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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
EONIA	Euro OverNight Index Average
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
EURIBOR	Euro Interbank Offered Rate
FI	fungibility issue
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
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
NCB	national central bank
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 Price Index

## FOREWORD

On 3 July 2008 the Governing Council of the ECB raised the minimum bid rate on its main refinancing operations by 25 basis points to 4.25%. The decision was taken to counter mounting inflationary pressures and prevent broad-based second round effects on prices and wages. It then kept the rate unchanged at this level throughout the remainder of the third quarter. On 8 October, however, following an intensification of the global financial crisis, which augmented the downside risks to growth and diminished the upside risks to price stability, the ECB, in a concerted action with other major central banks, reduced the minimum bid rate by 50 basis points to 3.75%.

In the second quarter of 2008, economic activity in the major industrialised countries slowed down, as ongoing tensions in financial markets and high food and energy prices continued to dampen economic growth. Nevertheless, growth remained robust in the main emerging markets. Spiralling food and energy prices, however, continued to exert significant inflationary pressures, with oil prices reaching a record high in July before receding.

In the euro area, following strong growth during the first quarter of the year, the economy grew at a markedly slower pace in the second quarter as domestic demand eased. Meanwhile, area-wide inflation reached a peak of 4.0% in June, driven by high international oil and food commodity prices, before easing during the third quarter. The September 2008 ECB staff projections scaled down the outlook for economic growth in the euro area, but inflation was expected to remain high.

Thus far, the Maltese economy appears to have been largely sheltered from the general downturn hitting its major markets. During the second quarter, real GDP expanded by 3.2%, year-on-year, only marginally below the rate recorded in the first quarter. Growth continued to be driven by domestic demand, primarily in the form of higher consumption expenditure and a sharp accumulation of inventories, whereas net exports contributed negatively to growth for the third consecutive quarter.

There are also ongoing signs of a correction in the domestic housing market. In particular, price pressures appear to be subdued, with the Bank's measure of residential property prices falling by almost 3%, year-on-year, in the second quarter of 2008.

In line with continued economic expansion, however, conditions in the labour market remained favourable. The private sector continued to fuel job creation, though employment growth slowed down somewhat. According to the LFS, employment grew by 1.3% on a year earlier during the second quarter, while the unemployment rate remained stable at a relatively low 6.0%.

Looking ahead, according to the Bank's survey of services and construction firms, respondents were less upbeat about the final quarter of the year. This contrasts with data published by the European Commission, which indicate that confidence among firms in the manufacturing sector recovered in July and August, while consumer sentiment stabilised.

Meanwhile, the rise in international food and fuel prices continued to feed into domestic consumer prices. Hence the annual rate of inflation, measured on the basis of the HICP, increased marginally during the quarter, edging up from 4.3% in March to 4.4% in June. The pick-up reflected higher prices of services (especially hotel and restaurant charges), and of food and energy. Going into

the third quarter, price pressures intensified, with the annual inflation rate accelerating to 5.6% in July.

There is a need to avoid second-round effects on wages and prices stemming from past inflation, which would result in an erosion of the Maltese economy's international competitiveness. This would have adverse consequences on employment and income in the medium term. Indeed, measured on a four-quarter moving sum basis, unit labour costs went up by 1.4% over the year to June 2008, as employee compensation increased more rapidly than labour productivity. At the same time, the harmonised competitiveness indicator (HCI) rose by 5.5% over the period, also suggesting some loss of competitiveness. However, both the increase in unit labour costs and the rise in the HCI were smaller than those registered in the euro area as a whole.

Maintaining external competitiveness is crucial if additional pressures on Malta's balance of payments are to be avoided, particularly at a time of weakening external demand. In fact, during the second quarter of 2008, the deficit on the current account widened considerably when compared to the same quarter a year earlier, reflecting a marked increase in the merchandise trade gap as a result of the higher costs of imported fuel and a decline in the value of manufactured exports. On the other hand, a large surplus was recorded on the capital and financial account.

Developments in money and credit aggregates were mixed. The contribution of Maltese MFIs to the euro area broad money stock decreased during the June quarter as residents' deposits contracted. At the same time, credit to residents of Malta gathered pace, while net claims on non-residents of the euro area increased. Consequently, the annual rate of growth of residents' deposits included in M3 slowed down considerably, reaching 7.9% in August, while the annual growth rate of credit to residents accelerated to 10.4%.

Developments in domestic financial markets were driven by changes abroad, at least as far as yields on debt securities are concerned. Money market yields rose during the second quarter, following similar movements in EURIBOR rates. In the capital market, yields on both 5-year and 10-year government bonds increased, reflecting higher yields in the euro area, while equity prices continued to fall.

On the fiscal front, the Consolidated Fund deficit for the first eight months of 2008 widened when compared to that for the same period of 2007, as expenditure rose much faster than revenue. Similar patterns were reflected in a widening of the general government balance, which poses risks to the attainment of the Government's fiscal targets for the year.

This edition of the *Quarterly Review* also contains an update of the Bank's financial stability analysis. The opinion expressed in the 2007 Annual Report that a continuation of the global financial turmoil would constitute a downside risk to Malta's economic and financial performance still holds in 2008. The main risks identified at the end of last year continue to be present, with concentration risks emanating from the banking system's exposure to the property sector remaining the most significant. Clearly, the banks' asset quality would be negatively affected by a slowing economy and any further correction in the property market. Nonetheless, Maltese banks remain sufficiently liquid and well capitalised to cover credit, operational and market risks.

From the current perspective, the recent international developments point to increased downside risks to growth for the Maltese economy. While the direct effects of the international financial

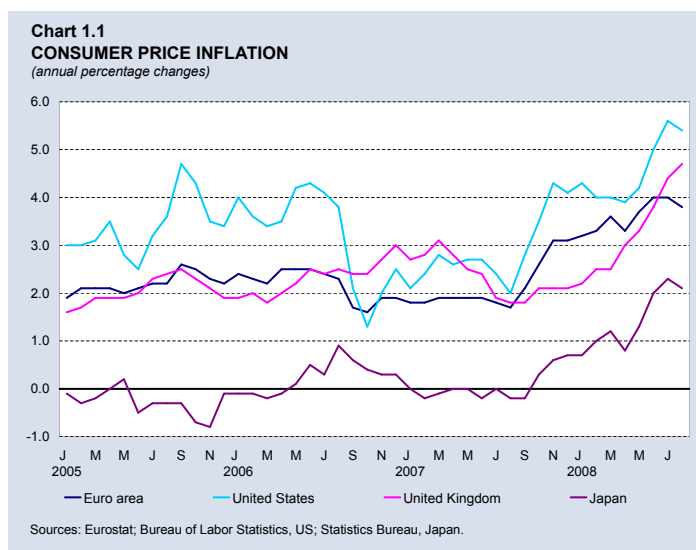
crisis remain contained, it is nevertheless essential that the effects of weaker foreign demand for Malta's exports are not compounded by a loss of competitiveness. In this environment it becomes even more important to seek out productivity gains and to avoid responses to past increases in international commodity prices that would trigger second round inflation or a wage-price spiral. In addition, fiscal policy should remain oriented towards attaining a balanced budget in the medium term. Insufficient fiscal discipline would only tend to aggravate existing macroeconomic imbalances.

## ECONOMIC SURVEY

### 1. DEVELOPMENTS IN THE INTERNATIONAL AND EURO AREA ECONOMY

Economic activity in the major industrialised countries slowed down in the second quarter of 2008 as ongoing tensions in financial markets and high food and energy prices continued to dampen economic growth. Nonetheless, real GDP growth remained robust in the main emerging markets. Meanwhile, high international commodity prices exacerbated inflationary pressures worldwide.

In the euro area, real GDP grew at a slower pace than in the first quarter but inflation rose to new record highs. To counter inflationary pressures and prevent broadly based second-round effects, the ECB raised official interest rates by 25 basis points on 3 July 2008. It then kept the minimum bid rate on its main refinancing operations unchanged at 4.25% throughout the third quarter.



#### International economic developments

##### *US economic activity slows down, inflation accelerates further*

In the United States year-on-year economic growth slowed to 2.1% in the second quarter of 2008, from 2.5% in the previous three-month period (see Table 1.1). On an annual basis, growth in government and personal consumption expenditure remained stable, while exports increased at a faster pace. Compared to the March quarter, the year-on-year decline in private investment accelerated, reflecting the continued fall in residential investment. Conditions in the labour market deteriorated during the quarter, with the average unemployment rate rising by 0.4 percentage points to 5.3%. Going into the third quarter, the jobless rate rose further, reaching 6.1% in August, the

**Table 1.1**  
**REAL GDP GROWTH**

*Annual percentage changes, seasonally adjusted*

	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3 <sup>(1)</sup>	Q4 <sup>(1)</sup>
United States	1.3	1.8	2.8	2.3	2.5	2.1	1.2	1.3
Euro area	3.2	2.6	2.6	2.1	2.1	1.4	0.8	0.7
United Kingdom	3.1	3.3	3.1	2.8	2.3	1.4	0.8	0.1
Japan	3.0	1.8	1.8	1.4	1.2	0.8	0.9	0.5

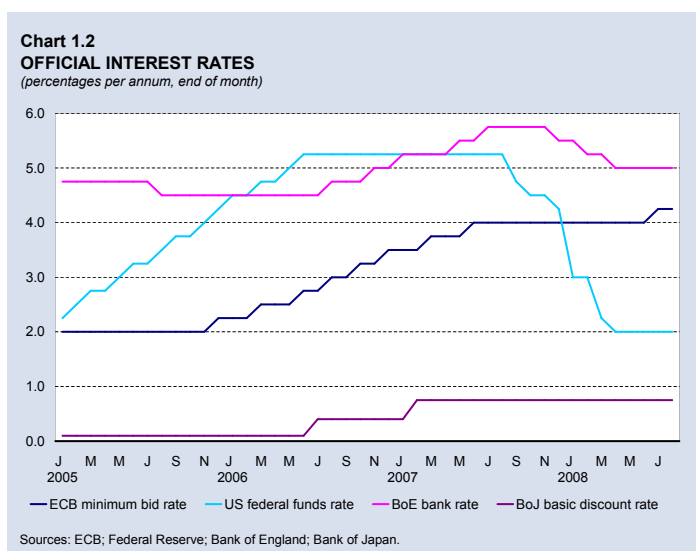
<sup>(1)</sup> Forecasts.

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



highest level in more than four years. Prices rose rapidly, with the inflation rate accelerating to 5.0% in June from 4.0% in March, driven by rising energy costs (see Chart 1.1). Going into the third quarter, inflation continued to rise, reaching 5.6% in July before easing to 5.4% in August.

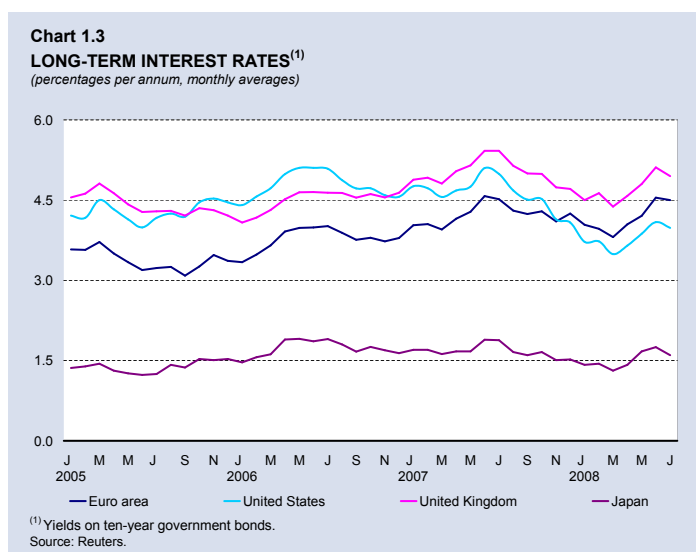
Against this backdrop of weakening economic activity and turmoil in the financial markets, the Federal Reserve, on 30 April, lowered its target for the federal funds rate by a quarter of a percentage point to 2.0% (see Chart 1.2). The target rate was kept unchanged for the rest of the second quarter and into the third, but in an effort to boost liquidity conditions further, the Federal Reserve, on 2 May, announced additional measures, including an increase in the size of the Term Auction Facility, an expansion of the collateral that could be pledged in the Term Securities Lending Facility and increases in the amounts provided through temporary reciprocal currency arrangements with the ECB and the Swiss National Bank. These facilities were further enhanced in the third quarter.



US long-term bond yields recovered between April and June as market players changed their expectations regarding future monetary policy, ascribing a diminished probability to the likelihood of further interest rate cuts (see Chart 1.3). Thus the yield on ten-year US government bonds averaged 4.09% in June, 60 basis points above the March average. In July and August, however, long-term yields generally fell. Between end-March and end-June, equity prices fell by 3.2%, and they continued to fall into the third quarter (see Chart 1.4).

### *UK economic activity weakens, inflation edges up further*

In the June quarter, economic activity in the United Kingdom slowed down considerably. On a quarter-on-quarter basis, the economy failed to expand for the first time since the early 1990s, while the annual growth rate fell to 1.4% from 2.3% in the previous quarter. On an annual basis, investment contracted while household consumption and exports grew at a slower pace. With regard



to labour market developments, the unemployment rate rose to 5.3% by May, from an average of 5.1% in the first quarter of the year. Meanwhile, price pressures mounted, with annual consumer price inflation rising to 3.8% in June from 2.5% in March and soaring food and fuel prices remaining the main contributory factors. Inflation accelerated further in the third quarter, rising to 4.7% by August.

On 10 April, responding to further evidence of a slowing economy, the Bank of England reduced the official Bank Rate paid on commercial bank reserves by a quarter of a percentage point to 5.0%. As concerns about inflation persisted, however, it kept the rate on hold for the remainder of the second quarter and throughout the third.

UK long-term bond yields followed a similar pattern to those in the United States and generally increased up to mid-June, after which they fell. Equity prices fell sharply in June, for an overall drop of 1.3% during the quarter.

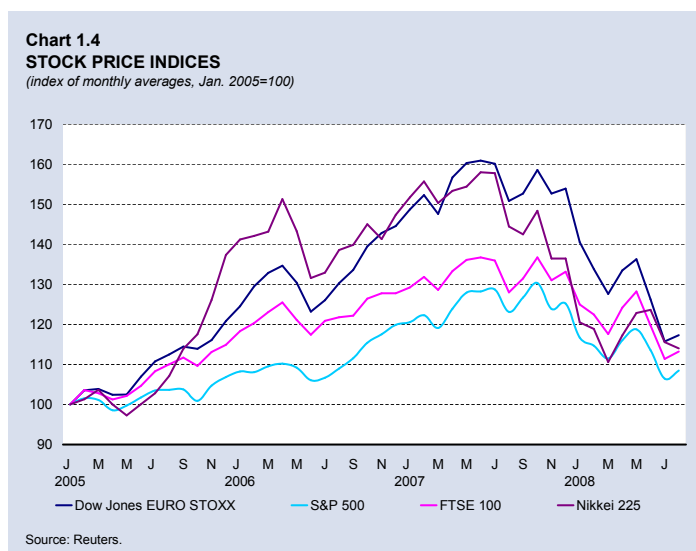
#### *Japanese growth falls, inflationary pressures continue to rise*

In Japan the pace of economic activity weakened during the second quarter, with annual GDP growth falling to 0.8%, 0.4 percentage points lower than in the preceding quarter. A further decline in investment was the main factor behind the slowdown. Meanwhile, export growth decelerated, as did household and government consumption expenditure. Weaker economic activity was also reflected in the labour market: the average unemployment rate rose to 4.0%, from 3.8% in the three months to March. At the same time, inflationary pressures continued to build up gradually, with consumer price inflation rising to 2.0% in June from 1.2% in March. In July, inflation accelerated further, to 2.3%.

During the second quarter and into the third, the Bank of Japan left its target for the uncollateralised overnight call rate and the discount rate unchanged at 0.5% and 0.75%, respectively. Japanese long-term bond yields remained relatively low, but continued to follow a similar course to those in the United States and the United Kingdom. At the same time, in line with developments in the US equity market, stock prices generally rose during April and May. However, they weakened in June and continued to decline in July and August.

#### *Growth in emerging Asian markets remains robust*

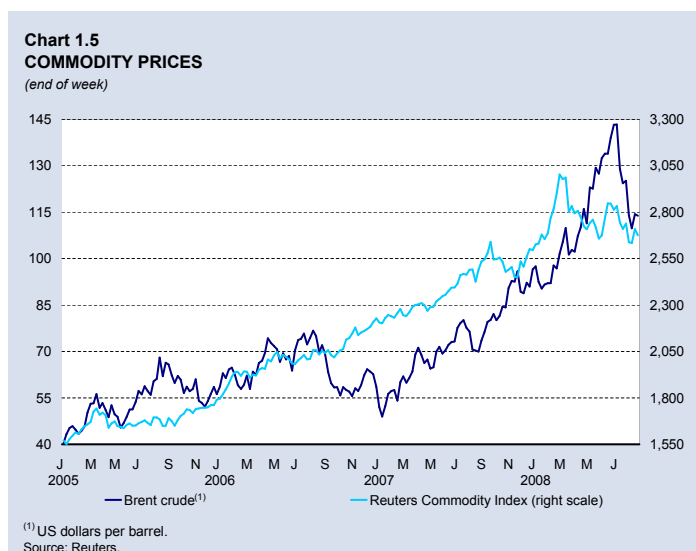
Despite the slowdown in the main industrialised countries, growth in emerging market economies remained robust. China's and India's GDP expanded at annual rates of 10.1% and 7.9%, respectively. Inflationary pressures remained sustained, however, with the annual inflation rate in China standing at 7.1% in June and India's wholesale price inflation rate in the same month reaching 12.1%.



## Commodities

### *Oil prices continue to rise before easing somewhat in the third quarter*

The second quarter was characterised by a general upward trend in oil prices, with the price of Brent crude reaching new highs (see Chart 1.5). On 27 June a new peak of USD 139.03 per barrel was recorded so that, over the quarter as a whole, oil prices had risen by 34.8%. Prices were supported by strong demand from emerging economies, which offset lower demand by the industrialised countries. At the same time, OPEC's decision not to increase supply, strikes by oil workers at a Scottish refinery and renewed geopolitical tensions placed further upward pressure on prices.



The price of Brent crude reached a new historical high of USD 143.6 per barrel on 3 July; but subsequently oil prices lost their upward momentum on better-than-expected data on US inventory levels and fears of a global economic slowdown, which would curtail demand. By the end of August, the price of a barrel of Brent crude had fallen to USD 113.89.

### *Non-energy commodity prices characterised by volatility*

During the June quarter non-energy commodity prices as measured by the Reuters Commodity Index rose by 1.5% (see Chart 1.5).<sup>1</sup> This relatively modest rise masks sharp volatility, as prices generally fell until the end of May before increasing sharply in the first half of June. The latter rise was spurred by a surge in food prices, in particular prices of maize. Thereafter, prices of non-energy commodities generally declined, as prices of certain metals and of food products, such as maize and wheat, fell.

### *Gold price fluctuates widely*

The price of gold was volatile throughout the second quarter of 2008, but ended June 1.0% above its level at the end of



<sup>1</sup> 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.

March. During April and May gold prices fluctuated within a range of USD 851.65 and USD 944.70 per ounce before ending May at USD 885.90, as the appreciation of the US dollar brought about a sell-off in metals (see Chart 1.6). In the first half of June, the price of bullion generally fell but it rose thereafter to end the quarter at USD 924.10 per ounce. This rise in the price of gold was propelled by the metal's safe haven attributes, which were brought to the fore by the financial market turmoil and the raised inflation expectations worldwide. Going into the third quarter, gold prices continued to rise until mid-July, before falling sharply despite wider concerns in financial markets, ending August at USD 829.80.

### The euro area

After having raised official interest rates by 25 basis points on 3 July 2008, the Governing Council of the ECB kept the minimum bid rate on its main refinancing operations unchanged at 4.25% in August and September. The ECB confirmed that, in its view, the current monetary policy stance would help achieve its primary objective of maintaining price stability in the medium term. At the same time, however, it stressed the importance of avoiding broad-based second-round effects in price and wage-setting behaviour.

### *Economic growth slows down considerably*

Following a first quarter of exceptional growth, the euro area economy grew at a markedly slower pace in the second quarter of 2008. Indeed, on a seasonally adjusted basis, real GDP contracted compared with the previous three-month period, the first such drop since the euro was introduced in 1999. The annual rate of growth thus declined to 1.4%, from 2.1% in the March quarter (see Table 1.2). The slowdown in economic activity was mainly due to a deceleration in domestic demand, which more than offset a minimal positive contribution from net exports.

**Table 1.2**  
**REAL GDP GROWTH**

*Seasonally adjusted*

	2007			2008	
	Q2	Q3	Q4	Q1	Q2
	<i>Annual percentage changes</i>				
Private consumption	1.8	1.8	1.2	1.2	0.4
Government consumption	2.4	2.5	2.1	1.3	1.7
GFCF	3.5	3.7	3.2	3.7	2.4
<b>Domestic demand</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>1.7</b>	<b>1.3</b>
Exports	6.1	7.3	4.1	5.4	3.6
Imports	5.4	6.5	4.0	4.7	3.4
<b>GDP</b>	<b>2.6</b>	<b>2.6</b>	<b>2.1</b>	<b>2.1</b>	<b>1.4</b>
	<i>Percentage point contributions</i>				
Private consumption	1.0	1.0	0.7	0.7	0.2
Government consumption	0.5	0.5	0.4	0.3	0.3
GFCF	0.8	0.8	0.7	0.8	0.5
Changes in inventories	0.0	-0.1	0.2	0.0	0.2
<b>Domestic demand</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>1.7</b>	<b>1.3</b>
Exports	2.5	2.9	1.7	2.2	1.5
Imports	-2.1	-2.5	-1.6	-1.8	-1.3
<b>Net exports</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>
<b>GDP</b>	<b>2.6</b>	<b>2.6</b>	<b>2.1</b>	<b>2.1</b>	<b>1.4</b>

Source: Eurostat.

The main factor behind the easing of domestic demand was a slowdown in private consumption, which grew at an annual rate of 0.4%, as against 1.2% in the previous quarter, and added only 0.2 percentage points to overall GDP growth. Subdued consumption growth mirrored the results of consumer and retail trade confidence surveys, which had been increasingly negative during the first half of the year. Meanwhile, the strong growth in investment observed in the preceding quarters moderated during the period under review, with the annual rate of growth of gross fixed capital formation falling to 2.4%. By contrast, government consumption accelerated to 1.7%, from 1.3% in the preceding quarter.

The contribution to growth from net exports during the second quarter of 2008 was smaller than in the first quarter, adding just 0.1 percentage points to GDP growth. Export growth slowed down sharply on an annual basis, reflecting weaker demand in key foreign markets, such as the United States; but the negative impact on GDP growth was partly offset by the effect of moderating consumption on imports.

### *Inflation reaches record highs*

During the second quarter euro area inflation extended its upward trend, with the annual inflation rate reaching a peak of 4.0% in June from 3.6% in March. High international oil and food commodity prices continued to be the main driving force behind this surge in inflation.

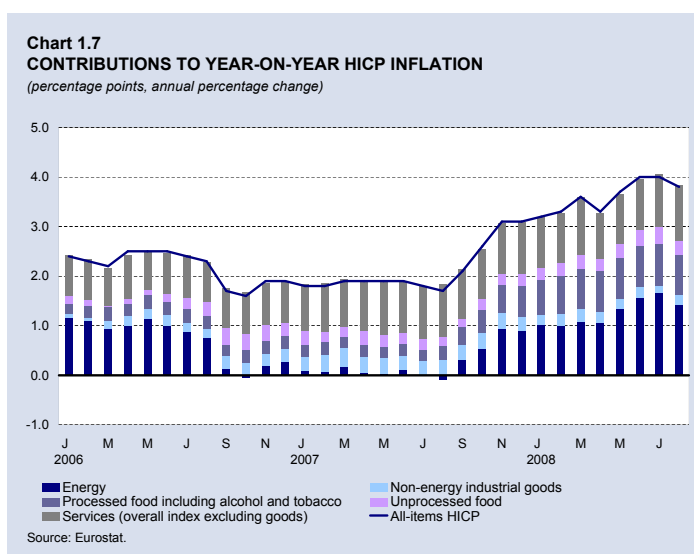
In June the annual rate of change in energy prices accelerated to 16.1%, from 11.2% in March, reflecting a sharp increase in crude oil prices. Moreover, prices of both processed and unprocessed food rose at a faster pace. In particular, higher prices of bread and cereals largely accounted for the rise in the annual rate of increase of processed food prices to 7.0% in June from 6.8% in March. At the same time, the sharp upward trend in global food commodity prices evident since 2007 exerted pressure on prices of unprocessed food items.

In contrast, annual HICP inflation excluding energy and unprocessed food, which together make up around 17% of the overall HICP basket, eased to 2.5% in June from 2.7% in March. This decline mirrored a similar decrease in services price inflation, notwithstanding higher prices of transport-related services. Non-energy industrial goods inflation also fell slightly, to 0.8%, in June.

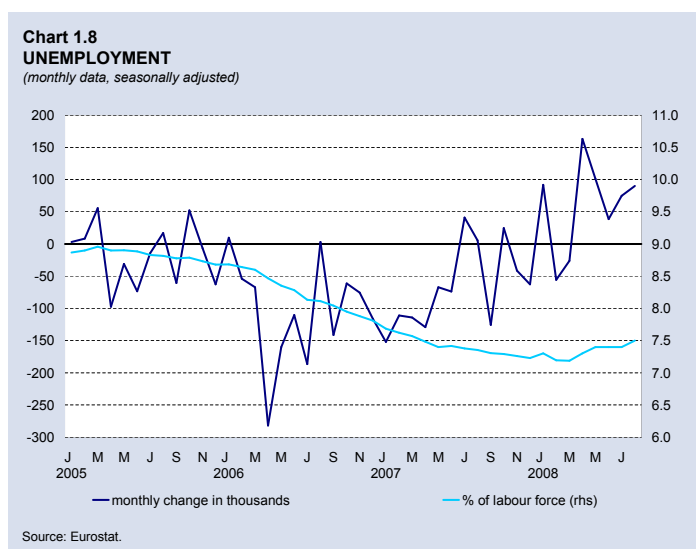
While record high inflation persisted in July, with the annual HICP inflation rate standing at 4.0%, it eased to 3.8% in August. The effects, both direct and indirect, of past increases in global energy and food prices to new historical records over the past months remained the primary contributors to the persistently high inflation rate.

### *Favourable labour market conditions still prevail*

Employment growth moderated



further in the second quarter of 2008, in line with the slowing momentum observed since the final quarter of 2007. Growth in area-wide employment fell to 1.2%, year-on-year, compared with 1.6% in the March quarter. Consequently, the unemployment rate rose slightly, to 7.4%, in May and June, broadly unchanged on a year earlier (see Chart 1.8). Whereas the unemployment rate remained stable in July, it rose to 7.5% in August.



### Monetary growth remains robust amid some moderation

The deceleration in the growth rate of broad money observed in the first quarter of 2008 continued into the second quarter, with the annual growth rate of M3 declining to an average of 10.0% from 11.2% in the March quarter (see Table 1.3). Nevertheless, the underlying pace of monetary expansion remained strong, entailing upside risks to price stability over the medium term.

Meanwhile, the average annual rate of growth of M1 declined further, from 3.8% in the first quarter to 2.2% in the June quarter, reflecting the increased opportunity cost of holding currency and overnight deposits, which are less attractively remunerated. In fact, short-term deposits other than overnight deposits accounted for most of the annual growth in M3 during the quarter, though the average annual growth rate of deposits with an agreed maturity of up to two years fell slightly, to 40.3%. Vigorous growth in short-term time deposits continues to reflect the relatively flat yield curve, which has increased the attractiveness of such deposits when compared with assets included in M1 and longer-maturity assets outside M3.

Monetary expansion eased further during the third quarter, with annual M3 growth falling in July and August.

**Table 1.3**  
**MONETARY AGGREGATES**

Annual percentage changes, seasonally adjusted, quarterly data are averages

	2007		2008		2008					
	Q2	Q3	Q4	Q1	Q2	Apr.	May	June	July	Aug.
<b>M1</b>	<b>6.2</b>	<b>6.5</b>	<b>5.9</b>	<b>3.8</b>	<b>2.2</b>	<b>2.4</b>	<b>2.3</b>	<b>1.5</b>	<b>0.2</b>	<b>0.2</b>
Currency in circulation	10.0	8.9	8.0	7.8	7.8	8.0	7.5	8.0	7.1	7.2
Overnight deposits	5.5	6.1	5.5	3.1	1.2	1.3	1.3	0.3	-1.1	-1.2
M2-M1 (Other short-term deposits)	13.1	15.0	16.8	18.3	19.3	19.8	19.4	19.0	19.5	19.0
Deposits with an agreed maturity of up to two years	33.1	37.6	40.6	41.4	40.3	41.6	40.5	38.7	39.0	37.2
Deposits redeemable at notice of up to three months	-2.2	-3.2	-3.9	-3.3	-2.3	-2.2	-2.4	-2.0	-2.1	-1.8
<b>M2</b>	<b>9.2</b>	<b>10.3</b>	<b>10.7</b>	<b>10.3</b>	<b>10.0</b>	<b>10.3</b>	<b>10.1</b>	<b>9.5</b>	<b>9.1</b>	<b>8.9</b>
<b>M3</b>	<b>10.6</b>	<b>11.5</b>	<b>12.0</b>	<b>11.2</b>	<b>10.0</b>	<b>10.3</b>	<b>10.0</b>	<b>9.5</b>	<b>9.1</b>	<b>8.8</b>

Source: ECB.

### *Credit aggregates grow at a decelerating rate*

On the counterparts side, credit aggregates decelerated further in the quarter under review, reflecting tighter financing conditions and moderating economic growth (see Chart 1.9). Though the annual growth rate of MFI loans to the non-financial private sector remained robust, it declined to an average of 10.5% in the June quarter from 11.1% in the preceding quarter. While growth of MFI loans to non-financial corporations fell only slightly,

to 14.5% from 14.6% in the March quarter, the average annual rate of growth of MFI loans to households dropped to 5.0% from 5.9%. This slowdown largely reflected the impact of increases in bank lending rates, although a less-buoyant housing market in some euro area countries also contributed. A substantial decline was registered in lending for house purchases, although the annual growth rate of consumer credit and other lending to households also dropped.

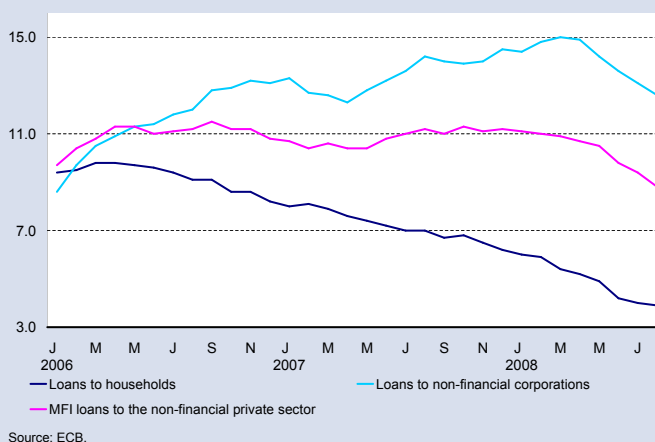
In July and August, MFI loans to non-financial corporations moderated further, with the annual growth rate falling 13.1% and 12.6%, respectively.

### *Spreads in the money market remain significantly high*

Unsecured money market interest rates, as measured by EURIBOR rates, sustained their upward trend during the quarter under review (see Chart 1.10).<sup>2</sup> In April, both the three- and the twelve-month EURIBOR increased on account of rebounding tensions in the market. Interest rates then rose further during May and June, reflecting expectations of higher key ECB interest rates. The three-month EURIBOR thus ended the second quarter at 4.95%, 22 basis points higher than the level at the end of March. With the 12-month EURIBOR rising even more rapidly, the money market yield curve steepened during the June quarter.

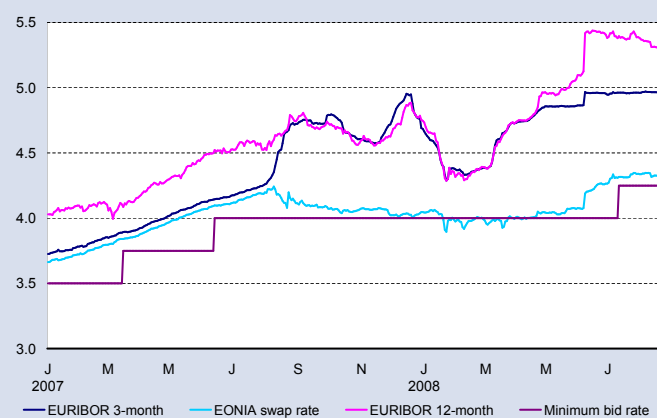
While spreads between EURIBOR and secured rates, such as those derived from the EONIA swap rate, widened

**Chart 1.9**  
**MFI LOANS TO THE NON-FINANCIAL PRIVATE SECTOR**  
(annual percentage changes)



Source: ECB.

**Chart 1.10**  
**KEY INTEREST RATES**  
(percentages per annum, daily data)



Sources: ECB; Reuters; Euribor FBE.

<sup>2</sup> EURIBOR refers to the rates at which a prime bank is willing to lend funds to another prime bank in euro on an unsecured basis.

during April and May, they narrowed slightly during June, indicating some moderation of money market tensions.<sup>3</sup> Still, EURIBOR rates stood well above the ECB's minimum bid rate throughout the quarter, signalling banks' reluctance to lend funds to each other on an unsecured basis. In fact, the spread between the minimum bid rate on the main refinancing operations and the three-month EURIBOR rate broadened by 22 basis points during the quarter to 95 basis points at the end of June. As can be seen in Chart 1.10, the difference between the three-month EURIBOR rate and the minimum bid rate increased considerably since the onset of the financial turmoil in August 2007.

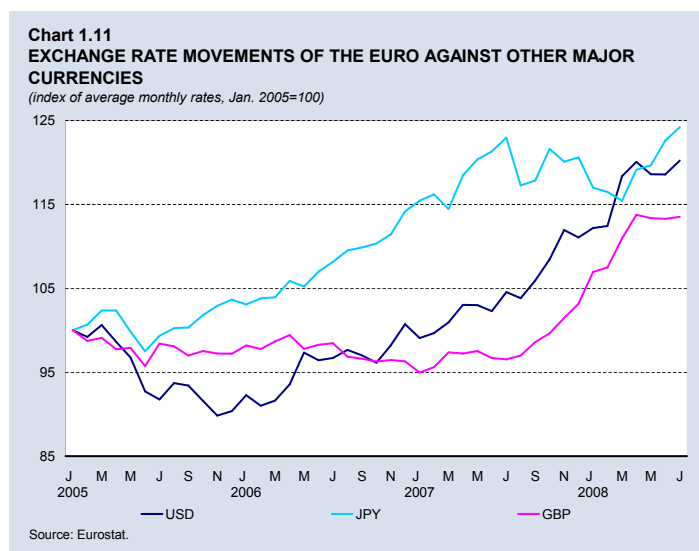
Following the increase in the minimum bid rate to 4.25% on 3 July, EURIBOR rates were largely stable going into the third quarter. As EONIA swap rates rose, in line with changes in market expectations of future key ECB interest rates, spreads between unsecured and secured money market rates narrowed, though they still remained exceptionally wide when compared with those registered prior to the financial market turmoil in August 2007.

### *Euro area equity prices fall further*

The rebound in euro area stock prices observed since mid-March continued during April and May, in line with developments in the United States. Substantial gains were the result of investors' renewed risk appetite and improved risk perceptions that outweighed pressure from higher longer-term interest rates. However, these gains were reversed in June as producer input prices increased and the economic outlook deteriorated. Overall, euro area equity prices as measured by the Dow Jones EURO STOXX index fell by 7.9% over the quarter. Equity prices in the euro area remained volatile in July and August.

### *The euro strengthens against other major currencies*

The strengthening of the euro against the US dollar observed during the first quarter of the year continued going into the second (see Chart 1.11). Throughout most of April and May the euro appreciated against the US dollar, before depreciating in June. In fact, between the end of March and the end of June the euro shed 0.3% of its value against the US dollar. Movements of the euro vis-à-vis the US dollar continued to be largely related to changing market perceptions about the relative monetary policy stances in the euro area and the United States. In particular, concerns about the US inflation outlook, which translated into expectations of a firmer monetary policy stance, drove the depreciation of the euro in June.



After gaining ground against

<sup>3</sup> EONIA is a measure of the effective interest rate prevailing in the euro interbank overnight market. The EONIA swap rate is the fixed rate that banks are willing to pay in exchange for receiving the average EONIA rate over the lifetime of a swap contract.



the Japanese yen during April, the euro remained broadly stable in yen terms throughout May, before appreciating again in June for an overall quarterly gain of 5.8%.

The euro fluctuated in a narrow range vis-à-vis the pound sterling throughout the second quarter of 2008 as interest rate differentials were stable.

During most of July the euro fluctuated against the US dollar, with support for the currency stemming from concerns about the soundness of the US financial system. In late July and early August, however, negative sentiment about the resilience of the euro area economy triggered some losses on the part of the euro. In July, the euro appreciated against the Japanese yen, before losing some ground in early August. Meanwhile, the euro again continued to be broadly stable against the pound sterling.

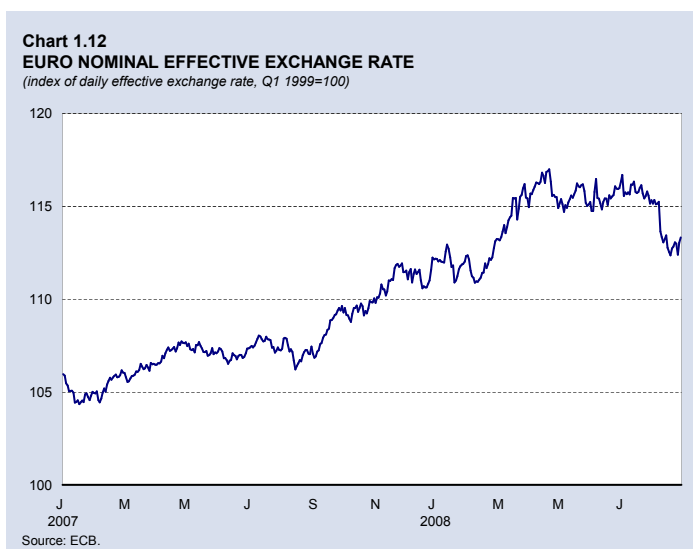
On balance, during the second quarter of 2008, the nominal effective exchange rate of the euro against the currencies of 22 of the euro area's trading partners was largely stable (see Chart 1.12). At the end of June it stood just 0.2% below the end-March level. This was mostly the result of offsetting movements in bilateral rates, whereby the euro's gains vis-à-vis the Japanese yen, the Korean won and the Swiss franc were outweighed by losses against the currencies of the new EU Member States.

In July, the euro stood broadly at the same level as in June in nominal effective terms, before depreciating in August.

#### *Expectations of lower euro area growth and higher inflation prevail*

Expectations of euro area economic growth for 2008 have been scaled down further amid lower export growth, subdued domestic demand, high commodity prices, tighter financing conditions and a strong euro. According to the latest ECB staff macroeconomic projections, average euro area annual real GDP growth is projected to lie in a range between 1.1% and 1.7% in 2008 and 0.6% and 1.8% in 2009. The European Commission has also revised its forecast for euro area real GDP growth downwards along similar lines, to 1.3% in 2008.

The outlook for euro area inflation has also continued to deteriorate, though HICP inflation is expected to decelerate slowly after peaking in the middle of the year. The latest ECB staff projections point towards an average rate of increase in the overall HICP in the range of 3.4% and 3.6% in 2008 and 2.3% and 2.9% in 2009. Similarly, the European Commission has raised its inflation estimate for 2008 to 3.6%.

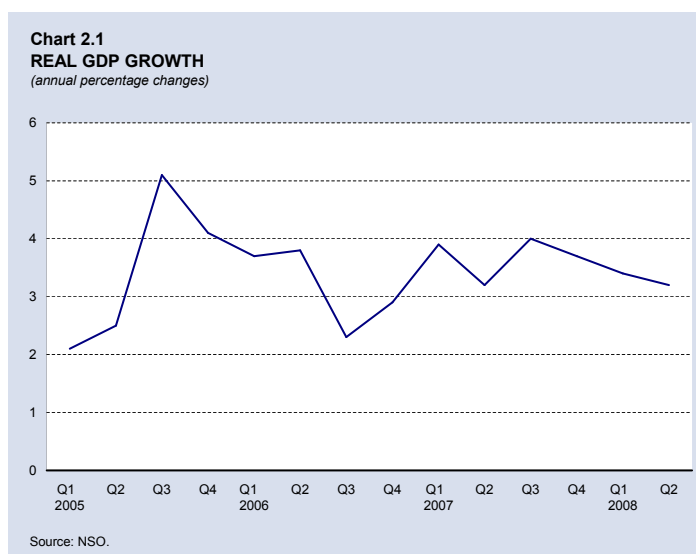


## 2. THE MALTESE ECONOMY

### Output

#### *Economic expansion continues in the second quarter*

During the second quarter of 2008, the Maltese economy grew by 3.2% in inflation-adjusted terms, marginally below the 3.4% growth rate recorded in the first quarter (see Chart 2.1). As in the previous quarter, growth was driven by domestic demand in the form of higher consumption expenditure and a sharp accumulation of inventories. Excluding the latter, growth in domestic demand added 3.4 percentage points to real growth. Net exports contributed negatively to growth for the third consecutive quarter (see Table 2.1).



