2000. FDI has been instrumental in the development of this more diversified economy. As a proportion of GDP, in fact, net FDI inflows increased from 16% to 28% in the six years to 2006.

Progress has also been registered in other areas. Particularly significant was the narrowing of the inequality of income distribution ratio from 4.6 in 2000 to 4.1 five years later, well below the euro area average of 4.8. In education, the proportion of students having completed at least an upper secondary education increased from 41% of the relevant age group to 50% over the same period, and the proportion of students in tertiary education rose from 11% to 16%. There was also some improvement in the female participation rate, from 35% to 38%.

New challenges lie ahead

A sense of satisfaction is, therefore, justified. Complacency, however, is not, for much remains to be done. And any further progress will have to be pursued in an external environment that has become even more challenging. In the first place, competition, mainly from Asia, has eliminated any residual advantage in our labour intensive industries, and represents a growing threat even in more capital and knowledge intensive activities. Another worrying development is the increasing prospect of a slowdown in global economic activity, reflected in the recent downward revisions to GDP growth forecasts by leading central banks and multilateral institutions. The full impact of the chain of events set off by the sub-prime mortgage crisis in the United States has yet to be felt, and risks being compounded by the mounting inflationary pressures in commodity markets, especially for oil and agricultural products, with as yet unpredictable consequences.

Given the circumstances, while the adoption of the euro will undoubtedly enable Malta to face these challenges from a stronger position than if the convergence process had been slower, the euro alone will not be enough.

Against this background, I would be failing in my duty if I did not express concern at the insufficient recognition by public opinion of the risks that the evolving external scenario poses for the Maltese economy and of the need to improve the country's international competitiveness. The reaction to the budget for 2008 is a case in point. Attention has been focussed primarily on the perceived adequacy or otherwise of the proposed increases in incomes and benefits. The media regularly carry suggestions for still more handouts and other measures that would result in even higher consumption rather than investment. In contrast, little is said about where the "more" would come from. Neither has there been any serious discussion as to whether current levels of combined private and public consumption, at 87% of GDP in 2006, and of gross fixed capital formation, which was barely 20% of GDP last year, are appropriate. This imbalance is reflected in the persistent, if reduced, current account deficit, which suggests that consumption levels are indeed too high.

The members of the financial community, and the credit institutions in particular through their lending policies, can play a useful role in seeking to correct this bias towards consumption, which occurs at the expense of improving the economy's long-term growth potential and, therefore, weakens its ability to narrow the income gap with the more advanced members of the euro area. In this regard, we should be aware that despite the recent economic recovery, Malta's per capita GDP measured in purchasing power standards is still just below 70% of the euro area average.

Lessons from euro area country experiences

Policy prescriptions for bridging the remaining income gap are readily available. In this regard, the recent, widely different experiences of Ireland and Portugal are highly instructive.[1] Thus, whereas real per capita income in these two countries was not very different in the early 1990s, it had roughly doubled in Ireland by 2006 to 131% of the euro area average, but had only improved slightly in Portugal to 68%.

How can such divergent performances be explained? Before joining the euro area Portugal pursued a pro-cyclical fiscal policy, which reinforced domestic demand, while in Ireland the fiscal stance was more disciplined. Whereas unit labour costs and inflation rose fast in Portugal, cost and price pressures were more contained in Ireland. As a result, competitiveness declined in Portugal, reflected in a growing current account deficit, whereas Ireland remained competitive and enjoyed a roughly balanced current account.

These different policy approaches left their mark in the post-euro period. In Ireland, real output growth in the years 1999–2006 continued at a strong pace, 6.5% per year on average, and the fiscal balance was in slight surplus. In contrast, Portugal experienced an average growth rate of 1.7%, continued weak competitiveness and a substantial current account deficit. A major factor behind Ireland's success was a 3% average annual increase in labour productivity growth, compared to less than 1% in Portugal.

Another lesson that has emerged from the experience of these two countries, and is also widely documented in the literature, is that cost levels are not the only determinant of competitiveness. Constantly upgrading human and physical capital and freeing markets are as important as keeping unit labour costs under control. Portugal's apparent inability to compete as successfully as Ireland is indeed largely attributable to relatively rigid product and market regulation; insufficiently market-friendly policies;

[1] L. Bini-Smaghi, *Real and nominal convergence: policy challenges*, speech delivered at the Conference on European Economic Integration 2007 – Currency and Competitiveness, Oesterreichische Nationalbank, Vienna, 20 November 2007.

relatively low levels of educational attainment, of R&D expenditure and of information technology use; and not enough wage and price flexibility.

These contrasting outcomes clearly demonstrate that joining the euro area does not on its own provide a guarantee of sustainable growth and that the full benefits of monetary union can only be enjoyed if a country adopts appropriate economic structures and policies.

Bridging the income gap with the euro area

In a Maltese context the pursuit of excellence implicit in the Irish model requires in the first place a change in mindsets and behaviour that would allow us to arrive first at a common diagnosis of the obstacles to faster growth, and then at an equally consensual identification of the means to overcome them. The ability to achieve a social compact was incidentally another no less vital ingredient of the Irish success story. In the absence of a consensus, however, strong leadership would be required in order to explain the need for hard measures to the population and to isolate vested interests standing in the way of the needed reforms.

Whatever the approach adopted, maximizing the benefits of Malta's participation in monetary union will require the removal of the remaining impediments to growth. In the public sector, fiscal consolidation must henceforth involve a greater emphasis on expenditure reduction, particularly in view of rising pressures caused by aging-related factors such as pension and health care costs, and on securing more "value for money" and greater accountability in the use of public funds. The provision of free public goods and services regardless of the beneficiary's ability to pay needs to be reassessed as it leads to waste and to a higher tax burden, besides being inequitable. The same applies to subsidies, whether implicit or explicit. The resulting distortion of incentives and inefficiencies is both unsustainable and incompatible with the fiscal discipline required in a monetary union.

An important contribution to enhancing the economy's competitiveness can also be made by new forms of employment security and by further improvements in labour market flexibility. With regard to the former, there remains scope for more innovation in terms of employment-friendly labour laws, labour market practices and social protection systems. As for the cost of labour, while it is true that since 2004 wages have been growing more in line with productivity, it is also the case that not all the loss in competitiveness experienced before 2004 has been reversed. In 2006, in fact, unit labour costs were still 18% higher than in 2000. And although wage growth has been moderate in recent years, it has been even more so elsewhere. Indeed, when compared to those in the euro area, Malta's relative unit labour costs have risen since 2000. There is little doubt that external competitiveness has deteriorated and that continued wage restraint, therefore, remains an essential ingredient in the recipe for achieving faster export-led growth.

Productivity can also be boosted by making education and training systems better attuned to the needs of a competitive economy, by further reducing compliance costs and simplifying administrative procedures, and by improving the quality of the business infrastructure. Together with those suggested above, these measures can make a substantial contribution to strengthening the economy's capacity to deal successfully with globalization.

Lastly but no less importantly, it also needs to be realized that action on all these fronts is essential for preserving a social model that has reduced income inequality and secured wide access to education, health and pensions.

Conclusion

At this critical juncture in the country's economic development on the eve of joining the euro area, the national interest calls for a strong sense of realism. Failure to understand under which conditions an economy works best in today's world to make possible concrete improvements in welfare can be very costly. There is, therefore, a need to foster a greater public awareness of developments in our external environment and of the appropriate policy responses. There is also a need for a wider acceptance of some basic truths, for example that it is an illusion to believe that something can be had for nothing, or that governments can fix any problem or grievance. On the contrary, policy makers and opinion shapers alike have a responsibility to explain that the expectation of ever increasing entitlements and higher living standards must be balanced with the recognition that these expectations cannot be satisfied sustainably through the redistribution of national income. In the long run, the expected improvements can only be financed through productivity gains and economic growth. And since nobody owes Malta a living, the responsibility for shaking off our ambivalent attitude to change and for turning globalization from a threat into an opportunity is ours and ours alone.

THE LAW OF THE EURO

Ken Mifsud Bonnici[1]

1. Introduction

Malta joined the euro area on 1 January 2008. It did so under a new framework that is substantially different from that used by the countries that joined before it,[2] as they adopted the euro legally first, and in cash form only after a transitional period.

When Malta joined the European Union on 1 May 2004, by the same act it also joined the Economic and Monetary Union (EMU) as a member of EMU with a derogation. Becoming a full member of the single currency area may be summed up legally as the removal of this derogation. In fact, by means of the Treaty of Accession, Malta undertook to converge with the Maastricht criteria and EMU *acquis* in order to achieve full EMU membership and the adoption of the euro – thus implying the removal of that derogation.

This article examines aspects of European monetary and economic law as applicable in or to Malta as a participating member state. It analyses the law related to the single currency within the context of EMU (section 2), discusses European law applicable during and after the changeover (section 3), and studies the eventual structure of legal relations between Malta, the Community, the Central Bank of Malta and the European System of Central Banks (ESCB) upon membership of the euro area (section 4).

While most law governing EMU and the euro stems from directly enforceable regulation, the changeover did, to some extent, have to be implemented in Maltese law. This article does not analyse or discuss Maltese implementing legislation, but focuses on the applicable European law. Most of the relevant law did not need to be implemented through local provisions, but came into force directly and has primacy over Maltese law. This has caused a pervasive overhaul of the legal regimes underpinning the monetary system of Malta. The status of the Central Bank of Malta (‘the Bank’) has changed. Malta’s competence in the conduct of Maltese monetary policy has been diminished, as it inherited new obligations under European law; at the same time its rights in the governance of EMU and the European Central Bank (ECB), together with its affiliated bodies, have increased correspondingly.

EMU law is particular as it consists of a blend of private, public, national, European and international law methods and instruments. It combines hard and soft law[3] with political commitment, and these together create the world’s first both supranational and multinational currency. Legally, however, euro area membership is much more than a currency changeover. It entails adhesion to a new multi-level monetary system, the largest, most complex, yet most innovative ever.

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[1] Dr Ken Mifsud Bonnici is a lawyer-economist with the Central Bank of Malta. All opinions are the author’s and do not necessarily reflect those of the Central Bank of Malta. While the author wishes to thank Mr John Caruana, Mr Alfred Demarco and Dr Bernard Gauci for their help in drafting this article, any errors remain entirely his own. This article is an abridged version of a study entitled ‘The law of the euro: Constitutive, institutional and external aspects’, which is available on the Central Bank of Malta’s web site.

[2] With the exclusion of Slovenia.

[3] The term ‘soft’ law refers to quasi-legal instruments which do not have any legally binding force, or whose binding force is somewhat weaker than that of traditional ‘hard’ law.

2. A legal map to the single currency

This section sets out to explain and analyse the EU's monetary law, applying it to Malta where relevant. It focuses on constitutive and structural elements, and aims to impart a broad understanding of the framework of law as a whole.

The external aspects of euro membership, together with the resulting division of external competences in monetary affairs (e.g. rights to represent the euro area in international organisations), are also important, but they are not treated here in the light of the specialised nature of the subject.[4] This section also does not consider many legal issues related to the run up to the changeover, or to the changeover itself (which are discussed in the following section).

European monetary law

Law relating directly to the euro does not constitute the entirety of European monetary law. In fact, ever since the EC Treaty was amended by the Maastricht Treaty to create the legal basis for EMU, a variety of legal instruments has been created. Together, these instruments form the monetary law of the member states that have adopted the single currency, of which the law of the euro is a subset.

Indeed, the European monetary system functions on the basis of four types of instruments. These consist of the Treaty provisions relative to EMU; the secondary law created under the Treaties; a variety of regulations, decisions, guidelines, instructions and agreements set up within the ESCB; and, in the field of external relations, several decisions relative to exchange rate matters.

Treaty basis of European monetary law

The EC Treaty contains the major provisions relative to Monetary Union in three groups of articles: Articles 105-111, Articles 112-115, and Articles 116-124. Furthermore, attached to the Treaty is the statute of the ESCB. The first group of articles (Articles 105-111) relates directly to Monetary Union, and includes the major provisions relative to the Union's monetary and exchange rate policies. In particular, one finds the right to issue currency, the primary objective of price stability, and the tasks of the ESCB. The second group (Articles 112-115), on the other hand, deals with the institutional provisions relative to the exercise of those policies. Here, one finds the rules related to appointments to the Governing Council, Executive Board, and Economic and Financial Committee, as well as rules related to representation of, and consultation with, the Community institutions in the ECB. Articles 116-124, the third group, contain transitional provisions relative to the three stages of Monetary Union, and as such are, in general, no longer relevant. Nonetheless, Article 119, on assistance in the case of economic difficulties, still applies to 'pre-ins', as do Article 120 in relation to a sudden crisis in the balance of payments of a member state, and Article 124, which requires 'pre-ins' to treat "exchange-rate policy as a matter of common interest". Article 122 is of particular relevance to 5th enlargement countries,[5] and thus Malta, as it establishes the status of a member state with a derogation, as well as the procedure for the abrogation of this derogation.

Moreover, the Statute of the European System of Central Banks and the ECB (ESCB Statute) is attached to the EC Treaty as a protocol, and sets

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4 For a discussion, see Mifsud Bonnici K., *supra* note 1.

5 The ten states that joined the EU on 1 May 2004.

out in more detail the organisation and functions of the ESCB and the ECB.

While the provisions in the EC Treaty directly concerning Monetary Union can be found as described above, there are other provisions in the Treaty of importance to European monetary law. In particular, Articles 56-60 grant directly effective rights in terms of the free movement of capital and payments, while Articles 98 to 104 concern economic policy. With regard to the latter, despite speaking of economic union, in this field member states have largely retained their powers and sovereignty. However, this is within a framework of community rules, in particular the excessive deficit procedure, which stems from this part of the Treaty. While technically not part of the Union's monetary law, membership of the euro area changed Malta's obligations in this field, especially in terms of the elaboration of the excessive deficit procedure by means of the Stability and Growth Pact (discussed in section 3).[6]

Secondary legislation

On the basis of the Treaties, the Council of Ministers has enacted various legislative instruments in the monetary field.

Most importantly, three Council Regulations govern the euro itself, as well as its introduction, and the various ancillary issues thereto. These are discussed below. There are also three regulations that govern the exercise by the ECSB of its monetary powers. Regulation 2531/98[7] deals with the ECB's application of minimum reserves (as supplemented by an ECB regulation),[8] Regulation 2532/98[9] governs the powers of the ECB to impose sanctions (also, as supplemented by an ECB regulation)[10] and Regulation 2533/98[11] concerns the gathering of statistical information by the ECB. Furthermore, as a result of a Council Decision,[12] member states are bound to consult the ECB before passing certain types of draft legislation. There are also Council Decisions relating to the approval of the external auditors of the ECB[13] and national central banks (NCBs).[14] In this context, it is also relevant to mention the Rules of Procedure of the ECB[15] and of the General Council of the ECB.[16]

Together, these secondary legal instruments

6 The 'Stability and Growth Pact' is not a legal term – in fact it is shorthand for three instruments: (i) Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997, OJ (1997) C 236; (ii) Council Regulation (EC) No. 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ (1997) L 209; and (iii) Council Regulation (EC) No. 1467/97 of 17 July 1997 on the speeding up and clarifying the implementation of the excessive deficit procedure, OJ (1997) L 209.

7 Council Regulation (EC) No. 2531/98 of 23 November 1998 concerning the application of minimum reserves by the European Central Bank, OJ (1998) L 318.

8 ECB Regulation (EC) No. 2818/98 of 1 December 1998 on the application of minimum reserves (ECB/1998/15), OJ (1998) L 356.

9 Council Regulation (EC) No. 2532/98 of 23 November 1998 concerning the powers of the European Central Bank to impose sanctions, OJ (1998) L 318.

10 ECB Regulation (EC) No. 2157/1999 of 23 September 1999 on the powers of the European Central Bank to impose sanctions (ECB/1999/4), OJ (1999) L 264.

11 Council Regulation (EC) No. 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank, OJ (1998) L 318.

12 Council Decision (EC) No. 98/415 of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions, OJ (1998) L 189.

13 Council Decision (EC) No. 98/481 of 20 July 1998 approving the external auditors of the European Central Bank, OJ (1998) L 216.

14 Council Decision (EC) No. 1999/70 of 25 January 1999 concerning the external auditors of the national central banks, OJ (1999) L 022.

15 Rules of Procedure of the European Central Bank, as amended most recently by Decision of the European Central Bank of 7 October 1999 (ECB/l999/6), OJ (1999) L 314.

16 Rules of Procedure of the General Council of the European Central Bank, OJ (1999) L 75.

enable the ESCB to perform its tasks as laid down in the EC Treaty – most importantly, to decide and implement the monetary policy of the Eurosystem.

ESCB instruments

A large body of instruments, in the form of regulations, decisions, guidelines, instructions and agreements, has been created by the ESCB. These have various functions. Notably, they create a framework for the implementation of monetary policy, for the gathering of statistical information, and for the management of TARGET2[17] – the Real Time Gross Settling (RTGS) system for the euro. There are also instruments relating to accounting and reporting by the ECB and NCBs, distribution of the ECB's monetary income, institutional aspects of the ESCB, as well as the management of the ECB's external reserves. Generally, these instruments are subject to implementation by the NCBs, which create their own acts, directives, regulations or guidelines, or engage in legal relationships with third parties (usually credit or financial institutions).

Decisions on exchange rate matters

Some territories outside the EU previously used the currencies of current euro area members. Various Council Decisions settle many of the legal issues relating to their use of the euro despite not being euro area members themselves, as in the case of the French overseas territories and departments and various European micro-states, such as Monaco,[18] San Marino[19] and the Vatican City.[20]

Conversely, a European Council Resolution,[21] followed up by an agreement,[22] known collectively as the second exchange rate mechanism agreement (ERM II), govern the exchange rate relations between euro area and other non-euro area EU member states. Sweden and the UK, however, are not ERM II members, and while some 5th/6th enlargement countries have joined, others are still in the process of doing so.

How this law applied to Malta as an 'out' member

Malta has been subject to that part of EMU law which applies to member states with a derogation since 1 May 2004. This law is still in force in Malta, complemented today by the law applicable only to participating member states.

Preparations for EU membership in the economic and monetary sphere involved, in particular, major changes in rules on free of movement of capital

[17] TARGET2 stands for the second version of the Trans-European Automated Real-time Gross settlement Express Transfer system, and is used for interbank transfers, settlement of central bank operations, as well as other transfers in central bank money. It includes a Single Shared Platform, and thus differs from its predecessor, which was created by integrating the RTGS systems of the Eurosystem NCBs and the ECB payment mechanism. Migration to TARGET2 is currently under way, with the Central Bank of Malta having already migrated as part of the first group of NCBs to do so.

[18] Council Decision (EC) No. 1999/96 of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Principality of Monaco, OJ (1999) L 30.

[19] Council Decision (EC) No. 1999/97 of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Republic of San Marino, OJ (1999) L 30.

[20] Council Decision (EC) No. 1999/98 of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with Vatican City, OJ (1999) L 30.

[21] Resolution of the European Council on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union, Amsterdam, 16 June 1997, OJ (1997) C 236.

[22] Agreement of 1 September 1998 between the European Central Bank and the national central banks of the Member States outside the euro area, laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union, OJ (1998) C 345.

and payments[23] and the integration of the Central Bank of Malta into the ESCB.[24] Furthermore, certain rules became directly applicable by power of EU law, such as the 'no bail out' rule found in Regulation 3603/93, which prohibits credit to a member state by other member states or the Community.[25]

Many of the legal amendments required were carried out by Act XVII of 2002, which *inter alia* provided for changes in the powers of the Bank and prohibited activities of the Bank, the establishing of a Monetary Policy Advisory Council, the independence of the Bank and its Governor in deciding upon monetary policy, independent audits, rules on the collection of information and reporting of statistics, the Bank's relationship with the Government and the prohibition of public sector financing, as well as the Bank's relationship with (and membership of) the ESCB.[26]

The legal basis of the euro

This section deals with the main provisions of EU law on the single currency, and relates them to the Maltese situation where relevant.[27]

Three Regulations set out the law of the euro[28] and regulate the changeover from national currencies. The first, Regulation 1103/97,[29] which gives the euro its name, provides for replacement of the ECU, sets conversion rules in relation to the former national currencies and lays down the principle of continuity of contracts. The second, Regulation 974/98,[30] provides for the introduction of the single currency, both in its non-cash form (as happened in the Euro-11 on 1 January 1999) as well as in its cash form (as happened in the Euro-11, plus Greece, on 1 January 2002). It also provides for various measures and rules applicable during the transitional period,[31] and thus not to Malta. The third, Regulation 2866/98,[32] simply lays out the conversion rates between the euro and the national currencies it replaces. While the first and the third regulation are directly applicable as law in all EU member states, the second applies only in states that have adopted the euro.[33]

In December 2005, Regulation 974/98 was amended by Regulation 2169/2005,[34] and was thus adapted

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23 And thus the repeal and replacement of what was the Exchange Control Act 1972, Cap. 233 of the Laws of Malta.

24 Gondellon Q. and Verlaine E., Les Nouveux etats membres et l'union economique et monetaire, Master of European Law thesis, University of Rennes 1, 2004, p. 7.

25 Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b (1) of the Treaty, OJ (1993) L 332.

26 Central Bank of Malta Act, Cap. 204 of the Laws of Malta.

27 However, some important issues (such as obligations during the various phases leading to full EMU membership) are not discussed here, either because they are treated in other sections or because they are not within the scope of this article.

28 For a legal history, see European Commission, Euro papers No. 4 - Legal framework for the use of the euro, 1997, p. 1-11.

29 Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, OJ 1997 L162/1.

30 Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, OJ 1997 L161/1.

31 The period of time between the introduction of the euro in non-cash form and the introduction of the euro in cash form. There is no such period in member states that join under a 'big bang' scenario, as the introduction of the euro in non-cash and cash form coincide.

32 Council Regulation (EC) No. 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro, OJ (1998) L 359.

33 Van Lembergen W. and Wachenfeld M.G., Economic and Monetary Union in Europe, Legal Implications of the Arrival of the Single Currency, in Fordham International Law Journal, Vol. 22, No. 1, November 1998, p. 14-15. For further detail on the legal bases of these measures, see Mifsud Bonnici K., *supra* note 1.

34 Council Regulation (EC) No 2169/2005 of 21 December 2005 amending supra note 1 Regulation (EC) No 974/98 on the introduction of the euro, OJ L 346/1.

to the needs of the new entrants. The amended Regulation no longer uses set dates or phrases like 'the beginning of stage three' and 'the end of the transitional period', which were previously defined as 1 January 1999 (except for Greece, which joined later)[35] and 1 January 2002, respectively. Instead, it now uses the phrases 'respective euro adoption date' and 'respective cash changeover date', adding a table to the annex with these dates defined for all existing member states. This means that for any newly joining member state, its own respective dates are added to the table by means of a further simple Regulation.

Furthermore, as euro banknotes and coins are already in circulation, Regulation 974/98 now envisages three scenarios for joining – a 'transitional period scenario', as was the case for the first 12 euro area members (Euro-12), a 'big bang scenario', where the 'euro adoption date' and 'cash changeover date' are the same, and a 'big bang scenario with a phasing-out period'. The latter is the same as the big bang scenario, except that legal instruments referring to the national currency can still be legally created after the 'big bang' date (€-day), but such references are to be read as references to the euro (as converted), thus needing to be performed in euro. Malta chose a 'big bang' scenario.

A further difference which applied, as a result of past experience, is that while for the Euro-12 the Commission had only issued a Recommendation[36] that there should be no banking charges for conversions to the euro, this time hard law applied, namely Article 15 of Regulation 974/98 as amended (up to a ceiling which may be set by national law, or by banks themselves in default, according to certain criteria).

Over and above these Regulations, the Commission added two Recommendations – one on dual-display of prices[37] and another on dialogue, monitoring and information to facilitate the transition.[38] Moreover, the ECB, by way of a decision,[39] determined the provisions relating to denominations, specifications, reproduction, exchange and withdrawal of euro banknotes and, furthermore, implemented a Recommendation on the legal protection of euro banknotes and coins.[40] All in all, this system created the world's first supranational monetary law.[41]

The name of the single currency

The name 'euro' is nowhere to be found in the Treaties, which instead still refer to the 'ECU'. The latter stood for 'European Currency Unit', but was also the name of a medieval French coin – the ecu.[42] The change was brought about by the 1995 Madrid European Council,[43] whereby the Heads of State and Government agreed that their unanimous and definitive interpretation of the EC Treaty was that the term 'European Currency Unit'

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35 Greece joined under the provisions of Regulation (EC) No 2596/2000, created specifically for its case.

36 Commission Recommendation (EC) No. 98/286 of 23 April 1998 concerning banking charges for conversion to the euro, OJ (1998) L 130.

37 Commission Recommendation (EC) No. 98/287 of 23 April 1998 concerning dual-display of prices and other monetary amounts, OJ (1998) L 130.

38 Commission Recommendation (EC) No. 98/288 of 23 April 1998 on dialogue, monitoring and information to facilitate the transition to the euro, OJ (1998) L 130.

39 ECB Decision of 7 July 1998 on the denominations, specifications, reproduction, exchange and withdrawal of euro banknotes (ECB/1998/6) as amended by the ECB Decision of 26 August 1999 (ECB/1999/2), OJ (1999) L 8.

40 Recommendation of the Governing Council of the European Central Bank of 7 July 1998 regarding the adoption of certain measures to enhance the legal protection of euro banknotes and coins (ECB/1998/7), OJ C 11, 15.1.1999, p. 13.

41 See Smits R., Le statut monetaire de l' euro, in: Luc Thevenoz/Marcel Fontaine, La monnaie unique et les pays tiers, 2000, p. 41-66.

42 Smits R., Law of the Economic and Monetary Union, in Recuil des cours de l'Academie de droit international de La Haye, tome 300, 2002, p. 399.

43 Madrid European Council, 15 and 16 December 1995, EU Bulletin 1995-12, 1.3.

was generic, and thus they could, and did, give it the specific name 'euro'. The name change is explained in the recitals of the two main regulations,[44] and the currency is further baptised 'the euro' in Article 2 of Regulation 974/98 "the currency of the participating Member States shall be the euro", and referred to as such within the entire secondary law of the EU.

The euro is also defined in Maltese law.[45] However, in view of the direct effect in all member states of Regulation 1103/97 and the definition of the 'euro' contained therein, any definition within Maltese law is redundant and without legal effect and has been such since the date of Malta's EU accession. In this context, one should note that in European law the terms 'currency' and 'currency unit' mean different things.[46]

The legal tender status of euro banknotes and coins

It may be presumed that as monetary law is of exclusive EU competence, the notion of 'legal tender' applying to it would also be such. However, there is split competence between the EU institutions and the member states in this regard. In law, the academic distinction between the 'form of money designated' (e.g. the euro) and 'the power of discharging a monetary obligation' (e.g. a law that prescribes that income tax can only be validly paid by cheque but not in cash) has now become of great practical importance. In effect, the designation of a form of money is a Community competence, whereas the establishment of the power to discharge payment obligations mostly remains the competence of the member states.

The result of this duality is that the whole assortment of 'standards for cash payments' existing in member states is still in force. For example, the Netherlands provides that a debt is discharged by a direct debit to a bank account of the creditor - this is referred to as "giving book money legal tender".[47] There are a whole range of legislative provisions in Greece, Finland, Belgium, France, Italy, Spain and the Netherlands that have the effect of limiting the ability of cash to discharge certain obligations.[48] Finland never issued 1 and 2 euro cent coins. Instead, all cash payments are by national law to be rounded to the nearest multiple of five. In some states one also finds criminal law provisions that penalise the non-acceptance of legal tender.[49]

There are no such provisions in Maltese law,[50] though expenses of a Court deposit act as an incentive for the acceptance of payment. By virtue of Articles 1173 and 1174 of the Civil Code,[51] if an offer of 'valid tender' is made to a debtor, and this is refused, the creditor may deposit the sum in Court at the debtor's expense (and risk), and such deposit, validly made, is equivalent to payment. Maltese law itself does not define legal tender, although, prior to euro

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[44] See the second recital of both Regulation 1103/97 and Regulation 974/98, *supra* notes 29 and 30 respectively.

[45] Amongst others in the Companies Act, Cap. 386 of the Laws of Malta.

[46] The euro is the currency of the Member States; a 'currency unit' is a currency denomination, 'sub-division' or 'expression' of the euro, as was the case during the transitional period when national currency units and the euro unit were legally one and the same currency.

[47] Section 6: 114 Burgerlijk Wetboek (Netherlands Civil Code), as described by Smits R., *supra* note 42, p. 404.

