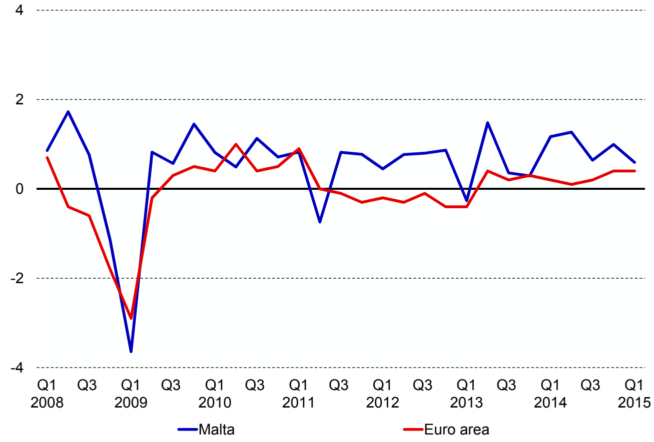
SUPPLEMENT TO THE QUARTERLY REVIEW 2015:1

Gross domestic product in the first quarter of 2015

Real GDP growth remains strong

On 8 June 2015, the National Statistics Office (NSO) published provisional gross domestic product (GDP) figures for the first quarter of 2015.[1] During this period the Maltese economy expanded at a slightly more moderate pace, in annual terms, than it did in the fourth quarter of 2014. Real GDP rose by 4.0% in the first quarter, from an upwardly-revised rate of 4.2% in the previous quarter. Growth was driven entirely by net exports. Malta's annual growth rate significantly exceeded the euro area's as a whole.

Chart 1
REAL GDP GROWTH
(quarter-on-quarter percentage changes; seasonally adjusted)



Sources: NSO; Eurostat.

In seasonally adjusted terms, real GDP in Malta expanded at a quarterly rate of 0.6% during the first three months of 2015, down from 1.0% in the previous quarter (see Chart 1). Nevertheless, the Maltese economy continued to expand more rapidly than the euro area economy, where the quarterly growth rate stood at 0.4%, unchanged from the previous quarter.

Net exports drive GDP growth

During the first quarter of 2015 net exports rose, as imports fell faster than exports. They contributed 4.2 percentage points to real GDP growth and outweighed the drop in domestic demand (see Table 1).

Exports dropped by 5.5%, year-on-year, mostly owing to lower foreign sales of goods, while service exports dropped only marginally. Reflecting the reduction in exports and a drop in domestic demand, total imports fell by 7.9%. This stemmed largely from a drop in imports of goods, while imports of services were only slightly lower than a year earlier.

Domestic demand dampens growth

In the quarter under review, domestic demand contracted by 0.3% on a year earlier, after having increased significantly in the previous quarter. This dampened real GDP growth by 0.2 percentage point. Investment fell sharply when compared with the first quarter of 2014, whereas the other major components of domestic demand expanded at a slower annual rate. In addition, changes in inventories had a significant positive impact on growth.

[1] See *NSO News Release* 108/2015. These statistics are not commented on in the main text of the *Quarterly Review* 2015:1, as they became available after the *Review's* cut-off date.

Table 1
GROSS DOMESTIC PRODUCT[1]

	2014				2015
	Q1	Q2	Q3	Q4	Q1
	Annual percentage changes				
Private final consumption expenditure	1.8	3.6	3.4	4.6	2.3
Government final consumption expenditure	4.1	11.2	5.0	8.3	3.6
Gross fixed capital formation	15.4	2.6	5.2	14.8	-18.3
Domestic demand	**-0.1**	**0.6**	**-1.3**	**7.2**	**-0.3**
Exports of goods & services	0.8	4.3	-1.4	1.0	-5.5
Imports of goods & services	-1.2	2.5	-4.5	2.8	-7.9
Gross domestic product	**3.6**	**3.4**	**3.0**	**4.2**	**4.0**
	Percentage point contributions				
Private final consumption expenditure	1.1	2.1	1.8	2.6	1.3
Government final consumption expenditure	0.9	2.3	0.9	1.6	0.8
Gross fixed capital formation	3.1	0.5	0.8	2.8	-4.1
Changes in inventories	-5.2	-4.3	-4.6	-0.4	1.8
Domestic demand	**-0.2**	**0.5**	**-1.1**	**6.7**	**-0.2**
Exports of goods & services	1.2	6.7	-2.2	1.6	-9.0
Imports of goods & services	2.6	-3.8	6.3	-4.1	13.2
Net exports	**3.8**	**2.8**	**4.2**	**-2.5**	**4.2**
Gross domestic product	**3.6**	**3.4**	**3.0**	**4.2**	**4.0**

[1] Chain-linked volumes, reference year 2010.
Sources: NSO; Central Bank of Malta calculations.

Private consumption continued to rise, sustained by further growth in employee compensation. However, at 2.3%, the annual growth rate halved compared with the previous quarter. Private consumption still contributed 1.3 percentage points to GDP growth.

Government consumption growth slowed down significantly, to 3.6% from 8.3% in the previous three-month period. In nominal terms, higher expenditure on public administration & defence, health and education mainly accounted for the growth in the first quarter of 2015. Both compensation of employees and intermediate consumption rose on their year-ago levels, though the annual rates of growth eased.

On the other hand, gross fixed capital formation dropped by 18.3% on a year earlier, reversing the increases registered in the previous five quarters. Thus, investment reduced real GDP growth by 4.1 percentage points. The fall in investment can be largely attributed to lower spending on non-residential construction and machinery. Conversely, investment in dwellings rose, as did expenditure on transport equipment. The drop in investment was driven entirely by the private sector, as government investment increased on a year earlier.