The acceleration in private consumption expenditure noted in the first quarter became even more

**Table 2.1**  
**GROSS DOMESTIC PRODUCT AT CONSTANT PRICES**

	2007			2008	
	Q2	Q3	Q4	Q1	Q2
	<i>Annual percentage changes</i>				
Household final consumption expenditure	3.1	0.4	0.5	3.1	5.0
Government final consumption expenditure	0.0	-0.6	2.0	15.0	9.7
Gross fixed capital formation	7.3	-2.0	24.6	-4.3	-8.5
Inventories as a % of GDP	4.3	1.4	5.0	4.0	10.0
<b>Domestic demand</b>	<b>-1.8</b>	<b>3.4</b>	<b>13.2</b>	<b>6.8</b>	<b>8.8</b>
Exports of goods & services	-4.8	-3.8	-5.8	-8.6	-11.7
Imports of goods & services	-8.8	-4.2	3.7	-4.3	-5.1
<b>Gross domestic product</b>	<b>3.2</b>	<b>4.0</b>	<b>3.7</b>	<b>3.4</b>	<b>3.2</b>
	<i>Percentage point contributions</i>				
Household final consumption expenditure	2.0	0.3	0.3	2.0	3.2
Government final consumption expenditure	0.0	-0.1	0.4	2.8	1.8
Gross fixed capital formation	1.4	-0.4	4.7	-0.9	-1.6
Changes in inventories	-5.3	3.7	8.2	3.2	6.0
<b>Domestic demand</b>	<b>-2.0</b>	<b>3.5</b>	<b>13.7</b>	<b>7.1</b>	<b>9.4</b>
Exports of goods & services	-5.1	-4.0	-6.0	-8.0	-11.4
Imports of goods & services	10.3	4.5	-3.9	4.2	5.3
<b>Net exports</b>	<b>5.2</b>	<b>0.5</b>	<b>-9.9</b>	<b>-3.8</b>	<b>-6.1</b>
<b>Gross domestic product</b>	<b>3.2</b>	<b>4.0</b>	<b>3.7</b>	<b>3.4</b>	<b>3.2</b>

Source: NSO.

pronounced in the second, when its annual growth rate reached 5% and its contribution to growth rose to 3.2 percentage points. This reflected increased real expenditure on food & beverages, energy-related products and, to a lesser extent, transport services. Government consumption, too, continued to expand at a strong pace, rising by 9.7% year-on-year and adding 1.8 percentage points to total growth (see Table 2.1).

By contrast, gross fixed capital formation declined for the second consecutive quarter, as a year-on-year decline of 8.5% took 1.6 percentage points off the total growth rate. Statistics on nominal investment spending point to a significant drop in government investment following the completion of the new public hospital. Meanwhile there was an increase in private sector investment; but higher outlays on machinery and transport equipment were partly offset by a decline in construction investment in line with the observed slowdown in the housing market.

Inventories stood at 10% of GDP, six percentage points higher than in the previous quarter. While this partly reflects an accumulation of unsold goods on account of a slowdown in external market demand, it is also due to the inclusion under this heading of a statistical adjustment that reconciles the production and expenditure sides of the national income accounts.

Net exports of goods and services continued on their downward path. The second quarter's decline, which knocked 6.1 percentage points off total growth, resulted from a reduction in imports and an even larger drop in exports.

At current prices, exports declined by 2.5%. Nominal trade statistics point to lower exports of machinery & transport equipment, a category that includes semiconductors, as well as reduced re-exports of mineral fuels. Adjusted for a decrease in prices, exports declined by 11.7%. Imports followed a similar pattern. An increase of 3.5% in imports measured at current prices translated into a decline of 5.1% in real terms.

### *Services continue as major contributors to growth*

On the income side, the annual growth in nominally measured gross value added, at 6.2%, was marginally lower than in the March quarter. The second quarter increase was underpinned by a larger operating surplus and, to a lesser degree, by higher labour compensation.

At the sectoral level, services were important drivers of growth. The other community, social & personal services sector, in particular, contributed 1.8 percentage points to nominal GDP growth, reflecting double-digit growth in the sector's profits (see Table 2.2).

Following a weak first quarter performance, the wholesale & retail trade sector reported a strong expansion in profits. As a result, value added in this sector surged by almost 15%, adding 1.5 percentage points to nominal GDP growth.

The real estate, renting & business activities sector was another important contributor, registering an 8.3% increase in gross value added, mostly because of higher profits in the real estate and business activities segments.

Profits from financial intermediation continued to decline, but at a slower pace than in the first quarter of 2008, leading to a positive contribution by the sector to nominal GDP growth in the

**Table 2.2**  
**CONTRIBUTION OF SECTORAL GROSS VALUE ADDED TO NOMINAL GDP GROWTH**

*Percentage points*

	2007			2008	
	Q2	Q3	Q4	Q1	Q2
Agriculture, hunting & forestry	-0.2	-0.2	-0.1	0.1	0.1
Fishing	0.0	0.0	-0.5	0.0	0.0
Manufacturing	1.1	1.3	1.0	0.2	-0.2
Electricity, gas & water supply	0.0	0.1	-0.8	-1.4	-1.3
Construction	0.3	-0.3	-0.3	0.6	0.0
Wholesale & retail trade	-0.5	0.8	0.6	0.0	1.5
Hotels & restaurants	0.2	0.8	0.4	0.3	0.4
Transport, storage & communication	0.6	0.8	0.5	1.0	0.4
Financial intermediation	0.5	-1.2	-1.4	-0.4	0.3
Real estate, renting & business activities	0.9	1.1	1.2	1.6	1.2
Public administration	0.4	0.4	0.4	0.5	0.3
Education	0.3	0.6	0.1	0.4	0.4
Health & social work	0.5	0.4	0.2	0.9	0.5
Other community, social & personal services	1.4	2.1	2.2	2.0	1.8
<b>Gross value added</b>	<b>5.3</b>	<b>6.5</b>	<b>3.4</b>	<b>5.8</b>	<b>5.3</b>
<b>Net taxation on production and imports</b>	<b>0.0</b>	<b>0.6</b>	<b>2.4</b>	<b>0.3</b>	<b>0.9</b>
<b>Annual nominal GDP growth (%)</b>	<b>5.3</b>	<b>7.1</b>	<b>5.8</b>	<b>6.0</b>	<b>6.2</b>

Source: NSO.

quarter under review. In contrast, both the energy and the manufacturing sector contributed negatively to growth.

The electricity, gas & water supply sector knocked 1.3 percentage points off growth, as the cost of the sector's intermediate inputs, mainly imported oil, exceeded the value of its output.

**Table 2.3**  
**MANUFACTURING SALES**

*Annual changes, EUR millions*

	2007			2008	
	Q2	Q3	Q4	Q1	Q2
<b>Total sales</b>	<b>3.6</b>	<b>-18.4</b>	<b>-56.6</b>	<b>-33.0</b>	<b>-52.8</b>
<b>Exports</b>	<b>17.9</b>	<b>0.9</b>	<b>-53.9</b>	<b>-43.8</b>	<b>-63.8</b>
Radio, TV & communication equipment	4.8	-22.1	-52.9	-43.1	-59.6
Pharmaceuticals	5.5	18.5	13.1	16.8	9.4
Electrical machinery & apparatus	2.9	10.5	3.2	-11.1	-1.0
Clothing, textiles & leather	-2.3	-6.3	-4.1	-4.3	-8.0
Games & Toys	3.2	1.0	-4.7	-6.0	-3.6
Printing & publishing	3.8	-3.3	0.6	4.3	3.3
Food, beverages & tobacco	-2.1	-0.5	-5.4	-0.3	-2.1
Other transport equipment	-1.5	0.8	-2.0	-2.2	-2.0
Other	3.6	2.3	-1.7	2.1	-0.2
<b>Local sales</b>	<b>-14.3</b>	<b>-19.3</b>	<b>-2.6</b>	<b>10.8</b>	<b>11.0</b>
Food, beverages & tobacco	-15.7	-17.0	-5.7	5.9	4.7
Fabricated metal products	1.7	0.9	2.1	4.2	5.9
Machinery and equipment	1.2	-0.1	-0.5	0.3	-0.7
Printing & publishing	1.6	0.5	1.5	1.0	0.3
Other	-3.1	-3.6	0.0	-0.6	0.8

Source: NSO.

Following the weak rate of growth observed in the first quarter, manufactured output declined during the June quarter, leading to a negative contribution to nominal GDP growth (see Table 2.2). This reduction was evidenced in the NSO's survey of manufacturing firms, which over the same period reported a fall in total sales of manufactured goods of EUR 52.8 million, equivalent to 8.6%, over the same quarter of 2007 (see Table 2.3). This was largely on account of lower exports of semiconductors. Other sub-sectors reporting reduced exports included textiles & clothing and games & toys. On the other hand, exports of pharmaceuticals and of publishing & printing products continued to register double-digit annual growth rates. On the domestic front, higher sales were reported by the food & beverages and the fabricated metal products sub-sectors. Thus, if the semiconductors sub-sector were to be excluded, turnover in manufacturing grew by EUR 6.8 million, or 2.1%.

## The labour market

### *Job growth continued, but at a slower pace*

Developments in the labour supply in the second quarter of 2008 continued to be characterised by employment growth and a low and stable rate of unemployment. At the same time the female participation rate continued to rise.

### *Labour Force Survey*

According to the Labour Force Survey, employment continued to grow in the second quarter of

**Table 2.4**  
**LABOUR MARKET INDICATORS BASED ON THE LFS**

*Persons, annual percentage changes*

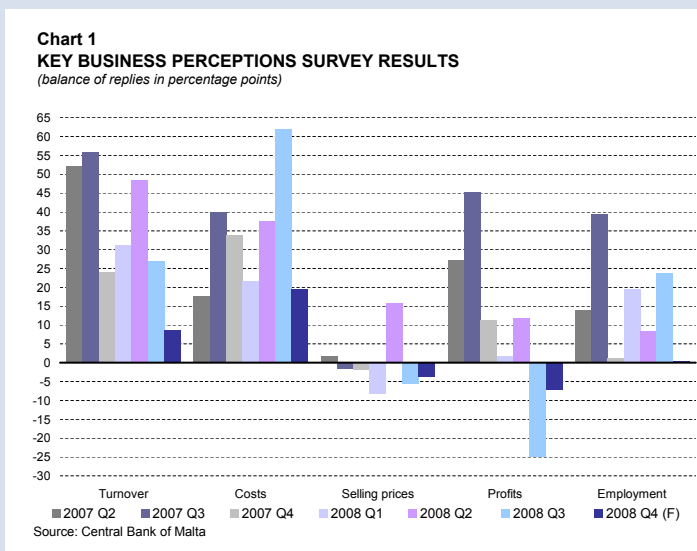
	2007			2008		Annual change %
	Q2	Q3	Q4	Q1	Q2	
<b>Labour supply</b>	<b>168,605</b>	<b>167,278</b>	<b>166,159</b>	<b>167,914</b>	<b>170,129</b>	<b>0.9</b>
Unemployed	10,837	10,348	10,291	10,137	10,254	-5.4
Employed	157,768	156,930	155,868	157,777	159,875	1.3
<i>By type of employment:</i>						
Full-time	140,664	138,304	138,520	140,488	141,122	0.3
Full-time with reduced hours	2,661	2,723	2,654	3,178	3,598	35.2
Part-time	14,443	15,903	14,694	14,111	15,155	4.9
<i>By economic sector:</i>						
Private	110,712	110,266	110,196	110,596	112,886	2.0
Public	47,056	46,664	45,672	47,181	46,989	-0.1
<b>Activity rate (%)</b>	<b>59.0</b>	<b>59.9</b>	<b>59.4</b>	<b>58.2</b>	<b>58.8</b>	
Male	77.8	78.8	77.9	77.0	76.2	
Female	39.6	40.6	40.5	38.8	41.0	
<b>Employment rate (%)</b>	<b>55.2</b>	<b>56.1</b>	<b>55.7</b>	<b>54.7</b>	<b>55.2</b>	
Male	73.5	74.5	73.4	72.8	71.6	
Female	36.3	37.5	37.7	36.0	38.5	
<b>Unemployment rate (%)</b>	<b>6.4</b>	<b>6.2</b>	<b>6.2</b>	<b>6.0</b>	<b>6.0</b>	
Male	5.5	5.5	5.8	5.4	6.0	
Female	8.3	7.6	7.0	7.2	6.1	
<b>Average annual gross salary (annual growth rate, %)</b>	<b>2.7</b>	<b>0.6</b>	<b>3.1</b>	<b>3.0</b>	<b>3.9</b>	

Source: NSO.

## BOX 1: BUSINESS AND CONSUMER SURVEYS

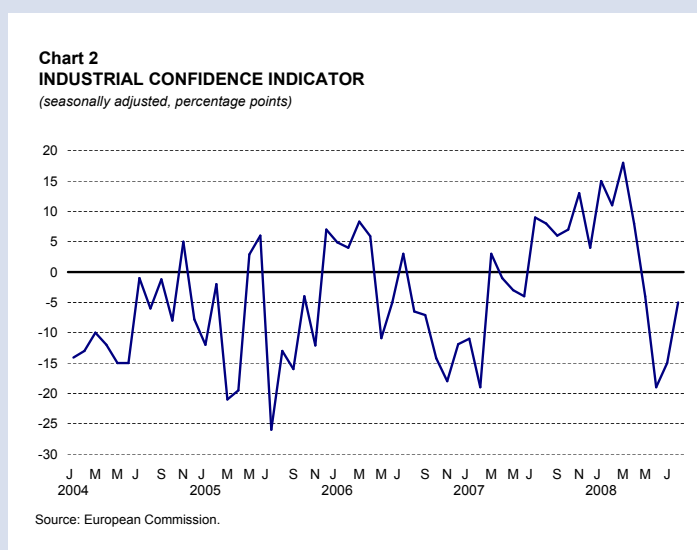
### Sentiment among service providers and construction firms deteriorates<sup>1</sup>

Replies to the Bank's latest survey of the perceptions of service providers and construction firms indicated that between July and September sentiment among respondents had worsened, possibly echoing concerns about cost pressures and the global economic slowdown. Indeed, a lower proportion of respondents reported a higher turnover over the period. Furthermore, although cost pressures had intensified, respondents indicated that they did not pass them on to customers in the form of higher selling prices and that, consequently, profits had fallen. Paradoxically, however, firms generally continued to report additions to their labour complement (see Chart 1).



Looking ahead to the fourth quarter, respondents were less upbeat than in previous surveys. On balance, firms anticipated an increase in turnover but also moderately higher costs. Furthermore, although the majority of respondents expected selling prices to remain more or less unchanged, on a weighted basis they anticipated a decline, particularly those engaging in export activity. With regard to their labour complement, three quarters of respondents expected no change in employment levels, with the remainder being more or less equally split between those anticipating an increase and those expecting a decline (see Chart 1).

For the longer term, on balance, respondents anticipated an increase in their workforce, but they were about equally split between those planning to increase their capital spending and those planning to leave it unchanged.



<sup>1</sup> The field work for the Bank's survey was carried out between 5 August and 12 September 2008.

### Survey of manufacturers more positive

In contrast to the results of the survey of service providers, the European Commission's monthly surveys of industrial sentiment in Malta showed that confidence picked up in July and August, with the seasonally-adjusted indicator rising by 14 points over the two months to -5 in August 2008 (see Chart 2). The recovery was primarily due to improved production expectations, particularly among producers of intermediate goods, and occurred despite a concurrent decline in order books and a slight build-up in inventories.

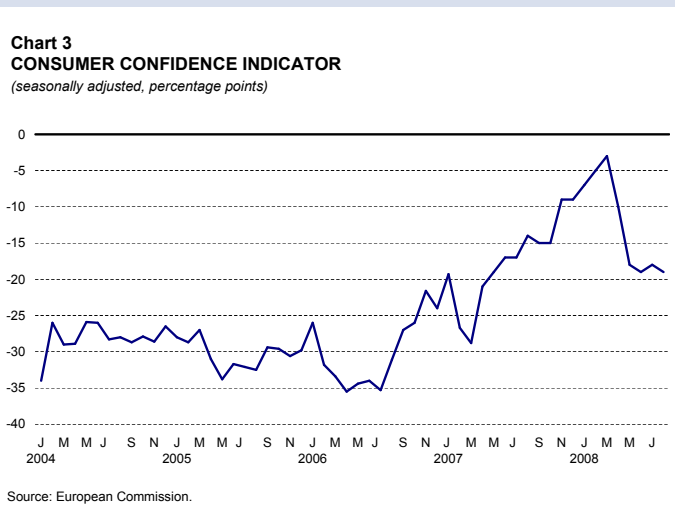
An analysis by main industrial groupings shows weaker sentiment among producers of consumer goods, particularly those in the food & beverages sector. During the three months to August 2008, order book levels for the category declined sharply while stocks of finished products increased. Concurrently, production expectations recovered in August after having declined in July.

In the intermediate goods category, sentiment deteriorated further in June and July. The subsequent recovery in August reflected the improved production expectations of firms in the radio, TV & telecoms sector and, to a lesser extent, in metal production. Order books for the intermediate goods category deteriorated significantly in June but improved in the following two months, although on balance they remained negative. The stock of finished goods, however, remained almost unchanged from its May level.

Sentiment in the investment goods category worsened over the three months to August, with the seasonally-adjusted sub-index dropping by 14 basis points. This occurred mainly as a result of a dip in production prospects and a slight build-up in inventories. Order book levels also dropped marginally over the period under review.

### Consumer confidence stabilises

The European Commission's monthly surveys of consumer confidence revealed that sentiment had stabilised at around -19 between May and August 2008, following a sharp deterioration in April (see Chart 3). Survey replies indicated that this slide in confidence levels was due to concerns about the general economic situation, particularly conditions in the labour market. The latter preoccupation appears to be inconsistent with published statistics that indicated ongoing robust growth in employment. The outlook for the financial situation of consumers and their ability to save in the next twelve months also weakened in April. This may have been triggered by rising inflation and expectations of slower economic growth abroad. Between May and August 2008, however, consumers' outlook regarding the general economic situation and their own financial situation remained relatively stable.



2008, but at a decelerating rate of 1.3%, compared with 3.0% in the first quarter (see Table 2.4).<sup>1</sup> The private sector was responsible for the entire increase in employment, as public sector jobs contracted by 0.1% over the same period. In part this reflected a reclassification effect as the ownership of the major postal service company was transferred to private ownership in September 2007.<sup>2</sup>

All categories of employment continued to grow both on an annual and on a quarterly basis, with full-time employees on reduced hours and part-time employees registering notable rates of growth. Females accounted for the overall increase in employment during the year to June. In fact, over the period, the number of employed females went up by 4,074, more than offsetting a decline of 1,967 in the number of males. Thus, while the overall employment rate, at 55.2%, was unchanged from a year earlier, the trend increase in the female employment ratio offset the continued decline in the male equivalent, leading to a narrower gender disparity. The activity rate followed a similar trend, except that the decline in the male activity rate was larger than the rise in the female counterpart, resulting in a 0.2 percentage point drop in the overall activity rate.<sup>3</sup>

### Administrative Records

A similar pattern in labour market developments emerged from the administrative records kept by the ETC. These showed that the full-time gainfully occupied population increased at an annual rate of 2.0% in May, while the part-time category grew by 5.2% on a year earlier (see Chart 2.2 and Table 2.5).

**Table 2.5**  
**LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS** <sup>(1)</sup>

*Persons, annual percentage changes*

	2007			2008		Annual change %
	May	Sep.	Dec.	Mar.	May	
<b>Labour supply</b>	<b>147,763</b>	<b>149,050</b>	<b>149,008</b>	<b>149,644</b>	<b>150,034</b>	<b>1.5</b>
Gainfully occupied <sup>(2)</sup>	141,183	142,421	142,836	143,476	144,016	2.0
Registered unemployed	6,580	6,629	6,172	6,168	6,018	-8.5
<b>Unemployment rate (%)</b>	<b>4.5</b>	<b>4.4</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>	
<b>Private sector</b>	<b>98,279</b>	<b>99,996</b>	<b>100,145</b>	<b>100,649</b>	<b>101,255</b>	<b>3.0</b>
Direct production	33,365	32,656	32,397	32,371	32,395	-2.9
Market services	64,914	67,340	67,748	68,278	68,860	6.1
<b>Public sector</b>	<b>42,455</b>	<b>42,002</b>	<b>41,992</b>	<b>42,046</b>	<b>41,990</b>	<b>-1.1</b>
<b>Temporary employment</b>	<b>449</b>	<b>423</b>	<b>699</b>	<b>781</b>	<b>771</b>	<b>71.7</b>
<b>Part-time jobs</b>	<b>45,214</b>	<b>46,979</b>	<b>46,966</b>	<b>46,553</b>	<b>47,587</b>	<b>5.2</b>
Primary	25,362	26,346	26,070	26,018	26,778	5.6
Secondary <sup>(3)</sup>	19,852	20,633	20,896	20,535	20,809	4.8

<sup>(1)</sup> Figures for June 2008 were not available at time of writing.

<sup>(2)</sup> This category measures full-time employment.

<sup>(3)</sup> This category includes employees holding both a full-time job and a part-time job.

Source: NSO.

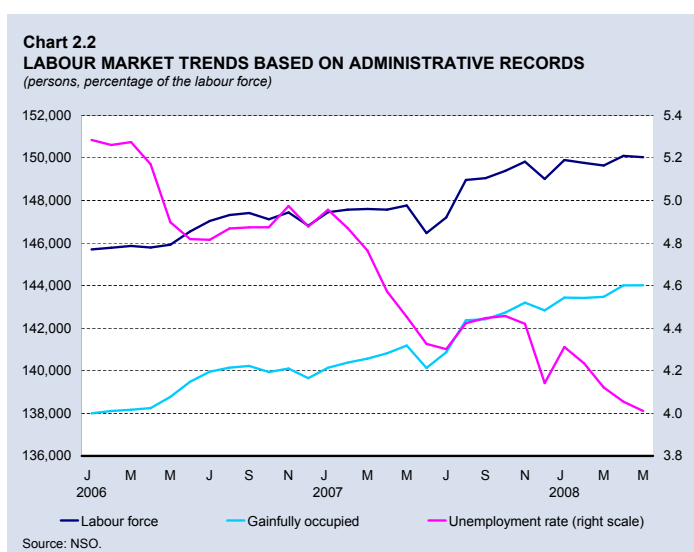
<sup>1</sup> An alternative employment measure, based on the national accounts, puts the second quarter's growth rate at 3.7%, up from a revised 2.8% in the previous quarter.

<sup>2</sup> According to the ETC's administrative records for May 2008, a decrease of 588 public sector employees in the post & telecommunications category over the previous twelve months was accompanied by an increase of 538 employees in the same category in the private sector.

<sup>3</sup> The activity rate and the employment rate represent the labour force and the number of employed, respectively, as a share of the population aged between 15 and 64 years.



The ETC data also show a 3% increase in private sector employment combined with a 1.1% contraction in the public sector during the twelve months to May. While the other business activities sector was the largest source of job growth, accounting for 35% of the new jobs created over the period, there were other significant gains in health & social work, hotels & restaurants and recreational, cultural & sporting activities. As also indicated in the LFS, the manufacturing sector registered a drop in employment over the same period.



*Unemployment declined further year-on-year*

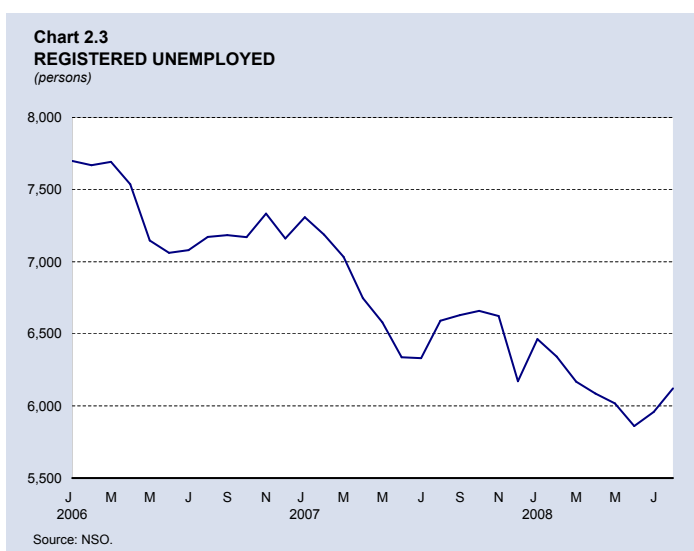
At 6.0%, the LFS estimate of the unemployment rate for the June quarter was unchanged from that for the previous quarter and was the lowest rate since the inception of the survey in 2000. Seasonally adjusted, the unemployment rate was stable at 5.7% during the three months to August, the lowest on record and 0.7 percentage points below the year-ago rate.<sup>4</sup>

Likewise, the unemployment rate based on administrative records stood at 4.0% in May, the lowest level in over ten years. More recent ETC data showed a further decline of 469 in the jobless number over the twelve months to August (see Chart 2.3).

**Prices**

*HICP inflation reflects higher prices of services, food and energy*

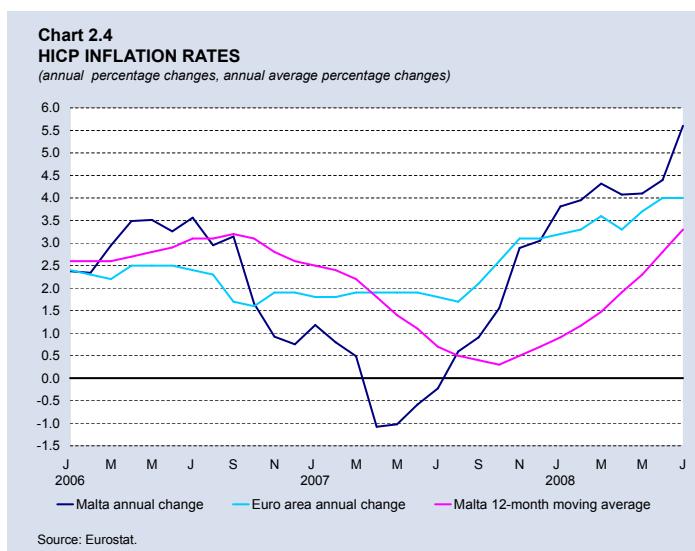
Measured in terms of the annual percentage change in the harmonised index of consumer prices (HICP), inflation increased marginally during the second quarter of 2008, edging



<sup>4</sup> This seasonally adjusted series, available for January 2000 onward, stood at its minimum of 5.7% in March, April, June, July and August 2008.

up from 4.3% in March to 4.4% in June (see Chart 2.4).

Concomitantly there was an increase in the equivalent inflation rate for the euro area from 3.6% in March to 4.0% in June, resulting in a narrower gap between Maltese and euro area inflation. Over the same period, Malta's twelve-month moving average rate of HICP inflation rose from 1.5% to 2.8%. Compared with the average inflation rate in the euro area, Malta's inflation rate at the end of June was 0.1 percentage points lower.

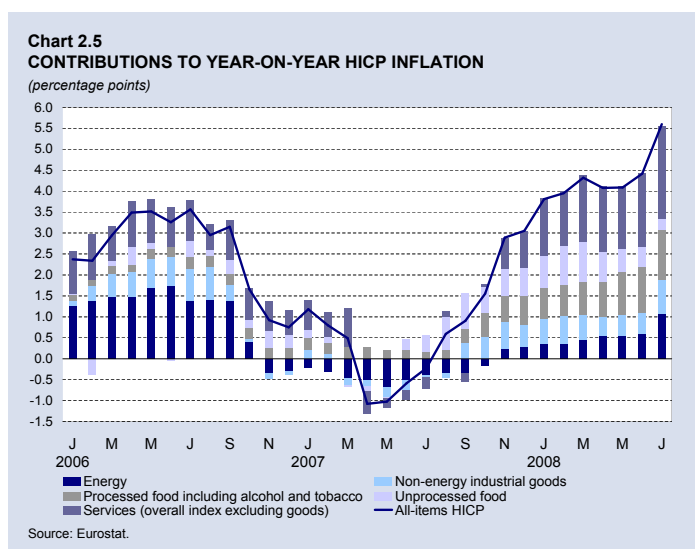


In contrast to the previous quarter, price pressures in the second quarter were mainly attributable to services, which added 1.8 percentage points to Malta's HICP inflation rate in June. Within the services category, higher restaurant and hotel prices were responsible for 1.3 percentage points. At the same time, food prices continued to climb, accounting for a further 1.6 percentage points. A contribution of 0.6 points came from the energy component, reflecting higher fuel prices, particularly of diesel and kerosene (see Chart 2.5).

More recent data show a further rise in Malta's inflation rate in July to 5.6%, and this was mainly due to higher food and hotel & restaurant prices, which accounted for 1.5 and 1.7 points, respectively. Increases in water and electricity charges during the month, as well as higher fuel prices, contributed a further 1.1 percentage points.

### *Retail Price Index follows a similar pattern*

Developments in the RPI during the second quarter of 2008 were similar to those in the HICP, aside from differences resulting from the exclusion of hotel accommodation from this index. At 4.0%, the annual rate of RPI inflation in June was 0.1 percentage points higher than in March; but the acceleration in the twelve-month moving average rate was more substantial, up by 1.0 percentage points to 2.9%.



**Table 2.6**  
**CONTRIBUTION TO YEAR-ON-YEAR RPI INFLATION**

Percentage points

	2008			2007		2008	
	Apr.	May	Jun.	Q3	Q4	Q1	Q2
Food	1.9	2.0	2.0	1.3	1.8	2.0	2.0
Beverages & tobacco	0.1	0.1	0.2	0.1	0.2	0.2	0.1
Clothing & footwear	0.2	0.2	0.2	0.0	0.6	0.5	0.2
Housing	0.3	0.3	0.3	0.2	0.2	0.3	0.3
Water, electricity, gas & fuels	0.1	0.1	0.1	-0.3	-0.2	0.0	0.1
Household equipment & house maintenance costs	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Transport & communications	0.5	0.6	0.8	-0.4	0.1	0.4	0.6
Personal care & health	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Recreation & culture	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Other goods & services	0.2	0.2	0.2	0.0	0.0	0.1	0.2
<b>RPI</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>1.3</b>	<b>3.0</b>	<b>3.7</b>	<b>3.8</b>

Sources: NSO; Central Bank of Malta

## BOX 2: RESIDENTIAL PROPERTY PRICES

### Advertised house prices decline further

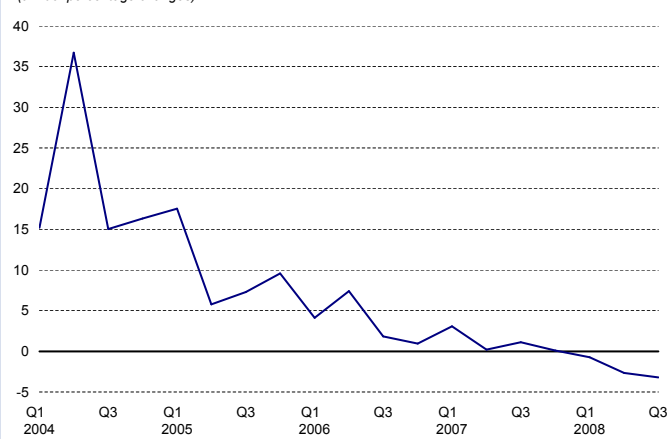
According to the Bank's survey of advertised property prices, residential property prices dropped by 2.7%, year-on-year, during the June quarter, extending a decline in prices for the second quarter in succession (see Chart 1).

An analysis by property type reveals that the negative growth was limited to four of the eight categories whose prices are surveyed by the Bank. In particular, there was a contraction in advertised prices of apartments in both shell and finished form, which together account for more than half of advertised properties. The prices of these categories declined by 2.9% and 3.3%, respectively. Meanwhile prices of terraced houses fell by 7.7%, while those of houses of character dropped by 4.0%, whereas in the same quarter a year earlier these two categories had registered growth rates of 8.3% and 7.6%, respectively.

By contrast, prices of villas were unchanged, while those of town houses and maisonettes in shell form increased. In addition, advertised prices of finished maisonettes increased marginally, by 0.8%.

Early data indicate a likely continuation of the overall downward trend in the third quarter of 2008.

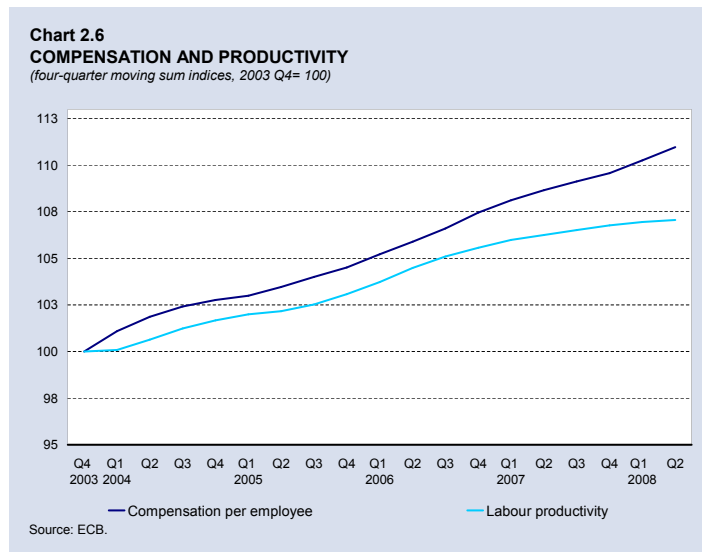
**Chart 1**  
**RESIDENTIAL PROPERTY PRICES**  
(annual percentage changes)



Source: Central Bank of Malta.

The acceleration in RPI inflation was mainly driven by higher food prices, which contributed 2.0 percentage points to the rise in the index, while the transport & communications component was responsible for another 0.8 points (see Table 2.6).

Meanwhile, the core inflation rate, based on the Central Bank of Malta's measure of inflation persistence, rose to 1.6% at the end of June from 1.3% at end-March.



## Costs and competitiveness

In order to gauge the economy's external competitiveness, developments in relative unit labour costs (ULC) and the harmonized competitiveness index (HCI) are analysed below.

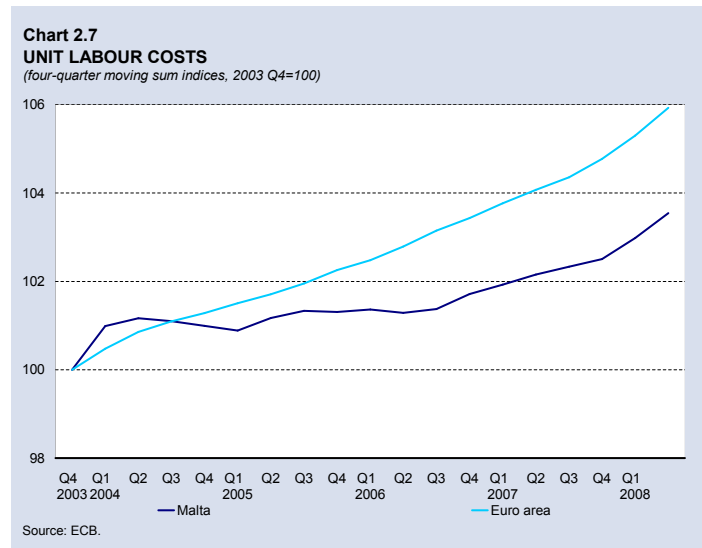
### Unit labour costs rise ...

Measured on a four-quarter moving sum basis, labour productivity in Malta in the second quarter of 2008 was 0.8% up on its year-ago level. With the rise in compensation per employee estimated at 2.1%, ULC increased by 1.4% (see Chart 2.6 and Chart 2.7) over the same period.<sup>5</sup> The increase in ULC was lower than that recorded in the euro area which was estimated at 1.8%.

### ... as did the Harmonised Competitiveness Indicator

Another measure of multilateral competitiveness is the HCI, which, in common with the real effective exchange rate, encompasses developments in both the exchange rate and the relative inflation rate.<sup>6</sup>

Having remained more or less unchanged in the twelve months to June 2007, Malta's HCI has since followed a rising



<sup>5</sup> Unit labour costs are the cost of employed labour per unit of output, or, more precisely, the ratio of total nominal compensation per employee to labour productivity, where the latter is defined as GDP at constant prices per person in employment. An increase in ULC implies a decrease in competitiveness, and vice-versa.

<sup>6</sup> The HCI is a measure of international competitiveness that tracks price level and exchange rate changes vis-à-vis a country's trading partners. These are weighted by relative trade only in manufactured goods. A higher (lower) score indicates a deterioration (improvement) in competitiveness.

path (see Chart 2.8). In fact, at the end of the second quarter of 2008, the HCI was 5.5% above its year-ago level, indicating a deterioration of the same magnitude in the country's competitiveness relative to a broad range of trading partners. This erosion of competitiveness, however, was on a smaller scale than that experienced by the euro area as a whole.

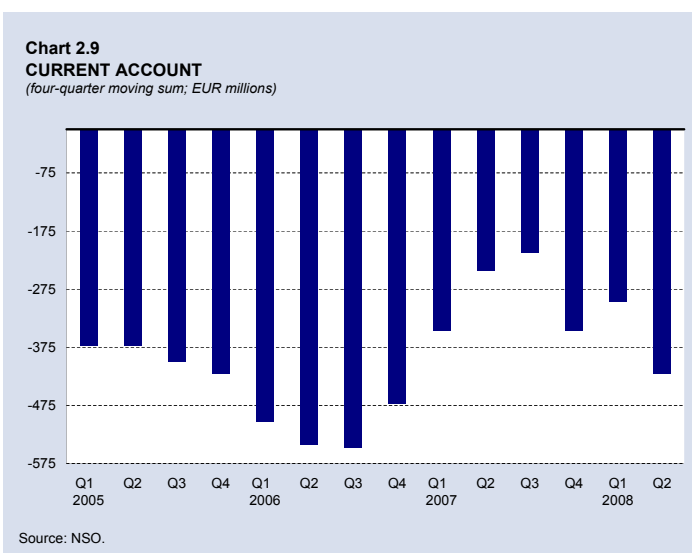
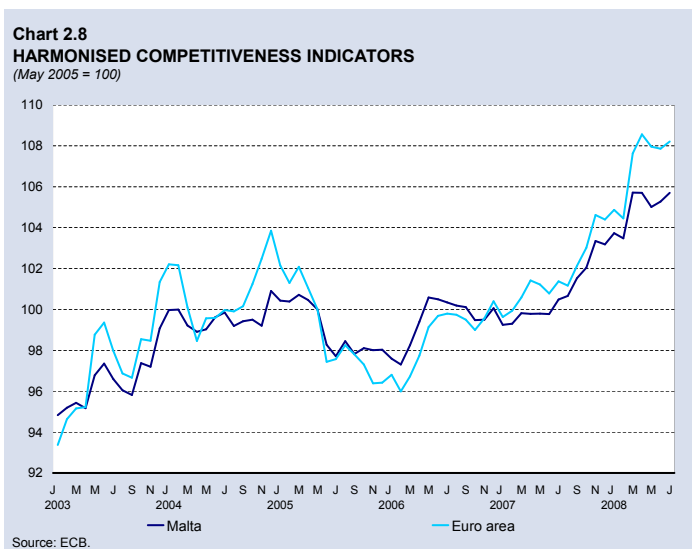
### The balance of payments

During the second quarter of 2008 the deficit on the current account of the balance of payments widened compared to the same quarter a year ago. A larger merchandise trade gap and higher net investment income outflows accounted for this deterioration. In contrast, net inward transfers increased and the services balance improved significantly.

During the same period, a large surplus was recorded on the capital and financial account.<sup>7</sup> This mainly reflected substantial inflows in the form of bank borrowings and non-residents' holdings of currency & deposits in Malta. Together with net direct investment inflows, these outweighed considerable outflows as banks added to their holdings of foreign debt securities. At the same time, reserve assets declined, while negative errors and omissions were reported.

### The current account deficit widens

During the quarter, the shortfall on the current account stood at EUR 169.2 million, up by EUR 123.3 million from that recorded in the same quarter a year earlier (see Table 2.7). Consequently, the current account deficit for the four quarters to June 2008 widened substantially (see Chart 2.9). As a proportion of GDP, it rose to 7.5%, compared to 4.6% over the four quarters ending in June 2007.