[48] Sainz de Vicuna A., The Introduction of the Euro Banknotes – Some Legal Issues, in Cambridge yearbook of European legal studies, 2004, v.5, p. 65.

[49] Ibid., pp. 62-63.

[50] Malta had provisions limiting the number of coins that could be tendered in satisfaction of obligations. Since Act XVII of 2002, however, these provisions are no longer in force.

[51] Civil Code, Cap. 16 of the Laws of Malta.

adoption, the Central Bank of Malta was given the sole right to issue it.[52] However, the notion of 'legal tender' is always subordinate to freedom of contract,[53] which clearly includes usages of trade. Therefore, except as discussed, Maltese law leaves it up to such evolving usage or express agreement to govern this matter.

'Legal tender' is introduced as a community concept by virtue of Article 106 of the EC Treaty: "The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Community."[54] Coins are in turn made legal tender by virtue of Article 11 of Regulation 974/98. Therefore, as at the 'cash changeover date', the governance of what is legal tender is passed over to Community law, which, in turn, allows a period of dual circulation for a maximum of six months. The only provision in Community law that governs limits for the tender of cash can be found in Article 11 itself, whereby "except for the issuing authority and for those persons specifically designated by the national legislation of the issuing Member State, no party shall be obliged to accept more than 50 coins in any single payment."

Recital 19 of the Regulation is critical. It states that "limitations on payments in notes and coins, established by Member States for public reasons, are not incompatible with the status of legal tender of euro banknotes and coins, provided that other lawful means for the settlement of monetary debts are available". In other words, save the 50-coin limitation, it is up to member states to establish a framework for the acceptance or otherwise of amounts or payment methods. To apply this to Malta, as of 1 January 2008, there is an abrogation from Articles 1173 and 1174 of the Civil Code in terms of payments by 50 coins or more (as the creditor is now given a right to refuse payment by EU law), but any other payment 'validly tendered' will continue to be subject to these provisions.

In conclusion, therefore, while 'legal tender' is generally a Community concept, member states are able to legislate in this field within the constraints described above. In fact, apart from the 50-coin rule, all such legislation remains at national level, in so far as it is consistent with Recital 19 of Regulation 974/98.

The legal status of the issuer of euro banknotes

It was mentioned earlier that the implementation of a supranational monetary law in the EU is indeed a first. However, this is not the only innovation as far as the euro is concerned.

In typical currency issues, each note is underwritten by a central bank, which accounts for that note as a liability on its balance sheet. Every note has one issuer against which it is drawn. In this light one must remember the history of banknotes, which evolved from promissory notes issued by commercial or merchant banks. Even in the US, for example, notes are issued by one of 12 reserve banks, and each note contains an identification number of its issuer.[55] The euro banknote, however, contains no such identification, and so one has the legal problem of identifying the issuer of any one banknote. This has practical consequences. For example, as notes travel across the euro area, if an old German euro banknote is returned to the Central Bank of Malta, should it repatriate it to the Bundesbank (as happens within the Federal Reserve System), or issue a new note in replacement itself? Furthermore, who is to underwrite the issue as a liability?

[52] Central Bank of Malta Act, *supra* note 26, as in force before 1 January 2008, articles 42 and 43.
[53] As discussed in Sainz de Vicuna A., *supra* note 48, pp. 59-70.
[54] This provision does not apply to non-participating member states.
[55] Sainz de Vicuna A., *supra* note 48, p. 68.

While central banks in the euro area repatriate coins, by means of an ECB Decision of 6 December 2001[56] an obligation is imposed on each NCB to 'treat all euro bank notes as liabilities and process them in an identical manner'. At first, this may seem puzzling. However, what happens is that euro area NCBs are by law jointly and severally liable[57] for the banknotes, and may thus reissue each other's notes. The whole system works on the basis of an 'intra-Eurosystem' balance which keeps track of the difference between banknotes issued by each NCB on behalf of the Eurosystem[58] and the proportion of its share capital in the ECB. The balances are set off against the monetary income of the ECB allocated to the NCB.[59] All in all, this system makes for the first multi-issuer banknote, with each note being underwritten by an entire membership of an international system of central banks – the Eurosystem. Notes do not need to be repatriated and are allowed to travel freely across the Eurosystem, and, in fact, the world.

Continuity of contracts

A fundamental characteristic of the changeover to the euro is that every contract with obligations denominated in Maltese lira (created before €-day) now has to be read as referring to euro at the irrevocably fixed conversion rate. However, the question arises as to whether such a provision ensures that such contracts are not set aside under any circumstance. Seemingly simple, this issue has been the subject of much legal debate.[60] The answer is that EU law provides an excellent framework for guaranteeing the continuity of contracts. Problems of this sort have not occurred in other member states, nor should they arise in Malta.

It should be pointed out that Article 123 of the EC Treaty notes that "the ecu [euro] shall be substituted for [the replaced] currencies". In other words, the currencies do not 'cease to exist'. They are substituted, meaning they are renamed and redenominated into a new nominal value; they are succeeded to at law by the euro. The position in the Euro-12 was even clearer during the transitional period, where currencies became 'denominations of the euro'. Furthermore, it may be submitted that, in effect, a reference to payment in a currency is in essence a reference to value, measured in terms of that currency; it is not particular coins or pieces of paper that a payee wants, but the value measured and stored by that money. Such value is unaffected by a substitution in currency.

Furthermore, EU law has supplemented Article 123 of the Treaty in a way that the principle of continuity of instruments, despite the change in currency, is explicitly stated and is directly applicable. Regulation 1103/97, in Article 3, states that "the introduction of the euro shall not have the effect of altering any term of a legal instrument or of discharging or excusing performance under any legal instrument". Moreover, the introduction of the single currency does not "give a party the right unilaterally to alter or terminate such instrument".

The term 'legal instrument' is defined very widely within the Regulation itself and includes

[56] ECB Decision 2001/15, OJ L (2001) 337.
[57] Sainz de Vicuna, A., *supra* note 48, p. 69.
[58] The Eurosystem comprises the ECB and euro area NCBs.
[59] See also ECB Guideline of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).
[60] See, in particular, Gruson M., The Introduction of the Euro and its Implications for the Obligations Denominated in Currencies Replaced by the Euro, in Fordham International Law Journal, Vol. 21, 1997, pp. 65-107.

"contracts, unilateral legal acts, payment instruments other than bank notes and coins … legislative and statutory provisions, acts of administration, judicial decisions [and] other instruments with legal effect".[61] Therefore, by direct effect of EU law, no contract or term may be rescinded or changed, irrespective of national provisions. This is, however, subject to agreement to the contrary by the parties. Recital 8 of the Regulation also refers to Article 3 as an "explicit confirmation of the principle of continuity", implying that the principle of continuity already applied anyway, presumably as a result of the provisions in the Treaty.

In the particular case of contracts that aim at covering only exchange rate risk, the Commission[62] argues that:

"even for contracts where the only purpose is the coverage of an exchange risk, the introduction of the euro does not make performance of the contracts impracticable. The risk that the exchange rates of the currencies referred to in the swap contract would become permanently fixed was one of the risks that the parties have taken by setting up such a contract. For most contracts involving European currencies, this risk was even well foreseeable."

While this was written in the context of member states joining the euro area in 1999, it can only be more applicable in terms of 5th enlargement member states, which have had even more time to foresee the domestic introduction of the euro.

However, as these principles are subject to freedom of contract, it is important to note that some contracts have 'increase of costs' or 'force majeure' clauses. Yet, the potential application of force majeure clauses in contracts is subject to the same logic – force majeure is related by definition to unpredictable and uncontrollable events. Entry into the euro area, on the other hand, is hardly an unpredictable event. EMU has been planned and discussed since the 1960s, and the possibility of any country's accession becomes clear many years before it happens.

Whatever national legislation went contrary to Article 3 of the directly effective Regulation would be squarely overruled by it in the light of the primacy of EU law. This emerges clearly from the EC Treaty and the case law of the European Court of Justice, as confirmed by the Commission: "Measures which would confer a unilateral right on one party to alter or terminate an existing contract only because of the introduction of the euro would not be compatible with the confirmation of continuity included in EC law".[63]

While changeover to the euro should not affect the continuity of contracts generally, a particular question arises in the context of reference rates – quoted rates, indexes, or price sources that are bound to be replaced on entry into the single currency. A reference rate can be loosely defined as:

"a rate that determines pay-offs in a financial contract and that is outside the control of the parties to the contract… it can take many forms, such as a consumer price index, a house price index or an unemployment rate. The reference rate is normally determined by a third party. It must be independent, to avoid a conflict of interest - if one party has the ability to influence the rate, it is safe to assume that they will do so in their favour."[64]

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[61] Regulation 1103/97, *supra* note 29, article 1.
[62] European Commission, *supra* note 28, pp. 1-11.
[63] European Commission, *supra* note 28, pp. 1-11.
[64] Wikipedia, Reference Rate, at {http://en.wikipedia.org/wiki/Reference_rate} (last accessed 9 October 2007).

Some of these rates became superfluous at the time of euro adoption. These include the central intervention rate, the Malta Interbank Bid Rate (MIBID) and the Malta Interbank Offered Rate (MIBOR).

The Commission itself admits that "the legal framework for the euro does not expressly address the issue of the disappearance or replacement of reference rates like interest rates or securities prices."[65] This was because of the diversity of such rates. Nonetheless, the Commission also notes that many contracts "include a fall-back clause which designates a substitute for the original reference rate."

As noted in another paper by the Commission,[66] the disappearance of reference rates is no new phenomenon, and happened often during the deregulation of EU capital markets. Where parties were not able to agree to the replacement of a rate, "courts have in general tried to ensure the execution of the contract by taking a new reference rate which was economically as close as possible to the old one." Nonetheless, the Commission "has urged price sponsors and subsequently screen providers to announce quickly their plans regarding the publication of existing national rates".[67] Of particular note in relation to euro money and capital markets is that there are now Europe-wide benchmark rates, the most important being the ECB's Minimum Bid Rate, EURIBOR (Euro Interbank Offered Rate) and EONIA (Euro OverNight Index Average). These took over the function of many of the rates that became redundant in the Euro-12, and the same now applies to Malta.[68]

Transitional measures, replacement of the ECU

Regulations 974/98 and 1103/97 made various provisions relating to the replacement of the ECU by the euro in the Euro-12, as well as in relation to the transitional period. However, these provisions are not dealt with in this article.[69]

3. The changeover and beyond

This section describes in further detail various legal mechanisms and provisions found in instruments described above. Many of these are not only relevant to the changeover itself, but constitute the legal regime that will continue to apply to Malta as an 'in' member. Various elements of this framework have been updated since the changeover in the Euro-12,[70] in the light of the experiences of those countries. Before Malta and Cyprus joined the euro area, Slovenia was the only country to have adopted the euro under the new provisions.

Automatic redenomination

As of the cash changeover date (€-day), by virtue of Regulation 974/98 as amended, all references to the old currency unit in legal instruments "shall be read as references to the euro unit according to the respective conversion rates",[71] and any bank account, debt or other instrument is redenominated to euro *ex lege*, therefore making anything but cash transactions in the old currency legally impossible. This is the fulcrum of the

[65] European Commission, Euro papers 10 - The legal framework for the use of the euro. Questions and answers on the euro regulations, 1997, pp. 10-12.
[66] European Commission, *supra* note 28, p. 9.
[67] European Commission, *supra* note 65, pp. 10-12; referring to European Commission, Euro papers 3 - The impact of the introduction of the euro on capital markets, 1997, p. 2.
[68] See EURIBOR Press Releases, EURIBOR: The new money market reference rate for the Euro, available at {http://www.euribor.org/html/content/press1.html} (last accessed 4 October 2007).
[69] For a discussion, see Mifsud Bonnici K., *supra* note 1.
[70] The 12 member states that adopted the euro in cash form on 1 January 2001.
[71] Regulation 974/98, *supra* note 30, article 6.

changeover at law. Physical redenomination is not necessary, legally speaking.

Therefore, the old currencies are no longer currencies, although during a dual circulation period of up to six months, which can be made shorter by national law, banknotes and coins denominated in these currency units remain legal tender – meaning they can be used as cash payment to extinguish debts denominated in euro. However, though the Regulation allows a dual circulation period of up to six months, member states had issued a common statement during the ECOFIN Council meeting in September 1999 agreeing to limit dual circulation to one or two months.[72]

Any new instruments after the end of dual circulation making reference to old currency units have as their subject something that does not exist. Courts, clearly, are nonetheless likely to enforce them if the intention of the parties is clear.

The right to issue euro banknotes and coins

As of €-day, the NCB of a joining member state acquires the right under Article 106 of the EC Treaty to issue euro banknotes, while the member state itself acquires the right under Article 11 of Regulation 974/98 to issue coins with a national face. These rights are, however, subject to the authority of the ECB to authorise these issues, a right traditionally regarded as a function of states.[73] Denominations and specifications of coins are provided for by Regulation 975/98, while the ECB governs the issue[74] and technical qualities[75] of banknotes. However, as of the euro adoption date, NCBs, and thus the Bank, gain the right to issue notes that become legal tender within the entire euro area.

Old banknotes and coins

Article 15 of Regulation 974/98 explicitly allows member states to make rules for the use of the old coins and banknotes during the double circulation period, and may thus further restrict their use. For example, a member state could impose an upper value limit on transactions that can take place in the old currency, or shorten the six month dual-circulation period allowed by EU law. Member states are also empowered to take any measures that facilitate the withdrawal of the old currency.

Article 16 holds that NCBs must continue to accept their old banknotes and coins, against euros at the conversion rate, for a timeframe "in accordance with their laws or practices". In Malta's case, this issue of exchangeability of demonetarised currency is dealt with in Articles 62(1) and 63(1) of the Central Bank of Malta Act,[76] which prescribe a ten-year exchangeability period for demonetised banknotes and a two-year period for demonetised coins, respectively.

Bank charges for conversion

Commission Recommendation 98/286[77] sets out a standard of good practice in the area of banking charges during the euro changeover. This

[72] Malta limited dual circulation to one month.
[73] See R. v. Thompson, Case 7/78 (1978), ECR 2247.
[74] ECB Decision of 6 December 2001 on the issue of euro banknotes, OJ (2001) L 337 as amended by Decision ECB/2003/23 of the European Central Bank of 18 December 2003, OJ (2004) L 9 and Decision ECB/2004/9 of the European Central Bank of 22 April 2004, OJ (2004) L 205.
[75] ECB Decision of 20 March 2003 on the denominations, specifications, reproduction, exchange and withdrawal of euro banknotes (ECB/2003/4), OJ (2003) L 78.
[76] Central Bank of Malta Act, *supra* note 26.
[77] Commission Recommendation (EC) No. 98/286 of 23 April 1998, OJ (1998) L130/22.

suggests that banks should not charge for conversion of amounts to and from euro during the transitional period, nor for the conversion of 'household amounts' of national currency to euro during the dual circulation period. Banks are also urged not to "charge a different fee for services in the euro unit than that for otherwise identical services in the national currency unit."

However, as a result of the amending of Regulation 974/98 by Regulation 2169/2005[78], some of these principles are now also part of enforceable EU law. Regulation 974/98 prescribes free conversion, during the dual circulation period, of amounts up to a ceiling set by national law, or if this is not done, by the banks themselves in terms of what is a 'household amount' in that member state. The amendment makes no reference to charges during a 'transitional period', but this is of no consequence to Malta or all the other 5th enlargement countries, which joined, or intend to join, under a big bang (with or without phasing-out) scenario.

Conversion rates

The conversion rates between the euro and national currency units are set out in Regulation 2866/98,[79] which is little more than a list of such rates. The conversion rate of any currency becomes certain once determined by the ECOFIN Council meeting lifting that State's derogation in relation to that currency's fluctuation within the bands of ERM II.[80] In Malta's case, the situation was much simpler as the unilateral hard peg set by the Maltese authorities meant that the Maltese lira did not fluctuate, but remained at the ERM II central parity rate of €1 = Lm0.429300. The ECOFIN Council subsequently determined that the rate would become the immutable conversion rate to the euro as at the date Malta's derogation was lifted, that is, 1 January 2008.

Conversion, triangulation, rounding and smoothing rules

Conversion rules and triangulation

Before €-day, no conversion or rounding rules applied as these are the result of Article 15 in Regulation 974/98, which only becomes effective on the day the abrogation of a member state's derogation comes into force. Any prior redenomination in contracts needed to be the result of contractual agreement between the parties. Where parties thus redenominated before €-day, the amounts they decided upon were unaffected by automatic redenomination on €-day, since they were already amounts in euro. The same situation is prevalent for laws redenominated before 1 January 2008, as well as, for example, shop price displays, which, if shown in euro before €-day, are not affected by conversion rules. Of course, both laws and shop price displays can also be changed unilaterally after €-day (subject to the modalities of Maltese implementing legislation and undertakings by the trader) – though if a shopkeeper displays a price in Maltese lira after €-day, this is to be read as a reference to euro, as per the conversion rules.

It is the automatic redenomination of references to old currency unit amounts still existing on €-day that brings into play the conversion and rounding

78 Regulation 2169/2005, *supra* note 34.

79 Council Regulation (EC) No. 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro, OJ (1998) L 359/1, as amended by Council Regulation (EC) No. 1478/2000 of 19 June 2000 amending Council Regulation (EC) No. 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro, OJ (2000) L 167/1.

80 For a more complete explanation, see Bank of England, Practical Issues Arising from the Introduction of the Euro, No.7, 1998, pp. 89-93.

rules found in Regulation 1103/97. The most important of these rules stipulates that the official conversion rates are not to be rounded or truncated during conversion. Conversion rates are expressed to six significant figures. However, as the last two figures of the Maltese eventual conversion rate are zeros, in practice just four significant figures are used.

One should also note that Article 4(3) of Regulation 1103/97 does not allow inverse rates (e.g. Lm1 = €2.32937) to be used in conversion, as this would cause inaccuracies. A currency conversion must always be carried out by multiplying (euro to Maltese lira) or dividing (Maltese lira to euro) by the conversion rate.

As mentioned, these provisions only became law on €-day, and then again only relate to Maltese lira amounts as yet not redenominated. Since a number of individuals and traders may have had to redenominate contracts or display prices in euro before €-day, to cover this time period the National Euro Changeover Committee (NECC) issued a recommendation mirroring the provisions in EU law.[81]

Interestingly, as of €-day it became impossible to exchange the Maltese lira directly into any other currency save the euro. Any such conversion first has to be effected into euro, and subsequently the resulting amount is to be converted into the destination currency. This procedure is known as triangulation. In Malta, the procedure only came into play on the cash changeover date as a result of automatic redenomination at €-day (all Maltese lira amounts in legal instruments have to be read as references to the euro). Moreover, direct Maltese lira exchange rates, such as those that would have been formerly quoted daily by the Bank (e.g. Maltese lira/US dollar rates), no longer refer to the Maltese lira, but instead are expressed in terms of the euro – in practice meaning that an individual cannot even find a direct rate to use in a direct conversion.

Rounding and smoothing rules

Once amounts are converted, they are to be rounded to the nearest cent, with a result halfway being rounded up (e.g. 2.435 to 2.44).[82] Regulation 1103/97 also prescribed conversion from the euro to national currency units, as well as the method for various conversions to and from euro. However, this was possible, and applied, within the context of a transitional period wherein many bank accounts were still legally denominated in national currency units. Nonetheless, there still is a problem in relation to the sums and products of various transactions being rounded, as one may compute precise amounts and round the total, or round individual amounts to start with. Article 5 states that the rounding obligation applies on amounts to be 'paid or accounted for', meaning that rounding must take place on the total sum, but may also take place before.

In this regard, Recital 11 allows member states to legislate more accurate rules to be used in such 'intermediate computations', although differences between the two techniques are likely to be small, even where large quantities of transactions are involved. Nonetheless, the NECC published guidelines which suggest that it is the sum, not the individual amounts, that should be rounded. This is purely a matter of convention, the Commission notes.[83] Yet, in its judgement of 14

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[81] NECC, Guidelines on the rounding and smoothing of Maltese lira amounts converted into euro, Guideline: NECC/0004/06, 2006.

[82] See Regulation 1103/97, *supra* note 29, article 5.

[83] European Commission, *supra* note 28, p. 20.

September 2004, the ECJ interpreted Article 5 and held that tariffs, as in the case of per-minute telephony charges, did not constitute amounts to be 'paid or accounted for', and could not be rounded to the closest cent simply as a result of euro conversion. [84]

Clearly, applying the conversion rules alone will not always give the optimal result. A psychologically attractive price like Lm9.99 or a Lm10 parking fine become unwieldy numbers in terms of euro. It is, therefore, normal that the legislator, contracting parties and traders intervene to 'smooth' sums. However, there is no EU legislation in this field, and smoothing happens within the normal confines of law. Nonetheless, an NECC recommendation suggested that smoothing should always favour the consumer, and also stated that the Government would always follow this practice to set a good example. The situation at law became more restrictive in Malta, however, with the Smoothing of Monetary Amounts Regulations,[85] which lay down stricter rules for smoothing and which generally disallow smoothing disadvantageous to the consumer.

Dual display of prices

There is no EU legislation, other than a Commission Recommendation,[86] on dual display of prices, and this is, therefore, to be regulated by national law. In Malta, this is regulated by the Euro Adoption Act 2006 and subsidiary legislation enacted under it.

Legislation imposing early compulsory dual pricing, which furthermore remains in place for some months after the cash changeover date, is generally viewed as one of the most effective ways of combating inflationary pressures which the currency change may generate.[87] Nonetheless, in Malta and other 5th enlargement states euro banknotes and coins already existed and while traders could even choose to accept them before the cash changeover date (as many in Malta did), the prohibition of banking charges related to euro conversion at European law[88] only became effective as at the cash changeover date.[89] This meant, therefore, that traders who chose to accept the euro in payment when exchange was not free of charge included exchange charges in their conversion, but would probably not have accepted the euro in payment at all before the changeover date if the law compelled them not to include charges while credit or financial institutions still imposed them.

The Commission Recommendation[90] on dual display of prices therefore remains largely insufficient (Maltese implementing legislation was necessary), not only because it does not have the force of law, but also because it envisages dual display occurring during a transitional period, as was the case with the Euro-12. Nonetheless, it calls for clear indications from retailers as to when they will accept payments in euro, clear distinctions between the currency unit a price is set in and the unit displayed only for information purposes, as well as agreements on possible standard formats for displays.

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[84] Verbraucher-Zentrale Hamburg eV v O2 (Germany) GmbH & Co. OHG, Case C-19/03, (2004) ECR I-8183.

[85] Smoothing of Monetary Amounts Regulations, 2007, L.N. 369 of 2007 under the Euro Adoption Act, Cap. 485 of the Laws of Malta

[86] Commission Recommendation (EC) No. 98/287 of 23 April 1998, OJ (1998) L130/26.

[87] Allix J., Consumers and the single currency, legal problems, 1996, p. 92.

[88] Regulation 974/98, *supra* note 30, article 15.

[89] As a result of contractual arrangements, in Malta banks began to exchange Maltese lira for euro free of charge on 1 December 2007. They are obliged by the Maltese Cash Changeover Regulations to exchange Maltese lira for euro free of charge from 1 January 2008 to 31 March 2008.

[90] Commission Recommendation (EC) No. 98/287 of 23 April 1998, OJ (1998) L130/26.

Beyond the compulsory dual display of prices, another important issue to be considered is the cut-off date for pricing in Maltese lira – after which only price displays in euro are allowed. Such a measure greatly facilitates the psychological changeover – in contrast to countries like France which still today allow display of prices in the old currency, with the reported result that the population has the lowest familiarity with the euro out of the old Euro-12.

The 'phasing-out' period

The changeover scenario adopted by Malta under the new possibilities granted by means of Regulation 2169/2005[91] allowed a phasing-out period, during which legal instruments created after the cash changeover date that refer to the old currency unit would be allowed, and provided for explicitly by law. However, Malta decided not to implement such a phasing-out period.

Yet, even without a phasing-out period, there is nothing in EU law[92] that stops a Maltese Court from enforcing in euro a contract agreed after €-day referring to Maltese lira, provided, of course, that the intention of the parties to bind themselves in legal tender currency is not in dispute.

Malta as a member of the euro area: obligations

Malta's pre-€-day status was established by Article 4 of the Act of Accession[93] which enunciates that it was bound by the provisions of the EMU acquis, as a country with a derogation under Article 122 (1) of the EC Treaty, as from date of accession.

Article 122 (2) governs the procedure for the abrogation of such derogation, which can be carried out on a proposal by the Commission approved by a qualified majority of member states in the Council (meeting in its composition of Heads of State or Government).[94] Article 122 (3) sets out the Articles in the Treaty that are not applicable to members with a derogation, and, consequently, acts adopted under them do not apply either. Furthermore, Chapter IX of the Statute of the European System of Central Banks caters for the exclusion of member states with a derogation, and their central banks, from a number of rights and obligations arising under the Statute and applicable to full members of EMU.

When Malta became a member of the euro area, many of the obligations it had as a member state with a derogation continued to apply, as did most of the EMU law already applying to it. Thus, as has been already detailed, it is *inter alia* to regard its economic policies as a "matter of common concern", it is subject to the 'no bail out' rule, and it must continue to consult the ECB on legislative proposals within the ECB's area of competence. Clearly this happens within the context of Malta having effectively transferred its competence in monetary policy over to the ESCB. Of particular interest, however, is that the Stability and Growth Pact (SGP) acquires greater importance with Malta becoming a full EMU member.

The SGP legally consists of one European Council Resolution[95] and two Council Regulations – 1466/97[96] and 1467/97.[97] Together, they form a system of surveillance, early warning, peer pressure and

[91] Council Regulation (EC) No 2169/2005, *supra* note 34.
[92] See European Commission, *supra* note 65, pp. 10-12.
[93] Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded (Act of Accession), AA 3/03, OJ L 236, 23 September 2003.
[94] After reports by the Commission and ECB and an opinion of the European Parliament.
[95] Resolution of the European Council on the Stability and Growth Pact, *supra* note 6.
[96] Regulation 1466/97, *supra* note 6.
[97] Ibid.

sanction, aimed at ensuring long-term macroeconomic stability within the EU. The sanction mechanism only applies to 'in' members, and, therefore, now applies to Malta. However, as the SGP was discussed in detail in a recent edition of this publication, it is not discussed again here.[98]

4. Malta's legal relationship with the ESCB and the ECB

The institutional structure of the ESCB

The ESCB lies at the heart of EMU, though it is itself not a legal person. In fact, in company law terms, the ESCB is a rather strange structure.

The ESCB is, in fact, currently composed of 28 entities, each a legal person – the 27 NCBs and the ECB itself. The ESCB can be described as a "body of Community law".[99] It is established by Article 8 of the EC Treaty, in accordance with the statutes attached thereto. It is not an institution of the Community either, described in Article 7 of the EC Treaty as the five organs[100] established to represent the legal person 'European Community'.[101]

The ECB is established as an international legal person by Article 107(2) of the Treaty, but the ESCB also consists of the NCBs, which in turn have a number of legal forms – there are public limited companies, sociétés anonymes and public bodies in a variety of guises. The Central Bank of Malta is itself a 'body corporate' established by law.[102] Together, these form the monetary authority of the Community.

The ESCB is "governed by the decision-making bodies of the ECB".[103] Here, one of the major peculiarities of the system comes to light. While the ECB is a subsidiary of the NCBs, with its shares held by them,[104] in effect the subsidiary governs the parent companies.[105] However, the NCBs do also have a central role within the decision-making bodies of the ECB itself. In fact, there are two main decision-making organs within the ECB – the Executive Board (EB) and the Governing Council. The EB is appointed "by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the ECB".[106] This board, which consists of the President of the ECB, the Vice-President, and four other members, is responsible for much of the 'day-to-day' decisions of the ECB, including implementing monetary policy and instructing NCBs to carry out the necessary supporting operations.[107] However, as the members all also sit on the Governing Council, they also form the ESCB's community element. The Governing Council is, in turn, composed of the six EB members together with the governors of the NCBs of participating member states,[108] currently the Euro-15. Its main responsibilities are to define

98 For a more detailed discussion of the SGP, see Caruana E., The Reformed Stability and Growth Pact: Implications for Malta, Central Bank of Malta *Quarterly Review 2007:3*, Vol. 40 No. 3.
99 Smits R., *supra* note 42, p. 366.
100 The European Parliament, the European Commission, the Council of Ministers, the European Court of Justice and the Court of Auditors.
101 The ECB will become a Community institution upon ratification of the Lisbon Treaty.
102 Central Bank of Malta Act, *supra* note 26, article 3.
103 EC Treaty, article 107(3); ESCB Statute, article 8.
104 ESCB Statute, article 28.2.
105 Smits R., *supra* note 42, p. 367.
106 EC Treaty, article 112 (2)(b).
107 ESCB Statute, article 12.1.
108 EC Treaty, article 112 (1); ESCB Statute, article 10.

the monetary policy of the Community, set intermediate monetary objectives, decide upon key interest rates and foreign-exchange operations, hold and manage the official foreign reserves of the participating member states and promote the smooth operation of payment systems.[109]

NCB governors sit in a personal capacity, meaning that they do not sit as representatives of their own national interests. In fact, they are independent and cannot receive instruction from their governments or any other body,[110] and are to act in line with Community rules and interests, in particular the objective of price stability. To guarantee this independence, the ESCB Statute[111] also lays down that the proceedings of the Governing Council are to be confidential, and it is only the Governing Council itself that that may "decide to make the outcome of its deliberations public".

Votes are taken by simple majority, on the basis of a one (wo)man, one vote principle, the President of the ECB having a casting vote.[112] However, two qualifications are necessary. First, in the sole case of decisions relating to intra-ECB/NCB financial affairs,[113] votes are weighted according to share capital, with the EB having no weighting. Secondly, as from when the number of participating NCBs exceeds 15, a rotation system comes into play,[114] as shall be discussed below. However, in practice, voting rarely, if ever, occurs as decisions tend to be taken by consensus.

A third, temporary, decision-making organ is also established by the EC Treaty.[115] This, the General Council as it is known, is to exist until all member states join the euro area. Until then, it consists of the President and Vice-President of the ECB, together with the governors of all member states' NCBs[116] – currently 27. This Council does not take decisions on monetary policy, but is instead charged with coordinating the monetary policies of 'ins' and 'outs' and performing many of the functions of the defunct EMI that are left over in regard to non-euro area states,[117] mainly preparing analyses to convergence and monitoring the functioning of ERM II.

In practice the ESCB does not use its Treaty-given name when acting through the Governing Council. Instead, it terms itself the 'Eurosystem'. This perhaps helps distinguish such acts from acts performed by the ESCB's 'temporary' General Council, for which it generally reserves the term ESCB.

The ECB is empowered, under the EC Treaty, and within its areas of competence, to make regulations, take decisions and issue recommendations of equivalent legal value to those issued by the other institutions. Thus an ECB Regulation is "binding in its entirety and directly applicable in all Member States".[118] The ECB can also impose sanctions up to a maximum of €500,000, as well as periodic payments up to a maximum of €500,000, and daily fines of up to €100,000 for a maximum of six months.[119] As

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109 ESCB Statute, article 12; EC Treaty, article 105.
110 EC Treaty, article 108; ESCB Statute, articles 7 and 14.2.
111 Article 10.4.
112 ESCB Statute, article 10.2.
113 This refers to issues such as allocation of monetary profit, subscription of capital, transfer of reserves to the ECB etc., as per ESCB Statute, article 10.3.
114 ESCB Statute, article 10.2.
115 Article 123(3) as well as ESCB Statute, article 45.
116 ESCB Statute, article 45.2.
117 ESCB Statute, articles 44 and 47.
118 EC Treaty, article 110.
119 Council Regulation (EC) No. 2532/98 of 23 November 1998 concerning the powers of the European Central Bank to impose sanctions, OJ (1998) L 318/41.

mentioned above, it has the sole power to authorise the issue of euro notes and coins.[120]

The ESCB and euro area enlargement

In March 2003, in view of imminent euro area enlargement, the Council of Ministers changed the ESCB Statute by means of Decision 2003/223[121] to set up a rotation system for voting in the Governing Council, with the amended procedure now set out in Article 10.2 of the ESCB Statute.

While all participating NCB governors will for now continue to attend all meetings together with the 6 EB members, as soon as there are 16 participating NCBs these will be divided into two groups. Under this dual system, the first group will consist of the NCBs representing the largest 5 member states (group membership is always decided on basis of GDP and size of financial system) and will share 4 votes. The remaining NCBs will form the second group and share 11 votes. However, the votes are not weighted, and the one member, one vote principle still applies – though any NCB will only be able to vote part of the time. Under the Statute, at no time can members of the first group vote less frequently than those of the second. In effect, this qualification means that the system will only work as described when there are 19 NCBs, as otherwise members of the second group would be voting more often than the first. The Governing Council can make provision for this anomaly (by two-thirds majority) and is even given the right by the Statute to delay the entry into force of the rotation system until there are 19 NCBs. As the number of NCBs currently stands at 15, the current system must remain in force until another NCB joins. Subsequently, the system will either remain in place until there are 19 NCBs, or the Governing Council will make other provision for the period during which there are 16-18 members.

When the number of NCBs reaches 22, a new three-group rotation system will come into play. Under this system, the first group (5 NCBs) shares 4 votes, the second group (half the NCBs, rounded up) shares 8 votes, and the third group (the rest) shares 3. Indicatively, under a situation with 22 participating member states, the Central Bank of Malta, certainly in group 3, will be entitled to vote half of the time. Yet, it must be recalled that in practice decisions tend to be taken by consensus.

Whatever the system, the members of the EB always can vote, and, moreover, the President always retains a casting vote. Furthermore, subject to any provision that may be introduced to cater for the anomaly described above (16-18 NCBs), there is always a total of 21 votes to be cast – 6 by the EB, and 15 by the NCBs.

Malta in the ESCB

Before €-day, as an EU member state and member of EMU with a derogation, the Central Bank of Malta's Governor sat as an active member of the General Council, but not of the Governing Council of the ECB. As of the lifting of Malta's derogation, the Governor also became a full member of the Governing Council, with voting rights as previously described. Similarly, albeit on an informal level, finance ministers of the participating member states also meet periodically in what is known as the 'eurogroup'.

By means of Article 49.3 in the ESCB Statute, the ECB's capital was increased by new member states in accordance with the ECB's capital key

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[120] EC Treaty, article 106.

[121] Council Decision (EC) No. 2003/223/EC meeting in the composition of the Heads of State or Government of 21 March 2003 on an amendment to Article 10.2 of the Statute of the European System of Central Banks and of the European Central Bank, OJ (2003) L 83.

(weighted at 50% GDP, 50% population, revised every 5 years)[122] as at EU accession. Thus, the Bank was already a shareholder in the ECB before euro adoption, according to the key, at the same ratio as participating member states. The difference between 'ins' and 'outs' is not the amount of subscribed capital, but the amount of capital that is actually paid up. In fact, whereas by virtue of ECB Decision 2004/06,[123] 'ins' are to pay up 100% of their subscribed capital, by virtue of ECB Decision 2004/10,[124] 'outs' are only obliged to pay up 7%. Therefore, while before €-day the CBM had paid up €252,023.87, on joining it had to transfer the remaining 93%.[125]

Furthermore, Malta's derogation exempted it from a contribution towards the foreign reserve assets of the ECB. Upon the derogation being lifted, the Bank also contributed towards, and thus increased, the foreign reserve assets of the ECB in accordance with Article 30 of the Statute, and thus again in relation to its share capital in the ECB.[126]

In practice, the role of the Bank has changed substantially, particularly through the Governor's participation in the Governing Council. While it no longer has responsibility for monetary policy, it is now a key actor in forming and executing the policy of the ECB. Furthermore, it retains responsibilities for safeguarding financial stability. The Bank has also retained a reserve management role, as manager of the foreign reserve assets transferred to the ECB, and as manager of its own assets within the ESCB framework. It still issues currency, though clearly in concert with the Eurosystem. Finally, an important role remains, that of regulator of payment and securities settlement systems, including payment services and payment instruments, and as a channel for high-value domestic and overseas payments, through participation in TARGET2.

5. Conclusion

The adoption of the euro is much more than a currency changeover. It has brought about vast changes as the EU's monetary law became fully applicable in Malta, while Malta's sovereignty in monetary matters was pooled with that of other participating states at the Community and ESCB levels. As a full member of EMU, Malta is now subject to the sanctions of the SGP. The Bank is now an integral part of the Eurosystem, and has gained a permanent seat on the Governing Council of the ECB.

Since €-day, all Maltese lira amounts in legal instruments are to be read as euro at the conversion rate, with amounts being converted according to the rounding rules. Problems are not foreseen in relation to the continuity of contracts so redenominated, and courts are expected to also treat contracts in Maltese lira as continuing and redenominated according to EC law.

Malta joined under a different procedure from that used by the Euro-12. There was no transitional period between adoption of the euro legally and in its cash form. Malta has acquired the right to issue coins with a national side which are legal tender throughout the euro area. The Maltese lira ceased to exist as a currency on 1 January 2008, but its cash form remained legal tender during the

[122] ESCB Statute, article 29.3.

[123] ECB Decision of 22 April 2004 laying down the measures necessary for the paying-up of the European Central Bank's capital by the participating national central banks (ECB/2004/6) (2004/503/EC).

[124] ECB Decision of 23 April 2004 laying down the measures necessary for the paying-up of the European Central Bank's capital by the non-participating national central banks (ECB/2004/10) (2004/507/EC).

[125] This remainder amounted to €3,332,306.98.

[126] The reserves transferred to the ECB amounted to the equivalent of €36,553,305.17.

one-month dual circulation period.

In terms of its effects, the euro is already binding and integrating European financial, capital and other markets in a way never seen before. As the markets evolve and new states join, the euro will increasingly become a global currency. These developments will shape the future of the euro, and also that of the Maltese economy as it integrates more closely into the EU single market. As a euro area member, Malta will itself be a player in shaping these developments.

NEWS NOTES

LOCAL NEWS

Conference on EMU Governance and Euro Changeover

To mark the occasion of Malta's successful application to join EMU and adopt the single currency, a national conference entitled "EMU Governance & Euro Changeover: Malta on the Path to the Euro" was organised by the National Euro Changeover Committee and the Central Bank of Malta. It was held at the Westin Dragonara Resort in St Julian's on 1 October 2007. The conference was addressed by a number of high-ranking speakers, including the President of the ECB, the EU Commissioner for Economic and Monetary Affairs and the Governor of the Central Bank of Malta. It focused on the various achievements of EMU and the policy challenges at both the euro area and national levels, especially in regard to Malta and Cyprus.

Coming into force of the Central Bank of Malta (Amendment) Act 2007

Legal Notice 339 of 2007, issued on 30 October 2007, established 1 January 2008 as the date when Part I of the Central Bank of Malta (Amendment) Act, 2007 (Act No. I of 2007) was to come into force.

Governor briefs press on euro public information campaign

On 12 November 2007, the Governor of the Central Bank of Malta briefed the press on the initiatives being taken by the Bank with regard to the information campaign on euro banknotes and coins launched in September. He referred to the various types of visual materials prepared jointly by the Bank and the ECB for the benefit of particular sectors and specific groups, as well as those intended for the general public.

Launch of TARGET2

On 19 November 2007 the Central Bank of Malta started operating through TARGET2, a new payment system for large value interbank payments operating in central bank money. The launching was the culmination of a major project successfully implemented by euro area central banks that had collaborated on the design of the system. TARGET2 is expected to serve as a development model for other systems currently being devised by the Eurosystem to strengthen and consolidate the smooth functioning of the single European market.

Central Bank of Malta issues first Maltese Euro Coin Set

On 1 December 2007 the Central Bank of Malta issued for sale to the public its first set of euro coins. The set includes the eight Maltese euro coins in brilliant uncirculated quality together with a commemorative ingot and is enclosed in a smart wooden case.

Central Bank of Malta issues commemorative coins

On 20 December 2007 the Central Bank of Malta announced the issue of a silver coin and a gold coin commemorating Grandmaster Jean de La Valette. The two coins were issued under the Europa Programme 2007 and were the last coins denominated in Maltese lira to be issued by the Bank.

Central Bank of Malta lowers central intervention rate

On 28 December 2007 the Central Bank of Malta, at the end of the Monetary Policy Advisory Council (MPAC) meeting, lowered the central intervention rate by 25 basis points to 4.00%. This brought the rate down to the same level as the minimum bid rate on the main refinancing operations set by the ECB, completing the process of convergence of official interest rates in Malta with those of the euro area. Since the Bank was to join the Eurosystem as from 1 January 2008, and was to become responsible for the implementation in Malta of the ECB's policy stance, this was the last time the MPAC met before it was dissolved on 31 December 2007.

Minimum reserve requirements

On 31 December 2007 the Central Bank of Malta announced that, with the adoption of the euro and the transfer of responsibility for monetary policy to the ECB as from 1 January 2008, banks established in Malta will have to comply with the minimum reserve requirements set by the Governing Council of the ECB. The entry into force of the ECB regulations on minimum reserve requirements from 1 January 2008 implies a lowering of the current reserve requirement rates from 4% of the reserve base to 2%. Moreover, banks established in Malta will be allowed to deduct liabilities due to other banks established in the euro area from their respective reserve base.

European Commission's sixth report on practical preparations for the euro

On 27 November 2007 the European Commission adopted the sixth report on the practical preparations for the enlargement of the euro area. The report focused on Cyprus and Malta, which were to adopt the euro in January 2008. With reference to Malta the report said that the country had further refined and completed its practical preparations.

Malta's Stability Programme 2007-2010

In December 2007 the Ministry of Finance published Malta's Stability Programme for 2007-2010 and submitted it to the European Commission. The report foresees real GDP growth within a range of 3.1%-3.4%. The main macroeconomic policy objectives underlying the programme are the achievement of sustainable economic growth and real convergence with EU average levels, the generation of a high level of employment, the strengthening of public finances, and a low and stable level of inflation. On the fiscal front the Government aims at achieving its medium term objectives of a balanced sustainable budget by 2010.

Liberalisation of the domestic market for fuel

On 2 October 2007 the Malta Resources Authority announced a number of measures that effectively liberalised the domestic fuel market. In this regard, also on 2 October, the Petroleum for the Inland (Wholesale) Fuel Market Regulations, 2007 were published through Legal Notice 278. The purpose of these regulations is to regulate the domestic wholesale fuel market for petroleum, with safety being the main concern.

Issue of private corporate bonds and equity

On 15 October 2007 PAVI Shopping Complex p.l.c. offered to the public Lm5,000,000 (equivalent to EUR11,646,867) 7% secured bonds with a nominal value of Lm100 (equivalent to EUR233) per bond at par, maturing in 2017. The bond issue was oversubscribed and an allocation policy was applied.

On 21 November 2007 Mediterranean Investments Holding p.l.c. offered to the public Lm6,439,500 or EUR15,000,000 7.5% bonds (in either of the two currencies) with a nominal value Lm100 and EUR100 respectively per bond at par, maturing in 2014. There was a strong demand for the bonds and an allotment policy was adopted.

On 11 December 2007 Crimsonwing p.l.c. launched a combined offer of 6,747,134 ordinary shares consisting of an issue of 2,000,000 shares with a nominal value of EUR0.10 each at a share price of EUR0.50 per share and an offer by existing shareholders of 4,747,134 ordinary shares with the same nominal value and for the same price. Applications were to be for a minimum of 2,500 shares and multiples of 100 shares thereafter. The offer was oversubscribed and a share allocation policy was applied.

Moody's confirms Malta's international credit ratings

On 14 November 2007 the international credit rating agency Moody's confirmed its Aa1 ceiling for Malta's foreign currency debt and A2 for the country's foreign currency bank deposits. The outlook remained positive. The rating for bonds issued by the Government of Malta was also confirmed at A2 with a positive outlook, after being upgraded from A3 last July. The agency noted that the adoption of the euro on January 1, 2008 would push Malta's credit rating further upwards.

Fitch Ratings affirms Bank of Valletta's credit rating

On 27 November 2007 Fitch Ratings affirmed Bank of Valletta's credit ratings at Long-Term Issuer Default 'A-' (A minus) with stable outlook, Short-term 'F2', Individual 'C' and Support '2'. Fitch Ratings said that the ratings reflected Bank of Valletta's position as the largest bank in Malta, its consistently sound profitability, satisfactory capitalisation and liquidity, and reduced impaired loans.

The Budget for 2008

On 15 October 2007 the Prime Minister and Minister of Finance presented the Budget for 2008 to Parliament.

The main fiscal measures included:

Tax relief

- A revision of the income brackets for the different income tax rates.
- A cost of living increase of Lm1.50 a week, of which Lm1.00 is intended to make up for the higher cost of food while Lm0.50 is granted under the established mechanism reflecting the behaviour of the RPI.
- Tax exemptions for cultural activities, including sports for children. Public sector employees will be granted unpaid leave for certain arts projects.

Social benefits

- The children's allowance is to be extended to all children, while the children's allowance for second and subsequent children is to be doubled so as to be equal to that for the first child.
- Increases in allowances for fostering and for orphans.

Subsidies

- Students studying for their first degree abroad to be assisted financially.
- Subsidies, refunds and other incentives are being given to encourage the use of alternative energy resources.
- Financial incentives to the housing sector to enable more people to become owners of their own home.

Second Annual Progress Report on National Reform Programme published

On 8 November 2007 the Minister for Competitiveness and Communication published the Second Annual Progress Report on the implementation of the National Reform Programme 2005-2008 (NRP) that had been submitted to the EU Commission in October. The NRP assessed the country's progress in five main areas, namely, public finances, competitiveness, employment, education and the environment.

Legislation related to banking and finance

Legal Notices 286-290 of 2007

These legal notices, issued on 12 October 2007 under the Insurance Business Act (Cap. 403), published several regulations and amendments to existing regulations governing the business of insurance in Malta so as to bring the local legislation in line with the relevant EU directives.

Legal Notices 325-329 of 2007

These legal notices, issued on 30 October 2007 under the Investment Services Act (Cap. 370), published various regulations governing the provision of investment services so as to bring the relevant local legislation in line with Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Legal Notices 330-336 of 2007

These legal notices, issued on 30 October 2007 under the Financial Markets Act (Cap. 345), published various regulations and amendments to existing regulations governing financial markets, mainly so as to bring the local legislation in line with Directive 2004/38/EC of the European Parliament and of the Council on markets in financial instruments.

Legal Notice 369 of 2007

This legal notice, issued on 13 November 2007 under the Euro Adoption Act (Cap. 485), published the Smoothing of Monetary Amounts Regulations, 2007, the objective of which was to regulate the conversion of values and monetary amounts in the pricing of goods and services offered to consumers to ensure fair practices in euro pricing.

Legal Notices 407-411 of 2007

These legal notices, issued on 14 December 2007 under the Euro Adoption Act, 2006 (Act X of 2006), are orders to adapt the laws in Chapters 1 to 250 of the Laws of Malta to the adoption of the euro by changing any monetary amounts expressed in Maltese liri to euro.

Legal Notice 413 of 2007

This legal notice, issued on 14 December 2007 under the Banking Act (Cap.371), repealed the Interest Rates on Loans and Advances Order, 1993 (Legal Notice 188 of 1993), effectively completing the liberalisation of bank interest rates in Malta.

Legal Notice 420 of 2007

This legal notice, issued on 18 December 2007 under the Insurance Intermediaries Act (Cap. 487), repealed the Insurance Intermediaries (Transitional Provisions) Regulations, 2006 governing the provision of services in relation to linked long-term contracts of insurance as well as communications by the competent authority (Legal Notice 319 of 2006).

Legal Notice 421 of 2007

This legal notice, issued on 18 December 2007 under the Insurance Business Act (Cap. 403), amended certain regulations governing the European Passport Rights for Insurance and Reinsurance Undertakings Regulations, 2004 (Legal Notice 89 of 2004).

Legal Notices 423-427 of 2007

These legal notices, issued on 21 December 2007 under the Euro Adoption Act 2006 (Act X of 2006), are orders to adapt Chapters 251 to 492 of the Laws of Malta to the adoption of the euro as the national currency by changing any monetary amounts expressed in Maltese liri into euro.

Legal Notice 441 of 2007

This legal notice, issued on 28 December 2007 under the Euro Adoption Act (Cap. 485), published the Cash Changeover Regulations, 2007, the objective of which was to ensure the smooth changeover of the currency unit from the Maltese lira to the euro and to regulate the services of credit institutions during the changeover period.

Issue of Malta Government Stock

On 2 October 2007, through Legal Notice 276 of 2007, the Government published a directive for the issue of an amount not exceeding Lm50,000,000 of Malta Government Stock in the primary market.

These were the

(i) 5.7% Malta Government Stock 2012 (THIRD ISSUE) (Fungibility Issue)
or
(ii) 5% Malta Government Stock 2021 (FIRST ISSUE) (Fungibility Issue)
or
(iii) Any combination of the above two Stocks, provided the aggregate nominal value was not to exceed Lm50,000,000.

The issue was oversubscribed and an allocation policy was adopted so that, while applications submitted by the public were accepted in full, those submitted by credit institutions were allotted according to the bid price offered.

Bank Holidays

Legal Notice 352 of 2007, issued on 9 November 2007 under the Banking Act, announced that 22 March 2008, 26 December 2008 and 2 January 2009 shall be bank holidays as declared by the Prime Minister and Minister of Finance after consultation with the MFSA and the Central Bank of Malta.

Credit institutions granted licences to operate in Malta

On 19 October 2007 the MFSA granted a licence to Saadgroup Bank Europe Ltd, a subsidiary of the Saad Group Financial Services Company incorporated in Al-khobar, Saudi Arabia, to set up a banking subsidiary to operate as a credit institution in Malta.

On 16 November 2007 the International Banking Corporation (Malta) p.l.c. was granted a licence by the MFSA to set up a banking subsidiary to operate as a credit institution. Its parent company forms part of the Saudi-based Algosaibi Group and is based in Bahrain.

Surrender of licences

On 2 October 2007 the MFSA announced that it had accepted a request by Grenfell (SICAV) p.l.c. for the surrender of the collective investment scheme licence granted to it in relation to Solstice Fund, one of its sub-funds. The surrender was entirely voluntary and did not arise out of any regulatory action taken by the MFSA.

On 10 October 2007 the MFSA announced that it had accepted a request by Altma Fund SICAV p.l.c. to surrender the collective investment scheme licence granted to it in relation to its Clonliffe sub-fund. The surrender was entirely voluntary and did not arise out of any regulatory action taken by the MFSA.

On 5 November 2007 the MFSA announced that Universal Financial Services Limited had surrendered its Category 1 licence to undertake investment services in terms of the Investment Services Act 1994. The surrender was entirely voluntary and did not arise out of any regulatory action taken by the MFSA.

INTERNATIONAL NEWS

ECOFIN council meetings – main topics discussed

9 October 2007 meeting

- the excessive deficit position of the United Kingdom and the Czech Republic
- the development of financial stability arrangements
- the effectiveness of the EU's Stability and Growth Pact
- the reform and modernisation of public administration
- the EU's second action programme for health, with a budget of EUR321.5 million, for the period 2008-2013.

13 November 2007 meeting

- preparations for a new three-year cycle of the Lisbon Strategy for Growth and Jobs, which will start in 2008
- statistics covering information requirements under the EU's economic and monetary union (EMU)
- reduction of the statistical burden on businesses, governance in the field of statistics and the communication of major statistical revisions
- a regulation on the provision of basic information on purchasing power parities under the European statistical system.

23 November 2007 meeting

- the Council reached agreement on its second reading of the EU's draft general budget for 2008.

4 December 2007 meeting

- a package of new VAT arrangements for services. The arrangements involve a change in the place of taxation for VAT on services from the place where the supplier is located to that where the customers is, with a "one-stop" system enabling suppliers to fulfil a single set of obligations in their home Member State, including for services provided in other Member States.
- the Council agreed the extension of temporary reduced VAT rates in the Czech Republic, Cyprus, Malta, Poland and Slovenia.
- adopted conclusions dealing with annual multilateral surveillance in the context of the national economic reform programmes presented by the Member States under the Lisbon Strategy on Growth and Jobs, the economic impact of migration, a review of the Lamfalussy Regulatory Process for Financial Services, barriers to the development of European risk capital markets, measures to combat tax fraud and work on harmful competition with regard to business taxation.
- reached agreement on a recast directive on capital duty.

G-7 Finance Ministers Meetings

On 19 October 2007 the G-7 Finance Ministers and Central Bank Governors, meeting in Washington DC, stated that overall economic fundamentals continued to be strong and emerging markets were providing critical impetus to the strength of the world economy. They affirmed that exchange rates should reflect economic fundamentals. They discussed the World Bank and IMF reform, reaffirming that quota shares and voice should better reflect the realities of the world economy, including the growing weight and role of dynamic members, many of which were emerging markets. They remained committed to fighting money laundering, terrorist financing and other illicit financing involving similar risks to financial markets.

IMF and World Bank Annual Meetings

At the IMF–World Bank joint Annual Meetings held on 20-22 October 2007 in Washington DC, the International Monetary and Financial Committee welcomed the strong global growth recorded in the first half of 2007 and noted that the global economy continued to be underpinned by strong fundamentals and the robust growth of emerging market and other developing economies. They also noted that monetary policy should focus on achieving price stability while continuing to assess the inflation outlook that could result from tight commodity markets and rising oil and food prices and the downside risks to growth. The Committee noted the growing importance of Sovereign Wealth Funds in international financial markets. It also stressed the critical importance of the implementation of the programme of quota and voice reforms and recognised the need for more predictable and stable sources of Fund income to finance its diverse activities. The Committee welcomed the adoption of the Bilateral Surveillance Decision in June 2007.

The Development Committee stated that it recognised the potential of the goal of inclusive and sustainable globalisation to guide the World Bank in its mission of promoting economic growth and reducing poverty, including helping countries attain the Millennium Development Goals. It also welcomed the progress made by many low-income countries in strengthening development strategy and implementing policy and institutional reforms and asked the Bank Group to increase its support for access to modern, cost-effective, clean energy, especially among the poorest and in sub-Saharan Africa.

STATISTICAL TABLES

THE MALTESE ISLANDS - KEY INFORMATION, SOCIAL AND ECONOMIC STATISTICS

(as at end-Sep 2007, unless otherwise indicated)

CAPITAL CITY	Valletta		
AREA	316 km^2		
CURRENCY UNIT	Maltese lira exchange rates [1]:	MTL 1 = USD 3.3075	
		EUR 1 = MTL 0.4293	
CLIMATE	Average temperature (1990-2006):	Dec. - Feb.	13.2^o C
		June - Aug.	26.1^o C
	Average annual rainfall (1990-2006)		470.4 mm
SELECTED GENERAL	GDP growth at constant 2000 prices [2]		4.1%
ECONOMIC STATISTICS	GDP per inhabitant at current market prices [2, 3]		EUR 3,500
	GDP per capita in PPS relative to the EU-27 average [2] (2006)		77.2%
	Ratio of gross general government debt to GDP [2] (2006)		64.3%
	Ratio of general government deficit to GDP [2] (2006)		2.5%
	RPI inflation rate		0.8%
	HICP inflation rate		0.4%
	Ratio of exports of goods and services to GDP [2]		87.2%
	Ratio of current account deficit to GDP [2]		3.0%
	Employment rate		56.1%
	Unemployment rate		6.2%
POPULATION	Total Maltese and foreigners (2006)		407,810
	Males		202,613
	Females		205,197
	Age composition in % of population (2006)		
	0 - 14		17%
	15 - 64		69%
	65 +		14%
	Average annual growth rate (1990-2006)		0.7%
	Density per km^2 (2006)		1,291
HEALTH	Life expectancy at birth (2006)		
	Males		77
	Females		81
	Crude birth rate, per 1,000 Maltese inhabitants (2006)		9.6
	Crude mortality rate, per 1,000 Maltese inhabitants (2006)		7.9
	Doctors (2006)		1,325
EDUCATION	Combined gross enrolment ratio (2005)		81%
	Number of educational institutions (2005/2006)		342
	Teachers per 1,000 students (2005/2006)		85
	Adult literacy rate: age 10+ (2005)		
	Males		91.7%
	Females		93.9%
LIVING STANDARDS	Human Development Index: rank out of 177 countries (2005)		34
	Mobile phone subscriptions per 100 population		90.7
	Private motor vehicle licences per 1,000 population		531
	Internet subscribers per 100 population		24.5

[1] End of period closing middle rates.

[2] Provisional.

[3] Based on Eurostat estimate of GDP at current market prices in euro per inhabitant.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance; NSO; UNDP.