<sup>7</sup> Following Malta's entry into the euro area on 1 January 2008, assets that represent claims on other euro area residents, as well as all euro-denominated assets, whether representing claims on residents of the euro area or not, are no longer considered to form part of the country's external reserves. Moreover, a fraction of the Bank's reserve assets was transferred to the ECB in exchange for a claim on the ECB. As a result of this reclassification in the external reserves, marked changes were recorded on all financial account sub-components with the exception of direct investment. Thus, data related to reserve assets, portfolio investment, derivatives and other investment cannot be compared with the 2007 counterparts.

### BOX 3: TOURISM ACTIVITY IN THE SECOND QUARTER: HIGHER TRAFFIC BUT REDUCED EXPENDITURE

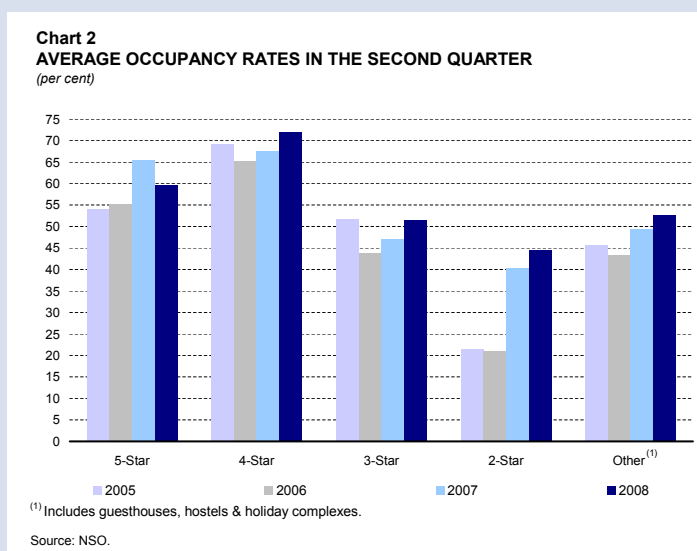
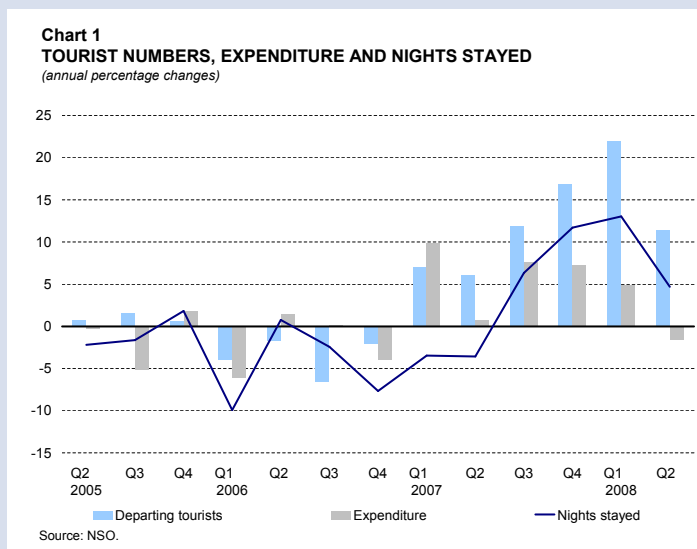
The recovery in tourism in evidence since 2007 continued into the second quarter of 2008, with the hotels and restaurants sector accounting for 0.4 percentage points of the 6.2% increase in nominal GDP recorded during that period.

The number of tourists visiting Malta was up by 11.4%, year-on-year, during the quarter. While still robust, this represented a slower rate of growth than that recorded in the previous quarter. In part this may have been on account of the timing

of Easter, which this year fell in March (see Chart 1). Among the core markets, the number of visitors coming from Italy, France, Spain and Germany rose sharply, while arrivals from the UK, which had declined in the first quarter, were up by 3.4%. At the same time, however, tourists from two other source markets, Scandinavia and Ireland, were down by 4.9% and 10.1%, respectively.

Data on tourist expenditure, however, showed a negative trend. While this had been rising at a decelerating pace, it actually declined by 1.6% in the June quarter, as Chart 1 shows. An increase of almost a third in expenditure on non-package holidays was not enough to outweigh the decline in package holiday spending and other outlays. In addition, the average length of stay continued on its downward path, falling to 7.6 nights from 8.1 nights a year earlier. These developments reflected the relatively large number of travellers who make their own travel arrangements instead of using the services of tour operators, as well as the growing preference for shorter but more frequent holidays.

Occupancy rates at 5-star hotels were 5.8 percentage points lower, whereas the 4-, 3- and 2-star categories each registered an increase in occupancy of around 4 percentage points



(see Chart 2). This is corroborated by an industry survey which shows that occupancy rates declined in 5-star hotels but increased in other categories, with 3-star hotels recording the highest gains.<sup>1</sup> These shifts in part reflected the redistribution in bed stock, which rose in the higher rated hotels but declined significantly at the lower end of the accommodation spectrum.

The same survey shows that average achieved room rates in the surveyed hotel categories rose by over 10%, possibly reflecting a reduced reliance on tour operators, who generally pay discounted room rates.

Following the decline recorded in the first quarter, cruise liner activity recovered during the June quarter, with arrivals rising by 29% year-on-year. The bulk of the increase came from the UK, though arrivals from Spain, Italy and the US were also sharply up.

### **Latest developments**

In July tourist expenditure increased by an annual 5.4%. The number of tourists went up by 1.2% while total nights stayed rose by 5.2%, a fact that was reflected also in a marginal increase in the average length of stay. Arrivals from the UK and the US were down in July, probably reflecting the economic downturn in those countries.

Meanwhile, the number of cruise liner passengers continued to grow at a double-digit rate in July but declined in August.

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<sup>1</sup> This survey covers 5-, 4-, and 3-star hotels.

**Table 2.7**  
**BALANCE OF PAYMENTS**

(EUR millions)

	2007	2008	four quarter moving sum			
			2007		2008	
	Q2		Q3	Q4	Q1	Q2
<b>Current account</b>	<b>-46.0</b>	<b>-169.2</b>	<b>-211.6</b>	<b>-346.8</b>	<b>-296.7</b>	<b>-420.0</b>
Goods	-212.4	-319.6	-828.7	-1,004.3	-1,056.7	-1,163.8
Services	203.1	237.0	810.9	849.7	852.5	886.3
Income	-41.8	-148.9	-151.3	-129.0	-80.7	-187.8
Current transfers	5.2	62.3	-42.4	-63.2	-11.8	45.4
<b>Capital and financial account</b>	<b>46.1</b>	<b>240.6</b>	<b>355.8</b>	<b>190.4</b>	<b>44.1</b>	<b>238.5</b>
Capital account	1.7	8.1	98.4	51.4	50.3	56.7
Financial account	44.4	232.5	257.4	139.0	-6.2	181.8
<b>Errors and omissions</b>	<b>-0.2</b>	<b>-71.3</b>	<b>-144.2</b>	<b>156.4</b>	<b>252.7</b>	<b>181.5</b>

Sources: NSO; Central Bank of Malta.

### *The merchandise trade gap expands*

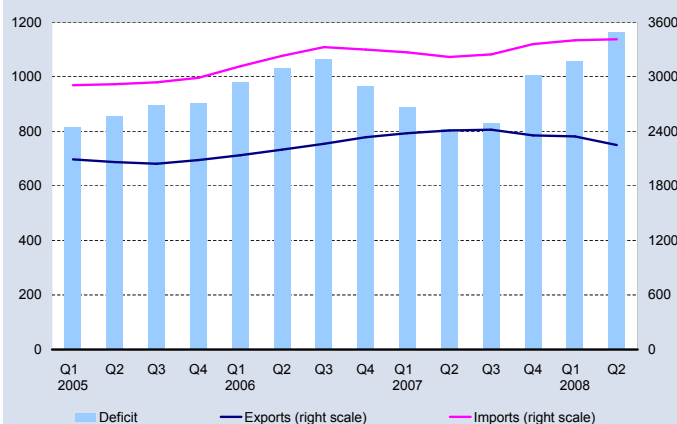
On the basis of balance of payments data, the merchandise trade deficit widened by EUR 107.2 million, or 50.5%, on a year earlier, ending June at EUR 319.6 million. Exports fell sharply, contracting by EUR 95.7 million. Customs data indicate that exports of semi-conductors accounted for most of this decline. At the same time, however, re-exports of mineral fuels – which were exceptionally high a year earlier – and of miscellaneous manufactured articles also contributed. These drops were only partly offset by increased exports of pharmaceuticals. At the same time, the value of imports rose by EUR 11.4 million, reflecting the higher costs of fuel and of food & beverages, purchases of which rose by EUR 24.2 million and EUR 18.7 million, respectively. In contrast, foreign purchases of industrial supplies fell by over EUR 50 million, reflecting the concomitant fall in exports of semi-conductors.

On a four-quarter moving sum basis, the visible trade gap continued to widen (see Chart 2.10). Reflecting the impact of substantially higher costs of energy supplies, imports extended the upward trend in evidence since the second quarter of 2007, increasing by 6.0% on a year earlier, while exports dropped by 6.7%, mostly as a result of lower external demand for semi-conductors.

### *The surplus on services and transfers improves...*

After having stalled in the previous quarter, the positive balance on the services account increased by EUR 33.9 million, or 16.7%, compared to a year earlier. This stemmed from faster growth in exports of services, which outweighed a smaller rise in imports (see Chart 2.11).

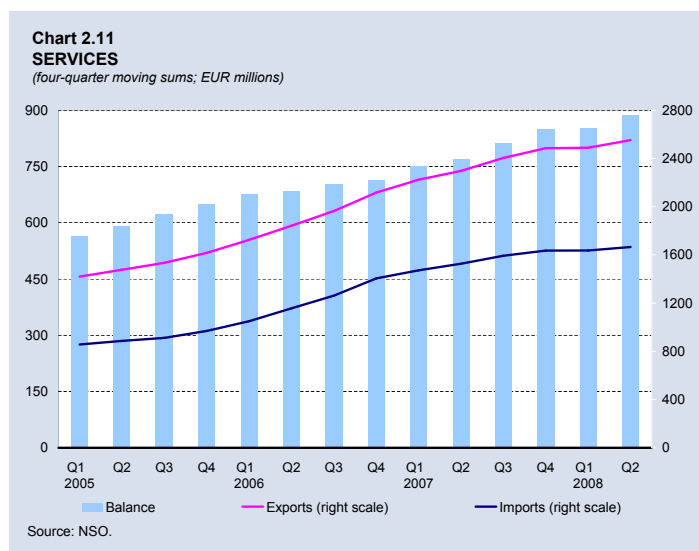
**Chart 2.10**  
**GOODS BALANCE**  
(four-quarter moving sums; EUR millions)



Source: NSO.



Net inflows on the 'other services' account expanded by EUR 25.1 million on a year-on-year basis during the June quarter. This was mainly attributable to higher receipts from operational leasing and merchanting as well as lower payments for business, professional and technical services. These offset a rise in outflows on financial services, driven by payments made by a bank. Moreover, income from transport activities grew by EUR 11.3 million, mainly reflecting higher receipts from services related to sea and air transport.



In contrast, a drop in receipts from inbound tourism outweighed a reduction in spending by residents travelling abroad, leading to a marginal decline in the surplus on the travel account.

A significant positive balance continued to be recorded on transfers, which is heavily influenced by tax payments effected by companies engaged in international business. This posted net inflows of EUR 62.3 million, up from EUR 5.2 million a year earlier.

#### *... but the negative balance on income increases*

Net income outflows were up by EUR 107.1 million on a year earlier. This was mainly due to increased dividend payments to non-resident investors and a rise in retained profits due to non-resident owners of local firms in the manufacturing, finance and other services sectors. Furthermore, interest earned on residents' portfolio investments abroad was down by 9.3% from the level recorded in the same quarter of 2007.

#### *The capital and financial account registers high inflows*

The capital and financial account posted net inflows of EUR 240.6 million during the quarter under review (see Table 2.7). These were almost entirely driven by developments in the financial account, as the surplus on the capital account was of EUR 8.1 million only. On a cumulative basis, during the four quarters to June 2008, net inflows on the capital and financial account amounted to 4.3% of GDP, as against 6.7% of GDP a year earlier.

Substantial net inflows, amounting to EUR 1,431.6 million, were registered in the other investment category during the quarter. Additional borrowings by resident banks, mainly those involved in international operations, together with an increase in currency & deposit liabilities to non-residents, accounted for the greater part of these inflows. In contrast, net outflows on the portfolio investment account amounted to EUR 1,495.8 million, largely resulting from a build-up of residents' holdings of foreign debt securities, particularly those predominantly engaged in international business.

Net direct investment inflows amounted to EUR 142.0 million during the quarter. Foreign direct investment in Malta amounted to EUR 174.6 million, with reinvested earnings – the counterpart to income outflows – making up around half of this amount, and loans from foreign manufacturing

companies to their resident subsidiaries accounting for much of the remainder. These inflows were partly offset by outward direct investments of EUR 32.7 million by resident firms in the tourism and telecommunications sectors. Meanwhile, net financial derivatives, which are heavily influenced by the activities of international banks, generated additional net inflows.

Negative net errors and omissions were recorded during the quarter, indicating an underestimation of the current account deficit and/or an overestimation of net capital and financial account inflows. At the same time, reserve assets decreased by EUR 46.1 million.

## Government finance<sup>8</sup>

### *Consolidated Fund deficit widens as expenditure rises rapidly<sup>9</sup>*

Between January and August 2008, the Consolidated Fund deficit widened by EUR 96.2 million compared to the same period of 2007, as expenditure grew at a much faster pace than revenue (see Table 2.8).

Strong growth was evident across all main categories of expenditure with the exception of capital spending. The latter fell by 5.9%, reflecting the fact that in the same period of 2007 capital expenditure was still being boosted by outlays on the new hospital, which was completed in the early summer of that year. In addition, EU-funded projects progressed at a slower pace than expected. These factors outweighed increased spending on other capital projects. By contrast, recurrent spending was up by 12.1%.

Expenditure on personal emoluments rose by 8.1%. Apart from the increases incorporated in the civil service collective agreement, the higher government wage bill also reflected specific awards granted to the health sector in terms of a reform package that came into effect at the end of 2007. Social security benefits also maintained a strong upward momentum, as the trend

**Table 2.8**  
**GOVERNMENT BUDGETARY OPERATIONS**

EUR millions

	2007	2008	Change	
	Jan - Aug	Jan - Aug	Amount	%
<b>Revenue</b>	<b>1,321.9</b>	<b>1,369.8</b>	<b>47.9</b>	<b>3.6</b>
Income tax	364.8	395.5	30.7	8.4
Social security contributions	279.7	299.6	20.0	7.1
Value Added Tax	258.5	283.1	24.6	9.5
Other indirect taxes	265.6	256.8	-8.8	-3.3
Grants	21.0	14.9	-6.1	-28.9
Other ordinary revenues	132.2	119.8	-12.4	-9.4
<b>Expenditure</b>	<b>1,486.0</b>	<b>1,630.2</b>	<b>144.1</b>	<b>9.7</b>
Personal emoluments	295.4	319.3	23.8	8.1
Social security benefits	389.0	426.7	37.8	9.7
Interest payments	121.8	128.9	7.2	5.9
Other current expenditure	525.9	610.4	84.5	16.1
Capital expenditure	154.0	144.9	-9.1	-5.9
<b>Consolidated Fund balance</b>	<b>-164.2</b>	<b>-260.4</b>	<b>-96.2</b>	<b>-</b>

Source: NSO.

<sup>8</sup> The cut-off date for information on government finance is 22 October 2008.

<sup>9</sup> Consolidated Fund data capture most of the transactions of central government on a cash basis. General government data, which are compiled on a time-adjusted basis, capture transactions of both central government, including extra-budgetary units, and local government. The composition of various revenue and expenditure items differs between the two methodologies.

rise in retirement pensions persisted and was reinforced by the broader coverage of children's allowances. Outlays on energy subsidies increased as the international oil price rose sharply while energy prices were left unchanged for most of the period. On the other hand, the increase in interest payments reflected a combination of a higher outstanding stock of public debt and rising interest rates on Treasury bills. As at August 2008 the public debt stood at EUR 3.5 billion, up from EUR 3.3 billion at the end of December 2007. Malta Government Stocks (MGS) accounted for close to 83% of the total and Treasury bills for almost 12%, while liabilities related to the issue of coins, other domestic borrowings and external debt took up the remainder.<sup>10</sup>

### *Revenues fail to keep up in spite of buoyant direct tax inflows*

Meanwhile revenue increased moderately, putting on 3.6% during the first eight months of 2008 compared with the same period of 2007. Receipts from direct taxes continued to register healthy growth, with income tax netting an additional 8.4%, driven by higher corporate tax inflows. As regards taxes on employment income, it appears that the impact of the tax cuts that entered into force in January was fully compensated for by positive labour market developments. The latter also probably explain why social security contributions expanded at a sustained pace. These rose by 7.1% over the first eight months of the year. In turn, the strong outturn in private consumption during the first half of the year impacted positively on VAT revenues, with an expansion of almost 10% being recorded. By contrast, a relatively weak housing market, evidenced by lower house prices, reduced the intake from duty on documents, dragging revenue from other indirect taxes down. Receipts by way of grants were also below the level registered a year earlier, reflecting the drop in capital expenditure mentioned above. Further declines in other ordinary revenue reflected lower proceeds from auctions of Government securities in the primary market.

### *Similar patterns were reflected in the general government balance...*

Developments in the general government balance for the first half of 2008 mirrored those in the Consolidated Fund (see Table 2.9). The fiscal deficit widened by EUR 109.1 million on a

**Table 2.9**  
**GENERAL GOVERNMENT BALANCE**

EUR millions

	2007			2008			Q1 - Q2	
	Q1	Q2	Q1 - Q2	Q1	Q2	Q1 - Q2	Change	%
<b>Revenue</b>	<b>517.1</b>	<b>518.6</b>	<b>1,035.7</b>	<b>531.0</b>	<b>542.7</b>	<b>1,073.7</b>	<b>37.9</b>	<b>3.7</b>
Taxes on production and imports	179.7	189.6	369.3	190.6	199.2	389.7	20.5	5.5
Current taxes on income and wealth	153.9	180.8	334.7	146.3	190.7	337.0	2.3	0.7
Social contributions	106.0	93.6	199.6	109.9	104.3	214.1	14.6	7.3
Capital transfers	9.2	12.2	21.4	3.3	10.5	13.8	-7.6	-35.7
Other	68.4	42.4	110.8	81.0	38.1	119.1	8.3	7.5
<b>Expenditure</b>	<b>550.0</b>	<b>557.3</b>	<b>1,107.3</b>	<b>644.8</b>	<b>609.5</b>	<b>1,254.4</b>	<b>147.1</b>	<b>13.3</b>
Intermediate consumption	57.3	67.3	124.5	90.4	84.9	175.3	50.8	40.7
Gross fixed capital formation	52.3	70.7	123.0	54.2	31.2	85.4	-37.6	-30.6
Compensation of employees	173.0	177.0	349.9	191.3	191.1	382.4	32.5	9.3
Subsidies	21.1	24.0	45.0	32.3	32.1	64.5	19.4	43.2
Interest	53.9	33.0	86.9	41.9	47.1	88.9	2.1	2.4
Social benefits	159.0	177.0	335.9	183.1	189.7	372.8	36.8	11.0
Other	33.5	8.5	42.0	51.6	33.5	85.1	43.1	102.5
<b>Primary balance</b>	<b>21.0</b>	<b>-5.7</b>	<b>15.3</b>	<b>-72.0</b>	<b>-19.8</b>	<b>-91.8</b>	<b>-107.1</b>	<b>-</b>
<b>General government balance</b>	<b>-32.9</b>	<b>-38.7</b>	<b>-71.6</b>	<b>-113.9</b>	<b>-66.8</b>	<b>-180.7</b>	<b>-109.1</b>	<b>-</b>

Source: NSO.

<sup>10</sup> As from January 2008, the euro coins issued in the name of the Treasury have been included as part of government debt. These liabilities are matched by a corresponding claim on the Central Bank of Malta.

year earlier as growth in expenditure outpaced that in revenue. Expenditure rose by 13.3%, with double-digit growth being recorded across many categories. Subsidies increased by two-fifths as higher energy costs were not fully passed onto consumers. Likewise, intermediate consumption accelerated sharply, partly reflecting additional spending on health, utilities and contractual services. At the same time, both compensation of employees and outlays on social benefits rose by around 10%, while gross fixed capital formation declined by around a third.

On the other hand, revenue growth, at 3.7%, was more modest. It was sustained by indirect taxes and social contributions. In contrast to the picture given by the cash-based Consolidated Fund data, receipts from current taxes on income and wealth were virtually unchanged compared to a year ago.<sup>11</sup> However, receipts by way of transfers dropped, mirroring the decline in grants referred to earlier.

### *...posing upside risks to the deficit target for the year*

While growth in general government revenues over first half of the year was slower than the Government's estimates for the year as a whole, recurrent expenditure growth appears to have exceeded the targets significantly. A number of factors have contributed to this development. First, as a result of the spike in the international oil price, subsidies to the energy corporation increased substantially. Second, the increase in costs related to health appears to have been larger than originally expected. Further upward pressure on recurrent expenditure is expected in the second half of the year because of the high take-up of early retirement schemes by shipyard workers. Given the impact of these factors, this year's 1.2% deficit target contained in Malta's Stability Programme 2007-2010 is unlikely to be achieved.

## **Monetary and financial developments**

The contribution of Maltese MFIs to the euro area broad money stock decreased during the June quarter as residents' deposits contracted. At the same time, credit to residents of Malta gathered pace, while net claims on non-residents of the euro area increased. These movements were financed mainly by increased borrowings from MFIs elsewhere in the euro area. Domestic money market yields rose during the quarter, following similar movements in EURIBOR rates. In the capital market, yields on both 5-year and 10-year government securities increased, reflecting higher bond yields in the euro area, while equity prices fell.

### *Growth in residents' deposits decelerates*

Malta's contribution to the euro area broad money stock (M3) decreased by EUR 101.6 million, or

**Table 2.10**  
**RESIDENTS' DEPOSITS <sup>(1)</sup>**

*EUR millions; percentage changes on the previous quarter*

	2008	2007			2008	
	June	Q2	Q3	Q4	Q1	Q2
Overnight deposits	3,065.2	3.2	3.7	4.9	-0.2	-1.2
Deposits redeemable at notice up to 3 months	115.3	18.4	9.3	18.0	7.1	2.2
Deposits with agreed maturity up to 2 years	4,577.7	4.9	9.6	3.7	3.1	-0.8

<sup>(1)</sup> Data only include deposits belonging to residents of Malta.

Source: Central Bank of Malta.

<sup>11</sup> A significant part of the difference between tax receipts as recorded in the Consolidated Fund and those registered as part of general government revenues relates to the time of recording of cash intakes. In particular, income tax receipts registered in the Consolidated Fund during the first two months of the year are allotted to the previous year in general government accounts.

1.2%, during the second quarter of 2008, when compared to the previous quarter. At the end of June, the Maltese contribution to euro area M3 stood at EUR 8,583.1 million.

During the quarter, overnight deposits belonging to residents of Malta declined at a faster pace when compared to the preceding three months, falling by 1.2% (see Table 2.10). This was driven by a fall in balances belonging to households and public non-financial companies -mainly denominated in euro-

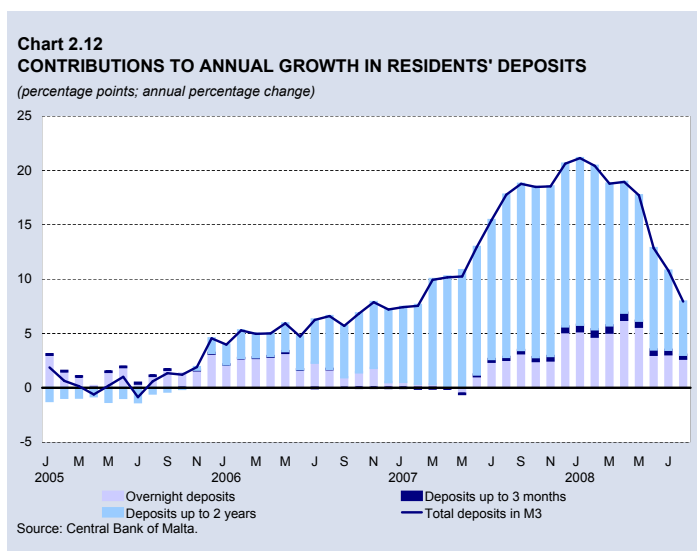
which more than offset an increase in private non-financial companies' deposits. The issue of MGS on the primary market in June may have contributed to the drop in household deposits. Concurrently, overnight deposits belonging to other euro area residents grew by around EUR 38 million, as private non-financial companies increased their foreign currency holdings.

Deposits redeemable at up to three months notice rose by just EUR 2.5 million, or 2.2%, during the quarter. Meanwhile, after more than two years of vigorous growth, residents' deposits with an agreed maturity of up to two years contracted during the quarter under review, falling by EUR 35.4 million, or 0.8%, when compared to the March quarter. Similar deposits belonging to other euro area residents also declined, falling by almost EUR 38 million. In both cases, the contraction was driven mostly by corporate deposits, with Maltese firms reducing their holdings of foreign currency deposits significantly. In contrast, deposits with an agreed maturity of up to two years belonging to Maltese households increased, possibly reflecting a shift from overnight deposits to more attractive short-term deposits, which carry higher yields.

Thus, the annual rate of growth of residents' deposits included in M3 slowed down considerably during the quarter, to 12.9% by end-June from 18.8% three months earlier. Growth was once again fuelled primarily by deposits with an agreed maturity of up to two years (see Chart 2.12). Although their annual growth rate decelerated, such deposits still accounted for nearly three-quarters of the overall increase in residents' deposits in the year to June. As a proportion of total deposits, both overnight deposits and deposits with an agreed maturity of up to two years remained broadly unchanged over the quarter, at around 40% and 60%, respectively.

The annual growth rate of deposits belonging to residents declined further, to 7.9%, in August, as the annual rate of growth of deposits with an agreed maturity of up to two years continued to fall.

Meanwhile, the weighted average interest rate on all deposits rose by 10 basis points during the quarter, reaching 3.06% at end-June (see Chart 2.13). The average interest rate on savings deposits remained unchanged at 1.67%, while that on demand deposits declined by 8 basis



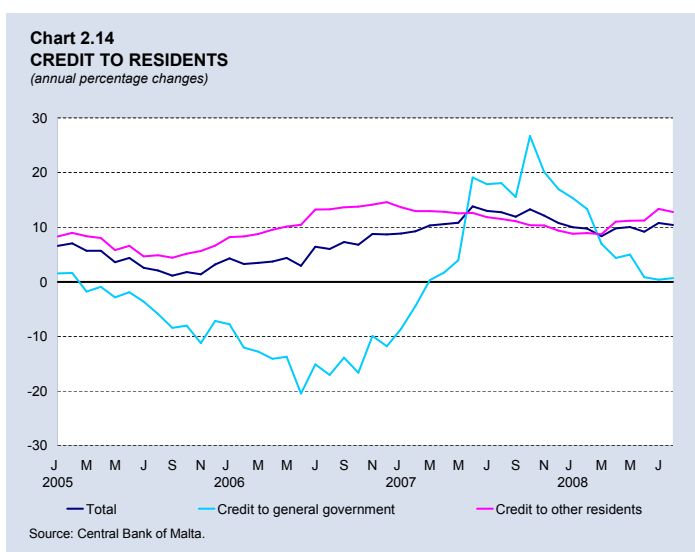
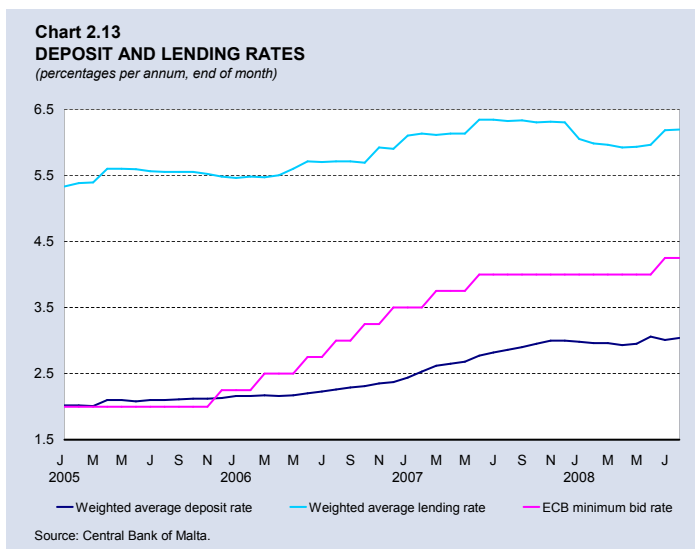
points to 0.75%. The average interest rate on time deposits, on the other hand, rose by 11 basis points, reaching 4.03% in June. Going into the following quarter, the weighted average deposit rate was marginally lower at end-August.

### *Credit expands at a faster pace*

Credit to Maltese residents expanded at a faster pace during the second quarter of 2008. The quarter-on-quarter growth rate accelerated from 1.3% in the previous quarter to 3.7%, driven almost entirely by a rise in credit to other residents (see Table 2.11). Consequently, on an annual basis, the rate of growth of credit also picked up, rising to 9.2% from 8.4% in March (see Chart 2.14).

Credit to general government increased by 1.4% during the quarter, after having declined during the preceding three months. This was mostly attributable to a rise in the banks' holdings of MGS following the issue of new bonds in June. On a year-on-year basis, however, growth in credit to general government fell by around 6 percentage points during the quarter, ending June at 0.8%. This partly reflected the fact that in June 2007 banks had also increased their holdings of government securities considerably following an issue of MGS on the primary market.

Credit to other residents picked up substantially during the second quarter, rising by 4.3% from the end-March level (see Table 2.11). Loans, which account for more than 97% of total credit, put on 4.4%, with demand stemming predominantly from the non-bank private sector (see Table 2.12). Loans to the latter expanded by 2.6%, fuelled mainly by credit to households, most of which was intended for house purchases. As far as corporate lending is concerned, lending to the real estate, renting & business activities sector, the wholesale & retail trade, the transport, storage & communication sector and manufacturing all rose significantly. Meanwhile, credit to the non-bank public sector increased robustly during the quarter, rising by 30.2%. This reflected an exceptional rise in lending to the 'electricity, gas &



**Table 2.11**  
**CREDIT TO MALTESE RESIDENTS**

EUR millions; percentage changes on the previous quarter

	2008	2007			2008	
	June	Q2	Q3	Q4	Q1	Q2
<b>Total credit</b>	<b>8,327.6</b>	<b>3.0</b>	<b>1.1</b>	<b>2.8</b>	<b>1.3</b>	<b>3.7</b>
Credit to general government	1,512.2	7.5	-1.6	3.3	-2.2	1.4
Credit to other residents	6,815.4	1.9	1.7	2.7	2.1	4.3

Source: Central Bank of Malta.

water supply' sector meant to refinance existing foreign debt and additional capital expenditure.

The pick-up in credit growth during the quarter reviewed translated into a faster annual rate of credit growth. Hence, the annual rate of growth of credit to other residents accelerated to 11.2% in June from 8.7% in March, reflecting faster growth in lending to the private sector. In fact, after having slowed down persistently throughout 2007 and the first three months of 2008, lending to the private sector accelerated during the quarter under review, with its annual growth rate rising to 9.0% in June from 8.7% three months earlier (see Chart 2.15). Although it slowed down in the June quarter, growth in residential mortgages continued to drive the annual expansion in private sector borrowing. At the same time, the contribution of loans to the real estate, renting and business activities sector and the construction sector both fell. Relatively rapid lending to the transport, storage and communication sector boosted the share of the 'other' component shown in Chart 2.15. In absolute terms, bank lending to the private sector remains dominated by loans to households, which, together with loans to the real estate, renting & business activities sector and to the construction industry, make up more than two-thirds of total private sector borrowing.

**Table 2.12**  
**CREDIT TO OTHER RESIDENTS<sup>(1)</sup>**

EUR millions

	2008	2008	Change	
	Mar.	Jun.	Amount	%
<b>Total credit</b>	<b>6,535.7</b>	<b>6,815.4</b>	<b>279.8</b>	<b>4.3</b>
Credit to the non-bank private sector	6,158.0	6,323.5	165.5	2.7
Credit to the non-bank public sector	377.7	491.9	114.2	30.2
<b>Total loans</b>	<b>6,346.6</b>	<b>6,622.8</b>	<b>276.2</b>	<b>4.4</b>
Electricity, gas & water supply	184.8	283.1	98.3	53.2
Transport, storage & communication	335.3	358.5	23.3	6.9
Agriculture & fishing	22.0	23.5	1.5	6.8
Manufacturing	309.4	324.5	15.1	4.9
Construction	699.2	701.8	2.6	0.4
Hotels & restaurants	464.0	457.6	-6.4	-1.4
Wholesale & retail trade; repairs	747.4	770.7	23.3	3.1
Real estate, renting & business activities	774.5	809.2	34.7	4.5
Households & individuals	2,637.8	2,716.8	79.0	3.0
Other <sup>(2)</sup>	172.4	177.1	4.7	2.7

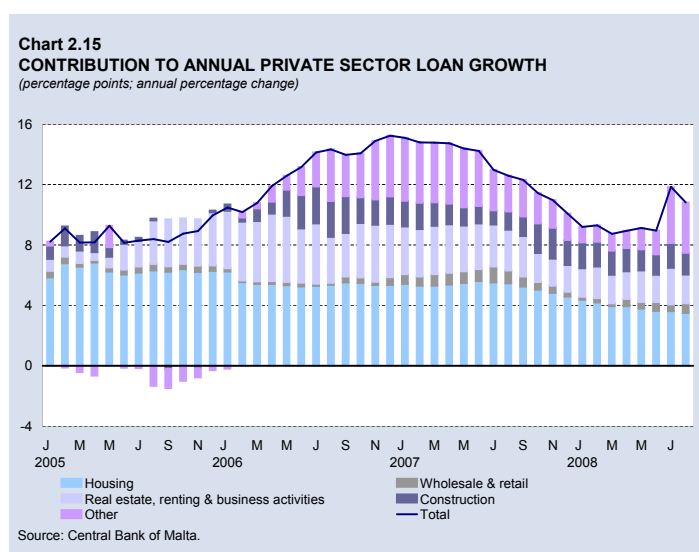
<sup>(1)</sup> Credit to other residents consists mainly of loans and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies, and financial derivatives. Interbank claims are excluded. Data only include credit to residents of Malta.

<sup>(2)</sup> Includes mining and quarrying, public administration, education, health and social work, community recreation and personal activities, extra-territorial organisations and bodies and non-bank financial institutions.

Source: Central Bank of Malta.

Meanwhile, credit granted by resident banks to other residents of the euro area increased significantly during the June quarter, rising by EUR 410.9 million to EUR 2,854.4 million. This mainly reflected increased lending to non-bank financial intermediaries and non-financial companies.

Going into the third quarter of 2008, credit to residents of Malta continued to accelerate, with the year-on-year growth rate rising to 10.4% in August. While the annual growth rate of credit to general government continued on its downward trend, reaching 0.7%, that of credit to other residents rose to 12.8%.



These credit developments do not appear to have been influenced by changes in bank lending rates. In fact, with official interest rates remaining unchanged, bank lending rates were stable during the second quarter of 2008. The weighted average interest rate on residents' loans stood at 5.96% in June, unchanged from the end-March level. Going into the third quarter, however, average lending rates rose by 23 basis points by end-August, as banks adjusted to the 25 point rise in the ECB's minimum bid rate.

The results of the Bank Lending Survey conducted in July 2008 indicate that credit standards in respect of lending to enterprises and households remained unchanged during the second quarter of 2008.<sup>12</sup> At the same time, the demand for loans showed signs of picking up, possibly as the dampening impact of the uncertainty surrounding the outcome of the general elections on the demand for credit during the first quarter started to be reversed. Banks surveyed said they expected both credit conditions and the demand for credit would remain unchanged in the September quarter.

#### *Net claims on non-residents of the euro area increase*

The external counterpart of broad money, which is captured by net claims on non-residents of the euro area, increased by EUR 1,123.1 million, or 14.9%, during the second quarter of 2008. Claims on non-residents of the euro area, which were boosted by an increase in loans and securities other than shares, outpaced a rise in liabilities to non-residents of the euro area (see Table 2.13). The latter consisted mainly of additional loans raised by local banks from banks resident outside the euro area and time deposits belonging to private non-financial companies resident outside the euro area.

Other counterparts (net) expanded by EUR 1,938.2 million, or 20.7%, during the quarter. Increased borrowings by resident banks from credit institutions elsewhere in the euro area, in

<sup>12</sup> The Bank Lending Survey gauges credit demand and supply conditions. The Central Bank of Malta began to survey a sample of Maltese banks in 2004. From January 2008 the Bank Lending Survey is being conducted as part of a quarterly exercise across the euro area.



**Table 2.13**  
**EXTERNAL COUNTERPARTS AND OTHER COUNTERPARTS<sup>(1)</sup>**

*EUR millions; percentage changes on the previous quarter*

	2008 March	2008 June	Change	%
<b>External counterpart</b>	<b>7,562.0</b>	<b>8,685.1</b>	<b>1,123.1</b>	<b>14.9</b>
Claims on non-residents of the euro area	23,916.3	26,819.6	2,903.3	12.1
Liabilities to non-residents of the euro area	16,354.3	18,134.6	1,780.3	10.9
<b>Other counterparts (net)<sup>(2)</sup></b>	<b>9,344.0</b>	<b>11,282.2</b>	<b>1,938.2</b>	<b>20.7</b>

<sup>(1)</sup> Figures show the contribution of Maltese MFIs to the euro area totals.

<sup>(2)</sup> Includes net interbank claims/liabilities.

Source: Central Bank of Malta.

the form of loans, interbank deposits and repurchase agreements, accounted for a large share of this rise. Such flows have accelerated following the adoption of the euro in January 2008. In addition, resident banks also accepted significant amounts of deposits that are not included in broad money, such as those with an agreed maturity greater than two years and government deposits.

### *Money market rates rise*

The Governing Council of the ECB left the minimum bid rate on the main refinancing operations unchanged during the second quarter of 2008. On July 3 the ECB reacted to further evidence of inflationary pressures in the euro area and tightened its monetary policy stance. As a result, it raised the minimum bid rate by 25 basis points to 4.25%. The three-month EURIBOR rose in anticipation of the tightening monetary policy stance, which had an impact on domestic money market rates.

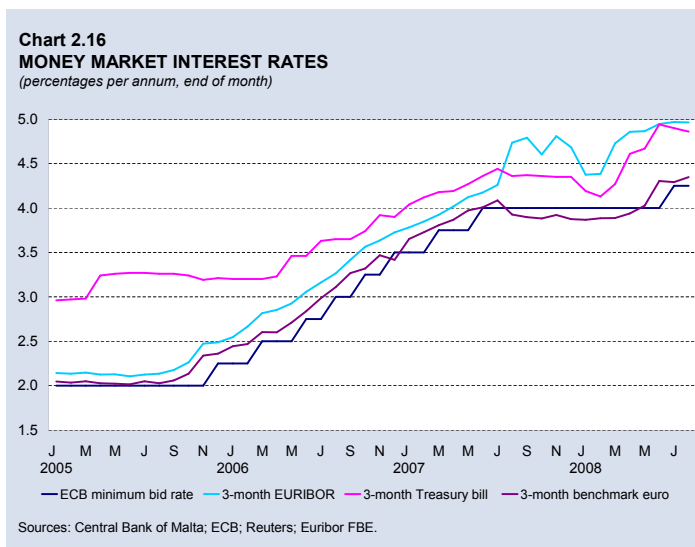
During the quarter, yields on domestic primary market three-month Treasury bills increased significantly, rising by 67 basis points to 4.94% in June. Higher yields reflected an increase in the amount of bills issued as well as upward movements in the three-month EURIBOR, which represents an alternative portfolio investment opportunity for domestic banks. The Treasury made greater use of short-term financing during the quarter, issuing EUR 320.6 million worth of bills as against EUR 164.7 million in the March quarter, and the amount outstanding also increased. Three-month bills accounted for almost three-fifths of the total issued, with the remainder being more or less equally split between six-month and nine-month bills. Banks and insurance companies acquired around 45% and 41% of the bills, respectively, while households took up most of the remainder.

Turnover in the secondary market for Treasury bills went up to EUR 27.8 million during the quarter under review, from EUR 24.7 million in the first three months of 2008. Almost all transactions involved the Central Bank of Malta in its role as market maker. In line with primary market developments, secondary market rates increased during the quarter, with the yield on the three-month bill rising from 4.27% as at end-March to 4.94% three months later.