The monetary and financial statistics shown in the 'Statistical Tables' annex are compiled from information submitted to the Central Bank of Malta by the following credit institutions, as at September 2007:

Akbank T.A.S.
APS Bank Ltd
Banif Bank Malta plc
Bank of Valletta plc
BAWAG Malta Bank Ltd (from October 2003)
Credit Europe NV (from March 2007)
Commbank Europe Ltd (from September 2005)
Erste Bank (Malta) Ltd
FIMBank plc
Finansbank (Malta) Ltd (from July 2005)
Fortis Bank Malta Ltd
HSBC Bank Malta plc
Investkredit International Bank plc
Izola Bank Ltd
Lombard Bank Malta plc
Mediterranean Bank plc (from January 2006)
Raiffeisen Malta Bank plc
Sparkasse Bank Malta plc
Turkiye Garanti Bankasi A.S.
Volksbank Malta Ltd

Note: Revisions to data in Tables 1.2, 1.3, 3.4 and 3.6

The reporting of the gross financial derivative instruments was revised by some reporting agents to come in line with international standards which state that financial derivative transactions are to be treated as separate transactions rather than as integral parts of the value of the underlying transaction to which they are linked. This has resulted in the revision of gross financial derivative positions, on both the assets as well as the liabilities side, in Tables 1.2, 1.3, 3.4 and 3.6. However, the net financial derivative amounts remain unchanged.

PART 1: MONETARY, BANKING, INVESTMENT FUNDS AND FINANCIAL MARKETS

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TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES - CENTRAL BANK OF MALTA[1]

liabilities

Lm millions

End of period	Currency issued	IMF-related liabilities	Deposits				Capital & reserves	External liabilities	Other liabilities
			Credit institutions	Central government	Other residents	Total			
2003	485.4	31.5	242.2	83.2	8.5	333.8	88.2	25.5	28.7
2004	506.4	30.6	166.3	115.7	11.1	293.1	86.0	-	20.0
2005	520.0	32.0	182.3	147.5	9.5	339.3	84.3	-	15.3
2006									
Jan.	512.3	32.0	243.2	77.2	8.8	329.2	83.1	2.2	11.7
Feb.	509.8	32.0	256.7	69.8	11.2	337.7	82.4	-	9.5
Mar.	510.9	32.0	230.0	70.9	8.6	309.6	80.2	4.5	6.8
Apr.	510.7	32.0	206.1	73.6	9.5	289.2	78.1	11.9	7.7
May	509.9	31.1	226.7	138.6	9.7	375.1	79.1	7.1	8.8
June	512.0	31.1	286.2	82.5	10.1	378.8	77.4	4.3	9.4
July	512.0	31.1	280.0	106.1	8.2	394.3	78.6	-	10.5
Aug.	509.6	31.1	305.9	91.1	10.8	407.9	79.2	-	13.8
Sept.	508.7	31.1	284.7	133.0	9.3	426.9	79.9	-	13.4
Oct.	505.5	31.1	326.4	95.8	8.7	430.8	78.9	-	16.3
Nov.	499.3	31.1	308.7	93.8	9.4	412.0	79.6	-	15.2
Dec.	504.0	30.3	283.7	106.6	17.6	407.8	77.7	-	16.7
2007									
Jan.	485.5	30.3	312.4	79.8	9.6	401.9	76.4	-	15.4
Feb.	477.6	30.3	323.6	69.8	8.7	402.1	78.2	-	10.0
Mar.	474.9	30.3	305.9	69.4	9.0	384.3	77.6	-	7.6
Apr.	466.2	30.3	253.8	123.1	12.4	389.3	76.6	-	8.7
May	452.6	29.7	291.7	127.0	11.8	430.5	75.2	-	10.6
June	443.4	29.7	260.5	151.4	10.7	422.6	73.6	-	12.3
July	425.1	29.7	297.4	138.5	10.6	446.5	75.5	-	12.2
Aug.	407.3	29.7	331.8	127.3	21.3	480.4	77.0	-	13.1
Sept.	397.4	29.7	345.0	148.2	23.1	516.3	77.2	-	13.8

[1] Figures are reported according to the prevailing accounting policies as explained each year in the 'Notes to the Accounts' in the *Annual Report* of the Central Bank of Malta.

TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES - CENTRAL BANK OF MALTA[1]

assets

Lm millions

End of period	External assets				IMF currency subscription	Central government securities	Other assets	Total assets/ liabilities
	Gold	IMF- related assets[2]	Other[3]	Total				
2003	0.5	35.7	899.4	935.5	31.4	7.8	18.3	993.0
2004	0.5	35.1	824.9	860.6	30.5	21.3	23.7	936.1
2005	0.7	37.5	884.9	923.0	32.0	9.1	26.8	991.0
2006								
Jan.	1.1	37.1	859.9	898.1	32.0	13.0	27.4	970.5
Feb.	1.3	37.7	862.3	901.3	32.0	12.4	25.7	971.5
Mar.	1.3	37.2	825.7	864.3	32.0	20.2	27.4	944.0
Apr.	1.4	36.6	815.7	853.7	32.0	15.6	28.4	929.7
May	0.8	36.5	887.4	924.7	31.0	25.4	29.8	1,011.0
June	0.7	36.5	892.0	929.2	31.0	24.7	28.0	1,012.9
July	1.6	36.5	895.1	933.2	31.0	34.8	27.4	1,026.4
Aug.	1.6	36.7	916.1	954.3	31.0	28.9	27.3	1,041.6
Sept.	1.1	36.9	934.5	972.6	31.0	29.4	26.9	1,059.9
Oct.	1.1	36.9	936.9	974.9	31.0	29.1	27.5	1,062.6
Nov.	1.2	36.5	913.0	950.6	31.0	26.9	28.5	1,037.0
Dec.	1.2	36.4	911.6	949.2	30.3	30.3	26.8	1,036.5
2007								
Jan.	1.2	36.7	880.7	918.6	30.3	34.5	26.1	1,009.5
Feb.	1.2	36.6	868.0	905.8	30.3	35.1	27.0	998.1
Mar.	1.2	36.5	845.3	883.0	30.3	34.3	27.2	974.7
Apr.	1.2	36.0	841.9	879.1	30.3	35.3	26.5	971.1
May	1.2	36.4	855.4	893.0	29.7	49.7	26.2	998.5
June	1.1	37.1	813.6	851.8	29.7	73.4	26.6	981.6
July	1.2	36.9	809.6	847.6	29.7	84.9	26.9	989.0
Aug.	1.2	37.2	819.1	857.5	29.7	93.4	27.0	1,007.5
Sept.	1.2	36.5	843.8	881.6	29.7	94.1	29.1	1,034.4

[1] Figures are reported according to the prevailing accounting policies as explained each year in the 'Notes to the Accounts' in the *Annual Report* of the Central Bank of Malta.

[2] Includes IMF reserve position and holdings of SDRs.

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

TABLE 1.2 AGGREGATED STATEMENT OF ASSETS AND LIABILITIES - OTHER MONETARY FINANCIAL INSTITUTIONS

liabilities

Lm millions

End of period	Resident deposits[1]				External liabilities	Debt securities issued	Capital & reserves	Other liabilities[3]
	Withdrawable on demand[2]	Redeemable at notice	With agreed maturity	Total				
2003	1,048.3	28.8	1,599.7	2,676.7	3,826.3	46.6	782.4	352.8
2004	1,111.8	30.0	1,588.7	2,730.6	4,666.1	48.9	895.7	353.6
2005	1,202.1	31.5	1,646.2	2,879.8	6,794.8	32.4	1,012.9	317.1
2006								
Jan.	1,198.5	31.3	1,690.8	2,920.6	7,066.9	32.2	1,016.0	317.4
Feb.	1,204.7	31.7	1,711.1	2,947.5	7,273.5	32.4	1,030.1	313.9
Mar.	1,201.9	32.1	1,697.3	2,931.4	7,300.9	32.2	1,049.1	331.3
Apr.	1,208.4	32.1	1,688.8	2,929.2	7,325.9	31.7	1,264.3	276.3
May	1,227.9	34.0	1,690.1	2,952.0	7,529.2	31.4	1,218.6	286.5
June	1,223.3	31.0	1,732.3	2,986.6	8,228.7	31.6	1,196.3	287.3
July	1,219.4	31.1	1,744.9	2,995.4	7,948.6	31.5	1,239.2	278.5
Aug.	1,215.4	31.1	1,782.0	3,028.4	8,192.5	31.5	1,240.9	280.8
Sept.	1,208.9	30.3	1,790.3	3,029.5	8,234.2	31.6	1,250.6	287.3
Oct.	1,214.5	29.8	1,802.8	3,047.1	8,116.3	31.6	1,278.9	287.1
Nov.	1,230.2	30.4	1,816.7	3,077.3	8,212.1	31.2	1,283.2	304.8
Dec.	1,217.0	30.8	1,846.1	3,093.9	8,161.8	31.2	1,323.5	283.2
2007								
Jan.	1,211.9	30.3	1,874.3	3,116.5	8,550.5	54.9	1,315.0	289.8
Feb.	1,216.4	28.9	1,904.6	3,149.8	8,648.8	54.7	1,353.7	275.4
Mar.	1,208.7	29.6	1,951.9	3,190.3	9,042.7	54.4	1,366.8	276.0
Apr.	1,208.8	30.2	1,925.0	3,164.0	9,461.0	53.9	1,372.5	276.2
May	1,213.8	33.2	1,971.6	3,218.6	9,964.2	54.0	1,383.3	283.9
June	1,249.3	35.1	1,991.9	3,276.3	10,295.4	53.9	1,393.7	311.6
July	1,292.1	37.6	2,045.5	3,375.3	10,502.9	53.7	1,390.3	311.7
Aug.	1,283.0	38.2	2,127.3	3,448.5	10,483.5	53.6	1,390.9	300.6
Sept.	1,294.5	38.3	2,139.8	3,472.7	10,502.7	53.3	1,438.5	293.0

[1] Includes general government and private sector deposits but excludes deposits belonging to non-residents (which are classified as external liabilities).

[2] Demand deposits are netted of uncleared effects drawn on local banks (i.e. items in the process of collection).

[3] Includes interbank claims.

TABLE 1.2 AGGREGATED STATEMENT OF ASSETS AND LIABILITIES - OTHER MONETARY FINANCIAL INSTITUTIONS

assets

Lm millions

End of period	Balances held with Central Bank of Malta[1]	Loans	Securities other than shares	Shares & other equity	External assets	Other assets[2]	Total assets/ liabilities
2003	260.9	1,910.1	622.1	35.7	4,504.8	351.3	7,684.8
2004	192.6	2,032.7	657.3	33.5	5,419.2	359.6	8,694.8
2005	209.3	2,171.4	618.3	26.7	7,665.3	346.0	11,037.0
2006							
Jan.	264.8	2,198.1	592.1	26.7	7,928.1	343.3	11,353.1
Feb.	276.8	2,213.0	586.5	31.8	8,141.3	348.2	11,597.6
Mar.	252.5	2,258.5	570.4	31.7	8,195.1	336.7	11,645.0
Apr.	224.8	2,269.0	569.5	31.5	8,450.7	282.1	11,827.5
May	249.2	2,286.5	544.3	32.0	8,616.9	288.9	12,017.7
June	309.6	2,309.5	508.6	32.7	9,281.0	289.0	12,730.4
July	298.5	2,328.4	515.3	32.8	9,044.4	273.8	12,493.2
Aug.	325.8	2,335.8	506.9	33.8	9,280.7	291.0	12,774.0
Sept.	308.2	2,379.4	511.9	33.8	9,322.8	276.9	12,833.1
Oct.	348.5	2,399.5	493.5	34.8	9,219.6	265.0	12,761.0
Nov.	332.2	2,428.2	518.3	34.7	9,331.1	264.1	12,908.6
Dec.	303.5	2,485.1	519.8	35.7	9,273.3	276.1	12,893.6
2007							
Jan.	344.4	2,494.9	514.7	35.9	9,662.7	274.0	13,326.7
Feb.	347.6	2,506.7	529.0	36.4	9,787.8	275.0	13,482.4
Mar.	333.2	2,557.3	550.8	36.0	10,197.7	255.3	13,930.2
Apr.	279.8	2,562.6	555.0	36.5	10,632.8	260.9	14,327.6
May	316.3	2,575.7	537.1	37.5	11,166.0	271.3	14,903.9
June	278.8	2,604.4	556.7	37.4	11,558.5	295.1	15,330.9
July	327.5	2,604.9	559.4	40.4	11,815.0	286.7	15,634.0
Aug.	358.7	2,606.3	534.7	40.6	11,842.3	294.5	15,677.1
Sept.	361.3	2,647.5	524.3	40.8	11,914.5	271.8	15,760.2

[1] Includes holdings of cash.

[2] Includes interbank claims.

TABLE 1.3 MONETARY FINANCIAL INSTITUTIONS SURVEY[1]

Lm millions

End of period	Domestic credit			Net foreign assets					Broad money (M3)	Other counterparts to broad money (net)
	Net claims on central government[2]	Claims on other residents	Total	Central Bank of Malta		OMFIs		Total		
				Foreign assets	Foreign liabilities	Foreign assets	Foreign liabilities			
2003	568.4	1,899.0	2,467.4	978.6	58.8	4,504.8	3,826.3	1,598.3	2,849.2	1,216.5
2004	545.1	2,058.0	2,603.1	904.0	33.7	5,419.2	4,666.1	1,623.4	2,918.3	1,308.3
2005	442.7	2,194.0	2,636.7	970.3	37.7	7,665.3	6,794.8	1,803.1	3,041.6	1,398.2
2006										
Jan.	459.1	2,219.7	2,678.8	945.8	39.4	7,928.1	7,066.9	1,767.6	3,040.4	1,406.1
Feb.	457.4	2,243.2	2,700.6	946.7	38.9	8,141.3	7,273.5	1,775.5	3,068.9	1,407.3
Mar.	448.1	2,286.5	2,734.6	911.6	39.8	8,195.1	7,300.9	1,765.9	3,047.8	1,452.7
Apr.	440.1	2,296.5	2,736.7	901.8	47.2	8,450.7	7,325.9	1,979.4	3,049.8	1,666.3
May	359.6	2,314.1	2,673.7	973.1	41.9	8,616.9	7,529.2	2,018.8	3,068.8	1,623.7
June	355.9	2,337.1	2,693.0	976.1	39.9	9,281.0	8,228.7	1,988.7	3,087.5	1,594.3
July	359.6	2,355.5	2,715.1	979.6	35.2	9,044.4	7,948.6	2,040.1	3,113.2	1,642.1
Aug.	359.4	2,364.0	2,723.4	1,001.0	39.4	9,280.7	8,192.5	2,049.9	3,140.7	1,632.6
Sept.	322.0	2,408.5	2,730.4	1,018.4	36.5	9,322.8	8,234.2	2,070.5	3,133.9	1,667.0
Oct.	345.4	2,430.0	2,775.4	1,020.6	36.0	9,219.6	8,116.3	2,087.9	3,155.5	1,707.8
Nov.	372.8	2,455.0	2,827.9	999.0	36.4	9,331.1	8,212.1	2,081.6	3,181.6	1,727.8
Dec.	365.0	2,513.9	2,878.9	993.4	42.5	9,273.3	8,161.8	2,062.4	3,199.0	1,742.2
2007										
Jan.	392.6	2,522.2	2,914.9	962.0	36.3	9,662.7	8,550.5	2,038.0	3,201.8	1,751.1
Feb.	412.2	2,533.4	2,945.6	950.3	33.9	9,787.8	8,648.8	2,055.4	3,227.2	1,773.8
Mar.	435.9	2,582.1	3,018.0	927.8	33.3	10,197.7	9,042.7	2,049.4	3,267.0	1,800.4
Apr.	413.0	2,590.8	3,003.8	923.3	36.6	10,632.8	9,461.0	2,058.4	3,270.2	1,792.0
May	384.4	2,604.0	2,988.4	935.6	35.6	11,166.0	9,964.2	2,101.8	3,281.4	1,808.8
June	436.0	2,631.6	3,067.5	894.5	35.5	11,558.5	10,295.4	2,122.1	3,353.0	1,836.6
July	453.6	2,634.6	3,088.2	890.3	34.8	11,815.0	10,502.9	2,167.5	3,425.0	1,830.7
Aug.	446.8	2,635.7	3,082.5	901.1	32.6	11,842.3	10,483.5	2,227.3	3,509.4	1,800.5
Sept.	420.0	2,675.5	3,095.6	926.7	35.6	11,914.5	10,502.7	2,303.0	3,518.4	1,880.1

[1] Includes Central Bank of Malta and OMFIs. All interbank claims within the MFI sector are excluded.

[2] Central government deposits held with MFIs are netted from this figure.

TABLE 1.4 MONETARY BASE AND MONETARY AGGREGATES

Lm millions

End of period	Monetary base (M0)			Broad money (M3)								
				Intermediate money (M2)							Repurchase agreements /Debt securities with agreed maturity up to 2 years	Total (M3)
				Narrow money (M1)				Deposits redeemable at notice up to 3 months	Deposits with agreed maturity up to 2 years	Total (M2)		
	Currency issued	OMFI balances with Central Bank of Malta	Total (M0)	Currency in circulation	Deposits withdrawable on demand		Total (M1)					
					Demand	Savings						
2003	485.4	137.9	623.3	460.4	273.7	756.9	1,490.9	28.8	1,329.5	2,849.2	-	2,849.2
2004	506.4	145.3	651.7	486.0	300.8	794.1	1,580.9	30.0	1,307.3	2,918.3	-	2,918.3
2005	520.0	135.5	655.6	498.9	312.1	859.0	1,670.1	31.4	1,340.1	3,041.6	-	3,041.6
2006												
Jan.	512.3	142.4	654.7	491.7	315.4	849.6	1,656.8	30.8	1,352.8	3,040.4	-	3,040.4
Feb.	509.8	135.7	645.5	491.2	320.9	852.0	1,664.1	31.1	1,373.7	3,068.9	-	3,068.9
Mar.	510.9	151.0	661.9	489.1	312.3	852.4	1,653.8	31.6	1,362.4	3,047.8	-	3,047.8
Apr.	510.7	136.8	647.5	490.6	320.2	850.5	1,661.4	31.6	1,356.8	3,049.8	-	3,049.8
May	509.9	148.6	658.5	489.5	332.7	857.5	1,679.7	34.0	1,355.0	3,068.8	-	3,068.8
June	512.0	139.2	651.2	489.9	330.2	853.1	1,673.1	31.0	1,383.3	3,087.5	-	3,087.5
July	512.0	141.0	653.0	490.0	326.4	859.1	1,675.6	31.1	1,406.5	3,113.2	-	3,113.2
Aug.	509.6	126.1	635.7	487.4	329.7	847.5	1,664.6	31.1	1,445.0	3,140.7	-	3,140.7
Sept.	508.7	133.1	641.8	487.8	311.9	859.0	1,658.7	30.3	1,444.9	3,133.9	-	3,133.9
Oct.	505.5	173.8	679.3	483.2	327.0	853.4	1,663.7	29.8	1,462.0	3,155.5	-	3,155.5
Nov.	499.3	177.0	676.3	476.6	345.1	849.9	1,671.6	30.4	1,479.7	3,181.6	-	3,181.6
Dec.	504.0	177.0	680.9	477.8	311.9	867.2	1,656.9	30.8	1,511.4	3,199.1	-	3,199.1
2007												
Jan.	485.5	184.9	670.4	463.2	317.6	861.3	1,642.2	30.3	1,529.3	3,201.8	-	3,201.8
Feb.	477.6	191.5	669.0	456.4	316.1	864.1	1,636.6	28.9	1,561.7	3,227.2	-	3,227.2
Mar.	474.9	186.0	661.0	452.8	313.9	859.4	1,626.0	29.6	1,611.4	3,267.0	-	3,267.0
Apr.	466.2	180.3	646.4	443.4	316.8	859.2	1,619.5	30.2	1,620.4	3,270.2	-	3,270.2
May	452.6	223.7	676.3	429.8	325.3	857.3	1,612.3	33.2	1,635.9	3,281.4	-	3,281.4
June	443.4	189.5	632.9	420.2	331.5	876.4	1,628.1	35.1	1,689.9	3,353.0	-	3,353.0
July	425.1	205.9	631.0	397.5	339.5	907.4	1,644.3	37.6	1,743.1	3,425.0	-	3,425.0
Aug.	407.3	209.8	617.0	382.2	348.5	897.5	1,628.3	38.2	1,842.9	3,509.4	-	3,509.4
Sept.	397.4	210.2	607.6	372.8	348.3	907.1	1,628.1	38.3	1,852.0	3,518.4	-	3,518.4

TABLE 1.5 CURRENCY IN CIRCULATION

Lm millions

End of period	Currency issued and outstanding			Less currency held by OMFIs	Currency in circulation
	Notes	Coins	Total		
2003	467.1	18.3	485.4	24.9	460.4
2004	487.2	19.2	506.4	20.4	486.0
2005	499.9	20.1	520.0	21.1	498.9
2006					
Jan.	492.4	19.9	512.3	20.6	491.7
Feb.	490.0	19.8	509.8	18.6	491.2
Mar.	491.0	19.8	510.9	21.8	489.1
Apr.	490.7	20.0	510.7	20.1	490.6
May	489.8	20.1	509.9	20.4	489.5
June	491.6	20.4	512.0	22.1	489.9
July	491.3	20.7	512.0	22.0	490.0
Aug.	488.7	20.9	509.6	22.2	487.4
Sept.	488.0	20.7	508.7	20.9	487.8
Oct.	484.7	20.8	505.5	22.3	483.2
Nov.	478.6	20.6	499.3	22.7	476.6
Dec.	483.1	20.9	504.0	26.2	477.8
2007					
Jan.	464.9	20.6	485.5	22.3	463.2
Feb.	457.1	20.5	477.6	21.1	456.4
Mar.	454.4	20.5	474.9	22.2	452.8
Apr.	445.6	20.6	466.2	22.7	443.4
May	432.0	20.6	452.6	22.8	429.8
June	422.7	20.7	443.4	23.2	420.2
July	404.1	21.0	425.1	27.6	397.5
Aug.	386.1	21.2	407.3	25.0	382.2
Sept.	376.3	21.0	397.4	24.6	372.8

TABLE 1.6 DENOMINATIONS OF MALTESE CURRENCY ISSUED AND OUTSTANDING

Lm millions

End of period	Total notes & coins[1]	Currency notes				
		Lm20	Lm10	Lm5	Lm2	Total
2003	485.4	109.7	319.4	30.8	7.2	467.1
2004	506.4	110.3	337.6	31.9	7.4	487.2
2005	520.0	110.5	348.6	33.0	7.8	499.9
2006						
Jan.	512.3	110.0	342.9	31.8	7.7	492.4
Feb.	509.8	109.4	341.3	31.6	7.7	490.0
Mar.	510.9	109.1	342.0	32.1	7.8	491.0
Apr.	510.7	109.0	341.1	32.6	8.0	490.7
May	509.9	108.6	340.3	32.9	8.1	489.8
June	512.0	108.4	341.3	33.8	8.1	491.6
July	512.0	108.2	340.6	34.3	8.3	491.3
Aug.	509.6	107.3	339.2	34.0	8.2	488.7
Sept.	508.7	107.0	338.7	34.1	8.2	488.0
Oct.	505.5	105.5	337.5	33.6	8.2	484.7
Nov.	499.3	104.1	333.7	32.8	8.0	478.6
Dec.	504.0	103.3	337.0	34.7	8.1	483.1
2007						
Jan.	485.5	100.6	323.9	32.4	7.9	464.9
Feb.	477.6	99.2	318.0	31.9	7.9	457.1
Mar.	474.9	97.8	315.8	32.6	8.1	454.4
Apr.	466.2	95.3	309.1	33.0	8.2	445.6
May	452.6	92.1	299.0	32.6	8.3	432.0
June	443.4	89.4	291.8	33.1	8.3	422.7
July	425.1	83.7	279.1	32.8	8.4	404.1
Aug.	407.3	78.4	267.0	32.3	8.3	386.1
Sept.	397.4	75.1	260.9	32.1	8.2	376.3

[1] The denominations of coins consist of Lm1, 50c (cents), 25c, 10c, 5c, 2c, 1c, 5m (mils), 3m and 2m.

TABLE 1.7 DEPOSITS HELD WITH OTHER MONETARY FINANCIAL INSTITUTIONS BY SECTOR[1]

Lm millions

End of Period	Resident deposits						Non-resident deposits	Total deposits
	Central government	Other general government	Financial intermediaries and financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total		
2003	19.2	6.9	51.3	419.0	2,180.3	2,676.7	850.9	3,527.7
2004	21.4	7.2	55.2	414.5	2,232.2	2,730.6	1,077.9	3,808.5
2005	42.9	7.8	79.7	447.7	2,301.6	2,879.8	1,938.6	4,818.4
2006								
Jan.	75.9	6.9	92.6	446.6	2,298.5	2,920.6	1,957.0	4,877.6
Feb.	75.2	5.8	99.5	460.0	2,306.9	2,947.5	1,792.4	4,739.9
Mar.	76.7	5.0	91.0	467.2	2,291.5	2,931.4	1,938.8	4,870.2
Apr.	77.3	6.4	90.7	463.2	2,291.7	2,929.2	2,007.9	4,937.2
May	77.6	5.6	91.3	477.9	2,299.6	2,952.0	1,782.6	4,734.5
June	100.9	4.7	93.9	471.4	2,315.7	2,986.6	1,603.5	4,590.1
July	91.7	6.3	97.3	466.0	2,334.2	2,995.4	1,605.8	4,601.3
Aug.	92.6	5.3	90.3	483.1	2,357.1	3,028.4	1,969.3	4,997.7
Sept.	92.8	4.7	72.7	487.2	2,372.1	3,029.5	2,049.0	5,078.4
Oct.	87.5	6.0	76.3	488.9	2,388.4	3,047.1	1,937.4	4,984.5
Nov.	88.1	5.2	84.5	501.3	2,398.2	3,077.3	1,879.5	4,956.8
Dec.	86.9	6.7	81.0	477.7	2,441.5	3,093.9	1,651.7	4,745.5
2007								
Jan.	86.9	5.9	84.5	498.1	2,441.0	3,116.5	1,762.5	4,879.0
Feb.	93.7	5.1	87.8	497.1	2,466.1	3,149.8	1,599.8	4,749.7
Mar.	92.4	5.8	98.8	491.9	2,501.4	3,190.3	1,742.2	4,932.5
Apr.	65.1	5.9	89.6	488.8	2,514.5	3,164.0	1,644.7	4,808.7
May	87.1	5.1	91.3	492.1	2,542.9	3,218.6	1,860.3	5,078.9
June	55.6	4.5	93.4	527.3	2,595.6	3,276.3	1,859.5	5,135.8
July	65.0	6.1	97.5	567.7	2,639.0	3,375.3	2,222.2	5,597.4
Aug.	67.1	5.4	102.8	608.1	2,665.1	3,448.5	2,253.2	5,701.7
Sept.	64.6	4.7	114.0	604.9	2,684.6	3,472.7	2,120.0	5,592.6

[1] For the purposes of this table, deposits include uncleared effects.

TABLE 1.8 DEPOSITS HELD WITH OTHER MONETARY FINANCIAL INSTITUTIONS BY CURRENCY[1]

Lm millions

End of period	Resident deposits					Non-resident deposits		Total deposits
	MTL	EUR	GBP	USD	Other	MTL	Other	
2003	2,319.8	103.9	130.2	98.0	25.4	48.0	809.7	3,535.0
2004	2,344.5	108.4	151.1	97.0	29.5	50.8	1,027.2	3,808.5
2005	2,439.8	122.0	181.6	102.3	34.0	51.3	1,892.0	4,823.1
2006								
Jan.	2,469.1	131.7	185.4	97.0	37.4	52.3	1,912.9	4,885.7
Feb.	2,481.0	144.3	186.3	97.7	38.4	52.0	1,748.6	4,748.1
Mar.	2,467.9	145.6	175.0	107.8	35.0	50.1	1,896.9	4,878.4
Apr.	2,459.8	155.8	181.1	96.4	36.1	51.7	1,964.3	4,945.2
May	2,462.5	166.7	190.3	95.8	36.8	51.4	1,739.4	4,742.7
June	2,506.7	159.7	188.5	95.6	36.0	51.6	1,560.1	4,598.3
July	2,515.8	159.5	182.1	102.3	35.7	52.0	1,562.0	4,609.4
Aug.	2,534.9	166.2	186.9	103.6	36.9	53.0	1,918.4	4,999.8
Sept.	2,525.1	159.6	190.0	119.0	35.8	52.3	1,998.9	5,080.6
Oct.	2,541.9	175.4	186.8	107.3	35.7	52.4	1,887.1	4,986.7
Nov.	2,558.8	184.1	188.9	109.3	36.5	52.3	1,829.1	4,959.0
Dec.	2,581.2	178.3	191.5	103.2	39.7	52.7	1,600.9	4,747.5
2007								
Jan.	2,589.4	184.9	192.5	109.0	40.7	53.1	1,711.4	4,881.0
Feb.	2,621.1	190.5	191.2	105.2	41.9	53.2	1,548.6	4,751.6
Mar.	2,660.7	192.2	163.7	133.7	39.9	53.4	1,690.7	4,934.4
Apr.	2,626.4	201.3	152.8	143.3	40.1	55.6	1,591.0	4,810.6
May	2,684.5	197.2	161.3	135.1	40.3	55.4	1,806.9	5,080.8
June	2,698.5	242.2	127.9	136.1	71.7	57.1	1,804.2	5,137.7
July	2,781.1	255.4	162.0	136.9	39.9	57.7	2,166.3	5,599.3
Aug.	2,825.4	283.5	161.3	141.1	37.2	55.9	2,199.2	5,703.6
Sept.	2,847.7	283.1	162.4	142.1	37.3	57.4	2,064.4	5,594.5

[1] Includes loans granted to the reporting MFIs.