Yields on three-month euro area government securities also went up considerably during the quarter, rising by 42 basis points to 4.30% in June. However, as the corresponding domestic yields rose even faster, the premium on Maltese three-month government paper vis-à-vis that

of the benchmark euro area security widened from 38 basis points at end-March to 64 basis points at end-June (see Chart 2.16).<sup>13,14</sup>

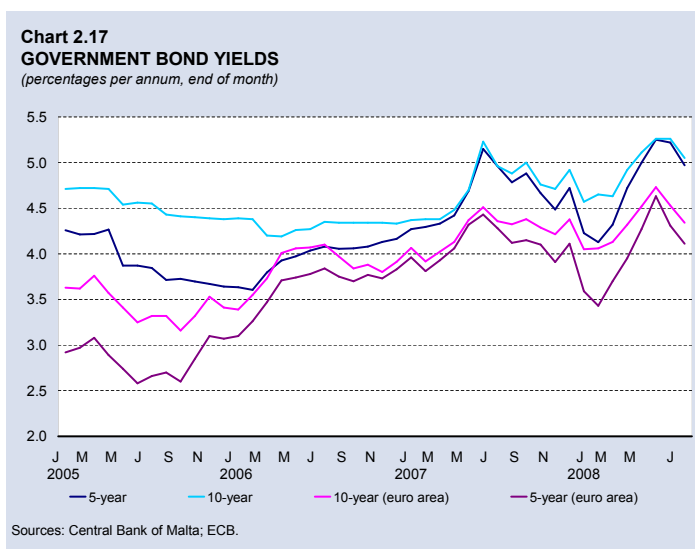
Going into the third quarter of 2008, both primary and secondary market domestic Treasury bill yields eased, ending August at 4.86%. In contrast, rates on three-month euro area government securities rose to 4.35%. Hence, by end-August, the short-term differential between Maltese and euro area yields narrowed to 51 basis points.



### *Bond yields rise and equity prices fall*

Activity in the Maltese primary bond market during the second quarter of 2008 was driven by government bond issues totalling EUR 106.9 million. In June, the Government launched two fungible stock issues, with terms to maturity of six and thirteen years and coupon rates of 5.1% and 5.0%, respectively. Around three-fourths of the total amount issued was sold through auctions. Of these, resident credit institutions took up EUR 55.5 million, while banks resident in other euro area countries purchased EUR 20.0 million. Insurance companies took up most of the remainder. The remaining one-fourth, or EUR 26.9 million, was sold at fixed prices and was mostly taken up by Maltese households. No corporate bonds were issued during the quarter under review.

Turnover in the secondary market for government bonds during the June quarter decreased to EUR 44.8 million, from EUR 52.9 million in the preceding quarter. The Bank, acting as market-maker, accounted for more than four-fifths of the value traded. Trading focused mainly on medium-term bonds. Mirroring an increase in government bond yields in the euro area, yields on 5-year and 10-year securities rose by 93 basis points and 63 basis points, respectively, ending

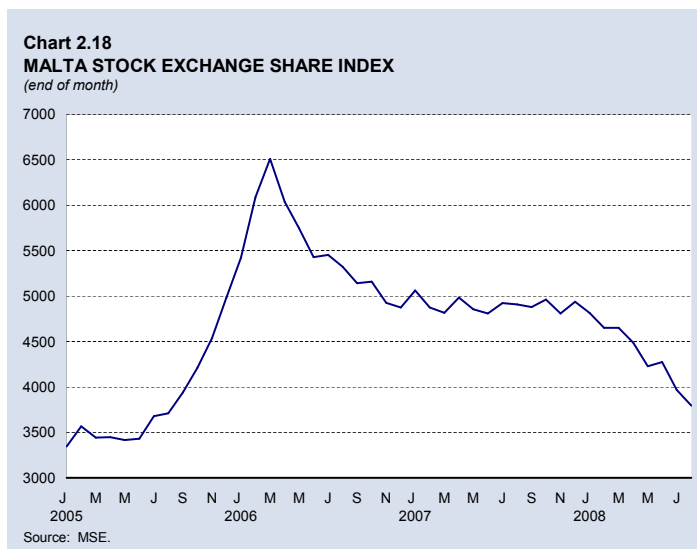


<sup>13</sup> The chart shows the secondary market rate on three-month government securities issued by the French government, which are often taken as benchmarks for the euro area.

<sup>14</sup> Up to March 2007 secondary market yields were calculated on the basis of remaining days to maturity divided by 365, while from April 2007 yields are being calculated on the basis of remaining days to maturity divided by 360.

June at 5.25% and 5.26% (see Chart 2.17).<sup>15</sup> The spread between domestic and euro area 10-year government bond yields thus widened slightly, to 53 basis points.

Activity in the secondary market for corporate bonds more than halved during the quarter, with turnover falling to EUR 3.1 million from EUR 8.5 million in the preceding quarter. Trading was concentrated in six securities, and yields generally declined.



Trading in the equity market slowed down considerably during the June quarter, dropping to EUR 12.3 million from EUR 20.9 million in the March quarter. Bank shares accounted for more than two-thirds of the total turnover. At the same time, the prices of most equities continued to fall, with banks and financial corporations accounting for the largest drops. Consequently, the MSE share index extended its downward trend, falling by 8.1% from the end-March level and ending the quarter at 4,274.56 (see Chart 2.18).

Going into the third quarter of 2008, yields on 5-year and 10-year government bonds halted their upward trend, falling to 4.97% and 5.05%, respectively, in August. Concurrently, the MSE share index fell by an additional 11.2% from its end-June level.

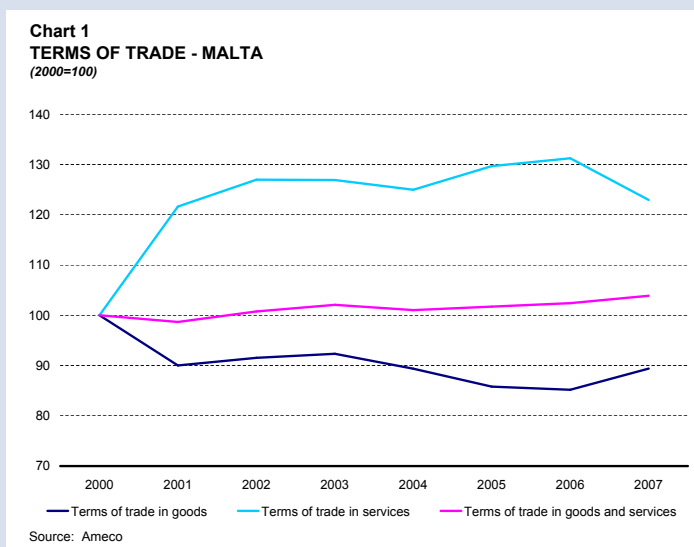
<sup>15</sup> Until November 2006 ECB data on euro area bond yields were compiled on the basis of national government bond yields weighted by the nominal outstanding amounts. From December 2006 onwards euro area yields are computed on the basis of AAA-rated euro area central government bonds.

## BOX 4: OUTPUT COMPOSITION AND COMPETITIVENESS<sup>1</sup>

In an open economy such as Malta's, flexibility in resource deployment facilitates the movement of resources to export activities that benefit from growing demand and command rising prices on world markets. The stability of the unemployment rate over the recent period of economic transformation attests to a strong degree of flexibility in the Maltese labour market.

The IMF's *Malta: Staff Report for the 2008 Article IV Consultation* refers to losses in cost competitiveness through 2004

and the partial correction of the competitiveness gap thereafter.<sup>2</sup> On non-cost competitiveness, the Report notes that a reallocation of resources has generated an improvement in export quality and value added, and in Malta's terms of trade. In a sectoral study, the Report measures the correlation between the change in a product category's share of world exports and the change in the share of its exports in Malta's GDP between 1995 and 2007. The findings appear to support the view that the observed reallocation of resources constituted an equilibrium adjustment to real exchange rate appreciation.<sup>3</sup>



**Table 1**  
**TERMS OF TRADE - MEDITERRANEAN COUNTRIES**

2000=100

	2007					
	Greece	Spain	France	Italy	Cyprus	Malta
Goods	103.0	104.7	99.2	99.1	90.8	89.4
Services	119.4	107.7	99.7	106.7	102.8	123.0
<b>Total</b>	<b>108.2</b>	<b>106.8</b>	<b>99.7</b>	<b>100.5</b>	<b>98.9</b>	<b>103.9</b>

Source : Ameco

<sup>1</sup> Prepared by Dr Bernard Gauci and Ms Pauline Muscat, Consultant to the Central Bank of Malta and Economist in the Economic Analysis Office, respectively. Views expressed are those of the authors and not necessarily those of the Bank.

<sup>2</sup> International Monetary Fund, 22 July 2008, especially pages 6-9 and 30.

<sup>3</sup> A positive correlation for a particular product indicates that over the period 1995-2007 a higher (lower) share in world output was matched by a larger (smaller) share of exported product in the country's GDP.

Pharmaceuticals and scientific equipment are examples of product categories that increased both their individual share of world exports and their share in Malta's GDP. On the other hand, semiconductors, office machines, clothing and rubber were product categories whose share of both world exports and Malta's GDP declined over the period. Goods that did not correlate positively included edible products, fish and textiles; although their individual shares of world exports declined over the same period, their shares of Malta's GDP increased.

In a similar evaluation of service providers, the Report finds that financial services, communications and computer & information services are among the export categories for which a higher share of Malta's GDP correlated positively with a larger share in world exports. A similarly positive correlation was found for exports of travel services: by the end of the period these accounted for both a smaller share of world exports and a reduced share of the national GDP (page 30).

Between 2000 and 2007, Malta's terms of trade improved by around 3.9% (see Chart 1). This has to be qualified by the following considerations:

- While small, the gain of 3.9% in the terms of trade compared favourably with the experience of most other members of the euro area (see Chart 2). For the entire euro area, separately sourced statistics indicate a marginal improvement of 0.5% between 2000 and 2007, to be followed by a projected small deterioration in subsequent years.<sup>4</sup>

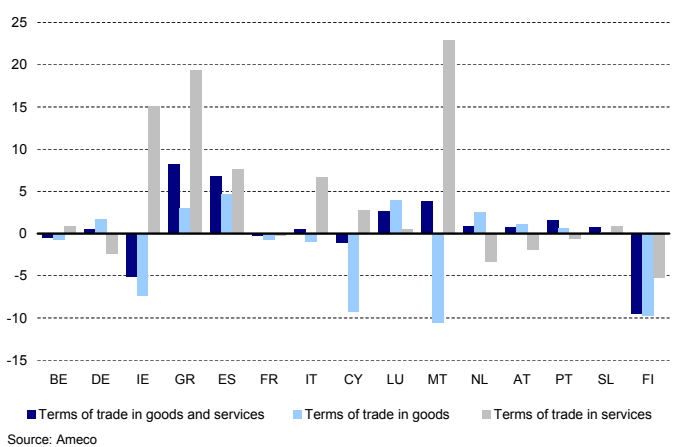
- All the Mediterranean countries listed in Table 1 fared better in services than in goods.<sup>5</sup> In the case of Malta, the overall gain was the result of much larger changes in the two components. A 23.0% improvement in services was tempered by a 10.6% deterioration with regard to goods. The redeployment towards services thus compensated for the adverse change in the terms of trade in goods.

- The changes in the terms of trade for the two separate components were considerably larger in Malta's case than in the case of the other euro area members listed in Table 1. In the goods category, large changes in the prices of electronic components featured prominently on both the export and the import side of the external trade accounts, while labour-intensive products faced intense competition from lower-cost industrial locations. The large improvement in services reflected in part the rapid growth in various new activities, as will be discussed below.

### Adjustment for the terms of trade

In compiling GDP data in real terms, the nominal value of exports is customarily deflated by an export price index. An alternative method is based on the recognition that improved terms of trade provide the country with a larger claim on

**Chart 2**  
**TERMS OF TRADE**  
(percentage change 2000 - 2007)



**Chart 3**  
**EXPORTS OF GOODS AND SERVICES, ADJUSTED FOR EXPORT PRICES AND IMPORT PRICES**  
(EUR millions)



<sup>4</sup> International Monetary Fund, *World Economic Outlook*, 10 October 2008.

<sup>5</sup> The countries included in Table 1 and Chart 4 are limited to euro area member states bordering the Mediterranean. For an assessment of a number of these countries, as well as Portugal, in terms of their ability to take advantage of high-growth export markets, see Herman Bennett et al, *Competitiveness in the Southern Euro Area: France, Greece, Italy, Portugal and Spain*, IMF Working Paper 08/112.

imported products, captured in measures of command GDP.<sup>6</sup> If the rate of growth of export prices exceeds that of import prices, the economy commands a larger quantity of imports.

Chart 3 shows the path followed by export volumes measured according to two different methods: the first uses the standard export deflator while the second applies the import deflator. Both measures of exports followed an upward path over the eight years to 2007. However, while the standard measure went up by 2.7% over the period, import-price-deflated exports rose by 16.6%. With exports re-measured in this manner, the GDP averaged an annual growth rate of 2.2% in 2000-07, compared with a rate of 1.7% when exports are measured in the standard manner. For the euro area as a whole, the corresponding growth rates were both about 1.8%.

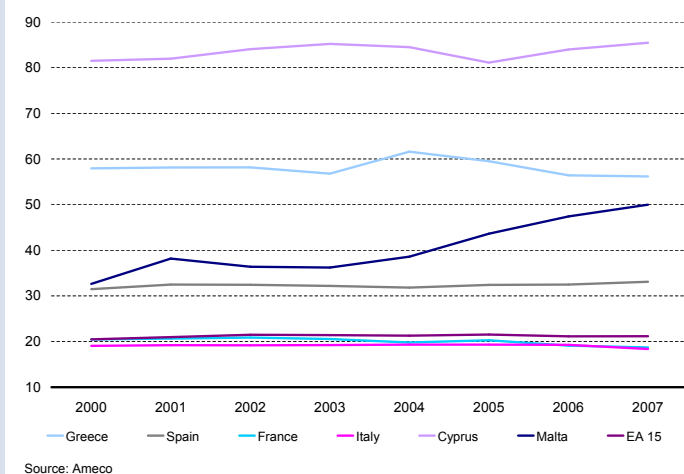
## Restructuring

The period reviewed saw not only the reorientation of the composition of exports towards services, but also a wide diversification of activities within both the services and the goods sectors in response to the liberalisation of the domestic market and changes in product demand abroad.

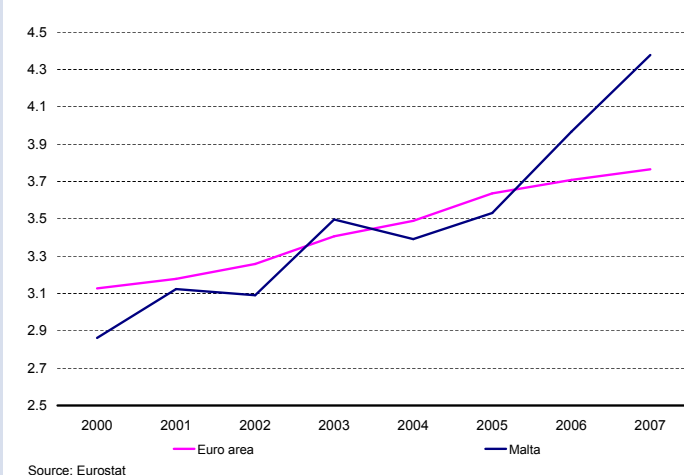
The changes observed over the period included:

1. *A higher share of services* - The statistics show the progressively growing importance of services in Malta's exports, which went up from 32.6% in 2000 to 50.0% in 2007. As Chart 4 shows, the switch from goods to services was more pronounced in Malta than in the neighbouring euro area member countries. The shift was accompanied by a matching reallocation of labour. Thus, as Chart 5 shows, the ratio of employment in services to employment in manufacturing followed broadly the same rising path as in the euro area, but with a marked acceleration in 2006-07.<sup>7</sup>

**Chart 4**  
SERVICES AS A PERCENTAGE OF TOTAL EXPORTS



**Chart 5**  
EMPLOYMENT: RATIO OF SERVICES TO MANUFACTURING



<sup>6</sup> A broad treatment of this subject is contained in Duguay, Pierre, *Productivity, terms of trade and economic adjustment*, remarks by the Deputy Governor of the Bank of Canada to the Canadian Association for Business Economists, 28 August 2006.

<sup>7</sup> Since the interpretation of the composition of employment in a number of individual euro area member states is hampered by breaks in the statistical series, Chart 5 shows employment growth for the euro area as a whole.

## 2. Changes in the composition of manufactured exports -

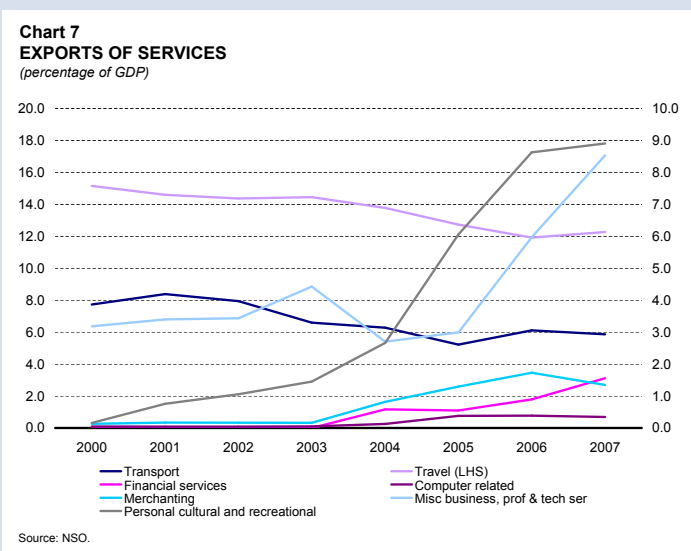
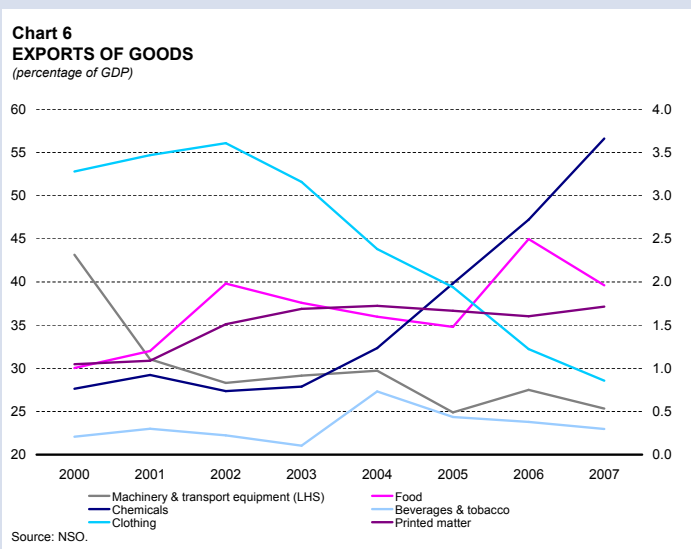
While foreign sales of electronic products, which are classified as “machinery and transport equipment,” remain very significant, their relative importance has declined, reflecting competitive pressure from lower-cost industrial locations. In recent years the value of such exports, which is influenced by price as well as quantity changes, appears to have stabilised at around a quarter of Malta’s GDP (see Chart 6). Also noteworthy is the

substantial growth of the chemicals sector, particularly pharmaceuticals: the share of this sector rose rapidly after 2003, to 3.7% of GDP in 2007. There was also a moderate increase in the relative importance of food exports, the domestic market for which contracted in the aftermath of the liberalisation of food imports in 2004.

3. *Change in the composition of service exports* - The steady decline in the relative share of travel exports over the period surveyed appears to have been halted in 2007 as a result of the rapid expansion in low-cost air travel, which lifted the share of the sector in Malta’s nominal GDP slightly in that year (see Chart 7). Growth in exports of services was mostly in new product categories. The share of personal, cultural & recreational services rose from 0.2% of GDP in 2000 to 8.9% in 2007, thanks mainly to fast growth in remote gaming services. The growth of financial services, to around 3.1% of GDP in 2007, partly reflected the rise in direct investment by foreign banks. A residual group labelled as miscellaneous business, professional & technical services includes an array of services, including various professional, legal and accounting services. This category has grown from 3.2% of GDP in 2000 to 8.5% of GDP in 2007.

## Conclusion

Over the period 2000-2007, the Maltese economy has undergone a substantial reallocation process, particularly within the private sector, where resources have been shifted to more productive use. It should be added that the redeployment of resources from the public to the private sector could also have contributed, as it is recognised that the public sector was characterised by excess resources and, often, by lower levels of productivity.



### 3. FINANCIAL STABILITY ANALYSIS<sup>1</sup>

The turbulence in the international financial markets prevailing since the second half of 2007 intensified during 2008. The associated uncertainty, and the resultant credit and liquidity crunch, is affecting global macroeconomic conditions, and this may have negative repercussions for the domestic economy and the financial system. Thus, while the vulnerabilities identified in the Central Bank of Malta's *Annual Report* for 2007 remain present, the financial stability outlook has become more uncertain. Nevertheless, the banks remain sufficiently liquid and well capitalised vis-à-vis credit, market and operational risks. Meanwhile, conditions in the non-bank financial sector remained generally stable despite the uncertain outlook.

#### Regulatory and legislative developments

As a result of the global financial turmoil, measures were taken at the international level to enhance the understanding of the identified market weaknesses and to develop legislation, regulations and guidelines to address market failures. These included measures to promote sound liquidity risk management practices and high liquidity buffers, as well as to address issues stemming from the opaqueness of certain structured products, the incentives structure, and methods of valuing illiquid instruments. To this end, various bodies, such as the Financial Stability Forum (FSF), the Basel Committee on Banking Supervision (BCBS) and the Committee of European Banking Supervisors (CEBS) issued guidelines, recommendations or policy proposals. In addition, the European Commission proposed amendments to the Capital Requirements Directive. The latter are designed to address some of the above-mentioned issues, to reinforce the stability of the financial system, to reduce risk exposure and to improve the supervision of banks that operate in more than one EU country. The FSF also made several recommendations to strengthen prudential oversight of capital, liquidity and risk management; to enhance transparency and valuation methods; to change the role and uses of credit ratings; to strengthen the authorities' responsiveness to risks; and to improve arrangements for dealing with stress in the financial system.

One of the most important issues addressed relates to liquidity risk management, with the BCBS and CEBS setting down principles and good practice guidelines stressing not only the importance of adequate liquidity risk management, but also that of a coherent liquidity risk tolerance strategy, a formal contingency funding plan, proper liquidity stress testing and sound communication plans, both within institutions and between them and interested third parties, such as central banks.

Other issues addressed include the need for more transparency through the regular publication of financial statements with adequate disclosures. Increased transparency would help to reduce uncertainty in the markets and would strengthen market discipline. In this respect it should be noted that, on the domestic front, the IMF, in its 2008 Article IV review of the Maltese economy, suggested that banks listed on the Malta Stock Exchange should publish their financial statements on a quarterly rather than a semi-annual basis. CEBS also issued a report on the valuation of complex and illiquid financial instruments, suggesting improvements to the reliability of the values ascribed to them.

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<sup>1</sup> The financial stability analysis focuses on those institutions that the Central Bank of Malta considers important for the functioning of the domestic financial system. Unless otherwise stated, these will be referred to as "credit institutions" or "banks" (used interchangeably), "insurance companies" and "investment funds", depending on the relevant sector of the financial system. References to the banking sector, the insurance sector and the securities sector refer to the aggregate of those banks, insurance companies and investment funds, respectively, which together constitute the domestic financial system.



In June 2008, EU supervisory authorities, central banks and finance ministries signed a memorandum of understanding to cooperate on cross-border financial stability. This was intended to ensure cooperation in financial crises by establishing appropriate procedures for the sharing of information and assessments in order to preserve the stability of the financial system of individual Member States and of the EU as a whole.

## The financial sector

### Structural developments

The Maltese financial system continues to be dominated by credit institutions, with the non-bank financial sector maintaining an unchanged share of the market. Indeed, over the year to June 2008, the Herfindahl Hirschman Index (HHI) for the banking sector rose further, from 2936 to 3150, reflecting the high level of concentration and consequent limited competition among Maltese banks. On the same basis, concentration in the insurance sector also remains very high, with the index at 3601 as at end-March 2008.

### The banking sector

During the first half of 2008, the banking sector's Capital Adequacy Ratio (CAR) dropped to 14.0% from 15.8% six months earlier, as risk-weighted assets increased at a faster pace than total own funds (see Table 3.1).<sup>2</sup> This was partly due to a lower generation and retention of profits and partly to the impact on the measurement of risk-weighted assets of the implementation of the Capital Requirements Directive.<sup>3</sup> Nonetheless, the CAR of credit institutions is still above the regulatory minimum of 8% required to cover credit, operational and market risks. Moreover, univariate stress testing to gauge the banks' resilience in the face of a possible sharp fall in house prices, a mild recession and credit quality deterioration portrays a generally healthy situation with only a few instances when the CAR would drop below the regulatory limit should such extreme, but plausible, events materialise.<sup>4</sup> The results, moreover, show that even in such circumstances all institutions would remain solvent.

**Table 3.1**  
**FINANCIAL SOUNDNESS INDICATORS - SELECTED BANKS**

*Percentages*

	2003	2004	2005	2006	2007	2008 Q2
Regulatory capital to risk weighted assets (CAR)	17.4	19.0	17.1	15.0	15.8	14.0
Regulatory Tier 1 capital to risk-weighted assets (CCAR)	12.5	12.6	15.6	13.5	13.6	12.2
Non-performing loans net of provisions to capital	54.5	41.6	33.6	29.9	25.4	25.6
Non-performing loans to total gross loans	12.7	10.3	7.4	6.0	5.0	4.8
Return on assets (ROA)	0.9	1.5	1.6	1.8	1.5	0.7
Return on equity (ROE)	6.7	11.7	12.9	15.6	14.1	6.7
Interest margin to gross income	74.1	67.2	66.0	64.6	67.3	88.2
Non-interest expenses to gross income	56.7	46.3	46.0	44.1	43.8	59.8
Liquid assets to total assets	20.4	20.9	23.1	21.8	24.3	23.8
Liquid assets to short-term liabilities	47.8	46.7	53.0	50.3	48.9	48.5

Source: Central Bank of Malta.

<sup>2</sup> The banks referred to in Table 3.1 are those banks which are mentioned in footnote 1. Table 3.2 is included to give an indication of the financial soundness indicators for all banks licensed in Malta.

<sup>3</sup> It should be noted that the reported CAR and CCAR as at June 2008 is subject to revision, as the MFSA is reviewing these figures following the implementation of the Capital Requirements Directive.

<sup>4</sup> The stress tests posit a 30% house price crash; a credit quality deterioration; and a mild economic recession.

**Table 3.2**  
**FINANCIAL SOUNDNESS INDICATORS - ALL BANKS**

*Percentages*

	2003	2004	2005	2006	2007	2008 Q2
Regulatory capital to risk weighted assets (CAR)	20.6	21.3	20.4	22.0	21.0	18.9
Regulatory Tier 1 capital to risk-weighted assets (CCAR)	16.4	16.0	19.0	20.8	19.7	17.1
Non-performing loans net of provisions to capital	38.4	30.0	20.1	12.5	10.2	10.2
Non-performing loans to total gross loans	8.1	6.5	3.9	2.8	1.8	1.6
Return on assets (ROA)	1.0	1.4	1.4	1.3	1.0	0.8
Return on equity (ROE)	9.4	13.1	14.3	11.7	10.2	9.4
Interest margin to gross income	71.2	45.3	48.6	56.4	56.1	48.5
Non-interest expenses to gross income	57.3	47.2	41.4	44.4	53.9	61.9
Liquid assets to total assets	24.4	24.3	21.7	19.7	21.9	21.4
Liquid assets to short-term liabilities	50.0	49.9	55.7	52.5	52.7	55.4

Source: Central Bank of Malta.

The prevalence of the traditional banking model in Malta, where the banks fund their lending activities mainly from deposit taking, became more pronounced in the first half of 2008, as it proved increasingly difficult to tap liquidity from the international markets and inter-bank lending dropped to lower levels. Asset growth decelerated to 0.8% during the period, with total assets as at end-June 2008 reaching EUR 13.9 billion. This deceleration was partly attributable to a drop in inter-bank lending and to valuation adjustments as a result of the turbulence in the international markets. Furthermore, even though the banks' loan book and securities portfolio continued to expand, this was offset by a reduction in holdings of reserve deposits following the adoption of the euro on 1 January.

Deposits remained the largest component on the liabilities side of bank balance sheets, although their share in the total balance sheet value dropped marginally, to 69.7% from 70.9% in December 2007, possibly due to increased competition for retail deposits from other banking institutions seeking to penetrate the domestic market. The importance of retail deposits as a source of funding nevertheless remained significant. However, as a result of increased lending, the banks' loans to deposits ratio rose from 70.8% to 77.4% during the six months to June 2008.

Credit quality improved during the period under review, with the ratio of non-performing loans (NPLs) to gross loans continuing on its downward trend to end June at 4.8% (see Table 3.1). This improvement was due both to favourable macroeconomic conditions during 2007 and early 2008, and to the statistical effect of the growth in the banks' loan portfolio. A sectoral analysis of problematic loans shows that the main drops were in NPLs to the manufacturing and to the hotel & restaurant sectors. By contrast, the quality of loans to the construction industry deteriorated, as did that of mortgages. Looking forward, asset quality may be negatively affected by a slowing economy and a deterioration of the property market.

The main risk to the banks' performance in the short term stems from the macroeconomic environment. Specifically, a turn in the business cycle accompanied by negative developments in the real estate market would be expected to result in a deterioration of loan and collateral quality. This would lead to an increase in NPLs. Developments in the international financial markets are also considered a major risk for the period ahead.

Banking profitability dropped significantly as a result of valuation losses, reduced foreign exchange earnings and increased costs related to euro adoption. Consequently, both the banks' Return on Equity (ROE) and their Return on Assets (ROA) declined by more than half, falling from 14.1% and 1.5% in December 2007 to 6.7% and 0.7% as at end-June 2008, respectively.

The reliance on traditional banking activities increased during the period, as evidenced by the higher share of net interest income to gross income. This was due largely to a drop in gross income, mainly as a result of higher losses due to mark-to-market valuation and lower gains on the disposal of assets.

### *The non-bank financial sector*

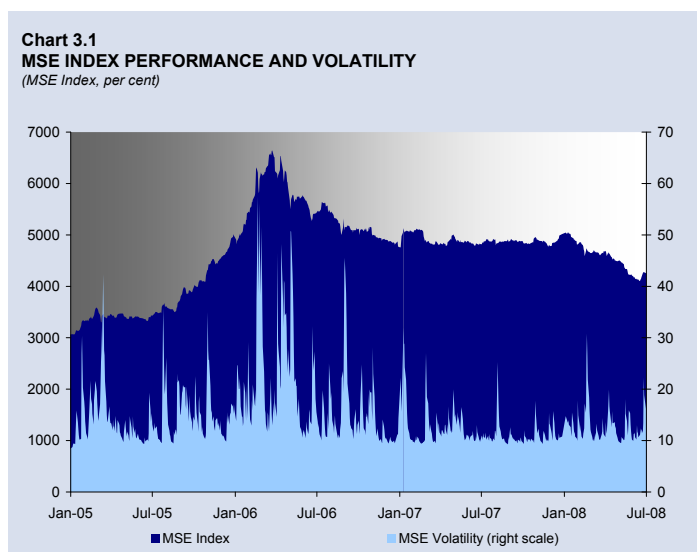
As a result of the global financial turmoil, the insurance sector faced increased market risks, but the outlook remained stable. By the end of March 2008, the insurance companies were managing EUR 1.6 billion in assets, accounting for 9% of the total assets of the domestic financial system, practically unchanged from the position at end-2007.<sup>5</sup> Life assurance remained the main driver of growth, contributing 58% of the insurance sector's growth and accounting for EUR 1.3 billion in assets. The industry remains highly concentrated – both in terms of assets and in terms of premia – reflecting the dominant market position of a few relatively large companies.

The investment funds sector continued to pose limited risks to financial stability, also given its relatively small size. In line with the trend in evidence over the past three years, resident shareholding in Collective Investment Schemes (CISs) continued to decline during the first half of 2008. Households remained the main contributors to CISs, accounting for 93% of total shareholders' funds. The rest were insurance companies and privately-owned non-financial corporations. On the assets side, CISs reduced both their holdings of private securities and shares and their investments in MGSs, which continued to account for half the sector's investment portfolio as at end-June. In the context of the current global financial turmoil, this high proportion of sovereign debt holdings underpins the financial strength of the sector.

### *The capital market*

The MSE Index dropped sharply during the first half of 2008, ending June at 4275, down by 13.4% from its end-2007 level (see Chart 3.1), and volatility increased.<sup>6</sup> The banking sector was largely behind this drop in the MSE Index, as bank share prices reacted to expectations of lower earnings.

The primary market remained active during the period, with three new equities by firms in the information technology and the transport & communication



<sup>5</sup> At the time of writing, data for the insurance sector were only available up to March 2008.

<sup>6</sup> Volatility is measured by the annualised standard deviation of the relative rates of return of the daily closing prices for the MSE Index. Lack of depth, particularly in a small market, accentuates volatility.

sectors being issued. In addition, the outstanding level of MGSs increased. As in previous years, however, trading activity on the secondary market remained slow, and the turnover ratio decreased. Consequently, the Hui-Huebel Ratio (HHR) rose from an average of 70 in 2007 to one of 139 in the first half of 2008, indicating an increased lack of depth and resilience in the MSE.<sup>7</sup>

## The non-financial sector

### The household sector

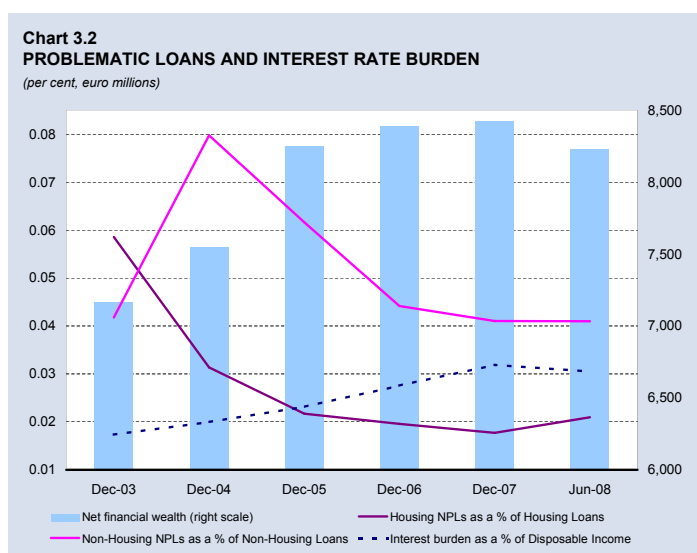
As a result of sustained job creation and low unemployment levels, the balance sheet of the household sector remained strong overall during the first half of 2008. However, on account of rising oil and food prices, household finances became more strained and consumer confidence decreased.

Net financial wealth dropped by 2.3% over the six months to June, while the ratio of household debt to holdings of liquid financial assets rose to 75.6% by the end of the period. As a result, the household sector's liquidity buffer contracted. From a portfolio perspective, however, asset holdings remained well diversified. It was also observed that, partly as a result of the financial turmoil and partly on account of increased competition for deposits, households moved away from investments in securities and unit trusts. The turmoil is nevertheless expected to result in some losses on account of lower portfolio valuations and the insolvency of specific issuers of bonds and equities.

Household borrowing continued on an upward trend, with loans amounting to 32.9% of financial wealth by the end of June, compared to 30.6% as at end-December 2007. At the same time, leverage (i.e. the ratio of debt to financial assets) and the debt interest burden remained stable. Nevertheless, inflation may put some strain on household finances, particularly for those in the lower income bracket. Furthermore, as a high proportion of loans to households are at variable rates, an increase in interest rates will also have a negative impact on those borrowers who are most exposed.<sup>8</sup> This may partly explain the slight increase in the NPL ratio of the household sector from 2.3% at the end of December 2007 to 2.5% at the end of June. Although the ratio of household debt to GDP remained relatively stable, at 59.4%, the risks associated with debt accumulation have increased.

### The corporate sector

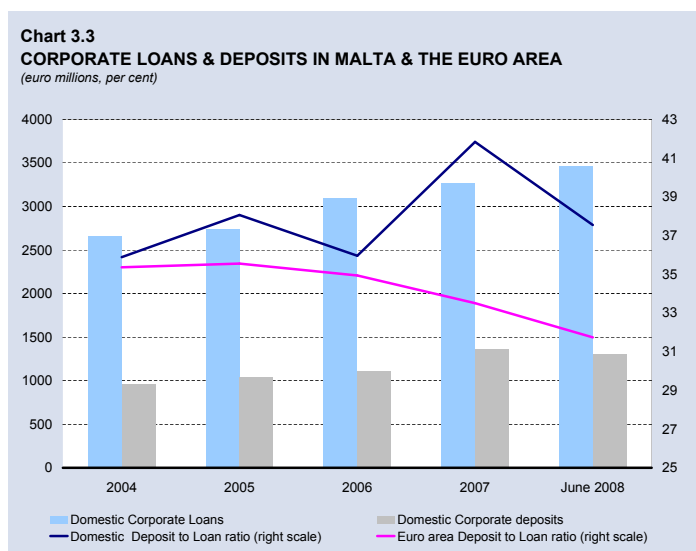
The increasingly challenging



<sup>7</sup> The Hui-Heubel Ratio (HHR) is the percentage change in prices as a result of a percentage change in turnover within a specified period. The closer the ratio is to zero, the more liquid is the market.

<sup>8</sup> In July 2008, official interest rates in the euro area were increased by 25 basis points. The 50 basis point cut in October 2008, however, would reduce the strain on household repayment capacity.

international economic environment has resulted in the corporate sector becoming less optimistic, with the European Commission's Business and Consumer Confidence Index for Malta registering a marked deterioration since end-2007.<sup>9</sup> Nevertheless, the current performance has been satisfactory, with the National Accounts data for June 2008 suggesting that, in aggregate, the corporate sector recorded a general improvement across most economic sectors, both in terms of value added and in terms of gross operating income. The manufacturing sector, however, recorded a slight deterioration on both these measures.



The corporate sector increased its borrowing from banks by 7.1% over the period reviewed. At the same time, NPLs dropped to 7.4% of aggregate loans to the sector, from 8% six months earlier, although at this level they are still considered high. The interest repayment burden on firms remained stable, as a decline in the weighted average interest rate offset the growth in debt. The accelerated growth in corporate borrowing, coupled with a 5% decline in corporate deposits, resulted in a drop in the corporate sector's deposit to loan ratio (from 41.8% in December 2007 to 37.5% six months later), implying a deterioration in the sector's liquidity position.<sup>10</sup>

### Risk outlook

The recent deterioration in the international financial climate has resulted in a considerable increase in risks to financial stability. Inevitably, risks facing the domestic financial system increased, albeit not to the same degree as in a number of other countries, due to the predominantly traditional banking model employed by the domestic banks. Some banks reported a reduction in profits on account of valuation losses arising from mark-to-market accounting practices. Increased earnings and better cost control are, therefore, essential if banks are to increase their capital buffer. A robust capital base has to be maintained through adequate retention of profits, both to facilitate growth and to safeguard confidence. Currently, however, on account of the on-going financial turmoil and the possible impact from further valuation adjustments, as well as the economic slowdown and concomitant credit risks, bank earnings face downside risks.

Clearly, therefore, the risks identified in previous financial stability analyses have not abated. Indeed, on account of the global economic slowdown, rising fuel and food prices and uncertainty in the property sector, some risks may even have intensified.

On the positive side, the protracted liquidity shortage in the international markets has not affected the domestic market, while the banks remain adequately capitalised against credit, operational and market risks, although less so for concentration risk.

<sup>9</sup> Source: European Commission, Business and Consumer Survey Results, June 2008.

<sup>10</sup> According to the ECB, the average ratio for the euro area at end-June stood at 31.7%.

In the long run, as the co-ordinated policy measures adopted internationally bolster confidence in the financial system, conditions in markets overseas are expected to improve. While this adjustment is going on, however, local banks will continue to be exposed to some of the secondary effects resulting from the turmoil. In addition, the combination of a continued rapid rise in household and corporate indebtedness and high concentration continue to pose risks for domestic institutions. This, in conjunction with the external vulnerabilities, not least their effect on macroeconomic conditions at the local level, implies that the risks to domestic financial stability have increased over recent months.

## BOX 5: THE CENTRAL BANK OF MALTA INTRODUCES HARMONISED MFI INTEREST RATE STATISTICS

Monetary Financial Institutions<sup>1</sup> (MFIs) interest rate (MIR) statistics cover a broad range of interest rates that credit institutions apply to deposits and loans. They facilitate the analysis of the transmission mechanism of monetary policy, especially the extent of the pass-through of official rates to the lending and deposit rates paid and received by households and non-financial corporations. Deposit rates may indicate how components of the money stock are remunerated, while lending rates may be used to assess the financing conditions of the economy as a whole.