TABLE 1.9 OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY SIZE CLASS[1]

Lm millions

End of period	Size classes				
	Up to Lm10,000	Over Lm10,000 to Lm100,000	Over Lm100,000 to Lm500,000	Over Lm500,000	Total
2003	306.8	666.8	376.3	1,046.4	2,396.4
2004	332.6	792.4	656.6	2,381.4	4,163.1
2005	348.5	933.0	964.9	2,961.6	5,208.1
2006					
Jan.	349.9	930.8	833.8	3,061.7	5,176.3
Feb.	373.1	1,045.5	986.4	3,109.4	5,514.4
Mar.	417.5	1,058.4	1,031.0	3,290.0	5,796.9
Apr.	415.1	1,042.9	1,029.3	3,354.9	5,842.1
May	401.8	1,098.1	1,046.1	3,310.6	5,856.5
June	404.2	1,113.9	1,065.8	3,432.9	6,016.8
July	385.1	958.8	952.0	3,805.3	6,101.3
Aug.	390.6	967.3	956.1	3,974.8	6,288.8
Sept.	359.0	1,005.2	977.0	3,992.3	6,333.6
Oct.	364.3	1,011.4	979.7	3,799.1	6,154.6
Nov.	394.7	1,024.8	1,002.3	3,832.2	6,253.9
Dec.	449.1	1,014.4	1,013.1	3,990.2	6,466.9
2007					
Jan.	465.0	1,088.9	1,012.6	4,000.2	6,566.8
Feb.	421.4	1,074.9	1,029.0	4,176.4	6,701.7
Mar.	551.1	1,006.0	801.3	4,856.3	7,214.7
Apr.	476.8	1,126.4	790.9	4,907.4	7,301.4
May	530.7	1,166.7	802.7	5,195.8	7,695.8
June	536.9	1,185.2	829.6	5,580.9	8,132.5
July	473.9	1,360.3	824.6	5,640.1	8,299.0
Aug.	467.2	1,548.0	845.0	5,738.4	8,598.6
Sept.	493.0	1,660.4	867.8	5,701.0	8,722.2

[1] For the purposes of this classification, these include loans extended to residents and non-residents in both domestic and foreign currencies but exclude inter-MFI placements of deposits.

TABLE 1.10 OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY ECONOMIC ACTIVITY [1]

Lm millions

End of period	Electricity, gas & water supply		Transport, storage & communication		Manufacturing	Construction	Hotels & restaurants	Wholesale & retail trade; repairs	Real estate, renting & business activities	Households & individuals [2]				Other [3]		Total lending to residents	
	Public sector	Private sector	Public sector	Private sector						Lending for house purchase	Consumer credit	Other lending	Total	Public sector	Private sector	Public sector[4]	Private sector
2003	82.9	1.0	60.1	75.4	184.8	201.1	206.9	288.2	118.5	442.2	36.1	131.6	610.0	12.6	145.2	225.1	1,761.6
2004	94.5	0.8	58.0	68.9	153.7	217.0	205.6	290.3	138.0	539.1	80.9	98.5	718.4	9.9	145.5	214.8	1,885.9
2005	58.1	3.0	55.5	67.8	131.5	215.6	203.8	296.7	190.7	653.1	91.3	92.1	836.6	30.6	153.0	172.2	2,070.6
2006																	
Jan.	72.2	2.1	56.2	69.1	131.0	219.0	200.8	292.8	201.0	660.3	91.6	91.6	843.5	30.6	149.6	186.9	2,080.9
Feb.	73.8	2.1	56.9	69.6	133.8	218.5	203.5	290.5	203.8	670.1	90.7	92.0	852.7	27.8	148.4	186.6	2,094.9
Mar.	73.9	2.2	58.0	71.5	112.3	229.9	208.7	300.6	211.3	680.0	92.4	87.0	859.5	51.2	146.9	188.7	2,137.2
Apr.	72.8	2.2	56.8	72.0	111.7	232.4	207.8	298.3	213.9	685.7	93.7	91.6	871.1	50.4	115.8	185.0	2,120.1
May	71.9	2.1	55.5	72.9	111.9	240.0	208.1	297.3	216.0	692.4	96.0	92.0	880.4	50.5	113.8	182.9	2,137.4
June	73.5	2.5	49.9	78.9	113.0	243.9	205.8	299.5	217.7	700.4	97.0	95.6	893.1	51.0	114.7	179.2	2,164.2
July	73.2	2.7	48.1	82.0	112.7	245.6	206.4	292.8	226.7	709.4	97.8	96.9	904.0	51.3	109.4	177.5	2,177.4
Aug.	73.0	3.3	45.6	85.0	112.6	245.7	203.2	288.6	229.5	718.3	99.2	97.9	915.4	51.6	108.8	175.1	2,187.3
Sept.	73.5	3.4	46.6	87.0	112.4	248.4	204.2	304.4	235.6	729.2	103.4	95.5	928.1	52.4	111.8	177.5	2,230.2
Oct.	75.4	3.6	45.1	88.4	114.1	237.4	206.8	301.9	250.6	738.9	103.9	99.1	941.9	51.9	102.4	177.8	2,241.8
Nov.	75.0	3.7	43.9	94.7	113.4	240.3	210.7	299.2	254.5	747.4	105.6	100.2	953.2	51.9	107.7	175.7	2,272.5
Dec.	77.2	3.9	45.2	101.1	114.5	251.7	211.6	306.9	263.1	759.8	107.5	99.0	966.4		110.8	180.9	2,324.2
2007																	
Jan.	72.3	3.9	48.6	100.3	112.3	253.1	212.9	305.9	264.9	768.9	107.8	100.8	977.6	52.8	115.1	180.0	2,339.7
Feb.	71.8	4.1	47.5	101.6	111.4	253.9	213.4	302.9	269.5	777.3	108.1	102.5	987.9	53.0	114.1	180.1	2,351.0
Mar.	75.2	4.3	51.2	103.9	112.5	262.2	215.1	316.4	279.6	789.4	109.3	105.0	1,003.6	49.1	108.6	181.5	2,400.3
Apr.	70.5	4.4	45.2	102.5	114.0	260.9	214.8	314.5	284.4	797.5	110.7	105.7	1,013.9	50.5	111.5	171.3	2,415.8
May	68.7	4.5	44.2	104.4	115.5	265.6	209.4	313.7	283.4	807.1	113.2	107.3	1,027.7	51.1	111.9	169.5	2,430.7
June	71.0	4.6	41.9	104.8	116.3	268.6	207.8	316.4	287.0	819.5	115.2	107.7	1,042.4	51.4	112.4	170.8	2,453.8
July	70.5	4.9	42.3	95.9	115.9	266.0	207.8	315.4	294.2	827.9	116.7	110.5	1,055.1	52.3	103.2	174.7	2,448.9
Aug.	71.1	5.1	39.8	94.7	116.4	272.0	201.9	307.1	296.4	835.9	118.9	110.3	1,065.1	52.2	103.0	173.5	2,451.4
Sept.	71.2	5.5	39.7	94.7	118.8	276.8	201.1	319.1	303.2	844.5	120.5	116.2	1,081.2	52.9	96.5	174.2	2,486.5

[1] Splits between public and private sector are only indicated where the public sector has a significant role in that economic activity.

[2] Excluding loans to unincorporated bodies such as partnerships, sole proprietors and non-profit institutions. Loans to such bodies are classified by their main activity.

[3] Includes loans to agriculture & fishing, mining & quarrying, public administration, education, health & social work, financial intermediation (including inter-MFI loans), community, recreational & personal service activities and to extra-territorial bodies & organisations.

[4] Total public sector loans shown in this column do not add up to the public sector borrowing by economic activity since loans to the public sector are only indicated where it is deemed that the sector has a significant role in that economic activity.

TABLE 1.11 - OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY SECTOR

Lm millions

End of Period	Lending to residents						Lending to non-residents	Total lending
	General government[1]	Insurance companies	Other financial intermediaries and financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total		
2003	89.5	2.4	3.5	1,107.2	707.4	1,910.1	2,156.3	4,066.4
2004	55.6	3.1	3.5	1,153.5	817.1	2,032.7	2,490.4	4,523.1
2005	53.0	7.2	5.7	1,175.5	930.0	2,171.4	3,578.1	5,749.6
2006								
Jan.	52.9	7.1	5.6	1,194.8	937.8	2,198.1	3,578.9	5,777.0
Feb.	49.9	7.1	6.1	1,201.4	948.4	2,213.0	3,838.2	6,051.2
Mar.	50.7	7.1	3.0	1,234.3	963.4	2,258.5	4,049.5	6,308.0
Apr.	49.3	7.2	3.5	1,234.4	974.6	2,269.0	4,369.3	6,638.3
May	49.0	7.0	2.8	1,241.4	986.4	2,286.5	4,346.9	6,633.4
June	49.3	7.0	2.8	1,251.5	998.9	2,309.5	4,687.2	6,996.6
July	49.7	7.0	2.7	1,256.4	1,012.6	2,328.4	4,556.9	6,885.3
Aug.	50.0	6.9	2.6	1,251.3	1,025.1	2,335.8	4,786.3	7,122.1
Sept.	50.0	6.9	3.1	1,278.1	1,041.3	2,379.4	4,808.4	7,187.9
Oct.	49.4	6.9	6.0	1,278.8	1,058.5	2,399.5	4,699.9	7,099.4
Nov.	49.4	7.8	5.8	1,291.4	1,073.9	2,428.2	4,842.4	7,270.6
Dec.	50.8	8.6	6.4	1,327.7	1,091.7	2,485.1	4,700.8	7,186.0
2007								
Jan.	51.9	8.4	6.0	1,326.3	1,102.4	2,494.9	4,854.2	7,349.1
Feb.	53.5	8.4	6.0	1,326.2	1,112.5	2,506.7	4,960.4	7,467.1
Mar.	53.9	8.5	6.9	1,347.7	1,140.3	2,557.3	5,576.5	8,133.7
Apr.	51.2	9.9	10.2	1,341.8	1,149.7	2,562.6	5,715.6	8,278.2
May	51.7	10.5	9.7	1,340.9	1,162.8	2,575.7	6,223.4	8,799.1
June	52.1	10.3	14.6	1,346.8	1,180.7	2,604.4	6,703.2	9,307.6
July	52.0	10.2	8.9	1,339.8	1,194.0	2,604.9	6,788.7	9,393.6
Aug.	52.9	10.0	7.7	1,334.3	1,201.4	2,606.3	7,155.8	9,762.1
Sept.	53.6	8.1	7.8	1,361.3	1,216.6	2,647.5	7,441.4	10,088.9

[1]Including extra-budgetary units.

TABLE 1.12 - OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY CURRENCY AND ORIGINAL MATURITY

Lm millions

End of period	Lending to residents																Lending to non-residents	Total lending
	Non-financial companies						Households & non-profit institutions						Other sectors[1]			Total		
	MTL		EUR		Other		MTL		EUR		Other		MTL	EUR	Other			
	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year						
2003	447.0	603.0	4.1	35.5	6.4	11.3	83.5	618.0	0.2	4.3	0.5	0.9	93.8	1.2	0.4	1,910.1	2,156.3	4,066.4
2004	412.6	663.9	11.1	39.7	9.2	16.9	91.6	717.6	0.3	4.6	1.7	1.2	60.5	1.4	0.3	2,032.7	2,490.4	4,523.1
2005	369.5	673.3	7.4	113.0	8.0	4.4	87.7	834.2	0.6	6.5	0.1	1.0	58.6	7.2	0.1	2,171.4	3,578.1	5,749.6
2006																		
Jan.	360.1	674.9	23.4	124.8	7.2	4.2	86.7	842.7	0.6	6.7	0.2	1.0	58.2	7.2	0.0	2,198.1	3,578.9	5,777.0
Feb.	358.0	678.7	25.3	127.0	8.3	4.1	92.6	847.4	0.6	6.7	0.0	1.0	56.0	7.2	0.0	2,213.0	3,838.2	6,051.2
Mar.	370.2	690.1	25.9	132.0	10.3	5.9	94.7	860.3	0.2	6.9	0.0	1.2	55.9	4.9	0.0	2,258.5	4,049.5	6,308.0
Apr.	369.4	684.4	27.5	136.4	10.9	5.7	97.5	867.7	1.0	7.3	0.0	1.1	55.1	4.9	0.0	2,269.0	4,369.3	6,638.3
May	366.5	676.3	28.6	153.3	11.5	5.3	98.1	878.4	1.1	7.7	0.1	0.9	53.9	4.8	0.0	2,286.5	4,346.9	6,633.4
June	373.3	681.0	29.2	153.6	9.4	5.0	98.0	890.4	1.0	8.6	0.1	0.9	54.2	4.8	0.0	2,309.5	4,687.2	6,996.6
July	366.9	687.9	29.1	158.4	9.1	5.0	99.2	902.6	0.8	8.8	0.0	1.1	54.6	4.8	0.0	2,328.4	4,556.9	6,885.3
Aug.	356.9	691.3	28.3	161.6	8.4	4.7	99.8	913.4	1.2	9.2	0.0	1.3	31.6	27.8	0.0	2,335.8	4,786.3	7,122.1
Sept.	369.9	702.6	26.9	162.6	11.1	5.0	84.1	944.9	0.3	10.5	0.1	1.4	32.0	28.1	0.1	2,379.4	4,808.4	7,187.9
Oct.	365.7	706.9	28.9	163.0	9.3	5.0	89.5	956.5	0.6	10.5	0.0	1.4	34.5	27.8	0.0	2,399.5	4,699.9	7,099.4
Nov.	365.1	713.9	27.3	170.7	9.5	4.9	90.7	968.5	0.7	12.6	0.0	1.3	35.2	27.8	0.0	2,428.2	4,842.4	7,270.6
Dec.	388.8	725.3	30.0	169.6	9.1	4.8	93.8	982.8	1.0	12.7	0.1	1.3	36.5	29.3	0.0	2,485.1	4,700.8	7,186.0
2007																		
Jan.	383.0	728.9	29.4	169.6	10.6	4.8	91.4	995.7	1.0	12.8	0.1	1.4	36.3	29.9	0.0	2,494.9	4,854.2	7,349.1
Feb.	376.1	736.8	29.1	169.4	10.0	4.8	90.5	1,006.1	1.4	12.8	0.3	1.4	38.0	29.9	0.1	2,506.7	4,960.4	7,467.1
Mar.	378.3	752.5	29.5	171.4	11.1	4.9	99.5	1,025.5	0.6	13.4	0.3	1.3	38.7	30.4	0.2	2,557.3	5,576.5	8,133.7
Apr.	368.0	745.9	31.7	180.9	10.4	4.9	100.1	1,034.0	0.6	13.4	0.3	1.3	41.0	30.1	0.1	2,562.6	5,715.6	8,278.2
May	360.3	754.5	29.9	179.5	11.9	4.8	100.5	1,048.3	0.7	11.8	0.2	1.3	39.5	32.4	0.1	2,575.7	6,223.4	8,799.1
June	364.4	753.6	31.0	177.4	15.5	4.8	100.8	1,065.2	0.7	12.4	0.2	1.3	44.9	32.0	0.0	2,604.4	6,703.2	9,307.6
July	350.1	761.2	32.5	177.1	14.2	4.7	101.4	1,077.0	0.7	13.3	0.4	1.3	39.3	31.8	0.0	2,604.9	6,788.7	9,393.6
Aug.	346.4	757.1	33.3	179.4	13.6	4.6	102.3	1,083.0	0.7	13.9	0.3	1.3	38.8	31.7	0.1	2,606.3	7,155.8	9,762.1
Sept.	358.6	766.0	34.1	183.8	14.2	4.6	107.5	1,092.0	0.9	13.1	2.1	1.1	39.7	29.8	0.1	2,647.5	7,441.4	10,088.9

[1] Including general government and financial sector companies other than MFIs.

TABLE 1.13 - AGGREGATED STATEMENT OF ASSETS AND LIABILITIES INVESTMENT FUNDS[1]

liabilities

Lm millions

End of period	Loans	Shareholders' units/ funds	External liabilities[2]	Share capital	Reserves	Other liabilities[3]	Total liabilities
2003	0.3	348.6	2.7	12.3	1.3	0.7	366.1
2004	0.2	388.1	1.3	37.2	1.6	2.0	430.4
2005	0.1	476.3	1.3	81.5	2.0	3.2	564.4
2006							
Mar.	0.1	522.3	4.9	104.7	2.5	6.5	640.9
June	0.1	508.0	4.6	87.2	2.3	4.5	606.8
Sept.	0.1	496.9	4.5	84.4	2.3	3.2	591.3
Dec.	0.2	489.4	3.4	86.2	2.3	1.5	583.0
2007							
Mar.	0.2	470.0	3.2	84.4	1.8	3.0	562.7
June	7.2	407.0	3.2	80.6	2.2	2.4	502.6
Sept.	0.8	362.0	3.1	61.8	2.3	1.8	431.7

TABLE 1.13 - AGGREGATED STATEMENT OF ASSETS AND LIABILITIES INVESTMENT FUNDS[1]

assets

Lm millions

End of period	Deposits	Holdings of securities other than shares		Holdings of shares and other equity		External assets[4]	Fixed and other assets[5]	Total assets
		Up to 1 year	Over 1 year	Collective investment scheme shares/units	Other shares and equity			
2003	7.5	23.3	180.1	1.5	49.0	94.8	9.8	366.1
2004	5.0	26.2	200.5	2.1	68.8	116.8	11.0	430.4
2005	22.4	14.8	267.9	3.4	99.8	142.1	14.1	564.4
2006								
Mar.	36.9	34.7	277.2	5.6	125.5	151.9	9.1	640.9
June	33.3	20.5	285.6	5.0	101.1	152.7	8.6	606.8
Sept.	11.7	21.3	298.2	4.6	93.9	154.3	7.3	591.3
Dec.	6.8	21.8	296.3	3.0	87.7	160.1	7.1	583.0
2007								
Mar.	8.9	5.4	295.9	3.0	86.4	157.2	5.9	562.7
June	3.1	3.1	244.9	2.7	85.6	149.8	13.3	502.6
Sept.	3.8	1.8	222.1	2.7	55.5	139.7	6.1	431.7

[1] Comprising the resident investment funds. Figures for professional investor funds are excluded. As from 2006, data for those investment funds with a net asset value of less than 2% of the total assets of the sector are estimated.

[2] Includes loans, creditors, accruals, shareholders' units/funds and other liabilities to non-resident counterparties.

[3] Includes creditors, accruals and other liabilities.

[4] Includes deposits, securities other than shares, shares and other equity, debtors and other assets with non-resident counterparties.

[5] Includes debtors, currency (both Maltese lira and foreign), prepayments and other assets.

TABLE 1.14 MONETARY POLICY OPERATIONS OF THE CENTRAL BANK OF MALTA

Lm thousands

Period	Liquidity-injection				Liquidity-absorption			
	Reverse repos[1]			Marginal lending during the period [2]	Term deposits[3]			Overnight deposits[4]
	Amount injected	Amount matured	Amount outstanding		Amount absorbed	Amount matured	Amount outstanding	
2003	-	-	-	1,000	3,519,200	3,518,900	104,300	106,400
2004	-	-	-	5,804	2,696,870	2,780,170	21,000	86,850
2005	-	-	-	11	372,000	399,500	46,800	15,900
2006								
Jan.	-	-	-	228	367,900	314,000	100,700	1,100
Feb.	-	-	-	23	443,500	423,200	121,000	52,450
Mar.	-	-	-	160	473,700	515,700	79,000	12,800
Apr.	-	-	-	-	302,600	312,300	69,300	-
May	-	-	-	78	297,200	288,400	78,100	900
June	-	-	-	-	592,300	523,400	147,000	18,500
July	-	-	-	-	597,900	605,900	139,000	-
Aug.	-	-	-	26	638,700	597,900	179,800	6,300
Sept.	-	-	-	43	737,400	765,700	151,500	34,500
Oct.	-	-	-	-	576,100	575,100	152,500	3,500
Nov.	-	-	-	-	568,800	589,600	131,700	16,100
Dec.	-	-	-	3,000	621,900	646,900	106,700	8,800
2007								
Jan.	-	-	-	-	464,800	444,000	127,500	16,500
Feb.	-	-	-	-	540,000	535,400	132,100	9,200
Mar.	-	-	-	600	630,900	643,200	119,800	8,700
Apr.	-	-	-	-	370,900	417,200	73,500	-
May	-	-	-	-	324,800	330,300	68,000	10,400
June	-	-	-	-	457,400	454,400	71,000	82,060
July	-	-	-	-	387,900	367,400	91,500	7,200
Aug.	-	-	-	-	526,900	496,400	122,000	18,400
Sept.	-	-	-	-	481,500	468,800	134,700	19,000

[1] The Central Bank of Malta injects liquidity into the banking system through an auction of reverse repos in the event of a liquidity shortage. With effect from 15th September 2005, the maturity period of reverse repos is 7 days.

[2] The Central Bank of Malta provides a marginal lending facility to credit institutions in order to satisfy their liquidity needs arising from normal banking business.

[3] The Central Bank of Malta accepts placements of term deposits by credit institutions, through auctions, in order to absorb excess liquidity from the banking system. Up to 14th September 2005 the maturity period of such deposits was 14 days. Thereafter the maturity period was reduced to 7 days.

[4] The Central Bank of Malta provides an overnight deposit facility to credit institutions to absorb temporary liquidity excesses that could not be taken up by the market.

TABLE 1.15 FINANCIAL MARKETS

	2003	2004	2005	2006				2007		
				Mar.	June	Sept.	Dec.	Mar.	June	Sept.
INTEREST RATES (%)										
Central Bank of Malta										
Central intervention rate	3.00	3.00	3.25	3.25	3.50	3.50	3.75	4.00	4.25	4.25
Money market intervention rates:										
Term deposit rate	2.95	2.95	3.20	3.20	3.45	3.45	3.70	3.95	4.20	4.20
Reverse repo rate	3.05#	3.05#	3.30#	3.30#	3.55#	3.55#	3.80#	4.05#	4.30#	4.30#
Rate on standby (collateralised) loans	3.55	4.50	4.25	4.25	4.50	4.50	4.75	5.00	5.25	5.25
Rate on overnight deposits	0.30	1.50	2.25	2.25	2.50	2.50	2.75	3.00	3.25	3.25
Remuneration on required reserves	2.70	2.75	3.00	3.00	3.25	3.25	3.50	3.75	4.00	4.00
Interbank market offered rates										
Overnight	2.95	2.95	3.18	3.15	3.38	3.35	4.54	3.94	4.20	4.23
1 week	2.96	2.95	3.27*	3.25	3.41	3.38	3.78*	4.05*	4.28	4.25
1 month	2.98	2.98	3.29*	3.32*	3.59*	3.59*	3.86*	4.09*	4.33*	4.39*
3 month	3.00*	2.80	3.32*	3.34	3.69*	3.73*	3.99*	4.22*	4.44*	4.65*
Other Monetary Financial Institutions										
Weighted average deposit rate	2.46	2.04	2.13	2.17	2.20	2.29	2.37	2.62	2.77	2.9
Current deposits	0.44	0.47	0.45	0.50	0.59	0.56	0.57	0.69	0.72	0.79
Savings deposits	1.01	0.95	1.17	1.17	1.17	1.18	1.17	1.41	1.62	1.72
Time deposits	3.45	2.87	2.97	3.00	3.03	3.14	3.27	3.51	3.70	3.80
Weighted average lending rate	5.29	5.33	5.48	5.47	5.71	5.71	5.90	6.11	6.34	6.33
Non-financial companies	5.77	5.80	5.95	5.93	6.13	6.16	6.31	6.55	6.79	6.77
Households and individuals	4.53	4.67	4.93	4.92	5.15	5.13	5.38	5.54	5.81	5.81
Consumer credit	5.53	6.21	6.70	6.71	6.94	6.91	7.42	7.13	7.82	7.84
House purchase	4.50	4.34	4.52	4.52	4.73	4.72	4.95	5.18	5.39	5.39
Other lending	5.29	5.17	6.09	6.14	6.40	6.32	6.46	6.66	6.83	6.80
Government securities										
Treasury bills (primary market)										
1 month	-	2.96	-	-	-	3.55	3.51	-	4.30	-
3 month	2.94	2.96	3.22	3.20	3.45	3.65	3.91	4.18	4.36	4.37
6 month	2.93	2.97	3.23	3.23	3.27	3.75	4.00	4.24	4.31	4.54
1 year	3.13	2.97	3.22	3.46	3.70	3.87	4.20	-	4.26	4.53
Treasury bills (secondary market)										
1 month	2.95	2.95	3.20	3.20	3.46	3.55	3.75	3.99	4.30	4.33
3 month	2.94	2.96	3.22	3.20	3.46	3.65	3.90	4.18	4.36	4.37
6 month	2.93	2.97	3.27	3.23	3.52	3.75	4.00	4.24	4.47	4.54
1 year	2.98	2.97	3.32	3.46	3.70	3.86	4.20	4.26	4.70	4.61
Long-term debt securities										
2 year	3.39	3.21	3.30	3.39	3.69	3.89	4.18	4.32	4.95	4.68
5 year	4.37	4.26	3.65	3.63	3.99	4.07	4.17	4.31	5.03	4.76
10 year	4.71	4.70	4.38	4.35	4.27	4.34	4.33	4.38	5.12	4.85
15 year	4.96	4.97	4.96	4.38	4.47	4.48	4.48	4.54	5.16	5.17
MSE SHARE INDEX	2,126	3,069	4,981	6,509	5,428	5,141	4,873	4,815	4,809	4,878

Note: # denotes the corridor linked to the central intervention rate.
* denotes Central Bank of Malta fixing rate average.
\- denotes that no transactions occurred during the reference period.

TABLE 2.1 GENERAL GOVERNMENT REVENUE AND EXPENDITURE [1]

Lm millions

Period	Revenue			Expenditure			Deficit (-) /surplus (+)	Primary deficit (-) /surplus (+) [2]
	Current	Capital	Total	Current	Capital	Total		
2003	704.4	10.1	714.5	749.9	150.2	900.1	-185.6	-121.4
2004	751.4	34.3	785.6	792.1	87.1	879.2	-93.5	-23.0
2005	780.2	74.5	854.7	818.2	99.2	917.5	-62.7	13.8
2006	825.2	71.2	896.4	850.1	101.0	951.1	-54.7	22.0
2006								
Mar.	172.3	14.4	186.7	200.6	26.4	227.0	-40.3	-22.7
June	199.1	17.2	216.3	211.4	15.8	227.2	-10.9	9.2
Sept.	205.2	17.0	222.2	212.4	21.4	233.8	-11.7	11.6
Dec.	248.6	22.6	271.2	225.7	37.4	263.1	8.1	23.8
2007								
Mar.	186.6	1.2	187.8	214.9	17.7	232.6	-44.7	-21.4
June	213.3	3.9	217.3	216.4	18.6	235.1	-17.8	-3.9
Sept.	213.1	7.3	220.4	219.8	14.2	234.0	-13.7	5.1

[1] Based on ESA95 methodology. Data are provisional.

[2] Deficit(-)/surplus(+) excluding interest paid.

Sources: Eurostat; NSO.