In the light of the adoption of the euro on 1 January 2008, the Central Bank of Malta took steps to harmonise its MFI interest rate statistics with those compiled across the euro area. Therefore, in this issue of its Quarterly Review, and on its website, the Bank is publishing a new set of MFI interest rate statistics on the basis of Regulation (EC) No. 63/2002 of the ECB of 20 December 2001 (as amended) concerning statistics on interest rates applied by MFIs to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18). These statistics were compiled on a quarterly basis from March to September 2007 and on a monthly basis thereafter. They are based on data submitted to the Bank by the resident credit institutions.

Due to the heterogeneity of banking products and terms across the euro area, the concepts and the methodology supporting these harmonised MIR statistics are more complex than those on which the national statistics had previously been based. However, harmonised standards permit such Maltese MIR statistics to be compared with those compiled in other euro area countries. The aim of the above-mentioned ECB Regulation was, in fact, to produce a set of euro area interest rates on deposit and lending business that would provide a comprehensive, detailed and harmonised statistical picture of the interest rates applied by euro area MFIs, and their changes over time. The interest rate statistics compiled by the Bank on the basis of national definitions and shown in Table 1.19 will, however, still be retained, because these have proved useful for assessing financial conditions in Malta.

MFI interest rate statistics cover all interest rates that credit institutions apply to euro-denominated deposits and loans vis-à-vis all households and non-financial corporations resident in the euro area Member States. The household sector also includes non-profit institutions serving households (NPISH). Non-financial corporations include all enterprises except banks, insurance companies and other financial institutions. MIR statistics are annualised agreed rates (AAR), i.e. interest rates that are individually agreed between credit institutions and their customers converted to an annual basis and quoted in percentages per annum, and excluding non-interest costs. They may be different from advertised rates as households and non-financial corporations may be able to negotiate better terms and conditions than those advertised. For two rates, those referring to consumer credit and those referring to loans to households for house purchases, the annual percentage rate of charge (APRC) is also computed. This rate is the effective lending rate and covers the total costs of the loan to the consumer. Therefore, it comprises both the interest rate component and other costs, such as those in respect of enquiries, administration, preparation of documents, guarantees, credit insurance and other fees.

<sup>1</sup> For the purposes of MIR statistics, interest rates on deposits and loans applied by credit institutions only are taken into consideration. Hence, they exclude any interest rates on deposits and loans applied by central banks.

Maltese MIR statistics are being shown in two new statistical tables: Table 1.16 shows the rates applied on the banks' business with residents of Malta only, while Table 1.17 shows the rates applied on the banks' business both with residents of Malta and with residents of all the other euro area Member States. Overall, each table provides 22 instrument categories, including interest rates paid by resident MFIs on overnight, savings and time deposits and charged by them on overdrafts and loans to non-financial corporations and households. The latter are split into consumer credit, housing finance and other lending. In both tables, data before 2008 include rates on business denominated in Maltese lira.<sup>2</sup>

MIR statistics cover both new business and all outstanding amounts reflecting existing commitments. New business is defined as any new agreement reached between credit institutions and their customers. New agreements comprise all financial contracts, terms and conditions that specify, for the first time, the interest rate to be applied to a deposit or loan, and all new negotiations of existing deposits and loans. Prolongations of existing deposit and loan contracts that occur automatically, i.e. without any active involvement of the customer, and that do not involve any renegotiations of the terms and conditions of the contract, including the interest rate, are not considered as new business. Thus, for example, changes to interest rates charged on variable rate loans due solely to changes in reference rates, such as LIBOR or the ECB's minimum bid rate, would not qualify as new business.

Outstanding amounts are defined as the stock of all deposits placed by customers with credit institutions and the stock of all loans granted by credit institutions to their customers at the end of the reference period. An interest rate on outstanding amounts reflects the weighted average interest rate applied to the stock of deposits or loans in the relevant instrument category at the end of the reference period. Interest rates on outstanding deposits cover all deposits placed and not yet withdrawn by customers in all the periods up to and including the reporting date. Interest rates on outstanding loans cover all loans utilised and not yet repaid by customers in all the periods up to and including the reporting date, but exclude non-performing loans and loans for debt restructuring at rates below market conditions.

Given the relatively small size of the Maltese banking sector, one should exercise caution when interpreting Maltese MIR statistics, particularly those related to new business. Moreover, special deposits on which interest is not guaranteed, or where the interest is linked to property, equity or other kinds of indices, entail different calculations. In fact, in the calculation of the interest rate on some of these deposits, a zero rate has to be assumed, and this may cause the aggregated interest rate to be understated.

<sup>2</sup> Comparable statistics to those in Table 1.17 produced for the euro area as a whole and individually for each other euro area state can be found on the website of the ECB.



## NEWS NOTES

### LOCAL NEWS

#### **Reappointment of Governor and Deputy Governor**

On 20 August the President of Malta, acting on the advice of the Prime Minister, reappointed Mr David A Pullicino as Deputy Governor of the Central Bank of Malta for a further five-year term with effect from 1 September 2008, in terms of the Central Bank of Malta Act. Mr Pullicino has been Deputy Governor of the Bank since 1 July 1999.

On 19 September the President of Malta, acting on the advice of the Prime Minister, reappointed Mr Michael C Bonello as Governor of the Central Bank of Malta for a further period of five years with effect from 1 October 2008, in terms of the Central Bank of Malta Act. Mr Bonello was initially appointed Governor of the Bank on 1 October 1999.

#### **The 2008 IMF Article IV Consultation with Malta**

On 11 August the IMF published its staff report on Malta after an Article IV Consultation Mission visited the island between 20 and 30 May. The report remarked that Malta had experienced a three-year-long expansion reflecting strong foreign direct investment, export diversification, and upgrading of value-added. Growth had been underpinned by fiscal adjustment, privatisation, and public sector streaming. Meanwhile tourism and new high value-added exports had contributed to the narrowing of the current account deficit. The report also noted that the banking system was well placed to weather global turmoil as banks had healthy liquidity and a good funding profile. However, exposure to the slowing housing market and low and uneven provisioning called for close supervisory vigilance.

#### **Euro banknote recycling**

On 30 July the Central Bank of Malta announced that it was inviting public comment on a new legal framework to regulate the redistribution, sorting and reissue (i.e. 'recycling') of euro banknotes. The proposed new framework will primarily affect banks, financial institutions and other organisations that recycle euro banknotes on a professional basis in Malta, and will oblige these to adopt Eurosystem-wide standards in performing authenticity and quality tests on any banknotes that are to be redistributed to the public.

#### **Issue of first Maltese euro-denominated collector coin**

On 26 August the Central Bank of Malta announced the issuance of a collector coin in a gold and silver version with the theme "Auberge de Castille". The obverse of the coin shows the emblem of Malta with the year of issue, while the reverse depicts the porch of the Auberge de Castille. The coin is being issued under the Europa Programme 2008, with the theme 'Cultural Heritage'. The 'Europa Star', which is the official logo of the programme, is also shown on the reverse of the coin. The coin, which is the first Maltese collector coin denominated in euro to be issued, was minted at the Royal Dutch Mint.

#### **Double Taxation Agreements**

On 30 August a double taxation agreement between Malta and Greece came into force. The agreement had been signed by representatives of the two governments on 13 October 2006. Malta had ratified this agreement on 3 November 2006.

## Capital Market Developments

On 15 July Mediterranean Investments Holdings p.l.c. announced the issue of EUR 15 million 7.5% bonds 2015 with a nominal value of EUR 100 per bond to be issued at par. The issue was oversubscribed and the company exercised an overallotment option which increased the issue to EUR 20 million.

During July and August the local telecommunications company GO p.l.c announced that it would be participating in a rights issue being offered by Forthnet S.A., an overseas company in which GO and Emirates International Telecommunications Malta Ltd had a strategic shareholding through their joint venture company, Foregendo Limited (Forgendo). All shareholders of Forthnet were eligible to participate in the rights issue that would enable them to subscribe to three shares for every existing share at a price of EUR 2.57 per share. In exercising its rights, Forgendo acquired a total of 42,709,866 new shares in Forthnet, involving a total additional investment of EUR 109,764,356. GO's total outlay towards the investment amounted to EUR 54,882,178. GO further announced that, as at the date of this announcement, Forgendo held 33.89% of the total equity of the company.

On 15 September, HSBC Bank Malta p.l.c. offered EUR 25 million in 5.9% subordinated bonds redeemable in 2018. The bonds had a nominal value EUR 100 per bond and were issued at par. The bond issue was oversubscribed and an allocation policy was adopted.

On 16 September HSBC Global Asset Management (Malta) Ltd announced the launch of a four-year capital protected Medium Term Note, the HSBC Asia Accelerator (EUR) Note 2012. The Note offered the possibility of early maturity after 2 years, together with a gross return of 20% (equivalent to an annualised return of 9.53%) if the levels of the indices at the end of the second year would have registered an average combined growth of 20% or more.

On 22 September Enemalta Corporation signed a loan agreement for EUR 150 million with the European Investment Bank. The purpose of the loan is to upgrade Malta's power supply system and make it more environmentally friendly through investment in new equipment that would reduce emissions of greenhouse gases in accordance with the EU's environmental policies.

## Small states network office opened

On 1 July the premises of the Small States Network for Economic Development (SSNED) was officially inaugurated in Valletta. The SSNED seeks to provide small states with a mechanism for peer learning through twinning arrangements designed to support their sustainable efforts. Malta was elected as the Chair, and Barbados as the Vice-Chair, at the second meeting of the Board of Trustees of the Network held in Malta in February. As at 1 July 2008, 17 small states, including the founding members, had been formally affiliated with the SSNED. The current members of the Network's Board of Trustees are the six founding members, namely Barbados, Malta, Mauritius, St Kitts and Nevis, Samoa and Vanuatu, together with the two founding partners, the World Bank and the Commonwealth Secretariat.

## Malta's international credit ratings

In July, the credit rating agency Moody's rated Malta's government debt at A1. The rating reflects the country's progress regarding real convergence with the rest of the eurozone. Moody's reported that Malta's rating would move upward should continued fiscal restraint meaningfully

reduce or eliminate the deficit and bring a further reduction in the general government debt ratios to levels closer to the average of other new EU Member States.

On 1 August Standard & Poor's Rating Services announced that it had maintained its stable outlook and affirmed its 'A' long-term and 'A-1' short-term sovereign credit ratings for Malta. The stable outlook balances the expectation of continued fiscal consolidation against a declining, but still high, debt burden.

On 5 September Fitch Ratings affirmed Malta's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A+' with Stable Outlooks. Malta's 'A+' rating is supported by healthy governance indicators reflected in strong institutions, a well-capitalised banking system and membership of the euro area which reduces exchange rate and external financing risks.

### **Financial Services' Licences**

On 1 July the MFSA announced that La Valette Funds SICAV p.l.c. had surrendered the collective investment scheme licences granted to it in relation to La Valette International Equity Fund and La Valette Mediterranean Rim Fund. The surrender was entirely voluntary.

On 16 July the MFSA announced that Moment Invest SICAV p.l.c. had surrendered its license to operate as a collective investment scheme. The surrender was entirely voluntary.

On 30 September the MFSA issued a licence to Nemea Bank Ltd to operate as a credit institution in Malta. The new institution, which will have an authorised share capital of EUR 5.5 million, will be owned by Maltese and Belgian interests and will be offering the full range of banking services.

### **Legislation related to banking and finance**

#### *Legal Notice 164 of 2008 (External Transactions (Revocation) Regulations)*

This was issued on 1 July under the External Transactions Act (Cap. 233), and revoked the External Transactions Regulations.

#### *Legal Notice 180 of 2008 (Prevention of Money Laundering and Funding of Terrorism Regulations)*

This was issued on 31 July under the Prevention of Money Laundering Act (Cap. 373), to implement the provisions of Directive 2005/60/EC of the European Parliament on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing. The legal notice also revoked Legal Notice 199 of 2003.

#### *Legal Notice 201 of 2008 (Immovable Property Price Index)*

This was issued on 29 August under the Immovable Property (Acquisition by Non-Residents) Act (Cap. 246). It publishes the latest index with regard to immovable property. This was established at 149.52 on 1 April 2008.

#### *Legal Notice 238 of 2008 (Prevention of Financial Markets Abuse (Disclosure and Notification) (Amendment) Regulations)*

This was issued on 26 September under the Prevention of Financial Markets Abuse Act (Cap. 476). It amends similar regulations published in 2005.

### **Issue of Malta Government Stock**

On 22 July the Government of Malta launched EUR 100 million (which could be increased by EUR 50 million) worth of stocks, which were to be taken up as 5.1% Malta Government Stock 2014 (Third Issue) (Fungibility Issue) or 5% Malta Government Stock 2021 (First Issue) (Fungibility Issue), or any combination of the two. The stock was oversubscribed and the over-allotment option was applied.

## **INTERNATIONAL NEWS**

### **The G8 summit**

On 7-9 July the G8 Summit was held in Hokkaido Toyako, Japan. The G8 leaders :

- Remained positive about the long-term resilience of their economies and future global economic growth.
- Noted, however, that the world economy was facing uncertainty and that downside risks persisted.
- Showed strong concern about high commodity prices, especially of oil and food.
- Observed that although financial market conditions had improved somewhat in the previous few months, serious strains existed.
- Urged private sector players, national supervisory authorities and international bodies to rapidly implement all Financial Stability Forum recommendations.
- Strongly committed themselves to use the opportunities offered by globalisation and open markets to their societies, emerging economies and developing countries.
- Encouraged the IMF and the OECD to identify best practices for Sovereign Wealth Funds and recipient countries.

## **ECOFIN Council Meetings - main topics discussed and decisions taken**

### *8 July 2008*

The Council took a Decision on the adoption of the euro by Slovakia as from 1 January 2009, allowing the country six months to prepare for the changeover and setting the permanent conversion rate for the Slovak koruna to the euro. In the course of a discussion on the rise in oil prices, the Council reached an agreement on the weekly publication of oil stocks.

### *12-13 September 2008*

During an informal meeting held in Nice, EU economy and finance ministers and central bank governors agreed on a joint response to confront the economic slowdown and restore confidence in the financial markets.

They supported the Presidency's proposal on a coordinated response to the economic slowdown and financial crisis based on four pillars, namely:

- In budgetary matters, Member States could let automatic stabilisers work to support activity while continuing their efforts to control spending and respect the 3% deficit limit.
- On structural reforms, these should be continued, as they contributed to restoring purchasing power by increasing competition.
- With regard to the European Investment Bank, this institution will support small and medium-sized enterprises' funding.

- In financial matters, measures aimed at restoring confidence through increased transparency and accountability should be implemented without delay.

### **The EU budget**

On 17 July the European Council unanimously approved the EU's draft general budget for 2009 at first reading, together with six joint statements, following a conciliation meeting with the European Parliament and the Commission. The Commission had submitted the preliminary draft budget in the spring of 2008. In accordance with normal practice, the draft budget will be examined and amended by the European Parliament at first reading in the autumn of 2008. In the autumn too, the Commission will submit a number of letters of amendment before the second reading by the Council, which is scheduled for November 2008.



# STATISTICAL TABLES





## The Maltese Islands - Key information, social and economic statistics

(as at end-June 2008, unless otherwise indicated)

CAPITAL CITY	Valletta	
AREA	316 km <sup>2</sup>	
CURRENCY UNIT	Euro exchange rates <sup>1</sup> :	EUR 1 = USD 1.5764 EUR 1 = GBP 0.7923
CLIMATE	Average temperature (1990-2007):	Dec. - Feb. 13.3° C June - Aug. 26.1° C
	Average annual rainfall (1990-2007)	478.7 mm
	SELECTED GENERAL ECONOMIC STATISTICS	
	GDP growth at constant 2000 prices <sup>2</sup>	3.2%
	GDP per capita at current market prices <sup>2</sup> (2007)	EUR 13,200
	GDP per capita in PPS relative to the EU-27 average <sup>2</sup> (2007)	77.3%
	Ratio of gross general government debt to GDP <sup>2</sup> (2007)	62.2%
	Ratio of general government deficit to GDP <sup>2</sup> (2007)	1.8%
	RPI inflation rate	2.9%
	HICP inflation rate	2.8%
	Ratio of exports of goods and services to GDP <sup>2</sup>	82.5%
	Ratio of current account deficit to GDP <sup>2</sup>	11.8%
	Employment rate	55.2%
	Unemployment rate	6.0%
POPULATION	Total Maltese and foreigners (2007)	410,290
	Males	204,106
	Females	206,184
	Age composition in % of population (2007)	
	0 - 14	16%
	15 - 64	70%
	65 +	14%
	Average annual growth rate (1990-2007)	0.7%
	Density per km <sup>2</sup> (2007)	1,298
HEALTH	Life expectancy at birth (2007)	
	Males	77
	Females	82
	Crude birth rate, per 1,000 Maltese inhabitants (2007)	9.5
	Crude mortality rate, per 1,000 Maltese inhabitants (2007)	7.6
	Doctors (2007)	1,320
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 (end-Dec 2007)	90.9
	Private motor vehicle licences per 1,000 population	540
	Internet subscribers per 100 population (end-Dec 2007)	26.0

<sup>1</sup> End of month ECB euro foreign exchange reference rates.

<sup>2</sup> Provisional.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance, the Economy and Investment; 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 June 2008:

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

In order to reflect Malta's entry into the euro area and the adoption of the euro as its currency on 1 January 2008, the layout and design of a number of tables, in particular in Parts 1 and 3, have been changed significantly, while others have been replaced with entirely new tables. Hence, users should exercise caution when comparing these series with earlier data, as the underlying definitions may have changed. For ease of comparison, all data relating to earlier periods presented in this *Quarterly Review* are converted into euro at the fixed exchange rate of EUR1=MTL0.4293. The reasons for this approach were explained in a note entitled 'Conversion of data in Maltese liri into euro' which was published in the 2007:3 issue of the *Quarterly Review*, while the changes to the underlying concepts were explained in a note entitled 'Presentation of statistics relating to Malta following adoption of the euro' which was published in the 2008:1 issue of the *Quarterly Review*. Detailed definitions of the concepts in each table can be found in the 'General Notes' section.

Additional statistics are also provided in electronic format on the website of the Central Bank of Malta at [www.centralbankmalta.org](http://www.centralbankmalta.org).

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## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.1 Financial statement of the Central Bank of Malta<sup>1</sup> (assets)**

EUR millions

End of period	External assets				IMF currency subscription	Central government securities	Other assets	Total assets/liabilities
	Gold	IMF-related assets <sup>2</sup>	Other <sup>3</sup>	Total				
2003	1.2	83.1	2,095.0	2,179.2	73.2	18.1	42.5	2,313.1
2004	1.2	81.8	1,921.5	2,004.6	71.1	49.7	55.2	2,180.6
2005	1.5	87.4	2,061.2	2,150.1	74.6	21.2	62.5	2,308.4
2006	2.7	84.8	2,123.6	2,211.1	70.5	70.5	62.3	2,414.4
<b>2007</b>								
Jan.	2.8	85.6	2,051.5	2,139.9	70.5	80.4	60.8	2,351.6
Feb.	2.8	85.3	2,021.9	2,110.0	70.5	81.7	62.9	2,325.0
Mar.	2.8	84.9	1,969.0	2,056.7	70.5	79.9	63.3	2,270.4
Apr.	2.8	83.8	1,961.1	2,047.7	70.5	82.2	61.6	2,262.0
May	2.7	84.8	1,992.6	2,080.1	69.1	115.8	61.1	2,326.0
June	2.7	86.4	1,895.2	1,984.3	69.1	171.1	62.0	2,286.5
July	2.7	85.9	1,885.8	1,974.4	69.1	197.7	62.6	2,303.8
Aug.	2.7	86.7	1,907.9	1,997.3	69.1	217.5	62.9	2,346.8
Sep.	2.9	85.0	1,965.6	2,053.5	69.1	219.1	67.7	2,409.4
Oct.	3.0	84.3	1,919.1	2,006.5	69.1	214.0	67.9	2,357.5
Nov.	3.0	84.1	2,481.3	2,568.4	69.1	224.6	71.5	2,933.6
Dec.	8.8	83.9	2,434.4	2,527.2	66.3	203.6	74.4	2,871.5

EUR millions

End of period	Gold and gold receivables	Claims in euro		Claims in foreign currency		Lending related to monetary policy operations	Intra-Eurosystem claims	Other assets <sup>4</sup>	Total assets/liabilities
		Claims on euro area residents	Claims on non-euro area residents	Claims on euro area residents	Claims on non-euro area residents				
<b>2008</b>									
Jan.	3.9	863.7	452.4	241.5	372.3	-	143.1	397.4	2,474.3
Feb.	3.9	918.4	498.1	205.3	397.1	-	90.3	399.8	2,512.9
Mar.	4.1	939.5	502.9	179.4	402.7	-	59.1	434.3	2,522.0
Apr.	4.1	868.4	413.1	205.7	364.1	-	47.5	465.9	2,368.7
May	4.1	861.1	457.4	264.4	488.6	38.0	47.3	475.7	2,636.7
June	4.4	837.4	540.3	323.8	370.9	184.0	47.3	528.1	2,836.2

<sup>1</sup> As from 2008, figures are reported according to the prevailing accounting principles as established in ECB Guideline 2006/16 of 10 November 2006 (as amended) on the legal framework for accounting and reporting in the ESCB.

<sup>2</sup> Includes IMF reserve position and holdings of SDRs.

<sup>3</sup> Mainly includes cash and bank balances, placements with banks and securities.

<sup>4</sup> Including items in course of settlement.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.1 Financial statement of the Central Bank of Malta<sup>1</sup> (*liabilities*)**

EUR millions

End of period	Currency issued	IMF-related liabilities	Deposits				Capital & reserves	External liabilities	Other liabilities
			Credit institutions	Central government	Other residents	Total			
2003	1,130.6	73.3	564.1	193.8	19.7	777.6	205.5	59.4	66.7
2004	1,179.6	71.2	387.4	269.4	26.0	682.8	200.4	-	46.7
2005	1,211.4	74.6	424.7	343.5	22.2	790.4	196.3	-	35.7
2006	1,173.9	70.5	660.8	248.2	41.0	950.0	181.0	-	38.9
<b>2007</b>									
Jan.	1,130.9	70.5	727.8	186.0	22.5	936.2	177.9	-	36.0
Feb.	1,112.4	70.5	753.8	162.5	20.3	936.6	182.2	-	23.3
Mar.	1,106.3	70.5	712.5	161.6	21.0	895.1	180.8	-	17.6
Apr.	1,085.9	70.5	591.2	286.7	28.9	906.8	178.5	-	20.3
May	1,054.3	69.1	679.4	295.9	27.4	1,002.7	175.1	-	24.7
June	1,032.8	69.1	606.8	352.7	24.8	984.3	171.5	-	28.7
July	990.2	69.1	692.7	322.6	24.7	1,040.1	175.9	-	28.4
Aug.	948.7	69.1	772.8	296.6	49.7	1,119.1	179.3	-	30.6
Sep.	925.6	69.1	803.5	345.2	53.8	1,202.6	179.9	-	32.2
Oct.	875.8	69.1	782.5	349.3	61.9	1,193.7	184.7	-	34.2
Nov.	818.2	69.1	1,449.1	304.4	66.9	1,820.4	188.3	-	37.5
Dec.	677.8	66.4	1,433.5	387.2	75.7	1,896.4	189.9	-	41.0

EUR millions

End of period	Banknotes in circulation <sup>2</sup>	Liabilities related to monetary policy operations	Liabilities in euro		Liabilities in foreign currency		Counterpart of SDRs allocated by the IMF	Intra-Eurosystem liabilities	Other liabilities <sup>3</sup>	Capital and reserves <sup>4</sup>
			Liabilities to euro area residents	Liabilities to non-euro area residents	Liabilities to euro area residents	Liabilities to non-euro area residents				
<b>2008</b>										
Jan.	749.8	375.0	287.9	87.1	24.9	-	12.1	644.3	59.4	233.8
Feb.	669.3	395.7	264.1	79.9	24.5	-	12.1	798.1	46.2	223.1
Mar.	638.9	402.7	282.8	80.9	34.6	-	11.7	767.3	75.4	227.6
Apr.	627.8	396.7	364.5	79.7	35.2	0.1	11.7	569.3	54.8	228.8
May	627.7	394.2	294.6	68.6	186.8	0.1	11.7	762.3	61.0	229.6
June	631.0	405.4	401.1	72.7	87.4	0.1	11.7	873.6	128.7	224.4

<sup>1</sup>As from 2008, figures are reported according to the prevailing accounting principles as established in ECB Guideline 2006/16 of 10 November 2006 (as amended) on the legal framework for accounting and reporting in the ESCB.

<sup>2</sup>This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key. This amount is purely notional and may not reflect the amount of currency in circulation in Malta; the series is not comparable with the data prior to January 2008. For 2008, remaining outstanding Maltese lira banknotes are included.

<sup>3</sup>Includes items in the course of settlement.

<sup>4</sup>Includes provisions and revaluation accounts.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.2 Balance sheet of the Central Bank of Malta based on statistical principles (assets)<sup>1</sup>**

EUR millions

End of period	Holdings of euro-denominated cash <sup>2</sup>	Claims on residents of Malta			External assets				Other assets <sup>4</sup>	Total assets/liabilities
		Loans	Securities other than shares	Total	Claims on other euro area residents	Claims on non-residents of the euro area	Other external assets <sup>3</sup>	Total		
<b>2008</b>										
Jan.	0.4	5.5	209.2	214.7	1,135.6	757.3	287.5	2,180.4	100.7	2,496.2
Feb.	0.1	5.4	213.9	219.3	1,120.1	825.2	256.0	2,201.3	131.2	2,551.8
Mar.	0.0	5.4	215.2	220.6	1,105.4	844.0	229.0	2,178.4	132.4	2,531.3
Apr.	0.1	5.4	225.5	230.9	1,149.9	743.9	197.7	2,091.5	65.4	2,387.9
May	0.1	5.3	222.1	227.4	1,168.0	930.7	192.4	2,291.2	137.5	2,656.1
June	0.0	5.3	221.1	226.4	1,206.5	888.0	192.8	2,287.3	324.4	2,838.1

<sup>1</sup> Based on a detailed description of instrument categories as stipulated in ECB Regulation 2001/13 of 22 November 2001.

<sup>2</sup> May include some holdings of Maltese lira banknotes and coins.

<sup>3</sup> If the Central Bank issues less currency than the amount attributed to it under the banknote allocation key, the shortfall will be reflected in intra-Eurosystem claims included in this item.

<sup>4</sup> Includes resident interbank claims.

**Table 1.2 Balance sheet of the Central Bank of Malta based on statistical principles (liabilities)<sup>1</sup>**

EUR millions

End of period	Currency issued <sup>2</sup>	Deposits from residents of Malta			External liabilities				Capital & reserves	Other liabilities <sup>5</sup>
		Withdrawable on demand <sup>3</sup>	With agreed maturity	Total	Deposits from other euro area residents	Deposits from non-residents of the euro area	Other external liabilities <sup>4</sup>	Total		
<b>2008</b>										
Jan.	805.2	244.9	13.0	258.0	644.7	87.1	16.1	747.9	243.5	441.6
Feb.	720.6	223.2	10.0	233.3	803.3	79.9	16.4	899.7	235.5	462.8
Mar.	690.1	252.6	10.0	262.7	761.5	80.9	38.0	880.4	229.2	468.9
Apr.	679.3	333.6	10.0	343.7	569.4	79.8	18.2	667.4	233.4	464.2
May	680.0	419.4	10.0	429.5	751.1	68.7	35.9	855.8	230.9	459.9
June	684.7	423.7	15.0	438.8	852.8	72.8	86.4	1,012.0	236.7	466.1

<sup>1</sup> Based on a detailed description of instrument categories as stipulated in ECB Regulation 2001/13 of 22 November 2001.

<sup>2</sup> This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury. For 2008, remaining outstanding Maltese lira banknotes and coins are included.

<sup>3</sup> For the purposes of this table deposits withdrawable on demand include deposits redeemable at notice.

<sup>4</sup> If the Central Bank issues more currency than the amount attributed to it under the banknote allocation key, the excess will be reflected in intra-Eurosystem liabilities included in this item (refer to General Notes for more details).

<sup>5</sup> Includes resident interbank liabilities.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.3 Aggregated balance sheet of the other monetary financial institutions based on statistical principles<sup>1</sup> (assets)**

EUR millions

End of period	Balances held with Central Bank of Malta <sup>2</sup>	Claims on residents of Malta			External assets				Other assets <sup>3</sup>	Total assets/liabilities
		Loans	Securities other than shares	Shares & other equity	Claims on other euro area residents	Claims on non-residents of the euro area	Other external assets	Total		
2003	607.7	4,449.2	1,449.1	83.1	2,831.3	7,484.8	177.2	10,493.3	818.3	17,900.8
2004	448.6	4,734.9	1,531.2	77.9	3,626.4	8,794.1	787.5	13,208.0	837.6	20,838.2
2005	487.5	5,058.0	1,440.4	62.2	4,472.3	13,040.6	1,827.7	19,340.5	806.0	27,194.5
2006	707.0	5,788.8	1,210.8	83.2	5,212.1	15,976.6	412.3	21,601.1	643.1	30,033.9
<b>2007</b>										
Jan.	802.3	5,811.6	1,199.0	83.7	5,386.5	16,690.4	431.3	22,508.1	638.2	31,042.8
Feb.	809.7	5,839.0	1,232.3	84.7	5,399.3	17,000.2	400.0	22,799.4	640.5	31,405.6
Mar.	776.2	5,956.9	1,283.0	83.8	5,553.8	17,799.2	401.1	23,754.1	594.7	32,448.7
Apr.	651.8	5,969.4	1,292.8	85.0	5,866.8	18,430.7	470.1	24,767.7	607.6	33,374.3
May	736.8	5,999.9	1,251.1	87.3	5,892.6	19,563.6	553.5	26,009.7	631.9	34,716.8
June	649.4	6,066.5	1,296.8	87.1	5,732.1	20,619.8	572.1	26,924.1	687.5	35,711.3
July	763.0	6,067.9	1,303.1	94.1	5,910.7	20,994.7	616.1	27,521.4	667.9	36,417.3
Aug.	835.5	6,071.1	1,245.6	94.5	5,836.7	21,203.4	545.1	27,585.1	686.1	36,517.9
Sep.	841.6	6,166.9	1,221.2	95.1	5,957.3	21,263.4	532.7	27,753.4	633.1	36,711.3
Oct.	838.8	6,175.6	1,313.2	95.5	5,617.6	20,900.4	605.9	27,123.9	571.5	36,118.5
Nov.	1,510.1	6,235.0	1,300.0	93.3	5,346.2	20,879.2	608.6	26,834.1	593.4	36,565.8
Dec.	1,518.0	6,334.9	1,287.2	93.0	5,376.8	21,961.2	609.4	27,947.3	627.3	37,807.7
<b>2008</b>										
Jan.	573.1	6,321.5	1,265.1	92.7	5,522.8	22,983.8	601.1	29,107.7	634.4	37,994.5
Feb.	527.2	6,352.2	1,281.7	93.0	5,704.5	22,973.0	548.2	29,225.7	652.1	38,131.8
Mar.	519.7	6,449.1	1,260.7	92.8	5,687.3	22,261.1	597.1	28,545.5	705.8	37,573.6
Apr.	520.3	6,607.7	1,218.0	102.6	5,676.1	22,503.3	547.5	28,727.0	693.8	37,869.4
May	522.9	6,654.6	1,221.6	102.3	5,877.1	23,634.0	603.3	30,114.5	702.4	39,318.2
June	521.3	6,727.3	1,268.2	103.9	5,952.6	25,188.2	554.8	31,695.6	648.7	40,965.0

<sup>1</sup> Based on a detailed description of instrument categories as stipulated in ECB Regulation 2001/13 of 22 November 2001.

<sup>2</sup> Includes holdings of cash. May include some holdings of Maltese lira banknotes and coins.

<sup>3</sup> Includes resident interbank claims.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.3 Aggregated balance sheet of the other monetary financial institutions based on statistical principles<sup>1</sup> (liabilities)**

EUR millions

End of period	Deposits from residents of Malta <sup>2</sup>				External liabilities				Debt securities issued <sup>3</sup>	Capital & reserves	Other liabilities <sup>4</sup>
	Withdrawable on demand	Redeemable at notice	With agreed maturity	Total	Deposits from other residents of the euro area	Deposits from non-residents of the euro area	Other external liabilities <sup>3</sup>	Total			
2003	2,441.8	67.0	3,727.6	6,236.5	2,426.4	4,862.9	1,597.6	8,886.9	220.9	1,822.4	734.1
2004	2,589.8	70.0	3,700.8	6,360.5	3,203.2	6,640.3	1,583.0	11,426.5	214.7	2,086.4	750.0
2005	2,800.2	73.3	3,834.6	6,708.1	5,329.3	9,294.9	2,653.5	17,277.7	170.5	2,359.4	678.8
2006	2,834.9	71.8	4,300.2	7,206.9	6,385.9	11,167.7	1,447.7	19,001.3	87.9	3,083.0	654.9
<b>2007</b>											
Jan.	2,823.1	70.5	4,365.9	7,259.5	6,727.5	11,816.8	1,360.7	19,905.0	147.4	3,063.2	667.9
Feb.	2,833.4	67.3	4,436.4	7,337.2	6,577.7	12,221.5	1,334.7	20,133.9	146.8	3,153.3	634.5
Mar.	2,815.6	69.0	4,546.8	7,431.4	6,692.8	12,679.0	1,679.8	21,051.7	146.6	3,183.8	635.3
Apr.	2,815.7	70.4	4,484.0	7,370.1	6,883.0	13,032.0	2,109.5	22,024.5	146.9	3,197.0	635.8
May	2,827.3	77.3	4,592.6	7,497.2	6,828.5	14,139.1	2,228.8	23,196.5	147.3	3,222.1	653.6
June	2,910.1	81.7	4,639.9	7,631.7	7,003.8	15,052.7	1,911.6	23,968.0	147.3	3,246.4	717.9
July	3,009.8	87.7	4,764.8	7,862.2	7,078.0	15,397.4	1,976.1	24,451.5	146.8	3,238.6	718.2
Aug.	2,988.7	89.0	4,955.2	8,032.9	6,917.2	15,128.8	2,360.1	24,406.2	146.8	3,239.8	692.2
Sep.	3,015.4	89.3	4,984.5	8,089.2	7,259.4	15,016.9	2,174.7	24,450.9	145.8	3,350.9	674.5
Oct.	2,971.1	92.0	5,039.4	8,102.4	7,691.5	13,957.5	2,132.1	23,781.1	145.3	3,431.8	657.8
Nov.	3,012.6	96.6	5,068.6	8,177.9	7,391.9	14,665.1	2,109.9	24,166.9	144.8	3,391.9	684.3
Dec.	3,139.6	105.3	5,102.7	8,347.6	7,916.4	15,275.8	2,124.2	25,316.4	144.9	3,360.6	638.1
<b>2008</b>											
Jan.	3,150.6	108.8	5,172.5	8,431.9	8,073.8	15,339.0	2,031.3	25,444.1	140.7	3,304.3	673.5
Feb.	3,152.9	111.2	5,234.7	8,498.9	8,722.9	14,868.9	1,918.1	25,510.0	140.1	3,269.3	713.5
Mar.	3,160.1	112.8	5,227.6	8,500.5	8,646.9	14,598.5	1,740.8	24,986.2	139.2	3,197.9	749.8
Apr.	3,222.8	113.8	5,146.9	8,483.5	8,591.7	15,136.9	1,586.1	25,314.6	139.6	3,252.6	679.0
May	3,206.9	114.3	5,147.6	8,468.8	8,724.8	16,003.6	1,919.4	26,647.8	139.7	3,295.9	765.9
June	3,129.3	115.3	5,137.6	8,382.1	9,861.1	16,348.0	2,110.5	28,319.7	139.2	3,195.2	928.8

<sup>1</sup> Based on a detailed description of instrument categories as stipulated in ECB Regulation 2001/13 of 22 November 2001.

<sup>2</sup> Includes general government and private sector deposits.

<sup>3</sup> Up to December 2007, debt securities held by non-residents are included under 'other external liabilities'. As from January 2008 they are included under the 'debt securities issued' column.

<sup>4</sup> Includes resident interbank liabilities.



## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.4a Monetary base and monetary aggregates**

EUR millions

End of period	Monetary base (M0)			Broad money (M3)							
				Intermediate money (M2)						Total (M3) <sup>1</sup>	
	Narrow money (M1)			Currency in circulation	Deposits withdrawable on demand		Total (M1)	Deposits redeemable at notice up to 3 months	Deposits with agreed maturity up to 2 years		Total (M2)
					Demand	Savings					
2003	1,130.6	321.2	1,451.8	1,072.5	637.5	1,763.0	3,473.0	67.0	3,096.9	6,636.9	6,637.0
2004	1,179.6	338.5	1,518.1	1,132.1	700.8	1,849.8	3,682.6	70.0	3,045.3	6,797.9	6,797.9
2005	1,211.4	315.7	1,527.1	1,162.2	727.0	2,001.0	3,890.2	73.3	3,121.5	7,085.0	7,085.0
2006	1,173.9	412.2	1,586.1	1,112.9	726.5	2,020.0	3,859.4	71.8	3,520.6	7,451.7	7,451.7
<b>2007</b>											
July	990.2	479.6	1,469.8	925.8	790.8	2,113.6	3,830.2	87.6	4,060.3	7,978.2	7,978.2
Aug.	948.7	488.6	1,437.3	890.4	811.8	2,090.6	3,792.8	89.0	4,292.9	8,174.7	8,174.7
Sep.	925.6	489.7	1,415.3	868.4	811.3	2,112.9	3,792.5	89.3	4,313.9	8,195.7	8,195.7
Oct.	875.8	496.0	1,371.8	820.5	792.8	2,116.0	3,729.2	92.0	4,384.6	8,205.8	8,205.8
Nov.	818.2	1,021.7	1,839.8	763.0	785.8	2,160.0	3,708.8	96.6	4,434.0	8,239.4	8,239.4
Dec.	677.8	1,110.0	1,787.8	610.2	806.3	2,278.9	3,695.4	105.3	4,474.6	8,275.3	8,275.3

**Table 1.4b The contribution of resident MFIs to the euro area monetary aggregates**

EUR millions

End of period	Broad money (M3)										
	Intermediate money (M2)							Repurchase agreements		Issues less holdings of MFI debt securities up to 2 years <sup>4</sup>	Total (M3) <sup>5</sup>
	Narrow money (M1)			Deposits redeemable at notice up to 3 months <sup>3</sup>		Deposits with agreed maturity up to 2 years <sup>3</sup>					
	Currency issued <sup>2</sup>	Overnight deposits <sup>3</sup>		From residents of Malta	From other euro area residents	From residents of Malta	From other euro area residents	From residents of Malta	From other euro area residents	With residents of Malta	
<b>2008</b>											
Jan.	670.7	3,107.3	65.7	108.8	-	4,544.8	269.9	-	-	-118.7	8,648.5
Feb.	637.6	3,084.4	71.0	111.2	-	4,613.0	294.5	-	-	-112.7	8,699.2
Mar.	612.9	3,102.1	66.8	112.8	-	4,613.1	289.5	-	-	-112.6	8,684.7
Apr.	621.4	3,175.0	79.8	113.8	-	4,569.5	254.2	-	-	-112.9	8,700.8
May	627.0	3,153.6	102.0	114.3	-	4,579.9	317.6	-	-	-145.0	8,749.5
June	629.2	3,065.2	104.3	115.3	-	4,577.7	251.7	-	-	-160.3	8,583.1

<sup>1</sup> M3 comprises M2, repurchase agreements and debt securities with agreed maturity of up to 2 years.

<sup>2</sup> This is not a measure of currency in circulation in Malta. It comprises the Central Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury, less holdings of issued euro banknotes and coins held by the MFI sector. For 2008, remaining outstanding Maltese lira banknotes and coins are included. This represents the residual amount after deducting holdings of euro banknotes and coins (and, temporarily, of Maltese lira currency) reported by MFIs in Malta from the currency issued figure as reported in Table 1.2.

<sup>3</sup> Deposits with MFIs exclude interbank deposits and deposits held by central government.

<sup>4</sup> Debt securities up to 2 years' issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the euro area. The column shows net amounts (issues less holdings by MFIs in Malta) and may be negative. Figures also include MMF shares/units.

<sup>5</sup> This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the euro-area aggregate.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.5a Monetary financial institutions survey**

EUR millions

End of period	Domestic credit			Net foreign assets					Broad money (M3)	Other counterparts to broad money (net) <sup>2</sup>
	Net claims on central government <sup>1</sup>	Claims on other residents	Total	Central Bank of Malta		OMFIs		Total		
				Foreign assets	Foreign liabilities	Foreign assets	Foreign liabilities			
2003	1,324.1	4,423.4	5,747.5	2,279.5	136.9	10,493.3	8,912.8	3,723.1	6,637.0	2,833.6
2004	1,269.8	4,793.9	6,063.7	2,105.7	78.5	13,208.0	11,448.3	3,786.9	6,797.9	3,052.8
2005	1,031.2	5,110.6	6,141.8	2,260.2	87.8	19,340.5	17,297.9	4,215.0	7,085.0	3,271.8
2006	850.1	5,855.8	6,705.9	2,314.0	99.1	21,601.1	19,011.8	4,804.1	7,451.7	4,058.3
<b>2007</b>										
July	1,056.6	6,136.9	7,193.6	2,073.9	81.1	27,521.4	24,465.2	5,049.0	7,978.2	4,264.3
Aug.	1,040.9	6,139.5	7,180.3	2,099.0	75.8	27,585.1	24,420.0	5,188.3	8,174.7	4,194.0
Sep.	978.4	6,232.4	7,210.8	2,158.5	82.8	27,753.4	24,464.6	5,364.5	8,195.7	4,379.5
Oct.	1,072.4	6,246.6	7,319.0	2,112.5	86.6	27,123.9	23,794.8	5,354.9	8,205.8	4,468.1
Nov.	1,123.7	6,309.6	7,433.3	2,678.3	94.7	26,834.1	24,180.6	5,237.1	8,239.4	4,431.0
Dec.	1,023.8	6,404.9	7,428.7	2,633.0	100.1	27,947.3	25,330.1	5,150.1	8,275.3	4,303.6

**Table 1.5b The contribution of resident MFIs to selected counterparts to euro area M3**

EUR millions

End of period	Broad money (M3) <sup>4</sup>	Credit counterpart <sup>3</sup>					External counterpart			Other counterparts (net) <sup>2</sup>
		Residents of Malta		Other euro area residents		Total credit	Claims on non-residents of the euro area	Liabilities to non-residents of the euro area	Net claims on non-residents of the euro area	
		Credit to general government	Credit to other residents	Credit to general government	Credit to other residents					
<b>2008</b>										
Jan.	8,648.5	1,504.9	6,389.1	320.0	1,989.9	10,203.8	24,525.4	17,345.6	7,179.9	8,735.2
Feb.	8,699.2	1,521.6	6,424.5	319.7	2,008.3	10,274.1	24,550.4	16,766.2	7,784.1	9,359.1
Mar.	8,684.7	1,491.6	6,531.6	299.8	2,143.7	10,466.7	23,916.3	16,354.3	7,562.0	9,344.0
Apr.	8,700.8	1,463.6	6,695.7	326.0	2,232.3	10,717.5	23,989.7	16,682.0	7,307.7	9,324.4
May	8,749.5	1,465.8	6,740.1	341.9	2,298.2	10,845.9	25,358.1	17,824.6	7,533.5	9,629.9
June	8,583.1	1,512.2	6,813.6	366.2	2,488.2	11,180.2	26,819.6	18,134.6	8,685.1	11,282.2

<sup>1</sup> Central government deposits held with MFIs are netted from this figure.

<sup>2</sup> Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

<sup>3</sup> Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

<sup>4</sup> This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the euro-area aggregate.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.6a Currency in circulation**

EUR millions

End of period	Currency issued and outstanding			Less currency held by OMFIs	Currency in circulation
	Notes	Coins	Total		
2003	1,088.0	42.6	1,130.6	58.1	1,072.5
2004	1,134.8	44.8	1,179.6	47.5	1,132.1
2005	1,164.5	46.8	1,211.4	49.2	1,162.2
2006	1,125.4	48.6	1,173.9	61.0	1,113.0
<b>2007</b>					
July	941.3	49.0	990.2	64.4	925.8
Aug.	899.3	49.4	948.7	58.3	890.4
Sep.	876.6	49.0	925.6	57.3	868.4
Oct.	827.5	48.3	875.8	55.3	820.4
Nov.	771.0	47.2	818.2	55.2	763.0
Dec.	634.2	43.6	677.8	67.6	610.2

**Table 1.6b Currency issued**

EUR millions

End of period	Currency issued excluding holdings of MFIs					Memo item: Excess / shortfall (-) on the banknote allocation key <sup>3</sup>
	Notional amount of banknotes issued by the Central Bank of Malta <sup>1</sup>	Euro coins issued by the Central Bank of Malta on behalf of the Treasury	Outstanding Maltese lira banknotes and coins <sup>2</sup>	Less euro banknotes and coins held by MFIs in Malta	Total	
<b>2008</b>						
Jan.	536.6	23.3	245.4	134.5	670.7	-102.9
Feb.	539.3	22.4	158.8	83.0	637.6	-50.2
Mar.	545.0	23.3	121.8	77.1	612.9	-11.8
Apr.	552.4	24.5	102.4	57.9	621.4	-0.2
May	554.3	25.3	100.4	53.1	627.0	11.1
June	559.8	26.7	98.1	55.4	629.2	20.9

<sup>1</sup> This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB).

<sup>2</sup> For 2008 only, currency issued includes any outstanding Maltese lira banknotes and coins.

<sup>3</sup> The difference between the value of euro banknotes allocated to the Bank in accordance with the banknote allocation key (based on its share in the ECB's capital) and the value of the euro banknotes that the Bank puts into circulation gives rise to intra-Eurosystem balances. If the value of the actual euro banknotes issued is below the value based on the capital share, the difference is recorded as a shortfall (-). If the value of the actual euro banknotes issued is above the value based on the capital share, the difference is recorded as an excess.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.7a Denominations of Maltese currency issued and outstanding**

EUR millions

End of period	Total notes & coins <sup>1</sup>	Currency notes					Total
		Lm20	Lm10	Lm5	Lm2		
2003	1,130.6	255.5	744.0	71.8	16.7		1,088.0
2004	1,179.6	257.0	786.3	74.3	17.2		1,134.8
2005	1,211.4	257.5	812.1	76.8	18.1		1,164.5
2006	1,173.9	240.5	785.0	80.9	18.9		1,125.4
<b>2007</b>							
July	990.2	195.0	650.2	76.5	19.6		941.3
Aug.	948.7	182.7	622.0	75.2	19.4		899.3
Sep.	925.6	174.9	607.8	74.7	19.2		876.6
Oct.	875.8	164.0	573.8	71.1	18.7		827.5
Nov.	818.2	149.8	535.7	67.3	18.2		771.0
Dec.	677.8	120.2	439.8	57.5	16.7		634.2
<b>2008</b>							
Jan.	245.4	49.9	134.8	18.9	9.6		213.2
Feb.	158.8	29.7	77.8	13.8	8.6		130.0
Mar.	121.8	19.4	54.5	11.8	8.2		93.9
Apr.	102.4	13.8	43.4	10.3	7.8		75.3
May	100.4	13.4	42.1	10.2	7.7		73.5
June	98.1	13.0	40.5	10.0	7.7		71.2

<sup>1</sup> The denominations of coins consist of Lm1, 50c (cents), 25c, 10c, 5c, 2c, 1c, 5m (mils), 3m and 2m.

**Table 1.7b Denominations of euro banknotes allocated to Malta<sup>1</sup>**

EUR millions

End of period	Euro banknotes							Total
	€ 5	€ 10	€ 20	€ 50	€ 100	€ 200	€ 500	
<b>2008</b>								
Jan.	6.2	58.5	195.3	102.8	34.6	23.0	13.3	433.6
Feb.	3.5	60.8	222.6	122.8	38.8	24.3	16.5	489.2
Mar.	1.8	63.4	244.7	137.1	38.5	28.1	19.7	533.3
Apr.	1.1	60.9	254.4	141.3	38.9	31.3	24.4	552.2
May	0.7	58.5	266.6	141.6	38.0	34.3	25.6	565.4
June	0.3	54.8	273.7	150.0	37.8	35.6	28.5	580.7

<sup>1</sup> This comprises the Bank's share of euro banknotes issued in the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB) plus excess / shortfall on the banknote allocation key.

**Table 1.7c Denominations of euro coins issued by the Central Bank of Malta on behalf of the Treasury**

EUR millions

End of period	Euro coins								Total
	1 € cent	2 € cent	5 € cent	10 € cent	20 € cent	50 € cent	€ 1	€ 2	
<b>2008</b>									
Jan.	0.1	0.2	0.6	1.4	2.0	3.5	6.1	9.3	23.2
Feb.	0.1	0.2	0.6	1.2	1.9	3.3	5.6	9.5	22.4
Mar.	0.1	0.3	0.6	1.2	1.9	3.4	5.9	9.9	23.3
Apr.	0.1	0.3	0.6	1.3	2.1	3.5	6.1	10.5	24.5
May	0.1	0.3	0.6	1.3	2.1	3.6	6.3	11.0	25.3
June	0.1	0.3	0.7	1.3	2.2	3.8	6.7	11.6	26.7

## Monetary, Banking, Investment Funds and Financial Markets

Table 1.8 Deposits held with other monetary financial institutions by sector<sup>1</sup>

End of period	Resident deposits										Deposits held by non-residents of Malta		Total deposits
	General government <sup>2</sup>	Monetary financial institutions	Insurance companies and pension funds	Other financial intermediaries & financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total	Other euro area residents		Non-residents of the euro area			
								Total					
2003	60.7	193.9	60.0	61.0	976.1	5,078.8	6,430.5	3,164.5	5,524.1	15,119.0			
2004	66.5	177.5	48.3	80.3	965.6	5,199.7	6,538.0	3,431.5	7,160.9	17,130.4			
2005	118.3	149.3	49.6	136.0	1,042.9	5,361.3	6,857.3	5,575.2	9,976.4	22,409.0			
2006	218.2	73.5	99.1	89.6	1,112.8	5,687.3	7,280.4	6,688.4	12,055.0	26,023.8			
<b>2007</b>													
Jan.	216.4	75.9	111.0	85.9	1,160.3	5,685.9	7,335.4	6,976.3	12,667.3	26,979.1			
Feb.	230.3	61.8	117.2	87.2	1,158.0	5,744.5	7,398.9	6,848.1	12,998.7	27,245.7			
Mar.	228.7	61.7	127.6	102.6	1,145.9	5,826.7	7,493.1	6,939.7	13,482.1	27,915.0			
Apr.	165.4	66.4	121.2	87.6	1,138.6	5,857.3	7,436.5	7,152.4	13,790.1	28,379.0			
May	214.8	80.2	115.8	96.9	1,146.3	5,923.5	7,577.5	7,099.0	14,824.1	29,500.6			
June	139.9	126.1	104.7	112.8	1,228.3	6,046.2	7,757.8	7,266.2	15,742.0	30,766.0			
July	165.5	104.5	109.8	117.4	1,322.4	6,147.2	7,966.7	7,309.7	16,065.4	31,341.8			
Aug.	168.8	97.0	130.5	109.0	1,416.6	6,208.0	8,129.8	7,355.6	16,145.2	31,630.6			
Sep.	161.3	123.7	152.9	112.6	1,409.0	6,253.3	8,212.9	7,465.8	16,111.5	31,790.2			
Oct.	153.0	103.7	179.6	125.2	1,354.4	6,290.2	8,206.1	8,009.6	14,878.3	31,094.0			
Nov.	136.2	99.6	174.3	146.4	1,348.3	6,372.7	8,277.5	7,740.3	15,521.6	31,539.4			
Dec.	126.8	106.1	198.6	137.8	1,342.5	6,541.8	8,453.7	8,090.1	16,239.9	32,783.8			
<b>2008</b>													
Jan.	140.5	132.2	214.7	131.2	1,365.9	6,579.6	8,564.2	8,176.0	16,237.8	32,978.0			
Feb.	148.5	153.0	220.9	152.9	1,390.2	6,586.4	8,651.9	8,806.5	15,692.8	33,151.1			
Mar.	138.3	201.1	214.1	132.4	1,397.9	6,617.9	8,701.6	8,712.0	15,333.4	32,747.0			
Apr.	107.0	136.6	201.4	152.8	1,393.1	6,629.1	8,620.1	8,711.0	15,779.2	33,110.3			
May	101.1	197.3	227.6	150.8	1,362.2	6,627.2	8,666.2	8,889.0	16,782.9	34,338.0			
June	107.0	371.9	196.4	135.8	1,301.3	6,641.8	8,754.0	10,238.9	17,024.7	36,017.6			

<sup>1</sup> For the purposes of this table, deposits include loans and uncleared effects.

<sup>2</sup> Including extra-budgetary units.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.9 Deposits held with other monetary financial institutions by currency<sup>1</sup>**

EUR millions

End of period	By residents of Malta					By non-residents of Malta				Total deposits
						Other euro area residents			Non-residents of the euro area	
	MTL <sup>2</sup>	EUR	GBP	USD	Other	MTL <sup>2</sup>	EUR	Other		
2003	5,576.2	244.7	303.3	246.0	60.2	22.4	1,832.6	1,309.4	5,524.1	15,119.0
2004	5,614.5	259.7	353.1	240.7	70.1	20.4	2,400.7	1,010.4	7,160.9	17,130.4
2005	5,812.9	288.2	423.5	252.9	79.9	22.9	2,820.1	2,732.2	9,976.4	22,409.0
2006	6,052.9	434.8	446.3	252.6	93.7	49.4	3,856.3	2,782.8	12,055.0	26,023.8
<b>2007</b>										
Jan.	6,075.3	448.3	448.8	266.4	96.6	47.5	3,992.8	2,936.1	12,667.3	26,979.1
Feb.	6,134.6	462.3	445.7	257.5	98.9	45.0	4,045.1	2,758.0	12,998.7	27,245.7
Mar.	6,227.0	466.5	381.8	323.6	94.2	44.2	4,132.2	2,763.3	13,482.1	27,915.0
Apr.	6,151.1	486.7	357.1	347.0	94.6	47.7	4,220.7	2,884.0	13,790.1	28,379.0
May	6,300.0	478.0	376.7	328.4	94.3	43.0	4,383.0	2,673.0	14,824.1	29,500.6
June	6,356.8	589.4	298.5	345.5	167.6	43.4	4,555.4	2,667.4	15,742.0	30,766.0
July	6,536.4	621.7	378.4	337.3	93.0	50.8	4,888.3	2,370.5	16,065.4	31,341.8
Aug.	6,637.7	686.2	376.6	342.5	86.8	50.4	5,161.4	2,143.8	16,145.2	31,630.6
Sept.	6,698.0	695.2	378.8	353.9	87.0	47.8	5,364.1	2,053.9	16,111.5	31,790.2
Oct.	6,714.7	680.2	395.4	328.1	87.7	48.9	5,556.5	2,404.3	14,878.3	31,094.0
Nov.	6,802.7	680.1	383.4	322.4	88.8	46.7	5,368.6	2,325.1	15,521.6	31,539.4
Dec.	6,922.6	711.2	380.9	316.5	122.5	35.0	5,465.8	2,589.3	16,239.9	32,783.8
<b>2008</b>										
Jan.		7,730.5	386.0	321.3	126.4		5,374.2	2,801.8	16,237.8	32,978.0
Feb.		7,753.6	386.6	379.5	132.1		5,631.3	3,175.1	15,692.8	33,151.1
Mar.		7,786.9	371.7	423.3	119.8		5,713.2	2,998.8	15,333.4	32,747.0
Apr.		7,708.4	389.4	399.5	122.7		5,800.3	2,910.7	15,779.2	33,110.3
May		7,772.0	376.8	414.4	103.0		6,105.0	2,783.9	16,782.9	34,338.0
June		7,905.3	342.4	375.8	130.6		7,092.3	3,146.6	17,024.7	36,017.6

<sup>1</sup> Also includes loans granted to the reporting MFIs.

<sup>2</sup> Maltese lira-denominated deposits were redenominated as euro deposits from the beginning of 2008.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.10 Other monetary financial institutions' loans by size class<sup>1</sup>**

EUR millions

End of period	Size classes <sup>2</sup>				
	Up to € 25,000	Over € 25,000 to € 250,000	Over € 250,000 to € 1 million	Over € 1 million	Total
2003	714.7	1,553.3	876.5	2,437.6	5,582.0
2004	774.8	1,845.8	1,529.6	5,547.2	9,697.4
2005	811.9	2,173.4	2,247.7	6,898.6	12,131.6
2006	1,046.2	2,362.9	2,360.0	9,294.3	15,063.4
<b>2007</b>					
Jan.	1,083.3	2,536.5	2,358.7	9,318.0	15,296.5
Feb.	981.6	2,503.8	2,396.8	9,728.5	15,610.6
Mar.	1,283.8	2,343.4	1,866.4	11,312.0	16,805.7
Apr.	1,110.7	2,623.7	1,842.3	11,431.1	17,007.8
May	1,236.1	2,717.6	1,869.7	12,103.0	17,926.5
June	1,250.5	2,760.7	1,932.5	12,999.9	18,943.6
July	1,104.0	3,168.7	1,920.9	13,137.8	19,331.4
Aug.	1,088.2	3,605.9	1,968.4	13,366.8	20,029.4
Sep.	1,148.4	3,867.6	2,021.5	13,279.7	20,317.2
Oct.	872.1	3,879.2	2,090.1	13,010.8	19,852.1
Nov.	1,177.5	3,637.0	2,095.3	13,106.4	20,016.2
Dec.	1,138.2	3,143.8	2,865.2	14,036.2	21,183.3
<b>2008</b>					
Jan.	1,110.0	3,022.3	2,677.3	14,802.6	21,612.1
Feb.	1,150.5	3,056.5	3,031.8	14,942.1	22,180.9
Mar.	1,311.0	3,372.2	2,748.4	14,851.5	22,283.1
Apr.	1,375.2	3,404.9	2,760.0	15,121.5	22,661.6
May	635.9	2,502.0	2,126.1	17,932.2	23,196.2
June	638.9	2,527.9	2,148.7	18,629.8	23,945.4

<sup>1</sup> For the purposes of this classification, these include loans extended to residents and non-residents in both domestic and foreign currencies. Loans exclude OMFIs' deposits placed with other OMFIs.

<sup>2</sup> The euro amounts are approximations.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.11 Other monetary financial institutions' loans to residents of Malta by economic activity**

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 <sup>1</sup>				Total lending to residents		
								Lending for house purchase	Consumer credit	Other lending	Total	Other <sup>2</sup>	Public sector	Private sector
2003	195.4	315.6	430.5	468.5	481.9	671.3	276.0	1,030.2	1,420.8	367.8	524.4	4,103.4		
2004	222.1	295.7	358.1	505.5	478.8	676.2	321.4	1,884.4	1,673.5	362.0	500.3	4,393.0		
2005	142.3	287.1	306.2	502.3	474.8	691.1	444.2	1,521.4	1,948.7	427.6	401.1	4,823.2		
2006	188.9	340.7	266.7	586.4	492.9	715.0	612.8	1,769.9	2,251.1	380.7	421.3	5,414.0		
<b>2007</b>														
Jan.	177.6	346.9	261.5	589.6	495.8	712.6	617.0	1,791.2	2,277.2	391.1	419.2	5,450.1		
Feb.	176.9	347.3	259.6	591.3	497.1	705.7	627.8	1,810.6	2,301.2	389.2	419.5	5,476.5		
Mar.	185.3	361.3	262.0	610.7	501.1	737.0	651.3	1,838.9	2,337.9	367.2	422.7	5,591.2		
Apr.	174.7	344.1	265.6	607.8	500.3	732.7	662.4	1,857.6	2,361.7	377.3	399.1	5,627.3		
May	170.5	346.2	269.1	618.8	487.8	730.8	660.2	1,880.1	2,393.8	379.8	394.9	5,662.0		
June	176.3	341.6	270.8	625.6	484.0	737.0	668.6	1,908.9	2,428.2	381.6	398.0	5,715.7		
July	175.5	322.1	270.0	619.5	484.1	734.7	685.4	1,928.5	2,457.8	362.2	406.8	5,704.5		
Aug.	177.6	313.4	271.1	633.5	470.3	715.5	690.5	1,947.2	2,481.1	361.5	404.2	5,710.3		
Sep.	178.6	313.1	276.7	644.8	468.5	743.2	706.3	1,967.3	2,518.5	347.8	405.7	5,792.0		
Oct.	183.4	312.3	278.6	654.7	463.3	729.3	702.1	1,981.4	2,533.0	349.3	408.7	5,797.3		
Nov.	187.4	317.2	293.0	666.9	472.9	721.8	707.9	1,993.8	2,554.6	343.5	411.8	5,853.4		
Dec.	196.6	322.6	301.3	677.5	474.3	732.3	725.1	2,014.9	2,578.6	356.8	443.2	5,921.8		
<b>2008</b>														
Jan.	183.2	315.3	303.4	681.7	467.8	723.1	738.3	2,026.0	2,589.6	350.3	432.9	5,919.9		
Feb.	179.3	317.0	306.3	680.4	461.5	721.9	759.4	2,036.8	2,610.9	347.1	428.2	5,955.8		
Mar.	184.8	335.3	310.9	699.3	464.0	747.4	774.5	2,056.2	2,632.4	332.3	431.3	6,049.6		
Apr.	289.8	340.0	311.1	694.3	472.9	759.1	781.5	2,076.6	2,654.1	344.4	539.3	6,107.9		
May	283.0	349.4	322.0	697.3	464.1	755.6	793.5	2,091.6	2,681.0	343.1	537.8	6,151.2		
June	283.1	358.5	326.0	702.0	457.6	770.7	809.2	2,114.0	2,711.4	360.8	550.3	6,229.0		

<sup>1</sup> Excluding loans to unincorporated bodies such as partnerships, sole proprietors and non-profit institutions. Loans to such bodies are classified by their main activity.

<sup>2</sup> Includes loans to agriculture and fishing, mining and quarrying, public administration, education, health and social work, financial intermediation (including interbank loans), community, recreational and personal service activities and extra-territorial bodies and organisations.



## Monetary, Banking, Investment Funds and Financial Markets

Table 1.12 Other monetary financial institutions' loans by sector

End of Period	Lending to residents of Malta <sup>1</sup>										Lending to non-residents of Malta		Total lending
	General government <sup>2</sup>	Monetary financial institutions	Insurance companies and pension funds	Other financial intermediaries & financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total	Other euro area residents		Non-residents of the euro area			
								Total					
2003	208.4	774.6	5.7	8.1	2,579.1	1,647.9	5,223.8	1,118.2	3,904.7	10,246.7			
2004	129.4	625.7	7.3	8.2	2,686.8	1,903.2	5,360.7	1,756.2	4,044.9	11,161.7			
2005	123.5	648.6	16.7	13.3	2,738.2	2,166.4	5,706.7	1,955.8	6,379.0	14,041.5			
2006	118.4	739.4	20.0	14.9	3,092.7	2,542.9	6,528.2	2,348.2	8,601.4	17,477.8			
<b>2007</b>													
Jan.	120.8	842.4	19.6	13.9	3,089.4	2,568.0	6,654.0	2,391.9	8,915.3	17,961.2			
Feb.	124.7	848.5	19.6	14.0	3,089.2	2,591.5	6,687.5	2,298.7	9,256.0	18,242.2			
Mar.	125.6	818.4	19.9	16.0	3,139.2	2,656.2	6,775.2	2,266.0	10,723.6	19,764.9			
Apr.	119.2	702.7	23.0	23.7	3,125.4	2,678.1	6,672.0	2,602.6	10,711.1	19,985.7			
May	120.5	795.9	24.5	22.7	3,123.5	2,708.6	6,795.7	2,730.7	11,765.8	21,292.3			
June	121.3	732.8	24.0	33.9	3,137.2	2,750.2	6,799.3	2,482.8	13,131.5	22,413.6			
July	121.1	815.6	23.6	20.8	3,120.9	2,781.3	6,883.5	2,688.4	13,125.0	22,696.9			
Aug.	123.1	888.6	23.3	17.9	3,108.1	2,798.6	6,959.7	2,783.1	13,885.4	23,628.3			
Sep.	124.9	920.2	18.8	18.1	3,171.1	2,834.0	7,087.2	2,946.1	14,387.7	24,421.0			
Oct.	124.8	879.1	19.2	18.9	3,160.6	2,852.1	7,054.7	2,596.1	14,041.9	23,692.7			
Nov.	124.0	1,547.8	19.0	17.9	3,200.7	2,873.5	7,782.8	2,344.0	14,167.8	24,294.6			
Dec.	126.8	1,557.8	23.0	21.0	3,265.6	2,898.4	7,892.6	2,439.4	15,373.9	25,706.0			
<b>2008</b>													
Jan.	127.2	527.6	19.3	15.8	3,259.6	2,899.7	6,849.1	2,587.7	16,378.8	25,815.6			
Feb.	119.9	532.2	21.8	15.3	3,267.4	2,927.7	6,884.4	2,777.1	16,677.6	26,339.0			
Mar.	107.9	577.1	21.5	11.2	3,348.2	2,960.3	7,026.2	2,871.0	16,178.8	26,075.9			
Apr.	108.5	596.9	21.4	15.9	3,482.2	2,979.6	7,204.6	2,860.1	16,451.0	26,515.7			
May	108.6	595.9	22.0	14.9	3,499.5	3,009.6	7,250.5	2,980.0	16,844.9	27,075.4			
June	109.8	568.4	21.8	16.4	3,537.5	3,041.7	7,295.6	3,087.9	17,767.0	28,150.5			

<sup>1</sup> For the purposes of this table, loans include deposits.

<sup>2</sup> Including extra-budgetary units.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.13 Other monetary financial institutions' loans by currency and original maturity to residents of Malta**

End of period	Lending to residents of Malta <sup>1</sup>														Total lending	
	Non-financial corporations						Households & non-profit institutions						Other sectors			
	MTL <sup>2</sup>		EUR		Other		MTL <sup>2</sup>		EUR		Other		MTL <sup>2</sup>	EUR		
	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	Less than 1 year	Over 1 year		
2003	1,041.2	1,404.6	9.5	82.7	14.9	26.3	194.5	1,439.6	0.5	10.0	1.1	2.1	907.9	65.1	23.8	5,223.8
2004	961.0	1,546.5	25.9	92.5	21.4	39.5	213.4	1,671.6	0.8	10.6	4.1	2.8	687.1	62.3	21.1	5,360.7
2005	860.7	1,568.3	17.3	263.3	18.5	10.2	204.2	1,943.2	1.4	15.0	0.1	2.4	696.7	86.4	19.0	5,706.7
2006	905.7	1,689.6	69.9	395.1	21.1	11.3	218.5	2,289.2	2.3	29.6	0.1	3.1	713.6	156.9	22.1	6,528.2
<b>2007</b>																
Jan.	892.2	1,697.8	68.4	394.9	24.8	11.2	212.8	2,319.5	2.4	29.8	0.2	3.3	807.7	171.4	17.6	6,654.0
Feb.	876.1	1,716.2	67.9	394.7	23.2	11.1	210.8	2,343.6	3.3	29.9	0.6	3.3	815.2	175.3	16.3	6,687.5
Mar.	881.1	1,752.9	68.7	399.2	25.8	11.4	231.8	2,387.9	1.5	31.2	0.7	3.1	780.4	180.6	18.9	6,775.2
Apr.	857.1	1,737.5	73.9	421.4	24.2	11.3	233.1	2,408.5	1.5	31.2	0.7	3.0	674.9	177.9	15.8	6,672.0
May	839.3	1,757.5	69.7	418.0	27.7	11.2	234.1	2,441.9	1.6	27.5	0.5	3.1	763.2	184.4	16.0	6,795.7
June	848.9	1,755.5	72.2	413.1	36.1	11.2	234.9	2,481.3	1.6	28.8	0.5	3.0	703.8	177.4	30.7	6,799.3
July	815.5	1,773.1	75.7	412.6	33.2	10.8	236.2	2,508.9	1.5	30.9	0.8	3.0	778.7	181.5	21.0	6,883.5
Aug.	806.8	1,763.5	77.6	417.8	31.7	10.8	238.4	2,522.6	1.6	32.5	0.6	2.9	855.0	181.0	17.1	6,959.7
Sep.	835.4	1,784.2	79.5	428.2	33.1	10.6	250.4	2,543.6	2.1	30.5	4.8	2.7	881.4	174.1	26.6	7,087.2
Oct.	828.8	1,779.7	80.2	429.0	32.4	10.4	247.5	2,564.2	2.4	30.7	4.7	2.6	851.6	168.2	22.3	7,054.7
Nov.	834.6	1,801.1	90.1	430.8	33.8	10.3	243.3	2,587.5	2.0	32.2	4.9	3.5	968.2	735.7	4.7	7,782.8
Dec.	858.3	1,802.5	108.1	450.0	36.6	10.2	241.5	2,616.0	2.0	34.4	1.0	3.5	963.8	744.6	20.3	7,892.6
<b>2008</b>																
Jan.			940.2	2,268.3	39.4	11.7			239.2	2,656.4	0.6	3.5		663.5	26.3	6,849.1
Feb.			927.1	2,290.7	36.7	13.0			243.4	2,680.2	0.8	3.4		666.8	22.4	6,884.4
Mar.			969.5	2,328.6	35.3	14.8			246.9	2,709.3	0.7	3.4		647.5	70.2	7,026.2
Apr.			978.5	2,450.1	39.2	14.3			249.8	2,725.9	0.6	3.3		686.7	56.1	7,204.6
May			979.2	2,463.4	42.0	14.9			255.4	2,750.1	0.8	3.3		688.4	52.9	7,250.5
June			983.2	2,482.3	49.7	22.3			259.9	2,777.8	0.9	3.2		686.9	29.5	7,295.6

<sup>1</sup> For the purposes of this table, loans include deposits.

<sup>2</sup> Maltese lira-denominated loans were redenominated as euro loans from the beginning of 2008.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.14 Aggregated statement of assets and liabilities - investment funds<sup>1</sup> (assets)**

EUR millions

End of period	Deposits	Holdings of securities other than shares		Holdings of shares and other equity		External assets <sup>2</sup>	Fixed and other assets <sup>3</sup>	Total assets
		Up to 1 year	Over 1 year	Collective investment scheme shares/units	Other shares and equity			
2003	17.4	54.4	419.5	3.4	114.1	220.9	22.9	852.7
2004	11.7	61.0	467.0	5.0	160.3	272.0	25.5	1,002.5
2005	52.1	34.5	624.0	7.9	232.4	331.0	32.7	1,314.6
2006	16.0	50.9	690.2	7.0	204.4	373.0	16.6	1,358.0
<b>2007</b>								
Mar.	21.0	13.0	689.0	7.0	201.0	366.0	14.0	1,311.0
June	7.3	7.3	570.6	6.3	199.3	349.0	31.1	1,170.8
Sep.	8.9	4.2	517.3	6.4	129.3	325.3	14.2	1,005.6
Dec.	21.4	3.4	498.8	6.3	126.6	317.3	11.9	985.7
<b>2008</b>								
Mar.	17.8	0.0	483.9	5.8	113.7	288.5	12.5	922.2
Jun.	16.0	0.0	438.8	4.9	104.7	276.0	11.3	851.6

**Table 1.14 Aggregated statement of assets and liabilities - investment funds<sup>1</sup> (liabilities)**

EUR millions

End of period	Loans	Shareholders' units/funds <sup>4</sup>	External liabilities <sup>5</sup>	Other liabilities <sup>6</sup>	Total liabilities
2003	0.7	843.9	6.3	1.7	852.7
2004	0.5	994.5	3.0	4.5	1,002.5
2005	0.2	1,303.9	3.1	7.3	1,314.6
2006	0.4	1,346.1	7.9	3.6	1,358.0
<b>2007</b>					
Mar.	0.0	1,296.0	7.0	7.0	1,311.0
June	16.8	1,141.0	7.4	5.7	1,170.8
Sep.	1.8	992.6	7.2	4.1	1,005.6
Dec.	0.3	975.7	6.6	3.1	985.7
<b>2008</b>					
Mar.	0.7	910.2	6.6	4.7	922.2
Jun.	1.8	840.7	6.2	2.9	851.6

<sup>1</sup> 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.

<sup>2</sup> Includes deposits, securities other than shares, shares and other equity, debtors and other assets with non-resident counterparties.

<sup>3</sup> Includes debtors, currency (both euro and foreign), prepayments and other assets.

<sup>4</sup> Includes share capital and reserves.

<sup>5</sup> Includes loans, creditors, accruals, shareholders' units/ funds and other liabilities to non-resident counterparties.

<sup>6</sup> Includes creditors, accruals and other liabilities.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.15 Monetary policy operations of the Central Bank of Malta<sup>1</sup>**

EUR thousands

Period	Liquidity-injection				Liquidity-absorption			
	Reverse repos <sup>2</sup>			Marginal lending during the period <sup>3</sup>	Term deposits <sup>4</sup>			Overnight deposits <sup>5</sup>
	Amount injected	Amount matured	Amount outstanding		Amount absorbed	Amount matured	Amount outstanding	
2003	-	-	-	2,329	8,197,531	8,196,832	242,954	247,845
2004	-	-	-	13,520	6,282,017	6,476,054	48,917	202,306
2005	-	-	-	26	866,527	930,585	109,015	37,037
<b>2006</b>								
Jan.	-	-	-	531	856,976	731,423	234,568	2,562
Feb.	-	-	-	54	1,033,077	985,791	281,854	122,176
Mar.	-	-	-	373	1,103,424	1,201,258	184,020	29,816
Apr.	-	-	-	-	704,868	727,463	161,426	-
May	-	-	-	182	692,290	671,791	181,924	2,096
June	-	-	-	-	1,379,688	1,219,194	342,418	43,093
July	-	-	-	-	1,392,732	1,411,367	323,783	-
Aug.	-	-	-	61	1,487,771	1,392,732	418,821	14,675
Sep.	-	-	-	100	1,717,680	1,783,601	352,900	80,363
Oct.	-	-	-	-	1,341,952	1,339,623	355,229	8,153
Nov.	-	-	-	-	1,324,948	1,373,399	306,778	37,503
Dec.	-	-	-	6,988	1,448,637	1,506,872	248,544	20,498
<b>2007</b>								
Jan.	-	-	-	-	1,082,693	1,034,242	296,995	38,435
Feb.	-	-	-	-	1,257,862	1,247,147	307,710	21,430
Mar.	-	-	-	1,398	1,469,602	1,498,253	279,059	20,266
Apr.	-	-	-	-	863,965	971,815	171,209	-
May	-	-	-	-	756,580	769,392	158,397	24,225
June	-	-	-	-	1,065,455	1,058,467	165,386	191,148
July	-	-	-	-	903,564	855,812	213,138	16,771
Aug.	-	-	-	-	1,227,347	1,156,301	284,184	42,860
Sep.	-	-	-	-	1,121,593	1,092,010	313,767	44,258
Oct.	-	-	-	-	1,224,319	1,251,572	286,513	16,306
Nov.	-	-	-	-	1,835,080	1,694,153	427,440	56,441
Dec.	-	-	-	466	1,592,127	1,688,097	331,470	81,761

<sup>1</sup> The information shown in this table represents the position till end-2007. As from January 2008, the Central Bank of Malta conducts monetary operations as part of the Eurosystem monetary policy operational framework.

<sup>2</sup> The Central Bank of Malta used to inject liquidity into the banking system through an auction of reverse repos in the event of a liquidity shortage. With effect from 15 September 2005, the maturity period of reverse repos used to be 7 days.

<sup>3</sup> The Central Bank of Malta used to provide a marginal lending facility to credit institutions in order to satisfy their liquidity needs arising from normal banking business.

<sup>4</sup> The Central Bank of Malta used to accept placements of term deposits by credit institutions, through auctions, in order to absorb excess liquidity from the banking system. Up to 14 September 2005 the maturity period of such deposits was 14 days. Thereafter the maturity period was reduced to 7 days.

<sup>5</sup> The Central Bank of Malta used to provide an overnight deposit facility to credit institutions to absorb temporary liquidity excesses that could not be taken up by the market.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.16 Monetary financial institutions' interest rates on deposits and loans to residents of Malta<sup>1</sup>**

% per annum, end of period	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun
<b>NEW BUSINESS</b>								
<b>Deposits</b>								
Households and NPISH								
Overnight deposits <sup>2,3</sup>	1.15	1.34	1.35	1.36	1.36	1.28	1.27	1.26
Savings deposits redeemable at notice <sup>2,4</sup>								
up to 3 months	2.66	2.89	3.04	3.18	3.09	3.10	3.11	3.10
Time deposits with agreed maturity								
up to 1 year	3.70	3.81	3.96	3.95	3.83	3.85	3.87	3.91
over 1 and up to 2 years	4.21	4.46	4.42	4.21	4.61	4.44	5.12	4.57
over 2 years	3.92	3.56	4.12	4.29	4.27	4.37	4.51	4.46
Non-financial corporations								
Overnight deposits <sup>2,3</sup>	1.24	1.17	1.35	1.37	1.46	1.42	1.44	1.44
Time deposits with agreed maturity	3.63	4.05	4.35	4.29	4.30	4.25	4.18	4.38
<b>Loans</b>								
Households and NPISH								
Overdrafts <sup>2</sup>	7.60	7.82	7.84	7.90	7.65	7.64	7.62	7.61
Loans								
Lending for house purchase	5.12	5.40	5.42	5.43	4.86	5.00	4.95	5.09
Consumer credit <sup>6</sup>	6.96	6.92	7.26	6.94	6.96	6.68	6.74	6.51
Other lending	6.87	7.11	6.97	6.54	6.84	6.49	6.39	6.85
Non-financial corporations								
Overdrafts <sup>2</sup>	6.43	6.54	6.48	6.41	6.25	6.07	6.08	6.04
Loans <sup>6</sup>	5.83	6.08	6.11	5.93	5.27	6.24	6.11	6.02
APRC <sup>5</sup> for loans to households and NPISH								
Lending for house purchase	N/A	N/A	N/A	N/A	5.37	5.30	5.18	5.25
Consumer credit <sup>6</sup>	N/A	N/A	N/A	N/A	7.06	6.75	6.88	6.77
<b>OUTSTANDING AMOUNTS</b>								
<b>Deposits</b>								
Households and NPISH								
Time deposits with agreed maturity								
up to 2 years	3.58	3.78	3.89	4.00	4.05	4.05	4.06	4.06
over 2 years	3.16	3.12	3.07	3.10	3.13	3.14	3.16	3.14
Non-financial corporations								
Time deposits with agreed maturity								
up to 2 years	3.67	3.89	4.13	4.20	4.20	4.26	4.29	4.34
over 2 years	4.04	4.04	4.04	4.07	3.36	3.36	3.40	3.40
<b>Loans</b>								
Households and NPISH								
Lending for house purchase	5.26	5.49	5.49	5.49	5.24	5.24	5.23	5.22
Consumer credit and other lending <sup>7</sup>	7.04	7.39	7.37	7.31	7.07	7.07	7.07	7.07
Non-financial corporations <sup>7</sup>	6.11	6.25	6.33	6.37	6.09	6.07	6.04	6.10

<sup>1</sup> Annualised agreed rates (AAR) on euro-denominated loans and deposits vis-à-vis households and non-financial corporations with residents of Malta (data before 2008 also include rates on business denominated in Maltese lira). The AAR is the rate agreed between the customer and the bank, and takes into consideration all interest (excluding fees and other charges) on the deposits and loans concerned.

<sup>2</sup> For these instrument categories, interest rates are compiled on outstanding amounts but treated as new business indicators due to the large number of inflows and outflows.

<sup>3</sup> Overnight deposits include current accounts and savings withdrawable on demand.

<sup>4</sup> Households and non-financial corporations are merged, since deposits in this category held by non-financial corporations are negligible.

<sup>5</sup> The Annual Percentage Rate of Charge covers the total cost of a loan, comprising the interest rate component and other (related) charges, such as the costs for inquiries, administration, preparation of documents, guarantees, credit insurance and fees.

<sup>6</sup> Excludes bank overdrafts.