TABLE 2.2 GENERAL GOVERNMENT REVENUE BY MAIN COMPONENTS [1]

Lm millions

Period	Current revenue							Capital revenue			Total revenue	Memo: Fiscal burden [2]
	Direct taxes	Indirect taxes	Social security contributions	Sales	Property income	Other current revenue	Total	Capital taxes	Capital transfers	Total		
2003	223.1	243.0	150.1	35.2	47.5	5.5	704.4	2.7	7.5	10.1	714.5	618.9
2004	220.9	279.5	155.1	42.5	42.2	11.2	751.4	4.0	30.2	34.3	785.6	659.5
2005	232.7	299.3	171.5	41.0	29.8	5.9	780.2	7.5	67.0	74.5	854.7	711.0
2006	257.4	325.3	167.6	39.9	27.1	7.9	825.2	6.3	64.9	71.2	896.4	756.6
2006												
Mar.	38.4	74.3	35.7	9.8	12.9	1.3	172.3	1.4	13.0	14.4	186.7	149.8
June	60.4	80.4	40.1	9.3	7.1	1.8	199.1	1.7	15.5	17.2	216.3	182.5
Sept.	64.9	84.0	42.1	9.3	3.2	1.7	205.2	1.6	15.4	17.0	222.2	192.6
Dec.	93.7	86.7	49.7	11.5	4.0	3.0	248.6	1.7	20.9	22.6	271.2	231.8
2007												
Mar.	42.3	78.1	37.5	11.3	16.1	1.4	186.6	2.1	-0.9	1.2	187.8	160.0
June	71.7	82.1	43.4	12.4	2.8	1.0	213.3	2.2	1.7	3.9	217.3	199.4
Sept.	72.1	84.8	39.4	9.2	4.6	3.0	213.1	2.3	5.1	7.3	220.4	198.5

[1] Based on ESA95 methodology. Data are provisional.

[2] The fiscal burden comprises taxes and social security contributions.

Sources: Eurostat; NSO.

TABLE 2.3 GENERAL GOVERNMENT EXPENDITURE BY MAIN COMPONENTS[1]

Lm millions

Period	Current expenditure							Capital expenditure			Total expenditure
	Compensation of employees	Social benefits	Interest	Intermediate consumption	Subsidies	Other current expenditure	Total	Investment	Capital transfers	Total [2]	
2003	277.9	249.1	64.2	94.8	41.0	22.9	749.9	88.8	59.8	150.2	900.1
2004	282.7	257.2	70.5	107.2	36.9	37.6	792.1	75.9	14.9	87.1	879.2
2005	288.1	270.1	76.5	106.1	42.4	34.9	818.2	98.4	17.5	99.2	917.5
2006	290.7	285.9	76.7	122.1	40.7	34.0	850.1	93.7	15.2	101.0	951.1
2006											
Mar.	72.7	68.2	17.6	25.9	6.8	9.4	200.6	25.0	0.9	26.4	227.0
June	72.4	73.4	20.1	26.5	12.3	6.8	211.4	13.8	3.0	15.8	227.2
Sept.	72.7	69.2	23.3	29.3	7.5	10.3	212.4	19.6	2.6	21.4	233.8
Dec.	73.0	75.1	15.7	40.4	14.2	7.5	225.7	35.3	8.7	37.4	263.1
2007											
Mar.	73.5	73.3	23.4	23.8	11.6	9.4	214.9	20.1	1.2	17.7	232.6
June	75.2	79.5	13.9	30.3	10.5	7.0	216.4	25.6	2.9	18.6	235.1
Sept.	75.9	71.9	18.7	30.5	12.3	10.5	219.8	15.4	0.8	14.2	234.0

[1] Based on ESA95 methodology. Data are provisional.

[2] Capital expenditure total includes acquisitions less disposals of non-financial non-produced assets.

Sources: Eurostat; NSO.

TABLE 2.4 GENERAL GOVERNMENT EXPENDITURE BY FUNCTION [1]

Lm millions

Period	General public services	Defence	Public order & safety	Economic affairs	Environment protection	Housing & community amenities	Health	Recreation, culture & religion	Education	Social protection	Total
2003	117.7	16.4	33.0	190.9	16.7	27.9	115.5	10.8	115.3	256.0	900.1
2004	149.5	19.1	32.1	133.1	18.3	21.3	118.6	11.8	110.5	264.6	879.2
2005	152.3	19.3	33.1	126.5	21.2	22.1	134.4	15.7	115.2	277.9	917.6

[1] Based on Classification of Functions of Government (COFOG). Data are provisional.

Sources: Eurostat; NSO.

TABLE 2.5 GENERAL GOVERNMENT DEFICIT-DEBT ADJUSTMENT [1]

Lm millions

Period	Change in debt	Deficit (-) / surplus (+)	Deficit-debt adjustment							
			Transactions in main financial assets				Valuation effects	Other changes in volume	Other [2]	Total
			Currency and deposits	Loans	Debt securities	Shares and other equity				
2003	201.9	-185.6	66.5	-22.8	0.0	0.7	-0.9	0.0	-27.2	16.3
2004	89.9	-93.5	-0.8	-1.2	0.0	-0.1	-4.5	-1.2	4.4	-3.6
2005	45.2	-62.7	31.3	0.1	0.0	-27.2	-13.1	0.0	-8.6	-17.6
2006	-43.8	-54.7	15.6	-1.2	0.0	-95.3	-0.4	0.0	-17.1	-98.5

[1] Based on ESA95 methodology. Data are provisional.

[2] Mainly comprising transactions in other assets and liabilities (trade credits and other receivables/payables).

Source: Eurostat.

TABLE 2.6 GENERAL GOVERNMENT DEBT AND GUARANTEED DEBT OUTSTANDING

Lm millions

Period	Debt securities			Loans			Total general government debt [1]	Government guaranteed debt [2]
	Short-term	Long-term	Total	Short-term	Long-term	Total		
2003	232.3	907.1	1,139.3	55.4	110.3	165.7	1,305.0	226.3
2004	245.4	1,011.4	1,256.7	36.3	102.0	138.2	1,394.9	261.6
2005	190.2	1,122.0	1,312.2	33.0	94.9	127.9	1,440.1	271.0
2006								
Mar.	179.0	1,147.4	1,326.3	11.1	115.2	126.3	1,452.6	269.8
June	121.3	1,148.6	1,270.0	11.4	111.9	123.3	1,393.3	239.6
Sept.	153.6	1,133.7	1,287.2	13.4	107.9	121.4	1,408.6	251.9
Dec.	160.5	1,123.7	1,284.1	10.1	102.1	112.2	1,396.3	249.3
2007								
Mar.	171.7	1,123.9	1,295.6	10.7	100.7	111.4	1,407.0	240.4
June	196.2	1,157.1	1,353.3	10.8	100.4	111.2	1,464.5	259.2
Sept.	158.1	1,157.1	1,315.2	11.6	100.5	112.1	1,427.2	264.6

[1] In line with Maastricht criteria, which defines general government debt as total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. Data are provisional.

[2] Represents outstanding balances on central government guaranteed debt.

Sources: Eurostat; NSO.

TABLE 2.7 TREASURY BILLS ISSUED AND OUTSTANDING[1]

Lm millions

End of period	Amount maturing during period	Amount issued in primary market and taken up by			Amount outstanding[3] and held by		
		OMFIs	Others[2]	Total	MFIs	Others[2]	Total
2003	712.6	607.7	124.4	732.1	198.3	34.0	232.3
2004	595.7	502.3	106.5	608.8	200.4	45.0	245.4
2005	31.4	36.1	12.5	48.6	150.9	39.3	190.2
2006							
Jan.	52.0	19.4	13.6	33.0	129.6	41.7	171.3
Feb.	35.3	19.0	24.7	43.7	122.4	57.2	179.6
Mar.	45.8	20.3	24.9	45.3	114.7	64.3	179.0
Apr.	27.6	15.0	15.5	30.5	111.9	69.9	181.8
May	35.4	6.5	14.1	20.6	101.7	65.3	167.0
June	61.7	7.0	9.0	16.0	64.5	56.9	121.3
July	30.5	30.1	13.5	43.6	80.9	53.5	134.4
Aug.	28.5	22.0	9.7	31.7	87.8	49.7	137.5
Sept.	18.2	19.1	15.2	34.3	94.3	59.3	153.6
Oct.	43.7	12.4	9.8	22.2	76.7	55.4	132.1
Nov.	29.6	47.0	13.9	60.9	105.3	58.2	163.4
Dec.	17.4	6.5	8.0	14.5	107.2	53.3	160.5
2007							
Jan.	16.8	3.0	1.4	4.4	106.2	41.9	148.1
Feb.	50.7	48.5	14.0	62.5	120.7	39.3	160.0
Mar.	32.7	38.0	6.4	44.4	141.9	29.8	171.7
Apr.	5.4	16.5	11.1	27.6	156.7	37.2	193.9
May	59.7	27.0	14.7	41.7	138.4	37.4	175.9
June	57.6	58.5	19.4	77.9	155.8	40.4	196.2
July	60.0	32.5	23.4	55.9	149.9	42.2	192.2
Aug.	50.8	19.0	5.0	24.0	122.1	43.2	165.3
Sept.	41.2	26.0	7.9	33.9	112.4	45.6	158.1

1 Amounts are at nominal prices.

2 Includes the Malta Government sinking fund.

3 On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million to Lm200 million, and on 27 November 2002 this was raised further to Lm300 million.

Source: Central Bank of Malta; The Treasury.

TABLE 2.8 TREASURY BILLS ISSUED AND OUTSTANDING[1]

as at end-September 2007

Lm millions

Issue date	Maturity date	Primary market weighted average rate (%)	Secondary market offer rate (%)	Amount issued in the primary market taken up by		Amount outstanding and held by		Total amount issued / outstanding[3]
				OMFIs	Others[2]	MFIs	Others[2]	
05/04/2007	05/10/2007	4.29	4.14	3.0	0.7	3.4	0.3	3.7
13/07/2007	12/10/2007	4.43	4.20	12.0	14.1	12.0	14.1	26.1
20/07/2007	19/10/2007	4.47	4.26	9.0	7.8	9.0	7.8	16.8
27/07/2007	26/10/2007	4.48	4.33	3.5	0.5	3.5	0.5	4.0
03/08/2007	02/11/2007	4.44	4.33	0.0	0.7	0.0	0.7	0.7
09/02/2007	09/11/2007	4.23	4.33	10.5	0.8	10.2	1.1	11.3
18/05/2007	16/11/2007	4.31	4.34	3.0	0.9	3.0	0.9	3.9
17/08/2007	16/11/2007	4.38	4.34	0.0	0.4	0.0	0.4	0.4
24/08/2007	23/11/2007	4.37	4.34	0.0	0.4	0.0	0.4	0.4
31/08/2007	30/11/2007	4.36	4.35	2.0	0.5	2.0	0.5	2.5
09/03/2007	07/12/2007	4.26	4.35	6.0	2.6	6.0	2.6	8.6
15/12/2006	14/12/2007	4.20	4.36	1.0	0.2	1.0	0.2	1.2
14/09/2007	14/12/2007	4.37	4.36	8.0	2.4	8.0	2.4	10.4
06/07/2007	04/01/2008	4.42	4.38	8.0	0.1	8.0	0.1	8.1
13/04/2007	11/01/2008	4.32	4.39	3.0	2.1	3.3	1.9	5.1
10/08/2007	08/02/2008	4.49	4.45	3.0	0.6	3.0	0.6	3.6
24/08/2007	22/02/2008	4.49	4.47	6.0	0.6	6.0	0.6	6.6
07/09/2007	07/03/2008	4.52	4.50	9.0	1.3	9.0	1.3	10.3
22/06/2007	20/03/2008	4.57	4.52	8.0	1.6	8.0	1.6	9.6
28/09/2007	28/03/2008	4.54	4.54	6.0	0.7	6.0	0.7	6.7
11/05/2007	09/05/2008	4.26	4.55	0.0	0.8	0.0	0.8	0.8
31/08/2007	30/05/2008	4.58	4.56	8.0	1.7	8.0	1.7	9.7
20/09/2007	20/06/2008	4.56	4.56	3.0	3.6	3.0	3.6	6.6
13/07/2007	11/07/2008	4.53	4.57	0.0	0.9	0.0	0.9	0.9
Total				112.0	46.1	112.4	45.6	158.1

[1] Amounts are at nominal prices.

[2] Includes the Malta Government sinking fund.

[3] On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million to Lm200 million, and on 27 November 2002 this was raised further to Lm300 million.

Source: Central Bank of Malta; The Treasury.

TABLE 2.9 MALTA GOVERNMENT LONG-TERM DEBT SECURITIES OUTSTANDING[1]

as at end-September 2007

Lm millions

Coupon rate (%)	Year of maturity	Year of issue	Issue price (Lm)	ISMA Yield (%)	Interest dates	Held by		Amount
						MFIs	Others	
7.35	2007	1997	100	N/A[4]	18/04 - 18/10	17.2	7.6	24.8
7.20	2008	1998	100	4.66	10/06 - 10/12	9.3	0.7	10.0
7.20	2008 (II)	1998	100	4.69	28/02 - 28/08	23.3	6.7	30.0
7.00	2009	1999	100	4.71	30/06 - 30/12	0.0	0.1	0.1
5.90	2009 (II)	1999	100	4.73	01/03 - 01/09	22.0	3.0	25.0
5.90	2009 (III)	2000/2005	100/107.8	4.69	30/03 - 30/09	62.1	2.2	64.3
5.90	2010	1999	100	4.84	19/05 - 19/11	13.9	1.1	15.0
5.75	2010 (II)	2000	100	4.80	10/06 - 10/12	17.0	1.5	18.5
7.00	2010 (III)[2]	2000	100	4.80	30/06 - 30/12	0.0	0.5	0.5
5.40	2010 (IV)	2003/2004	100/104.5	4.77	21/02 - 21/08	29.4	18.6	48.0
7.50	2011	1996	100	4.89	28/03 - 28/09	8.4	6.6	15.0
6.25	2011 (II)	2001	100	4.85	01/02 - 01/08	23.6	16.4	40.0
7.00	2011 (III)[2]	2002	100	4.89	30/06 - 30/12	0.0	0.1	0.1
7.80	2012	1997	100	4.88	24/05 - 24/11	18.8	15.7	34.5
7.00	2012 (II)[2]	2002	100	4.88	30/06 - 30/12	0.0	0.2	0.2
5.70	2012 (III)	2005	100/108/108.5/109.7	4.88	30/03 - 30/09	89.5	26.5	116.0
5.70	2012 (III) FI[3]	2007	102.75	4.88	30/03 - 30/09	20.1	6.4	26.5
5.70	2012 (III) FI[3]	2007	105.95	4.88	18/06 - 22/06	4.5	5.5	10.0
7.80	2013	1997	100	4.91	18/04 - 18/10	20.2	14.1	34.3
6.35	2013 (II)	2001	100	4.89	19/05 - 19/11	2.4	23.6	26.0
7.00	2013 (III)	2003	100	4.92	30/06 - 30/12	0.0	0.1	0.1
6.60	2014	2000	100	4.93	30/03 - 30/09	3.6	6.9	10.5
6.45	2014 (II)	2001	100	4.96	24/05 - 24/11	8.6	21.4	30.0
5.10	2014 (III) FI[3]	03/04/06/07	100/103.25/103.64/105.5	4.94	06/01 - 06/07	37.7	44.8	82.5
7.00	2014 (IV)[2]	2004	100	4.96	30/06 - 30/12	0.0	1.7	1.7
6.10	2015	2000	100	4.97	10/06 - 10/12	17.4	12.6	30.0
5.90	2015 (II) FI[3]	2002/2003	100/102	4.97	09/04 - 09/10	11.4	28.8	40.2
5.90	2015 (II) FI[3]	2007	105	4.97	09/04 - 09/10	8.0	1.8	9.8
7.00	2015 (III)	2005	100	4.98	30/06 - 30/12	0.0	0.3	0.3
7.00	2015 (IV)	2005	100	4.98	03/05 - 03/11	0.0	0.3	0.3
6.65	2016	2001	100	4.98	28/03 - 28/09	3.7	26.3	30.0
4.80	2016 (II) FI[3]	03/04/2006	100/101/104	5.00	26/05 - 26/11	37.5	42.5	80.0
7.00	2016 (III)	2006	100	5.00	30/06 - 30/12	0.0	1.5	1.5
7.00	2017	2007	100	5.04	18/02 - 18/08	0.0	0.3	0.3
7.00	2017 (II)	2007	100	5.04	30/06 - 30/12	0.0	4.4	4.4
7.80	2018	1998	100	5.07	15/01 - 15/07	42.0	28.0	70.0
6.60	2019	1999	100	5.13	01/03 - 01/09	28.8	15.2	44.0
5.20	2020	2007	100	5.18	10/06 - 10/12	1.2	10.3	11.5
5.00	2021 FI/(I)FI[3]	2004/2005	100	5.24	08/02 - 08/08	34.7	75.3	110.0
5.10	2022	2004	100	5.30	16/02 - 16/08	5.2	25.3	30.5
5.50	2023	2003	100	5.30	06/01 - 06/07	15.6	18.2	33.8
Total						637.1	523.1	1160.2

[1] Amounts are at nominal prices.

[2] Coupons are reviewable every 2 years and will be set one percentage point less than the normal maximum lending rate allowed at law subject to a minimum of 7%. Redemption proceeds are payable at Lm110 per Lm100 nominal.

[3] Fungible issue. That is, the Accountant General reserves the right to issue, in future, additional amounts of the present stock. In the event of such future issues, these would be amalgamated with the existing stock.

[4] ISMA yields are not available as securities were not listed on the MSE by the end of the reference period.

Source: Central Bank of Malta; MSE.

TABLE 2.10 MALTA GOVERNMENT LONG-TERM DEBT SECURITIES OUTSTANDING BY REMAINING TERM TO MATURITY[1]

Lm millions

Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16 yrs and over	Total
2003	44.6	209.4	310.5	270.7	77.8	913.0
2004	55.0	243.8	342.4	269.2	104.3	1,014.7
2005	44.4	281.4	426.2	199.0	174.3	1,125.3
2006						
Mar.	44.4	281.4	426.2	224.0	174.3	1,150.3
June	89.7	276.2	416.2	194.0	174.3	1,150.3
Sept.	55.3	291.2	420.4	305.5	64.3	1,136.6
Dec.	70.0	417.2	351.1	254.5	33.8	1,126.6
2007						
Mar.	70.0	266.5	501.8	224.3	64.3	1,126.9
June	34.8	291.0	510.0	224.3	100.1	1,160.2
Sept.	64.8	413.7	377.2	270.7	33.8	1,160.2

[1] Calculations are based on the maximum redemption period of each stock. With respect to the quarterly statistics in this table, the remaining term to maturity classification is applicable as from the end of the reference quarter.

Sources: Central Bank of Malta; MSE.

TABLE 2.11 GENERAL GOVERNMENT EXTERNAL LOANS BY CURRENCY [1] AND REMAINING TERM TO MATURITY [2]

Lm millions

End of Period	EUR		USD		Other foreign currency		Total
	Short term	Long term	Short term	Long term	Short term	Long term	
2003	0.9	76.3	0.5	7.0	0.0	1.3	86.0
2004	0.5	72.4	0.0	5.3	0.0	0.9	79.1
2005	7.3	61.0	0.0	4.6	0.0	0.7	73.6
2006							
Mar.	7.3	60.0	0.0	4.4	0.0	0.7	72.3
June	7.3	59.3	0.0	3.8	0.0	0.6	71.1
Sept.	7.3	58.1	0.0	3.8	0.0	0.8	69.9
Dec.	0.0	57.7	0.4	2.4	0.0	0.5	61.1
2007 [3]							
Mar.	0.0	56.6	0.4	2.3	0.0	0.5	59.9
June	0.1	56.0	0.4	1.9	0.0	0.5	58.9
Sept.	0.8	54.2	0.4	1.8	0.1	0.4	57.6

[1] Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

[2] Including external loans of the extra-budgetary units. Short term maturity refers to loans falling due within 1 year from the end of the reference quarter, whereas long term maturity refers to loans falling due after more than 1 year from the end of the reference quarter.

[3] Provisional.

TABLE 3.1 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

end of period closing middle rates

Period		EUR	USD	GBP	JPY	CHF	AUD	CAD
2003		0.4317	2.9197	1.6351	312.16	3.6104	3.8859	3.7692
2004		0.4343	3.1393	1.6252	321.71	3.5536	4.0301	3.7866
2005		0.4293	2.7570	1.6012	323.95	3.6230	3.7588	3.2072
2006		0.4293	3.0699	1.5639	364.89	3.7463	3.8869	3.5642
2007								
Apr.	5	0.4293	3.1179	1.5841	370.41	3.7997	3.8113	3.5934
	13	0.4293	3.1528	1.5874	373.69	3.8123	3.7891	3.5821
	20	0.4293	3.1692	1.5823	376.37	3.8260	3.7934	3.5676
	27	0.4293	3.1824	1.5901	379.02	3.8286	3.8282	3.5448
May	4	0.4293	3.1696	1.5901	380.07	3.8361	3.8595	3.5009
	11	0.4293	3.1445	1.5875	376.38	3.8308	3.7824	3.5047
	18	0.4293	3.1401	1.5932	379.76	3.8515	3.8208	3.4312
	25	0.4293	3.1334	1.5792	381.05	3.8443	3.8183	3.9313
June	1	0.4293	3.1287	1.5808	381.77	3.8487	3.7675	3.3365
	8	0.4293	3.1080	1.5809	378.37	3.8397	3.6870	3.3098
	15	0.4293	3.1068	1.5750	383.59	3.8648	3.6999	3.2990
	22	0.4293	3.1283	1.5673	387.99	3.8597	3.6880	3.3524
	28	0.4293	3.1367	1.5666	385.38	3.8522	3.7065	3.3374
July	6	0.4293	3.1650	1.5752	390.30	3.8652	3.6964	3.3295
	13	0.4293	3.2094	1.5792	392.81	3.8615	3.6996	3.3604
	20	0.4293	3.2120	1.5650	392.71	3.8713	3.6507	3.3512
	27	0.4293	3.1776	1.5659	376.90	3.8505	3.6969	3.3689
Aug.	3	0.4293	3.1895	1.5672	379.92	3.8452	3.7246	3.3717
	10	0.4293	3.1824	1.5786	374.51	3.8049	3.7770	3.3581
	17	0.4293	3.1370	1.5857	355.32	3.7800	4.0245	3.3733
	24	0.4293	3.1716	1.5827	367.56	3.8110	3.8614	3.3329
	31	0.4293	3.1898	1.5784	371.23	3.8310	3.8751	3.3678
Sept.	7	0.4293	3.2066	1.5792	366.43	3.8209	3.8643	3.3642
	14	0.4293	3.2324	1.6061	370.25	3.8329	3.8478	3.3344
	20	0.4293	3.2694	1.6281	376.46	3.8389	3.7886	3.2750
	28	0.4293	3.7075	1.6243	380.90	3.8673	3.7474	3.2951

[1] All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the rate against the euro, which denotes units of Maltese lira per one euro.

TABLE 3.2 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES

averages for the period [1]

Period	EUR	USD	GBP	JPY	CHF	AUD	CAD
2003	0.4261	2.6543	1.6237	307.39	3.5683	4.0806	3.7134
2004	0.4279	2.9061	1.5853	314.19	3.6085	3.9469	3.7801
2005	0.4299	2.8959	1.5910	318.35	3.6015	3.7978	3.5121
2006	0.4293	2.9259	1.5882	340.24	3.6642	3.8828	3.3182
2006							
Jan.	0.4293	2.8233	1.5983	325.81	3.6082	3.7644	3.2703
Feb.	0.4293	2.7825	1.5913	327.91	3.6302	3.7514	3.1988
Mar.	0.4293	2.7992	1.6047	328.18	3.6541	3.8470	3.2380
Apr.	0.4293	2.8576	1.6178	334.50	3.6687	3.8832	3.2739
May	0.4293	2.9753	1.5916	332.33	3.6253	3.8957	3.3029
June	0.4293	2.9488	1.5987	337.85	3.6330	3.9820	3.2821
July	0.4293	2.9561	1.6026	341.74	3.6538	3.9319	3.3340
Aug.	0.4293	2.9850	1.5774	345.80	3.6744	3.9108	3.3399
Sept.	0.4293	2.9677	1.5726	347.45	3.6891	3.9243	3.3100
Oct.	0.4293	2.9381	1.5674	348.68	3.7039	3.8997	3.3160
Nov.	0.4293	3.0001	1.5699	351.88	3.7089	3.8866	3.4082
Dec.	0.4293	3.0776	1.5665	360.73	3.7210	3.9163	3.5440
2007							
Jan.	0.4293	3.0247	1.5445	364.38	3.7633	3.8665	3.5578
Feb.	0.4293	3.0459	1.5556	367.10	3.7768	3.8928	3.5671
Mar.	0.4293	3.0825	1.5834	361.87	3.7576	3.8930	3.6021
Apr.	0.4293	3.1473	1.5829	373.99	3.8145	3.8074	3.5733
May	0.4293	3.1481	1.5870	380.17	3.8446	3.8158	3.4495
June	0.4293	3.1243	1.5739	383.21	3.8548	3.7114	3.3304
July	0.4293	3.1945	1.5710	388.41	3.8593	3.6835	3.3571
Aug.	0.4293	3.1744	1.5787	370.52	3.8160	3.8298	3.3619
Sept.	0.4293	3.2345	1.6030	371.97	3.8378	3.8320	3.3291

[1] Calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta middle rates. All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the rate against the euro, which denotes units of Maltese lira per one euro.

TABLE 3.3 BALANCE OF PAYMENTS - CURRENT AND CAPITAL ACCOUNTS

(transactions)

Lm millions

Period	Current account									Capital account	
	Goods		Services		Income		Current transfers		Total		
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		Credit	Debit
2003	975.0	1,217.6	547.4	337.2	340.8	350.4	76.5	93.2	-58.6	7.1	0.5
2004[1]	939.4	1,239.9	587.7	360.2	336.2	353.3	76.2	100.4	-114.3	29.9	1.3
2005[1]	894.3	1,278.4	694.2	419.4	418.0	503.0	119.1	103.7	-178.9	71.2	4.4
2006[1]	1,007.6	1,414.9	903.2	575.8	629.6	696.8	180.8	183.2	-149.5	66.4	2.2
2005 [1]											
Mar.	200.6	282.3	132.0	92.0	91.0	109.1	25.1	23.9	-58.5	17.1	0.3
June	222.9	324.7	179.3	104.0	98.9	118.8	26.1	25.3	-45.7	14.4	0.2
Sept.	215.9	309.0	227.4	108.9	101.6	118.4	27.0	22.1	13.6	12.8	0.6
Dec.	254.8	362.3	155.4	114.6	126.6	156.7	40.9	32.5	-88.3	27.0	3.2
2006 [1]											
Mar.	223.2	337.1	176.9	120.4	139.0	159.7	43.6	30.7	-65.1	11.5	0.5
June	249.5	373.5	227.9	143.3	147.1	161.7	40.4	36.4	-50.1	12.9	0.5
Sept.	243.2	351.2	278.4	146.4	173.9	195.6	65.4	55.4	12.3	13.9	0.5
Dec.	291.7	353.1	220.0	165.7	169.6	179.7	31.4	60.8	-46.6	28.1	0.6
2007 [1]											
Mar.	241.7	320.9	203.8	142.8	185.0	208.1	24.5	27.9	-44.8	2.0	0.5
June	255.0	345.2	239.3	163.4	209.2	225.8	111.8	109.0	-28.2	0.9	0.4
Sept.	246.2	356.4	304.8	172.4	221.2	235.8	60.6	47.3	20.9	12.1	0.6

[1] Provisional.

Source: NSO.

TABLE 3.4 BALANCE OF PAYMENTS - FINANCIAL ACCOUNT

(transactions)

Lm millions

Period	Financial account [1]										Errors & omissions
	Direct investment		Portfolio investment		Financial derivatives		Other investment		Official reserve assets	Total	
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
2003	-207.2	365.1	-591.6	-7.2	-1.8	10.8	-23.0	550.8	-54.7	41.2	10.8
2004[2]	-2.6	136.4	-723.3	1.6	-5.9	-0.1	-438.7	1,024.8	69.2	61.4	24.3
2005[2]	7.1	227.5	-929.9	12.4	-6.3	-1.6	-970.9	1,865.3	-80.6	122.9	-10.8
2006[2]	-2.5	608.2	-846.4	-6.6	17.4	-6.7	-1,432.4	1,810.5	-35.7	105.8	-20.4
2005 [2]											
Mar.	13.2	54.9	-61.8	6.3	-5.6	0.2	9.6	44.7	35.4	97.0	-55.3
June	13.0	65.6	11.5	-0.3	-1.3	-0.4	-247.4	204.8	17.6	63.1	-31.6
Sept.	-19.3	57.5	-243.2	1.0	0.0	-2.3	-1,106.1	1,368.1	-97.3	-41.6	15.9
Dec.	0.2	49.6	-636.5	5.3	0.7	0.8	373.0	247.6	-36.3	4.4	60.2
2006 [2]											
Mar.	-1.0	75.7	-148.7	-4.1	3.5	3.0	-514.5	611.8	55.8	81.5	-27.3
June	-1.0	348.1	-699.6	-6.9	1.9	6.2	-792.4	1,220.4	-71.2	5.4	32.3
Sept.	1.0	83.5	141.3	5.7	0.2	-5.3	-179.2	-59.1	-39.2	-51.2	25.6
Dec.	-1.4	100.9	-139.5	-1.3	11.7	-10.5	53.7	37.5	18.9	70.1	-51.0
2007 [2]											
Mar.	2.8	56.7	-65.9	0.5	-2.1	4.5	-903.5	900.7	61.5	55.1	-11.9
June	-3.1	81.9	-181.9	-1.5	9.5	1.6	-1,179.8	1,252.7	33.3	12.9	14.8
Sept.	-1.6	131.5	341.9	0.7	-2.8	22.5	-885.8	376.7	-31.6	-48.5	16.1

[1] A negative sign implies an increase in assets or a decrease in liabilities. A positive sign implies a decrease in assets or an increase in liabilities.

[2] Provisional.

Source: NSO.

TABLE 3.5 OFFICIAL RESERVE ASSETS

Lm millions

End of period	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange			Total
				Currency and deposits	Securities other than shares	Other reserve assets [1]	
2003	0.6	15.2	20.5	681.6	225.1	1.6	944.6
2004	0.6	15.3	20.0	399.7	435.5	0.0	871.1
2005	0.8	16.7	21.0	290.6	609.8	0.8	939.7
2006							
Mar.	1.5	16.6	20.6	203.4	635.2	1.4	878.7
June	1.0	16.4	20.1	323.4	577.5	1.4	939.8
Sept.	1.3	16.8	20.2	376.6	570.9	-1.0	984.8
Dec.	1.3	16.8	19.8	355.3	569.2	-0.2	962.2
2007 [2]							
Mar.	1.2	16.9	19.6	298.5	561.9	2.0	900.1
June	1.2	17.7	19.4	292.9	533.0	-1.6	862.6
Sept.	1.2	17.5	18.9	386.1	469.7	3.1	896.6

[1] Comprising gains or losses on financial derivatives (net).

[2] Provisional.

TABLE 3.6 INTERNATIONAL INVESTMENT POSITION (IIP)

end of period amounts

Lm millions

Period	Direct investment		Portfolio investment		Financial derivatives		Other investments		Official reserve assets	IIP (net)
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
2003	316.3	1,123.7	2,404.3	141.3	1.8	10.8	2,491.4	4,116.8	944.6	765.7
2004 [1]	353.4	1,280.0	3,067.1	152.2	4.6	16.4	2,895.7	4,964.0	871.1	779.2
2005 [1]	360.8	1,565.1	4,316.1	177.3	18.2	19.0	4,119.4	7,229.2	939.7	763.7
2006 [1]	373.0	2,116.7	4,881.8	175.1	14.8	21.2	5,292.5	8,568.5	961.9	642.5

[1] Provisional.

Source: NSO.

TABLE 3.7 GROSS EXTERNAL DEBT BY SECTOR, MATURITY AND INSTRUMENT [1]

Lm millions

End of period	General government			Monetary authority			Other sectors [2]			Direct investment vis-à-vis:			Total gross external debt	*Memo item:* OMFIs[3]		
	Short term	Long term	Total (a)	Short term	Long term	Total (b)	Short term	Long term	Total (c)	Affiliated enterprises	Direct investors	Total (d)	(a+b+c+d)	Short term	Long term	Total
2003 [4]	4.3	87.3	91.6	25.7	0.0	25.7	92.2	217.3	309.6	5.2	113.2	118.4	545.3	2,341.6	1,473.8	3,815.4
2004 [4]	6.9	80.1	87.1	2.7	0.2	2.9	125.2	200.4	325.7	9.9	127.8	137.7	553.4	4,061.3	588.0	4,649.3
2005 [4]	3.0	74.6	77.6	7.3	0.2	7.5	215.8	251.8	467.6	32.1	188.7	220.8	773.6	5,812.0	963.2	6,775.2
2006 [4]																
Mar.	2.5	73.8	76.3	7.1	0.2	7.3	213.7	239.5	453.2	29.8	193.2	223.0	759.8	5,983.0	1,302.2	7,285.2
June	2.8	72.6	75.4	7.9	0.2	8.1	228.1	240.4	468.5	30.1	309.6	339.6	891.6	6,582.3	1,613.5	8,195.8
Sept.	3.3	71.4	74.8	3.2	0.2	3.4	204.0	256.9	460.9	30.9	331.1	362.1	901.2	6,214.2	1,994.9	8,209.0
Dec.	3.3	62.6	65.9	11.5	0.2	11.7	209.3	235.8	445.2	31.1	348.6	379.7	902.4	6,047.8	2,094.8	8,142.6
2007 [4]																
Mar.	2.0	61.5	63.5	5.9	0.2	6.1	217.1	238.8	455.9	29.6	358.1	387.6	913.2	7,036.1	1,983.8	9,019.9
June	1.4	60.4	61.9	4.0	0.2	4.2	213.1	236.3	449.4	30.3	370.5	400.8	916.3	8,174.4	2,089.5	10,264.0
Sept.	0.8	59.1	59.9	5.9	0.0	5.9	231.2	247.2	478.4	31.8	376.3	408.1	952.3	8,479.9	1,988.0	10,467.9

[1] These data may not be fully reconcilable with the international investment position (IIP) statistics primarily due to conceptual differences.
[2] Comprising the non-monetary financial institutions, insurance companies and pension funds, non-financial corporations and the NPISH.
[3] The debt of the OMFIs is fully backed by foreign assets.
[4] Provisional.

TABLE 3.8 MALTA'S FOREIGN TRADE

Lm millions

Period	Exports (f.o.b.)	Imports (c.i.f.)	Balance of trade
2003	928.3	1281.3	(353.0)
2004 [1]	906.7	1305.6	(398.9)
2005 [1]	840.6	1324.7	(484.1)
2006 [1]	955.4	1459.3	(503.9)
2006[1]			
Jan.	72.5	96.1	(23.6)
Feb.	61.5	123.9	(62.4)
Mar.	76.6	130.1	(53.5)
Apr.	73.7	120.4	(46.7)
May	83.8	132.0	(48.2)
June	79.3	133.8	(54.5)
July	73.8	122.8	(49.0)
Aug.	71.7	124.3	(52.6)
Sept.	84.4	112.0	(27.6)
Oct.	87.6	131.0	(43.4)
Nov.	106.4	124.6	(18.2)
Dec.	84.1	108.3	(24.2)
2007[1]			
Jan.	70.1	103.8	(33.7)
Feb.	68.8	105.5	(36.8)
Mar.	90.9	123.9	(33.0)
Apr.	72.4	112.3	(39.9)
May.	88.1	118.5	(30.4)
June	79.2	125.5	(46.3)
July	85.6	144.1	(58.5)
Aug.	71.8	110.2	(38.4)
Sept.	77.2	111.5	(34.3)

[1] Provisional.

Source: NSO.

TABLE 3.9 DIRECTION OF TRADE - EXPORTS

Lm millions

Period	EU (of which):								All others (of which):			Total
	Euro area (of which):					UK	Other EU	Total	Asia	USA	Others	
	France	Germany	Italy	Other Euro area	Total							
2003	120.2	95.2	31.5	58.7	305.6	109.0	15.7	430.3	255.2	134.2	108.6	928.3
2004[1]	140.6	98.0	27.9	37.2	303.7	103.9	29.1	436.7	233.7	141.8	94.5	906.7
2005[1]	121.9	101.4	43.1	39.7	306.1	92.7	32.1	430.9	197.9	113.3	98.5	840.6
2006[1]	140.1	121.3	40.4	54.0	355.9	91.3	35.8	483.0	269.1	118.3	85.0	955.4
2006 [1]												
Jan.	10.1	8.6	2.2	3.3	24.1	7.3	1.8	33.2	19.6	12.7	7.0	72.5
Feb.	10.2	8.7	2.4	3.4	24.7	7.6	2.2	34.5	15.6	8.8	2.6	61.5
Mar.	11.6	11.5	3.6	4.5	31.1	6.9	2.8	40.8	19.4	9.9	6.5	76.6
Apr.	9.7	9.4	2.8	4.9	26.8	7.4	2.7	36.9	16.9	10.2	9.7	73.7
May	12.5	10.7	3.7	6.1	33.0	9.6	3.3	45.9	19.7	10.0	8.2	83.8
June	12.1	8.7	3.0	7.3	31.1	9.0	3.7	43.8	19.6	8.5	7.4	79.3
July	11.6	9.9	3.0	5.3	29.8	8.3	3.2	41.3	19.3	7.7	5.5	73.8
Aug.	12.1	9.8	2.4	4.1	28.4	6.8	2.7	37.9	20.0	8.1	5.7	71.7
Sept.	12.8	12.4	3.2	3.9	32.3	7.2	3.8	43.3	23.4	10.4	7.3	84.4
Oct.	12.0	11.5	3.4	3.4	30.3	7.7	3.1	41.1	27.5	11.9	7.1	87.6
Nov.	14.1	11.6	2.8	4.4	32.9	8.6	3.3	44.8	42.3	10.4	8.9	106.4
Dec.	11.5	8.6	8.0	3.3	31.4	4.9	3.2	39.5	25.8	9.7	9.1	84.1
2007 [1]												
Jan.	9.5	11.2	2.9	3.2	26.8	8.4	2.6	37.8	17.2	8.5	6.6	70.1
Feb.	8.2	9.8	2.6	4.4	25.0	7.1	2.8	34.9	17.0	9.0	7.9	68.8
Mar.	11.0	13.8	3.7	6.3	34.8	9.8	3.5	48.1	23.9	9.7	9.2	90.9
Apr.	9.2	10.5	3.4	4.2	27.3	8.3	2.9	38.5	20.4	7.3	6.2	72.4
May.	10.6	11.2	3.6	5.1	30.5	8.8	4.2	43.5	25.7	9.6	9.3	88.1
June	9.9	9.0	3.5	4.2	26.6	7.2	2.2	36.0	25.3	9.1	8.8	79.2
July	10.0	12.9	3.7	4.8	31.4	9.1	4.6	45.1	23.7	9.1	7.7	85.6
Aug.	8.1	11.0	2.3	3.7	25.1	6.6	2.8	34.5	24.1	7.7	5.5	71.8
Sept.	9.1	10.7	3.5	3.4	26.7	7.1	3.7	37.5	25.8	8.8	5.1	77.2

[1] Provisional.

Source: NSO.

TABLE 3.10 DIRECTION OF TRADE - IMPORTS

Lm millions

Period	EU (of which):								All others (of which):			Total
	Euro area (of which):					UK	Other EU	Total	Asia	USA	Others	
	France	Germany	Italy	Other Euro area	Total							
2003	218.9	101.0	294.4	118.2	732.5	118.6	16.3	867.4	201.7	103.9	108.3	1,281.3
2004[1]	175.1	113.9	330.8	140.6	760.4	157.6	30.6	948.6	196.6	69.9	90.5	1,305.6
2005[1]	125.0	107.0	410.5	143.8	786.3	144.1	28.8	959.2	179.3	69.7	116.4	1,324.6
2006[1]	138.0	112.5	413.9	160.1	824.5	147.4	29.8	1,001.7	272.5	76.9	108.2	1,459.3
2006[1]												
Jan.	4.7	8.3	25.1	9.7	47.8	9.9	2.4	60.1	19.5	5.4	11.1	96.1
Feb.	11.7	11.7	35.7	12.5	71.5	9.6	2.9	84.0	14.0	13.2	12.7	123.9
Mar.	10.7	9.9	29.5	13.9	64.0	13.2	2.7	79.9	19.0	7.5	23.7	130.1
Apr.	12.2	8.2	41.6	14.9	76.9	11.6	2.2	90.7	19.4	5.9	4.4	120.4
May	13.0	11.3	37.6	18.6	80.5	12.3	2.3	95.1	22.5	7.3	7.1	132.0
June	11.7	8.2	47.9	15.7	83.5	10.2	3.2	96.9	20.8	6.3	9.8	133.8
July	13.4	9.6	37.1	14.1	74.2	14.8	2.3	91.3	21.6	4.9	5.0	122.8
Aug.	9.9	7.9	32.2	11.8	61.8	13.9	1.8	77.5	35.3	5.7	5.8	124.3
Sept.	12.6	8.7	31.6	11.2	64.1	11.2	2.3	77.6	24.3	5.3	4.8	112.0
Oct.	11.5	9.4	36.3	13.6	70.8	15.5	3.1	89.4	29.1	5.7	6.8	131.0
Nov.	14.2	10.4	27.3	12.7	64.6	15.7	2.2	82.5	27.9	6.7	7.5	124.6
Dec.	12.4	9.0	32.0	11.4	64.8	9.6	2.3	76.7	19.1	3.0	9.5	108.3
2007[1]												
Jan.	6.4	9.8	25.5	9.7	51.4	13.8	2.0	67.2	20.7	4.2	11.7	103.8
Feb.	10.0	8.0	29.2	11.8	59.0	13.5	3.6	76.1	18.3	4.8	6.3	105.5
Mar.	8.4	11.1	36.0	13.1	68.6	14.5	2.4	85.5	24.2	5.3	8.9	123.9
Apr.	12.3	9.4	28.9	13.0	63.6	11.3	4.5	79.4	23.8	3.9	5.2	112.3
May	12.0	10.0	29.9	12.6	64.5	19.8	3.2	87.5	21.1	3.3	6.6	118.5
June	14.3	7.5	34.0	11.9	67.7	18.4	2.4	88.5	17.7	12.2	7.1	125.5
July	8.8	13.9	36.4	17.4	76.5	18.4	4.0	98.9	27.7	11.2	6.3	144.1
Aug.	13.0	8.3	24.2	11.8	57.3	18.9	3.2	79.4	19.0	4.0	7.8	110.2
Sept.	16.7	9.9	24.0	11.2	61.8	18.2	2.7	82.7	20.1	2.9	5.8	111.5

[1] Provisional.

Source: NSO.

TABLE 4.1a GROSS DOMESTIC PRODUCT, GROSS NATIONAL INCOME AND EXPENDITURE COMPONENTS[1]

at current market prices

Lm millions

Period	Domestic demand					External balance			Gross Domestic Product	Gross National Income
	Private consumption[2]	General government consumption	Gross fixed capital formation	Changes in inventories[3]	Total	Exports of goods and services	Imports of goods and services	Net		
2003	1,218.1	387.2	369.8	-58.7	1,916.3	1,522.4	1,554.8	-32.4	1,883.9	1,874.3
2004	1,277.3	401.3	370.0	-52.9	1,995.7	1,525.2	1,599.8	-74.7	1,921.0	1,899.3
2005	1,333.9	408.9	398.0	13.0	2,153.8	1,586.8	1,696.0	-109.3	2,044.6	1,953.5
2006	1,382.2	434.2	422.8	13.1	2,252.3	1,910.8	1,990.7	-79.9	2,172.4	2,099.7
2006										
Mar.	314.1	103.9	120.3	12.1	550.4	400.2	457.5	-57.3	493.1	470.6
June	335.7	105.3	97.5	45.8	584.3	477.4	516.8	-39.5	544.8	527.9
Sept.	353.8	108.5	101.9	-17.4	546.8	521.5	497.6	23.9	570.7	549.0
Dec.	378.6	116.4	103.1	-27.4	570.8	511.7	518.7	-7.0	563.8	552.2
2007										
Mar.	325.5	103.5	107.5	10.1	546.6	435.3	456.5	-21.2	525.4	500.4
June	350.6	109.1	102.2	32.9	594.8	486.9	505.4	-18.5	576.3	557.8
Sept.	370.9	112.3	99.9	4.8	587.9	546.4	526.5	19.9	607.7	590.8

[1] Provisional.

[2] Consumption by households and NPISH.

[3] Including acquisitions less disposals of valuables.

Source: NSO.

TABLE 4.1b GROSS DOMESTIC PRODUCT AND EXPENDITURE COMPONENTS[1]

at constant 2000 prices

Lm millions

Period	Domestic demand					External balance			Gross Domestic Product
	Private consumption[2]	General government consumption	Gross fixed capital formation	Changes in inventories[3]	Total	Exports of goods and services	Imports of goods and services	Net	
2003	1,158.1	340.4	341.8	-54.4	1,785.9	1,625.7	1,694.7	-69.0	1,716.9
2004	1,187.1	342.3	338.7	-47.9	1,820.1	1,658.3	1,757.9	-99.6	1,720.5
2005	1,208.5	343.1	358.6	11.9	1,922.1	1,633.4	1,778.5	-145.1	1,777.1
2006	1,222.8	357.8	368.1	11.5	1,960.3	1,817.9	1,941.1	-123.2	1,837.1
2006									
Mar.	280.7	85.9	105.3	11.1	483.0	393.3	449.5	-56.3	426.8
June	293.1	86.3	84.1	40.1	503.5	459.7	506.5	-46.8	456.7
Sept.	314.2	89.3	87.7	-15.2	476.0	479.8	480.9	-1.1	474.9
Dec.	334.8	96.4	91.1	-24.6	497.7	485.1	504.2	-19.0	478.7
2007									
Mar.	288.5	83.6	93.6	9.0	474.7	393.6	425.7	-32.1	442.6
June	313.0	88.5	88.4	29.2	519.0	428.9	474.5	-45.7	473.3
Sept.	335.8	92.0	85.0	4.2	517.0	482.6	505.0	-22.4	494.6

[1] Provisional.

[2] Consumption by households and NPISH.

[3] Including acquisitions less disposals of valuables.

Source: NSO.

TABLE 4.2 TOURIST DEPARTURES BY NATIONALITY[1]

Thousands

Period	EU (of which):								All others (of which):				Total
	Euro area (of which):					UK	Other EU	Total					
	France	Germany	Italy	Other Euro area	Total				Russia	USA	Others	Total	
2005	82.6	138.2	92.4	151.8	465.0	482.6	78.0	1,025.6	16.6	18.1	110.2	145.0	1,170.6
2006	73.4	125.9	112.5	151.0	462.9	431.3	79.3	973.5	21.8	17.0	111.9	150.8	1,124.3
2006													
Jan.	2.9	4.6	5.0	4.1	16.6	23.3	2.3	42.2	0.5	0.8	7.0	8.3	50.5
Feb.	2.5	6.8	3.3	3.9	16.5	23.8	1.1	41.5	0.4	0.7	4.7	5.8	47.3
Mar.	3.0	9.6	4.4	7.0	24.1	28.4	2.3	54.8	0.4	1.3	7.8	9.6	64.3
Apr.	8.5	12.9	12.1	13.4	46.8	36.3	5.0	88.1	0.7	1.4	7.6	9.7	97.8
May	10.7	10.2	6.5	17.4	44.8	38.6	7.3	90.7	1.3	1.6	9.1	12.0	102.7
June	7.6	14.0	8.2	14.5	44.3	43.7	8.2	96.1	2.0	1.9	9.0	12.9	109.0
July	9.4	10.2	14.5	19.5	53.7	41.5	13.1	108.3	5.1	2.6	15.8	23.5	131.8
Aug.	12.2	11.4	31.0	21.9	76.6	56.4	11.0	143.9	5.2	1.2	13.9	20.4	164.3
Sep.	5.3	14.4	10.9	19.4	50.0	45.1	10.8	105.8	2.7	1.6	11.8	16.1	122.0
Oct.	5.8	14.8	6.0	16.0	42.7	46.8	10.6	100.2	1.7	1.6	12.9	16.2	116.4
Nov.	3.8	10.8	5.6	8.4	28.5	27.6	5.6	61.7	1.4	1.5	6.9	9.8	71.5
Dec.	1.6	6.1	5.0	5.5	18.3	19.7	2.0	40.0	0.4	0.6	5.4	6.5	46.5
2007													
Jan.	2.0	4.5	6.8	4.1	17.4	23.1	3.6	44.1	1.0	0.7	6.0	7.6	51.7
Feb.	2.3	6.2	3.9	4.8	17.1	24.4	2.0	43.6	0.5	0.8	5.8	7.0	50.5
Mar.	4.0	10.1	6.3	8.9	29.3	29.3	3.4	62.1	0.5	1.2	7.5	9.2	71.3
Apr.	7.0	11.9	10.5	14.9	44.4	36.6	9.5	90.5	0.9	1.2	9.2	11.3	101.8
May	8.6	10.6	8.4	16.3	43.9	41.3	9.1	94.3	1.5	3.1	10.1	14.8	109.0
June	6.2	11.9	7.3	16.2	41.6	50.0	10.2	101.8	2.1	2.7	10.8	15.6	117.4
July.	11.2	10.5	16.8	22.5	61.0	50.9	14.8	126.6	3.9	3.5	13.7	21.1	147.7
Aug.	12.4	12.8	25.3	29.2	79.6	59.3	15.8	154.8	6.1	1.8	13.7	21.6	176.4
Sep.	7.9	14.4	10.9	21.9	55.0	58.1	12.6	125.6	3.2	1.6	13.3	18.1	143.7

[1] Based on the NSO's inbound tourism survey. Data refer to tourist departures by air and sea. Annual figures are not available prior to 2005.

Source: NSO.

TABLE 4.3 LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS

Thousands

Period [1]	Labour supply			Gainfully occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Number	% [2]	Number	% [3]	Number	% [4]
2003	104.1	41.7	145.8	97.9	40.1	137.9	6.3	6.0	1.6	3.8	7.8	5.4
2004	103.8	42.0	145.9	97.2	40.4	137.6	6.6	6.4	1.7	3.9	8.3	5.7
2005	103.0	42.6	145.6	97.2	41.0	138.2	5.8	5.7	1.6	3.8	7.4	5.1
2006 [5]	102.7	43.6	146.3	97.1	41.9	139.0	5.6	5.5	1.7	3.9	7.3	5.0
2006 [5]												
Jan.	102.7	43.0	145.7	96.8	41.2	138.0	5.9	5.8	1.8	4.1	7.7	5.3
Feb.	102.7	43.1	145.8	96.8	41.3	138.1	5.9	5.7	1.8	4.2	7.7	5.3
Mar.	102.7	43.2	145.9	96.8	41.4	138.2	5.9	5.7	1.8	4.1	7.7	5.3
Apr.	102.7	43.1	145.8	96.9	41.4	138.3	5.8	5.7	1.7	4.0	7.5	5.2
May	102.7	43.2	145.9	97.1	41.6	138.8	5.6	5.4	1.6	3.7	7.1	4.9
June	103.0	43.5	146.5	97.5	42.0	139.5	5.5	5.4	1.5	3.6	7.1	4.8
July	103.1	43.9	147.0	97.7	42.3	140.0	5.4	5.3	1.7	3.8	7.1	4.8
Aug.	103.2	44.1	147.3	97.8	42.4	140.1	5.5	5.3	1.7	3.9	7.2	4.9
Sept.	103.3	44.1	147.3	97.8	42.4	140.1	5.5	5.3	1.7	3.9	7.2	4.9
Oct.	102.4	44.0	146.4	96.9	42.3	139.2	5.5	5.4	1.7	3.8	7.2	4.9
Nov.	102.4	44.1	146.6	96.8	42.4	139.2	5.6	5.5	1.7	3.9	7.3	5.0
Dec.	101.9	43.9	145.8	96.4	42.3	138.7	5.5	5.4	1.6	3.7	7.2	4.9
2007 [5]												
Jan.	102.2	44.1	146.3	96.6	42.4	139.0	5.6	5.5	1.7	3.8	7.3	5.0
Feb.	102.2	44.1	146.4	96.7	42.5	139.2	5.5	5.4	1.7	3.7	7.2	4.9
Mar.	102.1	44.2	146.3	96.7	42.6	139.3	5.4	5.3	1.6	3.6	7.0	4.8
Apr.	102.0	44.2	146.3	96.8	42.8	139.5	5.3	5.2	1.5	3.3	6.7	4.6
May	102.1	44.3	146.4	96.9	42.9	139.8	5.2	5.1	1.4	3.2	6.6	4.5
June	101.9	44.5	146.4	97.0	43.1	140.1	5.0	4.9	1.4	3.1	6.3	4.3
July	102.4	44.8	147.2	97.5	43.3	140.9	4.9	4.7	1.5	3.3	6.3	4.3
Aug.	103.4	45.5	149.0	98.5	43.9	142.4	5.0	4.8	1.6	3.6	6.6	4.4

[1] Annual figures reflect the average for the year.
[2] As a percentage of male labour supply.
[3] As a percentage of female labour supply.
[4] As a percentage of total labour supply.
[5] Provisional.
Source: ETC.

TABLE 4.4 LABOUR MARKET INDICATORS BASED ON THE LABOUR FORCE SURVEY

Thousands

Period[1]	Labour supply			Gainfully occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Number	%[2]	Number	%[3]	Number	%[4]
2003	110.1	49.9	159.9	102.3	45.5	147.8	7.8	7.1	4.3	8.7	12.1	7.6
2004	110.4	48.9	159.3	103.3	44.5	147.9	7.1	6.4	4.4	9.0	11.5	7.2
2005	110.5	51.4	161.9	103.4	46.9	150.3	7.1	6.5	4.5	8.8	11.6	7.2
2006	111.6	52.7	164.3	104.4	48.0	152.4	7.2	6.5	4.7	8.9	11.9	7.3
2006												
Mar.	113.7	50.5	164.2	105.6	45.7	151.4	8.1	7.1	4.8	9.5	12.9	7.9
June	111.2	53.3	164.6	103.9	47.9	151.8	7.3	6.5	5.5	10.3	12.7	7.7
Sept.	110.6	54.3	164.9	103.9	49.9	153.7	6.7	6.1	4.4	8.1	11.1	6.8
Dec.	111.1	52.7	163.8	104.1	48.6	152.7	6.9	6.2	4.1	7.8	11.0	6.7
2007												
Mar.	112.1	52.7	164.8	104.7	48.9	153.7	7.4	6.6	3.8	7.2	11.2	6.8
June	110.9	55.8	166.7	104.6	50.9	155.6	6.2	5.6	4.8	8.7	11.1	6.6
Sept.	111.0	56.2	167.3	105.0	51.9	156.9	6.1	5.5	4.3	7.6	10.3	6.2

[1] Annual figures reflect the average for the year.

[2] As a percentage of male labour supply.

[3] As a percentage of female labour supply.

[4] As a percentage of total labour supply.

Source: NSO.

TABLE 4.5 PROPERTY PRICES INDEX BASED ON ADVERTISED PRICES

(base 2000 = 100)

Period	Total	Apartments	Maisonettes	Terraced houses	Others [1]
2003	129.3	128.2	128.0	130.5	122.8
2004	155.6	157.0	155.4	151.1	153.8
2005	170.9	173.7	176.7	188.9	160.3
2006	177.0	178.3	187.0	196.2	175.0
2006					
Mar.	174.8	174.9	189.4	194.1	177.0
June	181.5	180.7	187.2	194.1	185.6
Sept.	175.4	179.3	186.3	194.1	168.8
Dec.	176.3	178.4	185.3	202.2	168.6
2007					
Mar.	180.2	185.2	183.5	203.2	164.5
June	181.9	182.6	182.3	204.2	186.8
Sept.	177.3	181.7	181.6	205.2	172.7

[1] Consists of town houses, houses of character and villas.

Source: CBM estimates.

TABLE 4.6 DEVELOPMENT PERMITS FOR COMMERCIAL, SOCIAL AND OTHER PURPOSES[1]

Period	Commercial and social								Other permits[5]	Total permits
	Agriculture	Manufacturing[2]	Warehousing, retail & offices[3]	Hotels & tourism related	Restaurants & bars	Social[4]	Parking	Total		
2003	242	26	181	15	24	91	134	713	2,685	3,398
2004	261	31	192	8	25	49	105	671	2,583	3,254
2005	293	33	217	16	25	43	103	730	2,980	3,710
2006	267	38	169	9	26	30	84	623	3,129	3,752

[1] Changes to the data are mainly due to the Malta Environment & Planning Authority's policy of reassessing permit applications on a continuous basis. Excludes applications for dwellings and minor works on dwellings.

[2] Includes quarrying.

[3] Including the construction of offices, shops and retail outlets, warehouses, mixed offices and retail outlets, mixed residential premises, offices and retail outlets, mixed residential premises and retail outlets.