<sup>7</sup> Includes bank overdrafts.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.17 Monetary financial institutions' interest rates on deposits and loans to euro area residents<sup>1</sup>**

% per annum, end of period	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun
<b>NEW BUSINESS</b>								
<b>Deposits</b>								
Households and NPISH								
Overnight deposits <sup>2,3</sup>	1.15	1.34	1.35	1.36	1.36	1.28	1.27	1.26
Savings deposits redeemable at notice <sup>2,4</sup>								
up to 3 months	2.66	2.89	3.04	3.18	3.09	3.10	3.11	3.10
Time deposits with agreed maturity								
up to 1 year	3.70	3.81	3.96	3.95	3.83	3.85	3.87	3.91
over 1 and up to 2 years	4.21	4.46	4.42	4.21	4.61	4.44	5.12	4.57
over 2 years	3.92	3.56	4.12	4.29	4.27	4.37	4.51	4.46
Non-financial corporations								
Overnight deposits <sup>2,3</sup>	1.24	1.17	1.35	1.37	1.46	1.42	1.44	1.44
Time deposits with agreed maturity	3.63	4.05	4.35	4.29	4.30	4.25	4.18	4.38
<b>Loans</b>								
Households and NPISH								
Overdrafts <sup>2</sup>	7.60	7.82	7.84	7.90	7.65	7.64	7.62	7.61
Loans								
Lending for house purchase	5.12	5.40	5.42	5.43	4.86	5.00	4.95	5.09
Consumer credit <sup>6</sup>	6.96	6.92	7.26	6.94	6.96	6.68	6.74	6.51
Other lending	6.87	7.11	6.97	6.54	6.84	6.49	6.39	6.85
Non-financial corporations								
Overdrafts <sup>2</sup>	6.43	6.54	6.48	6.41	6.25	6.07	6.08	6.04
Loans <sup>6</sup>	5.83	6.08	6.11	5.93	5.27	6.24	6.11	6.02
APRC <sup>5</sup> for loans to households and NPISH								
Lending for house purchase	N/A	N/A	N/A	N/A	5.37	5.30	5.18	5.25
Consumer credit <sup>6</sup>	N/A	N/A	N/A	N/A	7.06	6.75	6.88	6.77
<b>OUTSTANDING AMOUNTS</b>								
<b>Deposits</b>								
Households and NPISH								
Time deposits with agreed maturity								
up to 2 years	3.58	3.78	3.89	4.00	4.05	4.05	4.06	4.06
over 2 years	3.16	3.12	3.07	3.10	3.13	3.14	3.16	3.14
Non-financial corporations								
Time deposits with agreed maturity								
up to 2 years	3.67	3.89	4.13	4.20	4.20	4.26	4.29	4.34
over 2 years	4.04	4.04	4.04	4.07	3.36	3.36	3.40	3.40
<b>Loans</b>								
Households and NPISH								
Lending for house purchase	5.26	5.49	5.49	5.49	5.24	5.24	5.23	5.22
Consumer credit and other lending <sup>7</sup>	7.04	7.39	7.37	7.31	7.07	7.07	7.07	7.07
Non-financial corporations <sup>7</sup>	6.11	6.25	6.33	6.37	6.09	6.07	6.04	6.10

<sup>1</sup> Annualised agreed rates (AAR) on euro-denominated loans and deposits vis-à-vis households and non-financial corporations with residents of Malta and other Monetary Union Member States (data before 2008 also include rates on business denominated in Maltese lira). The AAR is the rate agreed between the customer and the bank, and takes into consideration all interest (excluding fees and other charges) on the deposits and loans concerned.

<sup>2</sup> For these instrument categories, interest rates are compiled on outstanding amounts but treated as new business indicators due to the large number of inflows and outflows.

<sup>3</sup> Overnight deposits include current accounts and savings withdrawable on demand.

<sup>4</sup> Households and non-financial corporations are merged, since deposits in this category held by non-financial corporations are negligible.

<sup>5</sup> The Annual Percentage Rate of Charge covers the total cost of a loan, comprising the interest rate component and other (related) charges, such as the costs for inquiries, administration, preparation of documents, guarantees, credit insurance and fees.

<sup>6</sup> Excludes bank overdrafts.

<sup>7</sup> Includes bank overdrafts.

## Monetary, Banking, Investment Funds and Financial Markets

**Table 1.18 Key Central Bank of Malta, ECB and money market interest rates**

	2005	2006	2007				2008	
			Mar.	June	Sep.	Dec.	Mar.	June
<b>INTEREST RATES (%)<sup>1</sup></b>								
<b>Key ECB interest rates<sup>2</sup></b>								
Marginal lending facility	3.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00
Main refinancing operations - minimum bid rate	2.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Deposit facility	1.25	2.50	2.75	3.00	3.00	3.00	3.00	3.00
<b>Money market rates (period averages)</b>								
Overnight deposit (EONIA)	2.09	2.83	3.69	3.96	4.03	3.88	4.09	4.01
Rates for fixed term deposits (EURIBOR)								
1 month	2.14	2.94	3.84	4.10	4.43	4.71	4.30	4.47
3 months	2.18	3.08	3.89	4.15	4.74	4.85	4.60	4.94
6 months	2.23	3.23	4.00	4.28	4.75	4.82	4.59	5.09
1 year	2.33	3.44	4.11	4.51	4.72	4.79	4.59	5.36
<b>Central Bank of Malta<sup>2</sup></b>								
Central intervention rate	3.25	3.75	4.00	4.25	4.25	4.00		
Money market intervention rates:								
Term deposit rate	3.20	3.70	3.95	4.20	4.20	3.95		
Reverse repo rate	3.30#	3.80#	4.05#	4.30#	4.30#	4.05#		
Rate on standby (collateralised) loans	4.25	4.75	5.00	5.25	5.25	5.00		
Rate on overnight deposits	2.25	2.75	3.00	3.25	3.25	3.00		
Remuneration on required reserves	3.00	3.50	3.75	4.00	4.00	4.00		

<sup>1</sup> End of month rates unless otherwise indicated.

<sup>2</sup> As from 1 January 2008, the Central Bank of Malta ceased to declare interest rates for its operations. The financial market interest rates shown from that date are the key interest rates determined by the ECB for central bank operations throughout the euro area.

Note: # denotes the corridor linked to the central intervention rate.

## Monetary, Banking, Investment Funds and Financial Markets

Table 1.19 Other rates and indicators

	2005	2006	2007				2008	
			Mar.	June	Sep.	Dec.	Mar.	June
<b>INTEREST RATES (%)<sup>1</sup></b>								
<b>Other monetary financial institutions<sup>2</sup></b>								
Weighted average deposit rate	2.13	2.37	2.62	2.77	2.90	3.00	2.96	2.95
Current deposits	0.45	0.57	0.69	0.72	0.78	0.78	0.83	0.77
Savings deposits	1.17	1.17	1.41	1.62	1.72	1.73	1.67	1.62
Time deposits	2.97	3.27	3.51	3.69	3.80	3.96	3.92	3.95
Weighted average lending rate	5.51	5.90	6.11	6.34	6.33	6.30	5.96	5.95
Non-financial companies	5.99	6.34	6.57	6.81	6.80	6.74	6.28	6.22
Households and individuals	4.95	5.38	5.54	5.81	5.81	5.80	5.57	5.57
Consumer credit	6.70	7.42	7.13	7.82	7.84	7.84	7.65	7.69
House purchase	4.49	4.95	5.18	5.39	5.39	5.39	5.15	5.13
Other lending	6.11	6.46	6.66	6.83	6.80	6.74	6.49	6.53
<b>Government securities</b>								
Treasury bills (primary market) <sup>3</sup>								
1 month	-	3.51	-	4.30	-	4.32	4.18	4.25
3 month	3.22	3.91	4.18	4.36	4.37	4.35	4.27	4.94
6 month	3.23	4.00	4.24	4.31	4.54	4.54	4.33	5.04
1 year	3.22	4.20	-	4.26	4.53	4.39	-	-
Treasury bills (secondary market)								
1 month	3.20	3.75	3.99	4.30	4.33	4.32	4.24	4.29
3 month	3.22	3.90	4.18	4.36	4.37	4.35	4.27	4.94
6 month	3.27	4.00	4.24	4.47	4.54	4.54	4.33	5.04
1 year	3.32	4.20	4.26	4.70	4.61	4.58	4.51	5.19
<b>Government long-term debt securities (period averages)</b>								
2 year	3.30	4.18	4.32	4.95	4.68	4.54	4.00	5.27
5 year	3.65	4.17	4.31	5.03	4.76	4.61	4.06	5.27
10 year	4.38	4.33	4.38	5.12	4.85	4.81	4.49	5.26
15 year	4.96	4.48	4.54	5.16	5.17	5.10	4.97	5.60
<b>MALTA STOCK EXCHANGE SHARE INDEX</b>	4,981	4,873	4,815	4,809	4,878	4,938	4,650	4,275

<sup>1</sup> End of month rates unless otherwise indicated.

<sup>2</sup> Rates agreed between the OMFI and its customer; weighted averages are calculated by multiplying the outstanding amount of each agreement by the interest rate applied thereto and dividing by the total amount. Interest rates paid and charged by MFIs in Malta reported according to harmonised definitions established by the ECB are shown in Tables 1.16 and 1.17.

<sup>3</sup> '-' denotes that no transactions occurred during the reference period.



## Government Finance

**Table 2.1 General government revenue and expenditure<sup>1</sup>**

EUR millions

Period	Revenue			Expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+) <sup>2</sup>
	Current	Capital	Total	Current	Capital	Total		
2003	1640.2	23.6	1663.8	1746.3	349.8	2096.1	-432.2	-282.67
2004	1745.1	89.4	1834.5	1843.3	203.7	2047.0	-212.6	-48.48
2005	1834.8	173.0	2007.9	1907.4	235.9	2143.3	-135.4	42.44
2006	1935.9	169.3	2105.2	1990.8	231.0	2221.8	-116.6	63.12
2007	2127.6	72.7	2200.3	2083.1	213.6	2296.7	-96.4	85.66
<b>2007</b>								
Mar.	508.0	9.2	517.1	496.2	53.9	550.0	-32.9	21.03
June	506.3	12.2	518.6	502.4	54.8	557.2	-38.7	-5.72
Sep.	486.3	20.7	507.0	505.3	38.1	543.4	-36.4	6.81
Dec.	627.0	30.6	657.6	579.2	66.8	646.0	11.6	63.53
<b>2008</b>								
Mar.	527.7	3.3	531.0	573.8	71.0	644.8	-113.9	-72.00
June	532.2	10.5	542.7	573.4	36.1	609.5	-66.8	-19.75

**Table 2.2 General government revenue by main components<sup>1</sup>**

EUR millions

Period	Current revenue							Capital revenue			Total	Memo: Fiscal burden <sup>3</sup>
	Direct taxes	Indirect taxes	Social security contributions	Sales	Property income	Other	Total	Capital taxes	Capital transfers	Total		
2003	519.6	566.1	349.6	82.1	110.0	12.8	1640.2	6.2	17.4	23.6	1,663.8	1441.6
2004	502.4	657.9	360.3	99.8	98.2	26.4	1745.1	9.4	80.1	89.4	1,834.5	1529.9
2005	559.5	718.2	380.2	93.6	69.5	13.9	1834.8	17.5	155.5	173.0	2,007.9	1675.3
2006	609.8	759.3	389.8	95.4	63.5	18.2	1935.9	14.7	154.7	169.3	2,105.2	1773.4
2007	726.0	800.2	398.3	107.7	73.6	21.8	2127.6	15.7	57.0	72.7	2,200.3	1940.1
<b>2007</b>												
Mar.	153.9	179.7	106.0	27.5	37.2	3.7	508.0	3.9	5.3	9.2	517.1	443.5
June	180.8	189.6	93.6	29.5	8.5	4.4	506.3	4.1	8.1	12.2	518.6	468.1
Sep.	135.7	210.8	94.7	24.0	12.9	8.2	486.3	3.6	17.0	20.7	507.0	444.7
Dec.	255.6	220.2	104.0	26.7	15.0	5.5	627.0	4.0	26.6	30.6	657.6	583.9
<b>2008</b>												
Mar.	146.3	190.6	109.8	32.0	45.9	3.1	527.7	2.7	0.6	3.3	531.0	449.4
June	190.7	199.1	104.3	25.4	7.9	4.7	532.2	3.8	6.7	10.5	542.7	498.0

<sup>1</sup> Based on ESA95 methodology. Data are provisional.

<sup>2</sup> Deficit(-)/surplus(+) excluding interest paid.

<sup>3</sup> The fiscal burden comprises taxes and social security contributions.

Sources: Eurostat; NSO.

## Government Finance

**Table 2.3 General government expenditure by main components<sup>1</sup>**

EUR millions

Period	Current expenditure							Capital expenditure			Total
	Compensation of employees	Social benefits	Interest	Intermediate consumption	Subsidies	Other	Total	Investment	Capital transfers	Total <sup>2</sup>	
2003	647.2	580.3	149.6	220.8	95.6	52.8	1,746.3	206.8	139.4	349.8	2,096.1
2004	658.5	599.0	164.1	249.6	86.0	86.1	1,843.3	177.6	34.8	203.7	2,047.0
2005	668.3	642.2	177.8	240.2	98.8	80.1	1,907.4	233.8	40.8	235.9	2,143.3
2006	678.4	666.0	179.7	292.5	95.9	78.2	1,990.8	211.7	37.6	231.0	2,221.8
2007	705.0	699.0	182.1	290.6	109.1	97.2	2,083.1	217.0	29.9	213.6	2,296.7
<b>2007</b>											
Mar.	172.9	169.4	53.9	57.3	21.1	21.6	496.2	52.3	6.1	53.9	550.0
June	176.9	184.3	32.9	67.3	24.0	17.0	502.4	70.7	9.7	54.8	557.2
Sep	178.8	166.2	43.2	65.2	26.4	25.5	505.3	38.3	5.0	38.1	543.4
Dec.	176.4	179.2	52.0	100.9	37.7	33.1	579.2	55.7	9.2	66.8	646.0
<b>2008</b>											
Mar.	191.3	191.4	41.9	90.4	32.3	26.4	573.8	54.2	10.6	71.0	644.8
June	191.1	200.9	47.1	84.9	32.1	17.3	573.4	31.2	4.2	36.1	609.5

<sup>1</sup> Based on ESA95 methodology. Data are provisional.

<sup>2</sup> Includes acquisitions less disposals of non-financial non-produced assets.

Sources: Eurostat; NSO.

**Table 2.4 General government expenditure by function<sup>1</sup>**

EUR millions

Period	General public services	Defence	Public order & safety	Economic affairs	Environ. protection	Housing & community amenities	Health	Recreation, culture & religion	Education	Social protection	Total
2003	274.1	38.2	76.8	444.5	39.0	64.9	268.9	25.1	268.4	596.2	2,096.1
2004	349.0	44.7	75.0	305.6	42.8	49.8	276.9	27.6	257.9	617.7	2,047.0
2005	324.0	45.0	76.6	307.3	70.4	39.7	311.9	30.3	272.1	665.9	2,143.3
2006	342.2	39.5	76.1	287.3	84.7	41.0	326.6	28.8	281.9	713.6	2,221.8

<sup>1</sup> Based on Classification of Functions of Government (COFOG). Data are provisional.

Sources: Eurostat; NSO.

## Government Finance

**Table 2.5 General government deficit-debt adjustment<sup>1</sup>**

EUR millions

Period	Change in debt	Deficit (-)/ surplus (+)	Deficit-debt adjustment							
			Transactions in main financial assets				Valuation effects	Other changes in volume	Other <sup>2</sup>	Total
			Currency and deposits	Loans	Debt securities	Shares and other equity				
2003	469.6	-432.2	155.8	-58.3	0.0	2.6	-6.7	0.0	-56.1	37.4
2004	210.1	-212.6	-1.9	-5.5	0.0	-1.4	-12.1	-2.9	21.4	-2.4
2005	106.0	-135.4	74.9	0.0	0.0	-55.6	-29.3	0.0	-19.4	-29.4
2006	-101.9	-116.6	37.3	-2.8	0.0	-222.2	-1.2	-0.1	-29.5	-218.5
2007	117.0	-96.4	26.5	0.8	0.0	-29.1	-6.2	0.0	28.6	20.6

<sup>1</sup> Based on ESA95 methodology. Data are provisional.

<sup>2</sup> 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**

EUR millions

Period	Coins issued	Debt securities			Loans			Total general government debt <sup>1</sup>	Government guaranteed debt <sup>2</sup>
		Short-term	Long-term	Total	Short-term	Long-term	Total		
2003	-	541.1	2,112.9	2,654.0	131.5	253.7	385.3	3,039.2	527.2
2004	-	571.5	2,355.8	2,927.3	84.5	237.5	322.0	3,249.3	609.3
2005	-	443.1	2,614.4	3,057.5	76.8	221.1	297.8	3,355.3	631.3
2006	-	373.8	2,617.4	2,991.2	24.3	237.9	262.2	3,253.4	580.7
<b>2007</b>									
Mar.	-	399.9	2,618.0	3,017.9	25.0	234.5	259.5	3,277.4	560.0
June	-	457.0	2,695.3	3,152.3	25.1	233.9	259.1	3,411.4	603.8
Sep.	-	368.2	2,695.3	3,063.5	27.1	234.1	261.2	3,324.7	616.3
Dec.	-	354.9	2,753.3	3,108.3	24.8	237.4	262.2	3,370.4	628.4
<b>2008</b>									
Mar.	23.3	340.6	2,753.4	3,093.9	19.7	218.7	238.4	3,355.6	688.3
June	26.7	419.7	2,843.8	3,263.5	19.1	218.7	237.8	3,528.0	695.0

<sup>1</sup> In line with the Maastricht criterion, 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.

<sup>2</sup> Represents outstanding balances on general government guaranteed debt.

Sources: Eurostat; NSO.

## Government Finance

**Table 2.7 Treasury bills issued and outstanding<sup>1</sup>**

EUR millions

End of period	Amount maturing during period	Amount issued in primary market and taken up by			Amount outstanding <sup>3</sup> and held by		
		OMFIs	Others <sup>2</sup>	Total	MFIs	Others <sup>2</sup>	Total
2003	1,660.0	1,415.5	289.8	1,705.3	461.8	79.2	541.1
2004	1,387.7	1,170.0	248.1	1,418.1	466.7	104.8	571.5
2005	1,204.7	831.0	245.3	1,076.3	351.5	91.5	443.0
2006	992.0	522.5	400.2	922.7	249.7	124.2	373.9
<b>2007</b>							
Jan.	39.1	7.0	3.3	10.3	247.4	97.6	345.0
Feb.	118.0	113.0	32.7	145.6	281.2	91.5	372.7
Mar.	76.2	88.5	14.9	103.5	330.5	69.4	399.9
Apr.	12.5	38.4	25.9	64.3	364.9	86.8	451.7
May	139.1	62.9	34.2	97.1	322.4	87.2	409.7
June	134.1	136.3	45.2	181.5	363.0	94.0	457.0
July	139.7	75.7	54.6	130.3	349.3	98.3	447.6
Aug.	118.3	44.3	11.6	55.8	284.4	100.7	385.2
Sep.	95.9	60.6	18.4	79.0	261.9	106.3	368.2
Oct.	117.9	114.1	12.8	127.0	315.6	61.7	377.3
Nov.	91.6	66.7	26.7	93.3	299.8	79.2	379.0
Dec.	47.0	16.3	6.7	23.0	278.6	76.3	354.9
<b>2008</b>							
Jan.	59.9	0.0	6.1	6.1	231.3	69.8	301.1
Feb.	57.4	45.0	39.8	84.8	247.9	80.6	328.5
Mar.	61.8	41.0	32.9	73.9	232.1	108.5	340.6
Apr.	95.9	45.0	62.0	107.0	211.6	140.0	351.6
May	94.3	53.5	51.1	104.6	212.3	146.8	359.1
June	48.4	46.0	63.0	109.0	226.5	193.2	419.7

<sup>1</sup> Amounts are at nominal prices.

<sup>2</sup> Includes the Malta Government sinking fund.

<sup>3</sup> On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million (€232.9m) to Lm200 million (€465.9m), and on 27 November 2002 this was raised further to Lm300 million (€698.8m).

Sources: Central Bank of Malta; The Treasury.

## Government Finance

**Table 2.8 Treasury bills issued and outstanding (as at end-June 2008)<sup>1</sup>**

EUR 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 <sup>3</sup>
				OMFIs	Others <sup>2</sup>	MFIs	Others <sup>2</sup>	
04/04/2008	04/07/2008	4.30	N/A <sup>4</sup>	8.0	10.8	10.2	8.6	18.8
13/07/2007	11/07/2008	4.53	4.11	0.0	2.2	1.1	1.1	2.2
12/10/2007	11/07/2008	4.57	4.11	7.0	1.2	7.1	1.1	8.2
11/01/2008	11/07/2008	4.33	4.11	0.0	0.7	0.0	0.7	0.7
18/04/2008	18/07/2008	4.50	4.18	3.0	13.2	3.0	13.2	16.2
25/04/2008	25/07/2008	4.64	4.26	6.0	13.8	6.1	13.7	19.8
01/02/2008	01/08/2008	4.27	4.33	18.0	2.6	18.4	2.2	20.6
02/05/2008	01/08/2008	4.61	4.33	5.0	12.5	5.0	12.5	17.5
09/11/2007	08/08/2008	4.58	4.40	37.3	1.8	37.4	1.6	39.1
16/05/2008	14/08/2008	4.67	4.46	3.0	26.3	3.7	25.6	29.3
29/02/2008	29/08/2008	4.31	4.62	17.0	6.4	17.1	6.3	23.4
06/06/2008	05/09/2008	4.81	4.69	10.5	29.3	10.5	29.3	39.8
13/06/2008	12/09/2008	4.89	4.77	12.5	15.8	12.5	15.8	28.3
20/03/2008	19/09/2008	4.33	4.84	3.0	6.9	3.0	6.9	9.9
27/06/2008	26/09/2008	4.94	4.91	5.0	13.1	5.0	13.1	18.1
11/01/2008	10/10/2008	4.37	4.95	0.0	3.4	0.0	3.4	3.4
11/04/2008	10/10/2008	4.58	4.95	23.0	20.5	23.0	20.5	43.5
09/05/2008	07/11/2008	4.58	4.99	0.0	3.6	0.0	3.6	3.6
23/11/2007	21/11/2008	4.39	5.00	0.0	0.4	0.0	0.4	0.4
30/05/2008	28/11/2008	4.96	5.01	23.5	2.4	23.5	2.4	25.9
20/06/2008	19/12/2008	5.04	5.03	18.0	4.9	18.0	4.9	22.9
23/05/2008	20/02/2009	4.92	5.11	22.0	6.3	22.0	6.3	28.3
Total				221.8	198.0	226.5	193.2	419.7

<sup>1</sup> Amounts are at nominal prices.

<sup>2</sup> Includes the Malta Government sinking fund.

<sup>3</sup> On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million (€232.9m) to Lm200 million (€465.9m), and on 27 November 2002 this was raised further to Lm300 million (€698.8m).

<sup>4</sup> Rate is not available since Treasury bills are not tradable 7 days prior to maturity.

Sources: Central Bank of Malta; The Treasury.

## Government Finance

**Table 2.9 Malta government long-term debt securities outstanding (as at end-June 2008)<sup>1</sup>**

EUR millions

Coupon rate (%)	Year of maturity	Year of issue	Issue price <sup>4</sup>	ISMA Yield (%)	Interest dates	Held by		Amount
						MFIs	Others	
7.20	2008 (II)	1998	100	N/A <sup>5</sup>	28/02 - 28/08	54.3	15.6	69.9
7.00	2009 (I)	1999	100	5.18	30/06 - 30/12	0.0	0.2	0.2
5.90	2009 (II)	1999	100	5.19	01/03 - 01/09	46.7	11.5	58.2
5.90	2009 (III)	2000/2005	100/107.8	5.27	30/03 - 30/09	142.3	7.5	149.8
5.90	2010 (I)	1999	100	5.23	19/05 - 19/11	31.9	3.1	34.9
5.75	2010 (II)	2000	100	5.25	10/06 - 10/12	39.1	4.0	43.1
7.00	2010 (III) <sup>2</sup>	2000	100	5.25	30/06 - 30/12	0.0	1.3	1.3
5.40	2010 (IV)	2003/2004	100/104.5	5.23	21/02 - 21/08	55.6	56.2	111.8
7.50	2011 (I)	1996	100	5.21	28/03 - 28/09	18.0	17.0	34.9
6.25	2011 (II)	2001	100	5.22	01/02 - 01/08	50.3	42.9	93.2
7.00	2011 (III) <sup>2</sup>	2002	100	5.22	30/06 - 30/12	0.0	0.3	0.3
7.80	2012 (I)	1997	100	5.23	24/05 - 24/11	35.6	44.7	80.4
7.00	2012 (II) <sup>2</sup>	2002	100	5.24	30/06 - 30/12	0.0	0.4	0.4
5.70	2012 (III) F <sup>3</sup>	2005/2007	100 / 102.75 /103.85/105.95/	5.23	30/03 - 30/09	278.4	150.5	428.9
7.80	2013 (I)	1997	100	5.25	18/04 - 18/10	37.6	42.2	79.8
6.35	2013 (II)	2001	100	5.25	19/05 - 19/11	4.9	55.6	60.6
7.00	2013 (III)	2003	100	5.24	30/06 - 30/12	0.0	0.2	0.2
6.60	2014 (I)	2000	100	5.23	30/03 - 30/09	3.3	21.2	24.5
6.45	2014 (II)	2001	100	5.22	24/05 - 24/11	18.8	51.1	69.9
5.10	2014 (III)	03/04/06/07	100/103.25/ 103.64/105.5	5.22	06/01 - 06/07	52.3	139.9	192.2
5.10	2014 (III) F <sup>3</sup>	30/06/1905	100	5.22	06/01 - 06/07	50.9	10.3	61.2
7.00	2014 (IV) <sup>2</sup>	2004	100	5.22	30/06 - 30/12	0.0	4.0	4.0
6.10	2015 (I)	2000	100	5.23	10/06 - 10/12	23.3	46.6	69.9
5.90	2015 (II) F <sup>3</sup>	02/03/07	100/102/105	5.23	09/04 - 09/10	22.1	94.4	116.5
7.00	2015 (III)	2005	100	5.24	30/06 - 30/12	0.0	0.7	0.7
7.00	2015 (IV)	2005	100	5.24	03/05 - 03/11	0.0	0.8	0.8
6.65	2016 (I)	2001	100	5.24	28/03 - 28/09	8.3	61.6	69.9
4.80	2016 (II) F <sup>3</sup>	03/04/06	100/101/104	5.40	26/05 - 26/11	51.9	134.4	186.4
7.00	2016 (III)	2006	100	5.26	30/06 - 30/12	0.0	3.4	3.4
7.00	2017 (I)	2007	100	5.26	18/02 - 18/08	0.0	0.7	0.7
7.00	2017 (II)	2007	100	5.26	30/06 - 30/12	0.0	10.3	10.3
7.80	2018 (I)	1998	100	5.26	15/01 - 15/07	61.3	101.8	163.1
7.00	2018 (II) <sup>2</sup>	2008	100	5.26	18/04 - 18/10	0.0	0.3	0.3
7.00	2018 (III) <sup>2</sup>	2008	100	5.26	30/06 - 30/12	0.0	6.5	6.5
6.60	2019 (I)	1999	100	5.26	01/03 - 01/09	32.0	70.4	102.5
5.20	2020 (I)	2007	100	5.28	10/06 - 10/12	3.3	23.6	26.9
5.00	2021 F <sup>3</sup> /I/F <sup>3</sup>	2004/2005/2007	98.5/100	5.41	08/02 - 08/08	33.0	266.1	299.1
5.00	2021 (I)	2008	100	5.41	08/02 - 08/08	25.8	19.8	45.7
5.10	2022 (I)	2004	100	5.52	16/02 - 16/08	2.7	68.3	71.0
5.50	2023 (I)	2003	100	5.63	06/01 - 06/07	1.7	77.1	78.8
<b>Total</b>						<b>1,185.5</b>	<b>1,666.4</b>	<b>2,851.8</b>

<sup>1</sup> Amounts are at nominal prices.

<sup>2</sup> 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 €110 per €100 nominal.

<sup>3</sup> 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.

<sup>4</sup> The price for new issues prior to 2008 is denominated in Maltese lira.

<sup>5</sup> ISMA yields are not available as securities were not listed on the MSE by the end of the reference period.

Sources: Central Bank of Malta; MSE.

## Government Finance

**Table 2.10 Malta government long-term debt securities outstanding by remaining term to maturity<sup>1</sup>**

EUR millions

Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16 yrs and over	Total
2003	103.8	487.8	723.3	630.6	181.3	2,126.8
2004	128.1	567.9	797.5	627.1	243.0	2,363.6
2005	103.5	655.5	992.7	463.5	406.1	2,621.3
2006	163.1	971.8	817.8	592.8	78.8	2,624.3
<b>2007</b>						
Mar.	163.1	620.8	1,168.9	522.5	149.8	2,625.0
June	81.1	677.8	1,188.0	522.5	233.2	2,702.5
Sep.	150.9	963.7	878.6	630.6	78.7	2,702.5
Dec.	93.2	1,037.5	889.6	662.5	78.7	2,761.5
<b>2008</b>						
Mar.	301.3	829.2	889.6	662.5	78.8	2,761.4
June	69.9	1,037.3	950.8	715.0	78.8	2,851.8

<sup>1</sup> 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<sup>1</sup> and remaining term to maturity<sup>2</sup>**

EUR millions

End of Period	EUR		USD		Other foreign currency		Total
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	
2003	2.0	177.8	1.1	16.4	0.0	3.1	200.3
2004	1.1	168.6	0.0	12.3	0.4	1.8	184.2
2005	17.0	142.1	0.0	10.7	0.0	1.6	171.3
2006	0.0	134.4	1.0	5.6	0.0	1.3	142.3
2007	0.1	126.6	0.0	3.2	0.0	1.0	131.0
<b>2007</b>							
Mar.	0.0	131.8	1.0	5.4	0.0	1.2	139.4
June	0.2	130.4	1.0	4.5	0.0	1.1	137.2
Sep.	0.2	127.8	0.9	4.1	0.0	1.1	134.1
Dec.	0.1	126.6	0.0	3.2	0.0	1.0	131.0
<b>2008<sup>3</sup></b>							
Mar.	0.9	123.2	0.0	2.8	0.0	0.9	128.0
June	0.8	122.1	0.0	2.2	0.0	0.9	125.9

<sup>1</sup> Converted into euro using the ECB official rate as at end of reference period.

<sup>2</sup> Including external loans of 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.

<sup>3</sup> Provisional.

## Exchange Rates, External Transactions and Positions

**Table 3.1a Selected Maltese Lira exchange rates<sup>1</sup> (end of period closing 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	0.4293	3.4291	1.7082	384.18	3.8544	3.9033	3.3657
<b>2007</b>							
Jan.	0.4293	3.0141	1.5458	366.61	3.7784	3.9136	3.5685
Feb.	0.4293	3.0788	1.5693	364.14	3.7589	3.9038	3.5954
Mar.	0.4293	3.1014	1.5850	366.71	3.7865	3.8397	3.5802
Apr.	0.4293	3.1739	1.5908	379.49	3.8331	3.8252	3.5285
May	0.4293	3.1375	1.5856	381.37	3.8386	3.7865	3.3910
June	0.4293	3.1367	1.5666	385.38	3.8522	3.7065	3.3374
Jul.	0.4293	3.1928	1.5700	381.28	3.8484	3.7115	3.3689
Aug.	0.4293	3.1898	1.5784	371.23	3.8310	3.8751	3.3678
Sep.	0.4293	3.3075	1.6243	380.90	3.8673	3.7474	3.2951
Oct.	0.4293	3.3650	1.6244	388.13	3.9065	3.6472	3.2044
Nov.	0.4293	3.4399	1.6648	381.24	3.8550	3.8739	3.4283
Dec.	0.4293	3.4291	1.7082	384.18	3.8544	3.9033	3.3657

<sup>1</sup> 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 3.1b Selected Maltese Lira exchange rates (averages for the period)<sup>1</sup>**

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
2007	0.4293	3.1920	1.5943	375.51	3.8268	3.8103	3.4224
<b>2007</b>							
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
Sep.	0.4293	3.2345	1.6030	371.97	3.8378	3.8320	3.3291
Oct.	0.4293	3.3138	1.6216	384.00	3.8916	3.6882	3.2370
Nov.	0.4293	3.4205	1.6507	379.62	3.8409	3.8135	3.2996
Dec.	0.4293	3.3940	1.6792	380.91	3.8643	3.8898	3.4033

<sup>1</sup> 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.



## Exchange Rates, External Transactions and Positions

**Table 3.2a Euro exchange rates against the major currencies (end of period closing middle rates)<sup>1</sup>**

Period	USD	GBP	JPY	CHF	AUD	CAD
2003	1.2630	0.7048	135.05	1.5579	1.6802	1.6234
2004	1.3621	0.7051	139.65	1.5429	1.7459	1.6416
2005	1.1797	0.6853	138.90	1.5551	1.6109	1.3725
2006	1.3170	0.6715	156.93	1.6069	1.6691	1.5281
2007	1.4721	0.7334	164.93	1.6547	1.6757	1.4449
<b>2007</b>						
Jan.	1.2954	0.6633	157.27	1.6214	1.6786	1.5325
Feb.	1.3211	0.6737	156.45	1.6136	1.6761	1.5419
Mar.	1.3318	0.6798	157.32	1.6247	1.6484	1.5366
Apr.	1.3605	0.6827	162.82	1.6458	1.6427	1.5187
May	1.3453	0.6801	163.56	1.6477	1.6269	1.4388
June	1.3505	0.6740	166.63	1.6553	1.5885	1.4245
Jul.	1.3707	0.6740	163.59	1.6519	1.5951	1.454
Aug.	1.3705	0.6780	159.25	1.6451	1.6692	1.4446
Sep.	1.4179	0.6968	163.55	1.6601	1.6073	1.4122
Oct.	1.4447	0.6973	166.49	1.6762	1.5658	1.3768
Nov.	1.4761	0.7146	163.43	1.6541	1.6643	1.4695
Dec.	1.4721	0.7334	164.93	1.6547	1.6757	1.4449
<b>2008</b>						
Jan.	1.4870	0.7477	157.93	1.6051	1.6682	1.4846
Feb.	1.5167	0.7652	158.03	1.5885	1.6226	1.4895
Mar.	1.5812	0.7958	157.37	1.5738	1.7334	1.6226
Apr.	1.5540	0.7902	162.62	1.6147	1.6614	1.5689
May	1.5508	0.7860	163.74	1.6276	1.6212	1.5382
June	1.5764	0.7923	166.44	1.6056	1.6371	1.5942

<sup>1</sup> All the above exchange rates denote units of currency per one euro.

Source: ECB.

## Exchange Rates, External Transactions and Positions

**Table 3.2b Euro exchange rates against the major currencies (averages for the period)<sup>1</sup>**

Period	USD	GBP	JPY	CHF	AUD	CAD
2003	1.1312	0.6920	130.97	1.5212	1.7379	1.5817
2004	1.2439	0.6787	134.44	1.5438	1.6905	1.6167
2005	1.2441	0.6838	136.85	1.5483	1.6320	1.5087
2006	1.2556	0.6817	146.02	1.5729	1.6668	1.4237
2007	1.3705	0.6843	161.25	1.6427	1.6348	1.4678
<b>2007</b>						
Jan.	1.2999	0.6634	156.56	1.6155	1.6602	1.5285
Feb.	1.3074	0.6680	157.60	1.6212	1.6708	1.5309
Mar.	1.3242	0.6802	155.24	1.6124	1.6704	1.5472
Apr.	1.3516	0.6793	160.68	1.6375	1.6336	1.5334
May	1.3511	0.6814	163.22	1.6506	1.6378	1.4796
June	1.3419	0.6756	164.55	1.6543	1.5930	1.4293
July	1.3716	0.6744	166.76	1.6567	1.5809	1.4417
Aug.	1.3622	0.6777	159.05	1.6383	1.6442	1.4420
Sep.	1.3896	0.6889	159.82	1.6475	1.6445	1.4273
Oct.	1.4227	0.6961	164.95	1.6706	1.5837	1.3891
Nov.	1.4684	0.7090	162.89	1.6485	1.6373	1.4163
Dec.	1.4570	0.7206	163.55	1.6592	1.6703	1.4620
<b>2008</b>						
Jan.	1.4718	0.7473	158.68	1.6203	1.6694	1.4862
Feb.	1.4748	0.7509	157.97	1.6080	1.6156	1.4740
Mar.	1.5527	0.7749	156.59	1.5720	1.6763	1.5519
Apr.	1.5750	0.7949	161.56	1.5964	1.6933	1.5965
May	1.5557	0.7921	162.31	1.6247	1.6382	1.5530
June	1.5553	0.7915	166.26	1.6139	1.6343	1.5803

<sup>1</sup> Calculated on the arithmetic mean of the daily ECB reference exchange rates.

Source: ECB.

## Exchange Rates, External Transactions and Positions

**Table 3.3 Balance of payments - current, capital and financial accounts (*transactions*)**

EUR millions

Period	Current account									Capital account	
	Goods		Services		Income		Current transfers		Total	Credit	Debit
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit			
2003	2,271.2	2,836.3	1,275.1	785.4	793.9	816.3	178.2	217.0	-136.5	16.6	1.2
2004 <sup>1</sup>	2,188.2	2,881.5	1,349.9	838.3	780.6	821.9	139.4	185.0	-268.6	69.8	3.1
2005 <sup>1</sup>	2,083.2	2,987.5	1,617.2	969.5	973.9	1,173.5	277.5	241.6	-420.4	165.9	10.2
2006 <sup>1</sup>	2,334.5	3,298.6	2,117.0	1,405.4	1,463.1	1,675.5	421.4	427.8	-471.4	158.3	5.2
2007 <sup>1</sup>	2,354.1	3,358.4	2,485.4	1,635.7	1,952.8	2,081.8	522.4	585.6	-346.8	55.8	4.4
<b>2007<sup>1</sup></b>											
Mar.	565.2	754.2	522.1	361.9	431.1	487.8	55.3	64.2	-94.4	5.3	0.9
June	610.5	822.9	606.5	403.3	487.6	529.5	258.3	253.1	-46.0	2.4	0.7
Sep.	574.9	846.0	759.8	422.3	515.4	553.4	139.2	109.3	58.2	28.5	1.1
Dec.	603.5	935.3	597.1	448.1	518.7	511.1	69.5	159.0	-264.6	19.6	1.7
<b>2008<sup>1</sup></b>											
Mar.	554.7	796.1	525.7	362.8	478.0	486.5	136.9	94.3	-44.3	4.4	1.1
June	514.8	834.3	668.8	431.9	517.9	666.8	460.0	397.7	-169.2	8.8	-0.8

EUR millions

Period	Financial account <sup>1</sup>									Errors & omissions	
	Direct investment		Portfolio investment		Financial derivatives		Other investment		Official reserve assets		Total
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
2003	-482.7	850.4	-1,378.0	-16.7	-4.2	25.2	-53.6	1,283.1	-127.5	96.0	25.1
2004 <sup>2</sup>	-6.2	317.8	-1,686.5	3.7	-13.8	-0.2	-1,029.1	2,387.1	161.1	133.9	68.0
2005 <sup>2</sup>	16.6	543.7	-2,166.2	28.8	-14.6	-3.8	-2,261.6	4,344.9	-187.8	300.0	-35.4
2006 <sup>2</sup>	-23.9	1,492.0	-1,965.1	-15.3	40.5	-15.6	-3,325.1	4,208.6	-83.1	313.1	5.2
2007 <sup>2</sup>	-21.1	685.3	367.0	1.1	-134.6	254.8	-7,593.4	6,906.5	-326.5	139.0	156.4
<b>2007<sup>2</sup></b>											
Mar.	7.0	137.2	-133.0	0.1	-5.0	10.4	-2,096.5	2,101.4	143.3	165.0	-75.0
June	-6.0	191.4	-418.7	-4.8	22.3	3.8	-2,742.5	2,921.4	77.6	44.4	-0.2
Sep.	-1.9	308.3	782.5	-1.8	-6.6	52.4	-2,063.7	883.6	-73.7	-120.9	35.3
Dec.	-20.3	48.4	136.2	7.6	-145.2	188.2	-690.8	1,000.1	-473.6	50.5	196.2
<b>2008<sup>2</sup></b>											
Mar.	-51.5	108.7	-10.2	-2.7	-40.0	-87.2	-1,669.0	1,841.0	-69.4	19.7	21.3
June	-32.7	174.6	-1,479.1	-16.8	88.6	20.1	-1,755.6	3,187.2	46.1	232.5	-71.3

<sup>1</sup> 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.

<sup>2</sup> Provisional.

Source: NSO.

## Exchange Rates, External Transactions and Positions

**Table 3.4 Official reserve assets<sup>1</sup>**

EUR 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 <sup>2</sup>	
2003	1.4	35.4	47.8	1,587.7	524.2	3.7	2,200.3
2004	1.4	35.5	46.5	930.9	1,014.3	0.1	2,028.8
2005	1.9	38.9	48.8	676.9	1,420.3	2.0	2,188.9
2006	3.1	39.0	46.2	827.6	1,325.3	-0.6	2,240.6
2007	8.8	40.8	43.5	1,491.0	966.5	10.8	2,561.4
<b>2007</b>							
July	2.7	40.9	45.0	737.6	1,172.7	0.2	1,999.0
Aug.	2.7	41.7	45.1	803.4	1,130.5	0.6	2,024.0
Sep.	2.9	40.8	44.1	899.3	1,092.1	7.3	2,086.5
Oct.	3.0	40.5	43.8	878.5	1,064.2	9.5	2,039.6
Nov.	3.0	40.8	43.4	1,481.6	1,026.8	12.5	2,608.0
Dec.	8.8	40.8	43.5	1,491.0	966.5	10.8	2,561.4
<b>2008<sup>3</sup></b>							
Jan.	3.7	40.8	43.5	152.4	135.1	5.5	380.9
Feb.	3.8	40.7	42.7	177.9	132.0	10.4	407.4
Mar.	3.5	39.9	41.9	203.9	120.7	22.4	432.4
Apr.	3.3	40.1	42.1	179.6	118.4	9.0	392.5
May	3.4	40.5	42.0	318.6	123.5	1.4	529.4
June	3.5	40.2	41.7	170.5	124.4	5.4	385.6

<sup>1</sup> From 2008, official reserve assets correspond to the eurosystem definition of reserves which excludes holdings denominated in euro and/or vis-à-vis euro area residents. These re-classified assets will appear elsewhere in the financial statement of the Central Bank of Malta.