[4] Including the construction of premises related to the provision of community and health, recreational and educational services.

[5] Including the installation of satellite dishes and swimming pools, the display of advertisements, demolitions and alterations, change of use, minor new works and others.

Source: Malta Environment & Planning Authority.

TABLE 4.7 DEVELOPMENT PERMITS FOR DWELLINGS, BY TYPE[1]

Period	Number of permits[2]			Number of units[3]				
	New dwellings[4]	Minor works on dwellings	Total	Apartments	Maisonettes	Terraced houses	Others	Total
2003	1,321	517	1,838	4,548	1,085	414	81	6,128
2004	1,378	435	1,813	5,265	966	353	123	6,707
2005	1,852	570	2,422	7,539	1,058	363	121	9,081
2006	2,502	492	2,994	8,961	932	375	141	10,409

[1] Changes to the data are mainly due to the Malta Environment & Planning Authority's policy of reassessing permit applications on a continuous basis.

[2] Total for permits granted is irrespective of the number of units.

[3] Data comprise the actual number of units (e.g. a block of apartments may consist of several units).

[4] Including new dwellings by conversion.

Source: Malta Environment & Planning Authority.

TABLE 4.8 INFLATION RATES MEASURED BY THE RETAIL PRICE INDEX[1]

(base 1946 = 100)

Year	Index	Inflation rate (%)	Year	Index	Inflation rate (%)
			(continued)		
1946	100.00	-	1976	256.20	0.56
1947	104.90	4.90	1977	281.84	10.01
1948	113.90	8.58	1978	295.14	4.72
1949	109.70	-3.69	1979	316.21	7.14
1950	116.90	6.56	1980	366.06	15.76
1951	130.10	11.29	1981	408.16	11.50
1952	140.30	7.84	1982	431.83	5.80
1953	139.10	-0.86	1983	428.06	-0.87
1954	141.20	1.51	1984	426.18	-0.44
1955	138.80	-1.70	1985	425.17	-0.24
1956	142.00	2.31	1986	433.67	2.00
1957	145.70	2.61	1987	435.47	0.42
1958	148.30	1.78	1988	439.62	0.95
1959	151.10	1.89	1989	443.39	0.86
1960	158.80	5.10	1990	456.61	2.98
1961	164.84	3.80	1991	468.21	2.54
1962	165.16	0.19	1992	475.89	1.64
1963	168.18	1.83	1993	495.59	4.14
1964	172.00	2.27	1994	516.06	4.13
1965	174.70	1.57	1995	536.61	3.98
1966	175.65	0.54	1996	549.95	2.49
1967	176.76	0.63	1997[2]	567.95	3.27
1968	180.42	2.07	1998	580.61	2.23
1969	184.71	2.38	1999	593.00	2.13
1970	191.55	3.70	2000	607.07	2.37
1971	196.00	2.32	2001	624.85	2.93
1972	202.52	3.33	2002	638.54	2.19
1973	218.26	7.77	2003	646.84	1.30
1974	234.16	7.28	2004	664.88	2.79
1975	254.77	8.80	2005	684.88	3.01
			2006	703.88	2.77

[1] The Index of Inflation (1946 = 100) is compiled by the NSO on the basis of the Retail Price Index in terms of Article 13 of the Housing (Decontrol) Ordinance, Cap. 158.

[2] Following the revision of utility rates in November 1998, the index and the rate of inflation for the year 1997 were revised to 567.08 and 3.11% respectively. Consequently, the rate of inflation for 1998 would stand at 2.39%.

TABLE 4.9 MAIN CATEGORIES OF RETAIL PRICE INDEX

(base December 2002 = 100)

Period	All Items Index	12-month moving average rates of change (%)[1]										
		All Items	Food	Beverages & tobacco	Clothing & footwear	Housing	Water, electricity, gas & fuels	H/hold equip. & house maint. costs	Transp. & Comm.	Personal care & health	Recreation & culture	Other goods & services
2003	100.7	1.3	2.3	2.7	-6.4	2.2	0.0	-1.0	2.6	3.3	0.4	4.2
2004	103.6	2.8	0.2	9.2	-2.5	3.8	1.3	2.2	4.0	5.1	1.2	8.0
2005	106.7	3.0	1.8	2.4	-0.5	5.0	23.0	2.1	3.8	3.6	1.1	3.0
2006	109.6	2.8	2.0	2.2	-1.8	4.8	26.0	1.5	3.3	2.9	-0.2	2.3
2006												
Jan.	107.1	3.0	1.8	2.3	-0.7	5.1	23.3	2.2	3.7	3.6	0.9	2.8
Feb.	107.7	2.9	1.6	2.3	-0.7	5.2	23.6	2.2	3.7	3.5	0.8	2.8
Mar.	109.1	2.9	1.7	2.4	-0.8	4.9	25.3	2.2	3.6	3.5	0.6	2.6
Apr.	110.3	3.0	1.8	2.4	-0.9	4.7	26.9	2.2	3.7	3.4	0.5	2.6
May	110.9	3.0	1.7	2.5	-0.8	4.6	28.2	2.2	3.9	3.4	0.4	2.6
June	110.5	3.1	1.5	2.6	-0.6	4.6	29.6	2.1	4.2	3.3	0.3	2.6
July	110.0	3.3	1.7	2.5	0.4	4.6	30.8	2.0	4.5	3.4	0.2	2.6
Aug.	109.5	3.4	1.7	2.5	0.8	4.6	31.9	1.9	4.6	3.3	0.1	2.5
Sept.	110.2	3.4	1.8	2.4	0.3	4.6	33.2	1.8	4.8	3.3	0.0	2.5
Oct.	110.6	3.3	1.7	2.4	-0.6	4.7	34.2	1.7	4.5	3.2	0.0	2.4
Nov.	109.9	3.0	1.8	2.3	-1.3	4.7	30.0	1.6	3.9	3.1	-0.1	2.4
Dec.	109.9	2.8	2.0	2.2	-1.8	4.8	26.0	1.5	3.3	2.9	-0.2	2.3
2007												
Jan.	108.6	2.7	2.2	2.2	-1.4	4.6	24.2	1.4	2.9	2.8	0.0	2.2
Feb.	108.9	2.6	2.5	2.2	-1.5	4.4	22.3	1.4	2.5	2.7	0.2	2.1
Mar.	109.4	2.4	2.5	2.2	-2.1	4.4	17.7	1.3	2.2	2.7	0.4	1.9
Apr.	110.2	2.0	2.3	2.1	-2.3	4.2	13.4	1.2	1.6	2.5	0.6	1.7
May	110.4	1.7	2.3	2.0	-2.7	4.0	9.6	1.0	0.9	2.4	0.7	1.4
June	110.5	1.4	2.5	1.8	-3.1	3.8	6.0	0.9	0.2	2.2	0.9	1.2
July	110.7	1.1	2.5	1.8	-3.3	3.6	2.8	0.8	-0.3	2.1	1.0	1.0
Aug.	111.0	0.9	2.8	1.8	-3.9	3.5	-0.1	0.7	-0.7	2.0	1.1	0.9
Sept.	112.2	0.8	3.2	1.8	-3.4	3.4	-3.0	0.8	-1.3	1.9	1.2	0.7

[1] 12-month moving average rates of change in the RPI sub-indices were compiled by the Central Bank of Malta.

TABLE 4.10 MAIN CATEGORIES OF HARMONISED INDEX OF CONSUMER PRICES

(base 2005=100)

Period	All Items Index	12-month moving average rates of change (%)												
		All Items	Food & non-alcoholic beverages	Alcoholic beverages & tobacco	Clothing & footwear	Housing, water, electricity, gas & other fuels	Furnishings, household equipment & routine maintenance of the house	Health	Transport	Communications	Recreation & culture	Education	Restaurants & hotels	Miscellaneous goods & services
2003	94.9	1.9	2.0	1.2	-6.8	1.9	-0.3	5.6	2.1	-0.2	1.3	3.2	7.4	2.3
2004	97.5	2.7	-0.3	13.0	-2.5	2.8	2.8	6.9	4.0	10.2	0.2	3.0	2.6	5.8
2005	100.0	2.5	1.8	1.8	-0.5	9.3	2.4	5.5	3.5	10.0	1.9	1.6	0.0	3.0
2006	102.6	2.6	2.2	0.6	-1.8	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2006														
Jan.	98.3	2.6	1.9	1.7	-0.7	9.5	2.4	5.4	3.6	8.8	1.8	1.7	0.2	2.9
Feb.	98.9	2.6	1.6	1.6	-0.8	9.6	2.4	5.2	3.8	7.0	1.7	1.9	0.4	2.9
Mar.	100.0	2.6	1.7	1.5	-0.8	9.8	2.4	5.0	3.9	5.4	1.5	2.0	0.7	2.9
Apr.	104.2	2.7	1.9	1.4	-0.9	10.2	2.5	4.9	4.2	3.9	1.5	2.0	1.1	2.9
May	104.8	2.8	1.7	1.4	-0.8	10.5	2.5	4.7	4.6	2.4	1.5	2.1	1.5	3.0
June	104.6	2.9	1.5	1.3	-0.6	10.8	2.5	4.6	5.0	2.1	1.4	2.2	1.8	3.0
July	105.0	3.1	1.7	1.2	0.4	11.2	2.4	4.6	5.4	1.8	1.2	2.2	1.8	3.1
Aug.	104.7	3.1	1.9	1.1	0.8	11.5	2.3	4.6	5.7	1.5	0.9	2.3	1.6	3.1
Sept.	104.9	3.2	2.0	1.0	0.3	11.9	2.2	4.5	6.0	1.2	0.6	2.4	2.0	3.0
Oct.	104.3	3.1	1.8	0.9	-0.6	12.3	2.2	4.4	5.6	0.9	0.4	2.4	2.2	2.9
Nov.	100.7	2.8	2.0	0.7	-1.2	11.4	2.1	4.2	4.9	0.7	0.3	2.5	1.9	2.9
Dec.	100.6	2.6	2.2	0.6	-1.8	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2007														
Jan.	99.5	2.5	2.3	0.6	-1.4	10.0	1.9	3.9	3.6	0.2	0.4	2.6	1.8	2.8
Feb.	99.7	2.4	2.7	0.6	-1.4	9.4	1.8	3.8	2.9	0.2	0.6	2.7	1.5	2.6
Mar.	100.5	2.2	2.6	0.6	-1.9	8.2	1.6	3.8	2.5	0.3	0.9	2.7	1.5	2.5
Apr.	103.0	1.8	2.4	0.6	-2.1	6.8	1.5	3.5	1.8	0.3	0.8	2.9	0.9	2.3
May	103.8	1.4	2.3	0.6	-2.6	5.6	1.3	3.4	0.9	0.3	0.8	3.0	0.4	2.0
June	104.0	1.1	2.4	0.5	-3.0	4.4	1.2	3.3	0.1	0.4	0.8	3.1	0.1	1.8
July	104.7	0.7	2.4	0.5	-3.3	3.4	1.0	3.1	-0.6	0.4	0.8	3.2	-0.4	1.5
Aug.	105.3	0.5	2.7	0.5	-3.9	2.4	1.0	3.0	-1.2	0.4	1.0	3.3	-0.6	1.4
Sept.	105.8	0.4	2.9	0.6	-3.4	1.4	1.0	2.9	-2.0	0.4	1.0	3.4	-0.9	1.2

Source: NSO, Eurostat.

GENERAL NOTES

PART 1 MONETARY, BANKING, FINANCIAL MARKETS AND INVESTMENT FUNDS

Institutional balance sheets

The balance sheets published in Tables 1.1 and 1.2 are based on accounting principles. Consequently, the data in these tables might differ from those shown in other tables compiled according to statistical concepts and methodologies.

General monetary statistical standards

Since October 2003, the compilation of monetary statistics has been consistent with internationally agreed statistical concepts and methodologies as set out in the IMF's *Monetary and Financial Statistics Manual* (2000), ECB Regulation 2001/13 concerning the consolidated balance sheet of the monetary financial institutions (MFI) sector and the European System of Accounts (ESA 1995). Prior to October 2003, the compilation of monetary statistics was broadly in line with the IMF's *A Guide to Money and Banking Statistics in International Financial Statistics* of December 1984.

Determination of 'residence'

Monetary data are based on the classification of transactions by the residence of the transactor, who may either be a resident or a non-resident of Malta. A transactor is an economic entity that is capable in its own right of owning assets, incurring liabilities and engaging in economic activities with other entities. The internationally agreed residence criterion for the purposes of statistical compilation is based on the transactor's 'centre of economic interest'.

The term 'centre of economic interest' indicates that there exists some location within the economic territory on or from which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). Those companies solely undertaking international business activities, including shipping activities, which have a physical presence and undertake a significant degree of economic activity in Malta, are considered resident units.

Transactors not meeting the above-mentioned criteria, that is, units that have their 'centre of economic interest' in other countries, are considered to be non-residents. Hence, diplomatic bodies, embassies, consulates and other entities of a foreign government located in Malta are considered to be residents of the country they represent and not of Malta.

Sector classification of the Maltese economy

The main sectors of the Maltese economy, for statistical reporting purposes, are currently subdivided by their primary activity into:

(a) Monetary financial institutions (MFIs)
(b) Other financial intermediaries and financial auxiliaries
(c) Insurance companies and pension funds
(d) General government
(e) Non-financial companies
(f) Households and non-profit institutions (NPISH)

In addition to the above, there are those transactors that are considered to be non-residents (also referred to as the 'external sector' or the 'rest of the world').

(a) **Monetary financial institutions** (MFIs) consist of:

i. The **central bank**, which is the national financial institution that exercises control over key aspects of the financial system and whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country.

ii. **Other monetary financial institutions** (OMFIs), which in Malta consist almost entirely of credit institutions. The business of OMFIs is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. Credit institutions licensed in Malta comprise banks licensed by the competent authority under the Banking Act (Cap. 371). In accordance with the Banking Co-ordination Directives of December 1977 and December 1989 (77/780/EEC and 89/646/EEC), a credit institution is "an undertaking whose business is to receive deposits or other repayable funds from the public - including the proceeds arising from the sales of bank bonds to the public - and to grant credit for its own account".

(b) **Other financial intermediaries and financial auxiliaries:**

Other financial intermediaries are non-monetary financial companies (excluding insurance companies and pension funds) principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs. The principal activities of these institutions may include one or more of the following: long-term financing, financial leasing, factoring, security and derivative dealing, receiving deposits and/or close substitutes for deposits from MFIs only, and managing investment trusts, unit trusts and other collective investment schemes.

Financial auxiliaries are companies that are principally engaged in auxiliary financial activities, that is, activities closely related to financial intermediation, but which are not financial intermediaries themselves. The following are examples of companies classified in this sector: insurance, loan and securities brokers, investment advisers, flotation companies that manage issues of securities, central supervisory authorities of financial intermediaries and financial markets when these are separate institutional units, managers of pension funds and mutual funds and companies providing stock exchange and insurance exchange services.

(c) **Insurance companies and pension funds:**

This sector comprises non-monetary financial companies principally engaged in financial intermediation as the consequence of the pooling of risks. Insurance companies consist of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire or other forms of insurance to individual institutional units or groups of units.

Pension funds included in this sector are those that are constituted as separate from the units that created them. They are established for the purpose of providing retirement benefits for specific groups of employees. They have their own assets and liabilities, and they engage in financial transactions on their own account. These funds are organised and directed by individual private or government employers, or jointly by individual employers and their employees, and towards which the employees and/or employers make regular contributions.

(d) **General government:**

General government includes all institutional units principally engaged in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. This is sub-divided into:

i. **Central government,** which includes all administrative departments of the state and other central agencies whose competence extends over the whole economic territory. Central government thus includes departments, ministries, and offices of government located in the country together with embassies, consulates, military establishments and other institutions of government located outside the country. Also included in the central government sector are extra-budgetary units, also termed public non-market units. These comprise institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and/or that are involved in the redistribution of national income and wealth. These units/entities do not charge "economically significant" prices and/or did not cover at least 50% of their production costs in sales over the last years.

ii. **Other general government,** which in Malta comprises solely the local government sector. Local government includes administrative departments, councils or agencies whose competence covers only a restricted part of the economic territory of the country.

The **Public Sector** comprises the general government sector and public companies, the latter being those companies that are owned by government or are subject to government control.

(e) **Non-financial companies:**

This sector comprises companies not engaged in any form of financial intermediation but engaged principally in the production of market goods and non-financial services. Included in this sector are market-producing co-operatives, partnerships and sole proprietorships recognised as independent legal entities, which are subdivided into:

i. **Public non-financial companies,** i.e. companies that are subject to control by government units. Control over a company is defined as the ability to determine general corporate policy by choosing appropriate directors or by owning more than half of the voting shares or otherwise controlling more than half of the shareholders' voting power. In addition, the government may secure control over a company or corporation by a special decree or regulation that enables it to determine corporate policy or to appoint the directors. These state-owned non-financial companies are to be distinguished from the extra-budgetary units included in the general government sector, since they are considered to be producing goods and services to the market, and/or to be charging economically-significant prices, and/or more than 50% of their production costs are covered by their sales.

ii. **Private non-financial companies,** i.e. companies that are controlled by non-government units, whether resident or non-resident.

(f) **Households and non-profit institutions serving households (NPISH):**

This sector comprises individuals or groups of individuals that are consumers and producers of goods and non-financial services exclusively intended for their own final consumption. It includes non-profit institutions serving households principally engaged in the production of non-market goods and services intended for particular sections of households and market-producing co-operatives, partnerships and sole proprietorships that are not recognised as independent legal entities.

Classification of economic activities

The classification of economic activities follows the standards of Regulation (EEC) No 3037/90 entitled "Nomenclature générale des activités économiques dans les Communautés européennes" (General industrial classification of economic activities within the European Communities), known by the acronym NACE Rev.1.

Measures of money

The Bank compiles data on three main monetary aggregates: narrow money (M1), intermediate money (M2) and broad money (M3).

Narrow money (M1) includes the most liquid components of M3, namely currency in circulation, demand deposits and savings deposits withdrawable on demand. Excluded from demand deposits are uncleared effects drawn on OMFIs and cheques and other items in the process of collection, but non-government deposits with the Central Bank of Malta are included.

Intermediate money (M2) comprises M1, residents' savings deposits redeemable at notice and time deposits with an agreed maturity of up to and including two years.

Broad money (M3) comprises M2 and the OMFIs' repurchase agreements with the non-bank sector and OMFIs' debt securities issued with an agreed maturity of up to and including two years. It therefore includes the resident non-bank sector's holdings of bank notes and coins in circulation, resident non-bank and non-government deposits irrespective of denomination, the OMFIs' repurchase agreements with the non-bank sector and the banks' issues of debt securities, all with an agreed maturity of up to and including two years.

The Monetary Base

The monetary base (M0) is defined as currency in issue together with the OMFIs' deposits with the Central Bank of Malta. Currency in issue comprises both currency in circulation and holdings of national currency by the banks. OMFIs' deposits with the Central Bank of Malta exclude term deposits and other bank deposits that are restricted for a significant period of time.

Compilation and valuation principles

Monetary statistics are based on a consolidation of the monthly financial statements provided by the local OMFIs and the Central Bank of Malta. The OMFIs must submit data to the Central Bank not later than twelve calendar days following the end of the reporting month or quarter. Branches and subsidiaries of OMFIs operating in Malta but whose head offices/parent companies are located abroad are also obliged to submit similar data. The reporting institutions compile monthly financial information in line with international accounting norms as established by the International Accounting Standards Committee. In addition, in certain instances, the OMFIs are required to submit returns in accordance with specific statistical requirements as instructed by the Central Bank.

Monetary data show stock positions, which are outstanding balances as at the end of the reference period. Monetary aggregates are consolidated for the MFI sector, so that all identifiable interbank transactions are eliminated. Assets and liabilities are generally reported at market or fair value and on an accruals basis. Thus, the effects of transactions and other events are recognised when they occur rather than when cash is received or paid. Transactions are recorded at the time of change in ownership of a financial asset. Within this context, change in ownership is accomplished when all rights, obligations and risks are discharged by one party and assumed by another. Instruments are reported in accordance with their maturity at issue, that is, by original maturity. Original maturity refers to the fixed period of life of a financial instrument before which it cannot be redeemed.

All financial assets and liabilities are reported on a gross basis. Loans - which include overdrafts, bills discounted and any other facility whereby funds are lent - are reported at their book value and gross of all related provisions, both general and specific. Financial assets and liabilities that have demonstrable value - as well as non-financial assets - are considered as on balance sheet items. Other financial instruments which are conditional on the occurrence of uncertain future events, such as contingent instruments, are not given on balance sheet recognition. Only the gains and losses on the latter instruments are treated as on balance sheet items.

Release of monetary statistics

Monthly provisional consolidated monetary statistics are posted on the Central Bank of Malta's website generally by the end of the month following the reference month. Such monetary statistics are considered provisional since the Central Bank may need to revise the data referring to the periods prior to the current reference period arising from, for example, reclassifications or improved reporting procedures. Subsequently, such provisional monetary data, together with related analytical information, are released to the press through the Bank's monthly '*Statistical Release on Monetary Aggregates and their Counterparts*' and, in more detail, in the Central Bank of Malta's *Quarterly Review* and *Annual Report*. The statistics released in the *Quarterly Review* and *Annual Report* are generally considered to be final. Major revisions to the data are also highlighted by means of footnotes in these publications. When major revisions to the compilation methodology are carried out, the Bank releases advance notices in its official publications.

Financial market indicators

The statutory interest rates used by the Central Bank of Malta and other indicative benchmark money market rates are given as end-of-period rates as a percentage per annum. The repurchase agreement/term deposit rates are the prevailing rates actually dealt in at the end of the month or the rates offered by the Central Bank of Malta. The interbank market offered rates shown are the prevailing rates of the last dealings between banks in the official interbank market during the last month of the period reported. When no deals are transacted, the Central Bank of Malta fixing rate average is used.

The weighted average deposit rates on current, savings and time deposits refer to the interest rates applicable on resident Maltese lira deposits only. These rates are calculated by multiplying each amount by the different rates on each type of deposit and dividing by the total amount of each type of deposit. The weighted average rate on time deposits is calculated on all time deposits. The weighted average lending rate is calculated by multiplying the amount of each loan extended to residents in local currency by the interest rate applied thereto and dividing by the total amount.

The primary market Treasury bill rates are the weighted averages of the rates attached to the bills that are taken up by bidders at the weekly auction. Treasury bills are classified by original maturity. A "-" sign implies that no transactions occurred during the reference period. Meanwhile, the secondary market yields represent the wholesale selling rates quoted by the Central Bank of Malta at the end of the reference period for amounts of Lm50,000 or over in each respective tenor. Interest rates on Malta Government long-term debt securities represent average International Securities Market Association (ISMA) redemption yields on applicable stocks with the periods specified referring to the remaining term to maturity. ISMA yields are quoted on the basis of an annual compounding period, irrespective of how many coupon periods per annum the stock has.

The Malta Stock Exchange (MSE) share index is calculated real-time during each trading day. It is based on the last closing trade prices of the shares of all eligible companies and weighted by their current market capitalisation. The index has a base of 1,000 initiating on 27 December 1995.

Investment funds

The investment funds sector consists of the collective investments schemes licensed by the MFSA that have a centre of economic interest in Malta, other than professional investor funds and money market funds. The balance sheet is aggregated and therefore includes, among the assets and liabilities, holdings by investment funds of shares/units issued by other investment funds.

PART 2 GOVERNMENT FINANCE

Tables in this section show the general government fiscal position compiled on the basis of ESA 95 methodology. The data are consolidated between the sectors of government. The sources for such data are the NSO and Eurostat. Government expenditure classified by function is based on the OECD's Classification of the Functions of Government (COFOG), which is a classification of the functions, or socio-economic objectives, that the general government sector aims to achieve through various outlays. The table showing the general government deficit-debt adjustment (DDA) shows how the general government deficit is financed and considers the relationship between the deficit and Maastricht debt. The DDA thus reconciles the deficit over a given period with the change in Maastricht debt between the beginning and the end of that period. It is mainly explained by government transactions in financial assets, such as through privatization receipts or the utilization of its deposit accounts, and by valuation effects on debt.

The general government debt is defined as the total gross debt at nominal value outstanding at the end of a period and consolidated between and within the various sections of the government. Also shown are data on debt guaranteed by the government, which mainly relate to the non-financial public sector companies. Government guaranteed debt excludes guarantees on the MIGA and IBRD positions and government guarantees on foreign loans taken by the Central Bank of Malta on behalf of government - which loans already feature in the calculation of government external debt. They also include guarantees on loans granted by the extra-budgetary units but exclude guarantees granted to them by government as these already feature as general government debt.

The methodology underlying the compilation of data on the external loans of general government is generally consistent with the standards of the World Bank's Debtor Reporting System (DRS). Data refer to external loans with an original maturity of one year and over. Debt is recognised when disbursement of funds is effected. Data are converted to Maltese liri using end-of-period exchange rates.

PART 3 EXCHANGE RATES, EXTERNAL TRANSACTIONS AND POSITIONS

Exchange rates statistics show the end-of-period and average exchange rates of the Maltese lira against other currencies. The Maltese lira average exchange rates are calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta middle rates.

The concepts and definitions used in the compilation of balance of payments and international investment position (IIP) statistics are generally in line with the IMF Balance of Payments Manual (BPM05). The conventions of the system are also in line with the IMF manual. Credit entries are recorded for e.g. exports, income receivable and financial items, reflecting reductions in the economy's foreign assets or increases in its foreign liabilities. Conversely, debit entries are recorded for e.g. imports, income payable and financial items, reflecting increases in assets or decreases in liabilities. The concepts of economic territory, residence, valuation and time of recording are broadly identical to those used in the compilation of monetary statistics. The IIP statistics are based on positions vis-à-vis non-residents of Malta and are, in most cases, valued at current market prices. The concepts used in the compilation of gross external debt generally complies with the IMF'S guidelines. Such data may not be fully reconcilable with the data shown in the IIP primarily due to conceptual differences. The external debt data of the OMFIs are being shown as a memorandum item as such debt is totally backed by foreign assets.

The official reserve assets concept is also in line with the IMF's Balance of Payments Manual (BPM05). Official reserve assets refer to the country's international reserves, which are those external assets that are readily available to, and controlled by, the monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.
The concepts used in the compilation of gross external debt complies with the IMF's "External debt statistics - guide for compilers and users". Such data may not be fully reconcilable with the data shown in the IIP primarily due to some conceptual differences. The external debt of the other monetary financial institutions is being separately shown as a memorandum item as such debt is totally backed by foreign assets of these institutions.

PART 4 REAL ECONOMY

National accounts and other general economic statistics are mostly produced by the NSO in accordance with ESA 95 standards except for the labour market indicators, which are based on the ETC's administrative records, and the RPI. Data on development permits are sourced from the Malta Environment and Planning Authority (MEPA).

Labour market statistics comprise those compiled on the basis of the NSO's Labour Force Survey (LFS) and the ETC's administrative records. The LFS is based on a random sample of private households using concepts and definitions outlined by Eurostat according to methodologies established by the International Labour Organisation (ILO). As from March 2004, data are based on a weekly survey carried out throughout the reference quarter, whereas from June 2005 data are weighted using a new procedure and are, thus, not strictly comparable with figures prior to this period. The labour market data based on the administrative records of the ETC represent a measure of the gainfully occupied population using information obtained from the engagement and termination forms filed with the ETC itself. ETC data on unemployment are based on the number of persons registering for work under Part 1 and Part 2 of the unemployment register.

The RPI covers all monetary consumption expenditure incurred by Maltese residents weighted according to the spending pattern derived from the Household Budgetary Survey 2000/1. On the other hand, the HICP covers all household final consumption expenditure irrespective of nationality or residence status. Consequently, the HICP uses weights that cover not only private and institutional household expenditure but also tourism expenditure in Malta. The differences in these weighting schemes account significantly for the monthly disparities in the RPI and the HICP.

The sources of data used in the compilation of the Central Bank's property prices index are the properties advertised for sale in all localities in Malta and Gozo in the property section of a local Sunday newspaper. Data for a particular quarter are derived from the newspapers published on the first Sunday of each month within the quarter. The property types include flats and maisonettes, both in shell and in finished form, together with terraced houses, townhouses, houses of character and villas. Indices for each property type are derived on the basis of median prices weighted by the number of observations in each property category. The overall index is a Fischer chained index, calculated as the square root of the product of the chained Laspeyres and the chained Paasche indices. Annual data are derived as an average of the quarterly indices. Prices of commercial properties are excluded from the index.