<sup>2</sup> Comprising gains or losses on financial derivatives (net).

<sup>3</sup> Provisional.

**Table 3.5 International investment position (IIP) - (end of period amounts)**

EUR 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	736.8	2,617.5	5,600.5	329.1	4.2	25.2	5,803.4	9,589.6	2,200.3	1,783.6
2004 <sup>1</sup>	823.2	2,981.6	7,144.4	354.5	10.7	38.2	6,745.2	11,563.0	2,029.1	1,815.0
2005 <sup>1</sup>	840.4	3,645.7	10,053.8	413.0	42.4	44.3	9,595.6	16,839.5	2,188.9	1,778.9
2006 <sup>1</sup>	868.9	4,930.6	11,371.5	407.9	34.5	49.4	12,328.2	19,959.2	2,240.6	1,496.6

<sup>1</sup> Provisional.

Source: NSO.

## Exchange Rates, External Transactions and Positions

Table 3.6 Gross external debt by sector, maturity and instrument<sup>1</sup>

End of period	General government			Other sectors <sup>2</sup>			Direct investment vis-à-vis:			Total gross external debt (a+b+c)	Memo item: MFI's <sup>3</sup>		
	Short term	Long term	Total (a)	Short term	Long term	Total (b)	Affiliated enterprises	Direct investors	Total (c)		Short term	Long term	Total
2003 <sup>4</sup>	10.1	203.3	213.4	214.8	506.3	721.1	12.1	263.7	275.8	1,210.3	5,514.3	3,433.1	8,947.4
2004 <sup>4</sup>	16.1	186.7	202.8	291.7	466.9	758.6	23.1	297.7	320.8	1,282.2	9,466.6	1,370.2	10,836.8
2005 <sup>4</sup>	7.0	173.8	180.8	502.8	586.5	1,089.3	74.9	439.5	514.4	1,784.5	13,555.4	2,244.1	15,799.5
2006 <sup>4</sup>	7.6	145.9	153.5	487.6	549.3	1,036.9	72.3	812.1	884.4	2,074.9	14,114.4	4,880.0	18,994.5
2007 <sup>4</sup>	4.8	126.9	131.7	585.4	576.5	1,161.9	54.8	901.3	956.1	2,249.7	21,349.3	3,933.7	25,283.0
<b>2007<sup>4</sup></b>													
Mar.	4.7	143.2	147.9	484.2	556.2	1,040.4	68.9	859.6	928.5	2,116.8	16,403.4	4,621.5	21,025.0
June	3.3	140.8	144.1	502.3	550.5	1,052.8	70.6	863.4	934.0	2,130.9	19,050.7	4,867.7	23,918.4
Sep.	1.8	137.7	139.5	545.8	568.8	1,114.6	74.1	877.1	951.2	2,205.4	19,766.4	4,630.8	24,397.2
Dec.	4.8	126.9	131.7	585.4	576.5	1,161.9	54.8	901.3	956.1	2,249.7	21,349.3	3,933.7	25,283.0
<b>2008<sup>4</sup></b>													
Mar.	3.7	133.7	137.4	667.3	620.5	1,287.8	58.0	976.7	1,034.7	2,459.9	21,121.1	4,483.3	25,604.4
June	4.8	152.5	157.4	728.4	547.2	1,275.6	58.3	1,069.6	1,127.9	2,560.9	24,340.7	4,860.5	29,201.2

<sup>1</sup> These data may not be fully reconcilable with the international investment position (IIP) statistics primarily due to conceptual differences.

<sup>2</sup> Comprising the non-monetary financial institutions, insurance companies and pension funds, non-financial corporations and NPISH.

<sup>3</sup> The debt of the MFIs is fully backed by foreign assets.

<sup>4</sup> Provisional.

## Exchange Rates, External Transactions and Positions

**Table 3.7 Malta's foreign trade**

*EUR millions*

Period	Exports (f.o.b.)	Imports (c.i.f.)	Balance of trade
2003	2162.4	2984.4	-822.0
2004 <sup>1</sup>	2112.3	3328.5	-1216.2
2005 <sup>1</sup>	1959.1	3117.2	-1158.1
2006 <sup>1</sup>	2256.8	3487.5	-1230.7
2007 <sup>1</sup>	2235.2	3541.6	-1306.4
<b>2007<sup>1</sup></b>			
Jan.	163.3	243.0	-79.7
Feb.	160.4	247.4	-87.0
Mar.	212.0	370.9	-158.9
Apr.	168.7	263.3	-94.6
May	204.8	280.4	-75.6
June	201.3	307.6	-106.3
July	199.3	340.8	-141.5
Aug.	166.6	261.1	-94.5
Sep.	182.6	267.6	-85.0
Oct.	191.4	365.0	-173.6
Nov.	194.0	295.3	-101.3
Dec.	190.8	299.2	-108.4
<b>2008<sup>1</sup></b>			
Jan.	179.4	276.7	-97.3
Feb.	166.9	266.2	-99.3
Mar.	183.2	275.4	-92.2
Apr.	165.7	325.5	-159.8
May	160.1	270.1	-110.0
June	167.9	269.3	-101.4

<sup>1</sup> Provisional.

Source: NSO.

## Exchange Rates, External Transactions and Positions

**Table 3.8 Direction of trade - exports**

EUR 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	280.5	221.5	72.9	113.4	688.3	253.9	15.8	958.1	576.3	312.8	315.2	2162.4
2004 <sup>1</sup>	327.4	228.3	65.0	86.8	707.5	242.3	67.6	1017.4	544.3	330.5	220.1	2112.3
2005 <sup>1</sup>	283.7	236.2	100.6	93.0	713.5	216.0	75.3	1004.8	461.0	263.9	229.4	1959.1
2006 <sup>1</sup>	326.7	282.8	81.5	164.7	855.7	213.0	81.9	1150.6	631.3	275.4	199.5	2256.8
2007 <sup>1</sup>	271.2	305.0	90.7	131.2	798.1	221.8	86.4	1106.3	668.3	246.7	213.9	2235.2
<b>2007<sup>1</sup></b>												
Jan.	22.2	26.0	6.7	7.7	62.6	19.6	5.8	88.0	40.0	19.7	15.6	163.3
Feb.	19.1	23.0	6.2	9.9	58.2	16.7	6.5	81.4	39.6	21.0	18.4	160.4
Mar.	25.6	32.5	8.7	14.4	81.2	22.9	8.1	112.2	55.6	22.7	21.5	212.0
Apr.	21.4	24.6	8.1	9.9	64.0	19.3	6.4	89.7	47.4	17.1	14.5	168.7
May	24.6	26.2	8.4	12.1	71.3	20.6	9.7	101.6	60.0	22.3	20.9	204.8
June	23.3	21.0	8.3	26.4	79.0	16.7	5.1	100.8	59.0	21.3	20.2	201.3
July	23.5	30.1	8.8	10.7	73.1	21.1	10.7	104.9	55.2	21.1	18.1	199.3
Aug.	19.0	25.7	5.6	8.3	58.6	15.7	6.5	80.8	54.9	17.9	13.0	166.6
Sep.	21.4	25.7	8.4	8.4	63.9	17.2	8.9	90.0	60.1	20.4	12.1	182.6
Oct.	27.0	26.7	8.5	8.0	70.2	19.2	6.8	96.2	55.7	21.6	17.9	191.4
Nov.	21.6	23.7	6.6	9.6	61.5	22.3	5.7	89.5	63.2	19.3	22.0	194.0
Dec.	22.5	19.8	6.4	5.8	54.5	10.5	6.2	71.2	77.6	22.3	19.7	190.8
<b>2008<sup>1</sup></b>												
Jan.	21.4	28.0	12.5	7.7	69.6	16.8	5.1	91.5	47.7	16.6	23.6	179.4
Feb.	19.8	23.2	11.3	9.8	64.1	17.3	5.5	86.9	47.5	15.6	16.9	166.9
Mar.	19.8	24.5	8.6	7.3	60.2	14.8	5.0	80.0	54.6	26.8	21.8	183.2
Apr.	21.8	20.9	11.9	7.6	62.2	19.1	2.8	84.1	44.3	15.0	22.3	165.7
May	20.7	20.6	8.0	8.6	57.9	13.7	4.8	76.4	53.7	13.8	16.2	160.1
June	18.9	26.8	8.3	5.4	59.4	11.6	8.1	79.1	53.6	11.5	23.7	167.9

<sup>1</sup> Provisional.

Source: NSO.

## Exchange Rates, External Transactions and Positions

**Table 3.9 Direction of trade - imports**

EUR 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	509.9	235.0	685.5	276.0	1,706.5	276.5	37.3	2,020.3	470.1	242.0	252.0	2,984.4
2004 <sup>1</sup>	566.3	392.0	772.3	327.8	2,058.4	367.4	71.3	2,497.1	458.0	162.8	210.6	3,328.5
2005 <sup>1</sup>	291.4	280.0	956.9	334.6	1,862.9	325.8	77.0	2,265.7	417.7	162.5	271.3	3,117.2
2006 <sup>1</sup>	406.0	263.2	965.9	373.1	2,008.2	344.0	69.6	2,421.8	635.1	179.5	251.1	3,487.5
2007 <sup>1</sup>	397.1	290.2	863.1	373.8	1,924.2	498.0	103.1	2,525.3	598.6	206.6	211.1	3,541.6
<b>2007<sup>1</sup></b>												
Jan.	14.9	23.0	59.7	23.3	120.9	32.3	4.5	157.7	48.2	9.7	27.4	243.0
Feb.	23.4	19.0	68.9	27.6	138.9	31.6	8.4	178.9	42.5	11.2	14.8	247.4
Mar.	100.8	26.1	84.2	30.8	241.9	33.9	5.6	281.4	56.3	12.3	20.9	370.9
Apr.	28.6	22.8	67.8	30.7	149.9	26.5	10.2	186.6	55.5	9.2	12.0	263.3
May	28.0	23.5	70.3	29.6	151.4	46.3	7.5	205.2	49.3	7.7	18.2	280.4
June	33.2	17.6	79.9	28.1	158.8	43.0	19.6	221.4	41.3	28.4	16.5	307.6
July	28.9	25.6	85.7	42.4	182.6	43.0	9.3	234.9	64.5	26.0	15.4	340.8
Aug.	30.3	19.5	57.9	29.8	137.5	44.2	7.6	189.3	43.8	9.3	18.7	261.1
Sep.	38.9	23.9	58.5	28.3	149.6	43.6	7.3	200.5	46.9	6.8	13.4	267.6
Oct.	21.7	28.8	69.2	42.8	162.5	56.7	9.6	228.8	48.8	65.9	21.5	365.0
Nov.	27.0	33.8	71.7	30.0	162.5	42.2	7.8	212.5	51.7	9.6	21.5	295.3
Dec.	21.4	26.6	89.3	30.4	167.7	54.7	5.7	228.1	49.8	10.5	10.8	299.2
<b>2008<sup>1</sup></b>												
Jan.	25.4	22.6	67.8	29.4	145.2	37.3	4.3	186.8	59.4	6.5	24.0	276.7
Feb.	21.3	26.9	61.3	43.1	152.6	39.2	7.1	198.9	48.9	5.6	12.8	266.2
Mar.	21.7	27.1	88.5	31.5	168.8	34.3	4.8	207.9	50.1	6.3	11.1	275.4
Apr.	20.3	20.7	88.3	45.3	174.6	38.8	14.2	227.6	52.5	7.3	38.1	325.5
May	29.8	20.3	64.5	47.7	162.3	25.5	5.7	193.5	49.4	7.5	19.7	270.1
June	16.3	22.6	78.4	29.8	147.1	41.6	6.3	195.0	50.2	3.8	20.3	269.3

<sup>1</sup> Provisional.

Source: NSO.



## Real Economy Indicators

**Table 4.1a Gross domestic product, gross national income and expenditure components (at current market prices)**

EUR millions

Period	Domestic demand					External balance			Gross Domestic Product	Gross National Income
	Private consumption <sup>2</sup>	General government consumption	Gross fixed capital formation	Changes in inventories <sup>3</sup>	Total	Exports of goods and services	Imports of goods and services	Net		
2003	2,837.3	901.9	861.3	-136.8	4,463.7	3,546.4	3,621.7	-75.4	4,388.4	4,366.0
2004 <sup>1</sup>	2,974.3	933.9	845.5	-71.4	4,682.2	3,557.2	3,730.7	-173.5	4,508.8	4,454.5
2005 <sup>1</sup>	3,105.6	944.9	933.3	70.6	5,054.4	3,700.3	3,954.9	-254.6	4,799.8	4,581.9
2006 <sup>1</sup>	3,204.0	1,018.8	1,006.2	58.1	5,287.1	4,775.3	4,967.0	-191.7	5,095.4	4,870.2
2007 <sup>1</sup>	3,308.8	1,043.3	1,062.3	151.6	5,566.0	4,853.8	5,004.8	-151.0	5,415.0	5,269.1
<b>2007<sup>1</sup></b>										
Mar.	758.0	243.4	251.3	11.1	1,263.8	1,084.2	1,110.9	-26.7	1,237.1	1,176.9
June	806.6	252.7	247.3	53.5	1,360.0	1,214.5	1,223.1	-8.6	1,351.5	1,305.4
Sep.	849.4	258.8	244.3	19.2	1,371.7	1,332.3	1,264.9	67.4	1,439.1	1,396.8
Dec.	894.8	288.5	319.4	67.8	1,570.5	1,222.8	1,406.0	-183.2	1,387.3	1,390.1
<b>2008<sup>1</sup></b>										
Mar.	805.9	289.0	245.1	49.4	1,389.4	1,080.4	1,158.9	-78.5	1,310.9	1,296.0
June	870.1	286.6	230.1	130.7	1,517.5	1,183.6	1,266.2	-82.6	1,434.9	1,279.8

**Table 4.1b Gross domestic product and expenditure components (at constant 2000 prices)**

EUR millions

Period	Domestic demand					External balance			Gross Domestic Product
	Private consumption <sup>2</sup>	General government consumption	Gross fixed capital formation	Changes in inventories <sup>3</sup>	Total	Exports of goods and services	Imports of goods and services	Net	
2003	2697.5	792.8	796.2	-126.7	4159.8	3786.8	3947.5	-160.7	3999.2
2004 <sup>1</sup>	2763.9	796.4	774.2	-64.7	4269.8	3754.0	3979.5	-225.5	4044.3
2005 <sup>1</sup>	2814.0	792.8	840.5	64.5	4511.8	3797.9	4124.3	-326.5	4185.4
2006 <sup>1</sup>	2833.0	839.7	875.8	50.3	4598.9	4448.7	4730.5	-281.8	4317.1
2007 <sup>1</sup>	2878.9	839.3	912.2	132.9	4763.3	4266.1	4552.4	-286.3	4477.0
<b>2007<sup>1</sup></b>									
Mar.	671.5	196.6	218.6	9.9	1096.6	963.4	1020.3	-57.0	1039.6
June	704.8	203.1	213.8	47.3	1169.1	1077.0	1143.3	-66.4	1102.7
Sep.	734.9	207.3	207.8	16.7	1166.7	1130.6	1137.8	-7.2	1159.5
Dec.	767.7	232.3	271.9	59.0	1330.9	1095.2	1250.9	-155.7	1175.2
<b>2008<sup>1</sup></b>									
Mar.	692.4	226.0	209.3	43.1	1170.8	880.5	976.6	-96.1	1074.7
June	740.1	222.8	195.8	113.7	1272.3	951.1	1085.2	-134.1	1138.3

<sup>1</sup> Provisional.

<sup>2</sup> Consumption by households and NPISH.

<sup>3</sup> Including acquisitions less disposals of valuables.

Source: NSO.

## Real Economy Indicators

**Table 4.2 Tourist departures by nationality<sup>1</sup>**

Thousands

Period	EU (of which):								All others	Total
	Euro area (of which):					UK	Other EU	Total		
	France	Germany	Italy	Other Euro area	Total					
2005	82.6	138.2	92.4	151.8	465.0	482.6	78.0	1,025.6	145.0	1,170.6
2006	73.4	125.8	112.5	151.1	462.9	431.3	79.3	973.5	150.7	1,124.2
2007	75.1	130.0	113.7	177.8	496.6	482.4	103.5	1,082.5	161.0	1,243.5
<b>2007</b>										
Jan.	2.0	4.5	6.8	4.1	17.4	23.1	3.6	44.1	7.6	51.7
Feb.	2.3	6.2	3.9	4.8	17.1	24.4	2.0	43.6	7.0	50.5
Mar.	4.0	10.1	6.3	8.9	29.3	29.3	3.4	62.1	9.2	71.3
Apr.	7.0	11.9	10.5	14.9	44.4	36.6	9.5	90.5	11.3	101.8
May	8.6	10.6	8.4	16.3	43.9	41.3	9.1	94.3	14.8	109.0
June	6.2	11.9	7.3	16.3	41.6	50.0	10.2	101.8	15.6	117.4
July	11.2	10.5	16.8	22.4	60.9	50.9	14.8	126.6	21.1	147.7
Aug.	12.4	12.8	25.3	29.2	79.6	59.3	15.8	154.8	21.6	176.4
Sep.	7.9	14.4	10.9	21.9	55.0	58.1	12.6	125.6	18.1	143.7
Oct.	7.1	19.3	7.5	21.1	55.0	57.5	10.5	123.1	16.9	139.9
Nov.	4.2	11.6	5.2	10.7	31.7	32.9	6.8	71.4	11.1	82.5
Dec.	2.2	6.5	4.7	7.3	20.7	19.0	5.1	44.8	6.7	51.5
<b>2008</b>										
Jan.	4.4	7.5	8.2	7.9	28.0	22.1	5.5	55.6	8.3	63.9
Feb.	2.8	8.5	5.0	7.7	23.9	22.9	2.6	49.4	8.0	57.3
Mar.	3.9	16.3	11.3	13.3	44.8	31.1	5.1	81.1	9.4	90.5
Apr.	9.1	12.6	12.9	17.1	51.6	36.3	6.8	94.7	10.2	104.9
May	9.9	16.3	11.3	24.4	61.9	47.5	7.9	117.3	14.0	131.4
June	11.3	11.9	11.6	20.6	55.4	48.2	10.5	114.1	15.2	129.4

<sup>1</sup> 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.

## Real Economy Indicators

**Table 4.3 Labour market indicators based on administrative records**

Thousands

Period <sup>1</sup>	Labour supply			Gainfully occupied			Unemployment					
	Males	Females	Total	Males	Females	Total	Males		Females		Total	
							Number	% <sup>2</sup>	Number	% <sup>2</sup>	Number	% <sup>2</sup>
2003	104.1	41.6	145.7	97.9	40.1	138.0	6.2	6.0	1.5	3.6	7.7	5.3
2004	103.8	42.0	145.8	97.2	40.4	137.6	6.5	6.3	1.6	3.9	8.2	5.6
2005	103.0	42.6	145.6	97.2	41.0	138.2	5.8	5.7	1.6	3.7	7.4	5.1
2006	102.9	43.7	146.6	97.3	42.0	139.3	5.6	5.5	1.7	3.9	7.3	5.0
2007 <sup>3</sup>	103.0	45.0	148.0	97.9	43.5	141.4	5.1	5.0	1.6	3.5	6.7	4.5
<b>2007<sup>3</sup></b>												
Jan.	103.1	44.4	147.4	97.4	42.7	140.1	5.6	5.5	1.7	3.8	7.3	5.0
Feb.	103.1	44.5	147.6	97.6	42.8	140.4	5.5	5.4	1.7	3.7	7.2	4.9
Mar.	103.1	44.5	147.6	97.7	42.9	140.6	5.4	5.3	1.6	3.6	7.0	4.8
Apr.	103.0	44.6	147.6	97.7	43.1	140.8	5.3	5.1	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	102.0	44.5	146.5	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
Sep.	103.5	45.6	149.1	98.5	43.9	142.4	4.9	4.8	1.7	3.7	6.6	4.4
Oct.	103.6	45.8	149.4	98.6	44.1	142.7	5.0	4.8	1.6	3.6	6.7	4.5
Nov.	103.8	46.0	149.8	98.8	44.4	143.2	5.0	4.8	1.6	3.5	6.6	4.4
Dec.	103.2	45.9	149.0	98.5	44.4	142.8	4.7	4.5	1.5	3.2	6.2	4.1
<b>2008<sup>3</sup></b>												
Jan.	103.7	46.2	149.9	98.8	44.6	143.4	4.9	4.7	1.6	3.4	6.5	4.3
Feb.	103.5	46.2	149.8	98.7	44.7	143.4	4.8	4.6	1.5	3.3	6.3	4.2
Mar.	103.4	46.2	149.6	98.7	44.8	143.5	4.7	4.6	1.4	3.1	6.2	4.1
Apr.	103.6	46.5	150.1	98.9	45.1	144.0	4.7	4.5	1.4	3.0	6.1	4.1

<sup>1</sup> Annual figures reflect the average for the year.

<sup>2</sup> As a percentage of male, female and total labour supply, respectively.

<sup>3</sup> Provisional.

Source: ETC.

## Real Economy Indicators

**Table 4.4 Labour market indicators based on the Labour Force Survey**

Thousands

Period <sup>1</sup>	Labour supply			Gainfully occupied			Unemployment					
	Males	Females	Total	Males	Females	Total	Males		Females		Total	
							Number	% <sup>2</sup>	Number	% <sup>2</sup>	Number	% <sup>2</sup>
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	111.5	52.7	164.3	104.3	48.0	152.4	7.2	6.5	4.7	8.9	11.9	7.3
2007	111.9	54.9	166.8	105.2	50.7	155.9	6.7	6.0	4.2	7.6	10.9	6.5
<b>2007</b>												
Mar.	113.6	51.5	165.2	105.5	47.7	153.2	8.2	7.2	3.8	7.5	12.0	7.3
June	113.1	55.5	168.6	106.9	50.9	157.8	6.2	5.5	4.6	8.3	10.8	6.4
Sep.	111.0	56.2	167.3	105.0	51.9	156.9	6.1	5.5	4.3	7.6	10.3	6.2
Dec.	109.9	56.2	166.2	103.6	52.3	155.9	6.3	5.8	4.0	7.0	10.3	6.2
<b>2008</b>												
Mar.	112.8	55.1	167.9	106.7	51.1	157.8	6.1	5.4	4.0	7.2	10.1	6.0
June	111.6	58.5	170.1	104.9	55.0	159.9	6.7	6.0	3.6	6.1	10.3	6.0

<sup>1</sup> Annual figures reflect the average for the year.

<sup>2</sup> As a percentage of male, female and total labour supply, respectively.

Source: NSO.

**Table 4.5 Property prices index based on advertised prices (base 2000 = 100)**

Period	Total	Apartments	Maisonettes	Terraced houses	Others <sup>1</sup>
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
2007	178.9	183.3	181.4	205.3	171.9
<b>2007</b>					
Mar.	180.2	185.2	183.5	198.2	164.5
June	181.9	182.6	182.3	210.3	186.8
Sep.	177.3	181.7	181.6	210.3	172.7
Dec.	176.4	183.5	178.2	202.2	163.8
<b>2008</b>					
Mar.	178.8	179.8	181.2	202.1	173.0
June	177.0	175.7	186.1	194.1	182.2

<sup>1</sup> Consists of town houses, houses of character and villas.

Source: Central Bank of Malta estimates.

## Real Economy Indicators

**Table 4.6 Development permits for commercial, social and other purposes<sup>1</sup>**

Period	Commercial and social								Other permits <sup>5</sup>	Total permits
	Agriculture	Manufacturing <sup>2</sup>	Warehousing, retail & offices <sup>3</sup>	Hotels & tourism related	Restaurants & bars	Social <sup>4</sup>	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
2007	325	27	185	8	14	30	60	649	3,018	3,667

<sup>1</sup> 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.

<sup>2</sup> Includes quarrying.

<sup>3</sup> 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.

<sup>4</sup> Including the construction of premises related to the provision of community and health, recreational and educational services.

<sup>5</sup> 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<sup>1</sup>**

Period	Number of permits <sup>2</sup>			Number of units <sup>3</sup>				
	New dwellings <sup>4</sup>	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
2007	2,636	411	3,047	10,252	696	257	138	11,343

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

<sup>2</sup> Total for permits granted is irrespective of the number of units.

<sup>3</sup> Data comprise the actual number of units (e.g. a block of apartments may consist of several units).

<sup>4</sup> Including new dwellings by conversion.

Source: Malta Environment & Planning Authority.

## Real Economy Indicators

**Table 4.8 Inflation rates measured by the Retail Price Index<sup>1</sup> (base 1946 = 100)**

Year	Index	Inflation rate (%)	Year	Index	Inflation rate (%)
1946	100.00	-	<i>(continued)</i>		
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 <sup>2</sup>	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
1976	256.20	0.56	2006	703.88	2.77
			2007	712.68	1.25

<sup>1</sup> 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.

<sup>2</sup> 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%.

## Real Economy Indicators

Table 4.9 Main categories of Retail Price Index (based December 2002 = 100)

Period	12-month moving average rates of change (%) <sup>1</sup>											
	All Items Index	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
2007	111.0	1.3	4.3	2.1	0.4	2.9	-6.6	0.7	-1.1	1.7	1.6	0.4
<b>2007</b>												
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	-1.9	4.4	17.7	1.3	2.2	2.7	0.4	1.9
Apr.	110.2	2.0	2.3	2.1	-2.1	4.2	13.4	1.2	1.6	2.5	0.6	1.7
May	110.4	1.7	2.3	2.0	-2.6	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	0.3	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
Sep.	112.2	0.8	3.2	1.8	-3.4	3.4	-3.0	0.8	-1.3	1.9	1.2	0.7
Oct.	113.2	0.8	3.6	1.9	-2.2	3.2	-5.6	0.8	-1.6	1.8	1.4	0.6
Nov.	113.5	1.0	3.9	2.0	-0.8	3.0	-6.1	0.8	-1.3	1.8	1.5	0.5
Dec.	113.5	1.3	4.3	2.1	0.4	2.9	-6.6	0.7	-1.1	1.7	1.6	0.4
<b>2008</b>												
Jan.	112.4	1.4	4.7	2.3	1.0	2.9	-7.0	0.6	-0.8	1.8	1.5	0.4
Feb.	112.9	1.6	5.3	2.3	1.9	2.9	-7.4	0.5	-0.6	1.8	1.4	0.4
Mar.	113.7	1.9	5.9	2.4	2.8	2.9	-6.2	0.5	-0.5	1.8	1.3	0.5
Apr.	114.1	2.3	6.5	2.4	3.4	3.1	-4.8	0.5	-0.2	1.9	1.2	0.7
May	114.6	2.6	7.1	2.5	4.1	3.2	-3.6	0.5	0.2	1.9	1.1	1.0
June	115.0	2.9	7.6	2.6	4.8	3.4	-2.3	0.5	0.7	1.9	1.1	1.2

<sup>1</sup> 12-month moving average rates of change in the RPI sub-indices are compiled by the Central Bank of Malta.  
Source: NSO.

## Real Economy Indicators

Table 4.10 Main categories of Harmonised Index of Consumer Prices (base 2005 = 100)

Period	12-month moving average rates of change (%)												
	All Items Index	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	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	2.8	2.8	6.9	4.0	10.2	0.2	3.0	2.6	5.8
2005	100.0	2.5	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	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2007	103.3	0.7	3.9	0.8	-0.1	0.8	2.7	-1.4	0.2	0.7	4.2	-0.6	0.9
<b>2007</b>													
Jan.	99.5	2.5	2.3	0.6	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	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	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	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	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	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	3.4	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	2.4	1.0	3.0	-1.2	0.4	1.0	3.3	-0.6	1.4
Sep.	105.8	0.4	2.9	0.6	1.4	1.0	2.9	-2.0	0.4	1.0	3.4	-0.9	1.2
Oct.	105.9	0.3	3.3	0.6	0.5	0.9	2.8	-2.2	0.3	0.9	3.7	-0.9	1.1
Nov.	103.6	0.5	3.5	0.7	0.2	0.9	2.8	-1.8	0.3	0.8	4.0	-0.8	1.0
Dec.	103.7	0.7	3.9	0.8	-0.1	0.8	2.7	-1.4	0.2	0.7	4.2	-0.6	0.9
<b>2008</b>													
Jan.	103.3	0.9	4.4	0.8	-0.2	0.8	2.7	-1.0	0.5	0.3	4.5	-0.2	0.8
Feb.	103.7	1.2	4.9	0.9	-0.3	0.7	2.7	-0.6	0.7	-0.1	4.8	0.3	0.9
Mar.	104.8	1.5	5.6	1.0	0.1	0.8	2.8	-0.3	0.9	-0.4	5.2	0.7	0.9
Apr.	107.2	1.9	6.3	1.0	0.6	0.8	2.8	0.1	1.1	-0.5	5.3	1.7	0.9
May	108.0	2.3	6.9	1.1	1.1	0.8	2.7	0.7	1.3	-0.6	5.4	2.5	1.0
June	108.6	2.8	7.4	1.2	1.6	0.9	2.6	1.2	1.5	-0.7	5.6	3.4	1.1

Sources: NSO, Eurostat.



## GENERAL NOTES

In order to reflect Malta's entry into the euro area and the adoption of the euro as its currency on 1 January 2008, the layout and design of a number of tables, in particular in Parts 1 and 3, have been changed significantly, while others have been replaced with entirely new tables. Hence users should exercise caution when comparing these series with earlier data, as the underlying definitions may have changed. For ease of comparison, all data relating to earlier periods presented in this *Quarterly Review* are converted into euro at the fixed exchange rate of EUR 1 = MTL 0.4293. The reasons for this approach were explained in a note entitled 'Conversion of data in Maltese liri into euro' which was published in the 2007:3 issue of the *Quarterly Review*, while the changes to the underlying concepts were explained in a note entitled 'Presentation of statistics relating to Malta following adoption of the euro' which was published in the 2008:1 issue of the *Quarterly Review*.

## PART 1 Monetary, Banking, Investment Funds and Financial Markets

### Institutional balance sheets and financial statements

The financial statement of the Central Bank of Malta published in Table 1.1 is based on accounting principles as established in ECB Guideline 2006/16 (as amended) of 10 November 2006 on the legal framework for accounting and reporting in the ESCB. Consequently, the data in this table may differ from those shown in Table 1.2, which are compiled according to a statistical description of instrument categories as stipulated in ECB Regulation 2001/13 of 22 November 2001. Important changes to data on currency issued and reserve assets following the adoption of the euro are explained below in the 'measures of money' and in the 'external statistics' section, respectively.

### General monetary statistical standards

Since January 2008, the compilation of monetary statistics has been consistent with the statistical concepts and methodologies as set out in ECB Regulation 2001/13 (as amended) concerning the consolidated balance sheet of the monetary financial institutions (MFI) sector and the *European System of Accounts (ESA 1995)*. Prior to January 2008, the compilation of monetary statistics was broadly in line with the IMF's *Monetary and Financial Statistics Manual (2000)*.

### Determination of 'residence'

Monetary data are based on the classification of transactions and positions by the residence of the transactor or holder. 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' usually indicates that there exists some location within an 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). Transactors with their 'centre of economic interest' outside the said territory are considered to be non-residents. Diplomatic bodies, embassies, consulates and other entities of foreign governments are considered to be residents of the country they represent.

In national monetary statistics, the key distinction up to December 2007 was between residents and non-residents of Malta. Although that distinction remains relevant for national statistical

purposes, the key distinction now, in particular for the purposes of Malta's contribution to euro area monetary aggregates shown in Table 1.4 and in other tables, is between residence in Malta or elsewhere in the euro area and residence outside the euro area.

### **Sector classification**

In accordance with ESA 95, the main sectors of the Maltese (and euro area) 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 corporations and pension funds
- (d) General government
- (e) Non-financial corporations
- (f) Households and non-profit institutions serving households (NPISH).

Entities that are considered to be non-residents are classified in the 'external sector' or the 'rest of the world'. As noted above, in many statistical tables in this *Quarterly Review*, and starting with data for 2008, they are split into other euro area residents and non-residents of the euro area (and may be further sub-classified by sector according to their primary activity).

(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, issues currency, conducts financial market operations, and holds the international reserves of the country. The Central Bank of Malta is part of the Eurosystem, which comprises the ECB and the NCBs of the member countries of the euro area.

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". OMFIs include the Maltese branches and subsidiaries of banks with headquarters abroad.

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

Other financial intermediaries are, broadly speaking, financial intermediaries which are not MFIs or insurance corporations and pension funds (see below). 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 not from the public), and managing investment trusts, unit trusts and other collective investment schemes (collectively termed investment funds).

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 corporations and pension funds:**

This sector comprises non-monetary financial corporations principally engaged in financial intermediation as the consequence of the pooling of risks. Insurance corporations 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 provide retirement benefits for specific groups of employees.

The non-monetary financial corporations may be split into public and private corporations, depending on who controls them. Control over a company is defined as the ability to determine general corporate policy by appointing 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.

(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. Broadly speaking, non-market production means that the entity does not charge "economically significant" prices such that sales cover at least 50% of production costs. The sector 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 of the country. 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.

ii. **Other general government**, which in Malta comprises the local government sector only. 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** (which is not an institutional sector in the ESA 95) comprises the general government sector and public corporations (which may be financial or non-financial corporations in the ESA 95), the latter being those companies that are owned by government

or are subject to government control. State-owned corporations 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 for the market (i.e. charging “economically significant” prices such that sales cover at least 50% of production costs).

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

This sector comprises corporations 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 corporations**, i.e. companies that are subject to control by government units - see the notes on financial corporations for a definition of control.

ii. **Private non-financial corporations**, 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 also non-profit institutions serving households principally engaged in the production of non-market goods and services intended for particular sections of households (churches, clubs, societies, trade unions, etc.) and market-producing cooperatives, partnerships and sole proprietorships that are not recognised as independent legal entities. Thus many small businesses are included in the household sector.

## **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**

Until the end of 2007, the Central Bank of Malta compiled data on the following monetary aggregates: the monetary base (M0), narrow money (M1), intermediate money (M2) and broad money (M3). The **monetary base (M0)** consisted of currency in issue and OMF1 deposits with the Bank. **Narrow money (M1)** included the most liquid components of M3, namely currency in circulation, demand deposits and savings deposits withdrawable on demand. **Intermediate money (M2)** comprised M1, residents’ savings deposits redeemable at notice and time deposits with an agreed maturity of up to and including two years. **Broad money (M3)** comprised M2 and the OMF1s’ repurchase agreements with the non-bank sector and their debt securities issued with an agreed maturity of up to and including two years and held by the non-bank sector.

Since January 2008, the Central Bank of Malta has been transmitting to the ECB data collected from MFIs in Malta as a contribution to the euro area monetary aggregates compiled by the ECB.

The euro area aggregates are defined in a similar way to the Maltese monetary aggregates formerly compiled by the Bank. However it is not possible to calculate the money holdings of Maltese residents within the euro area totals. In the euro area, by agreement between the members, the share of each central bank in the Eurosystem<sup>1</sup> in the total issue of banknotes in the area is deemed to be that central bank's share in the capital of the ECB adjusted for a notional 8% of the total issue, which is attributed to the ECB itself. This is called the banknote allocation key. In the euro area, the Central Bank of Malta may in practice issue more than this, or less, in response to demand; the excess or shortfall will appear elsewhere in the Bank's balance sheet as an intra-Eurosystem liability or asset. The main point is that the entry in the column 'Banknotes in circulation' in the Financial Statements of the Bank will be a notional amount conforming to the banknote allocation key, and may be quite different from the amount of euro banknotes in the hands of Maltese residents. Moreover, Maltese residents' holdings of M3 within the euro area aggregate will include their holdings of deposits and other monetary instruments issued by MFIs anywhere in the euro area, the amount of which is not known.

The *Quarterly Review* Table 1.4b show the contribution of Maltese MFIs to the euro area totals. This comprises the notional issue of euro currency attributed to the Bank according to the banknote allocation key, plus the issue of coins (where the Central Bank acts as agent of the Treasury), and, for 2008 only, remaining amounts of Maltese Lira currency notes outstanding *less* holdings of euro banknotes and coins and, temporarily, of Maltese Lira currency reported by MFIs in Malta; deposits held by Maltese residents and by residents of other euro area countries with MFIs in Malta excluding any holdings belonging to central governments (since central government holdings of deposits are excluded from the ECB's monetary aggregates) and any interbank deposits; and any marketable instruments of the kind included in euro area M3 issued by MFIs in Malta *less* holdings by Maltese MFIs of such instruments issued by MFIs resident anywhere in the euro area. Because Maltese MFIs may hold more of these instruments than they issue, this part of the Maltese contribution to euro area M3 may be negative. Similarly, the 'credit counterpart' to euro area M3 contributed by Maltese MFIs (Table 1.5b) comprises all Maltese MFI lending (including through the acquisition of securities in any form) to Maltese and all other euro area residents (other than MFIs). The so-called 'external counterpart' will be limited to their net claims on non-residents of the euro area<sup>2</sup>. 'Other counterparts (net)' comprise other items in the balance sheets of Maltese MFIs (including the Central Bank of Malta).

### **Compilation and valuation principles**

Monetary statistics are based on the monthly balance sheets provided by the Central Bank of Malta and the local OMFIs (Tables 1.2-1.3), with details of OMFIs' deposits and loans in Tables 1.8-1.13. The local OMFIs must submit data to the Central Bank of Malta not later than twelve calendar days following the end of the reporting period. Bank branches and subsidiaries operating in Malta but whose head offices/parent companies are located abroad are OMFIs and are obliged to submit the same data. The reporting institutions compile monthly financial information in line with ECB Regulation 2001/13 (as amended). In addition, in certain instances, the OMFIs are required to submit returns in accordance with specific statistical requirements as instructed by the Central Bank of Malta.

<sup>1</sup> The Eurosystem comprises the ECB and the national central banks of the other EU Member States in the euro area.

<sup>2</sup> This is Maltese MFIs' (including the Central Bank of Malta's) claims on non-residents of the euro area, minus their liabilities to non-residents of the euro area, in all forms and in foreign currency as well as in euro.

MFIs report stock positions, which are outstanding balances as at the end of the reference period, and for certain items transactions during the period. They show separately positions and transactions with residents of Malta, with residents of other euro area countries, and with non-residents of the euro area. Assets and liabilities are generally reported at market or fair value and on an accruals basis; deposits and loans are reported at nominal value. 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. In 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, i.e. by original maturity. Original maturity refers to the fixed period of life of a financial instrument before which it cannot be redeemed, or can be redeemed only with some significant penalty.

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 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, whose value is conditional on the occurrence of uncertain future events, such as contingent instruments, are not recorded on the statistical balance sheet.

### **Release of monetary statistics**

Monetary aggregates for the euro area are published by the ECB on the 19<sup>th</sup> working day of the month following the reference month. The ECB publishes certain more detailed monetary data on a quarterly basis. The Maltese contribution to the monthly aggregates is then posted on the Central Bank of Malta's website. When first published, monetary statistics are considered provisional since the 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. The ECB accepts revisions to the previous month's data with each monthly submission; revisions to earlier periods are normally submitted with the next provision of quarterly data. Malta's contributions to the euro area aggregates published by the Central Bank of Malta must be consistent with the latest euro area aggregates published by the ECB. Subsequently, such provisional data are released to the press by the Central Bank of Malta on a monthly basis 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 markets**

Monetary Financial Institutions interest rate (MIR) statistics shown in Tables 1.16 and 1.17 relate to the interest rates which are applied by resident credit institutions to euro denominated deposits and loans vis-à-vis non-financial corporations and households (including non-profit organisations) resident in Malta and in the euro area. MIR statistics are compiled in accordance with Regulation ECB/2001/18 (as amended) and are therefore harmonised across the euro area. Interest rates are shown for both outstanding amounts and new business. Outstanding amounts cover the stock of all kinds of deposits and loans granted to households and non-financial corporations. New business consists of any new agreement between the household or non-financial corporation and

the bank during the period under review. Two types of interest rates are quoted: (a) the Annualised Agreed Rate (AAR) and (b) the Annual Percentage Rate of Charge (APRC). The AAR is the rate which is agreed between the customer and the bank, quoted in percentage per annum. This rate covers all interest payments, excluding any other charges that may apply on deposits and loans. The APRC covers only two categories, namely lending for house purchase and consumer credit. It is the annual percentage rate that covers the total costs of the credit to the consumer such as the cost of inquiries, administration, guarantees, legal fees and other additional costs associated with the transaction. The older series of deposit and lending rates compiled by the Central Bank of Malta will be retained in Table 1.19 (see details below).

Up to 31 December 2007, the Table entitled 'Financial Markets' showed the statutory interest rates determined by the Central Bank of Malta and other indicative benchmark money market rates on instruments denominated in Maltese Liri as end-of-period rates and as a percentage per annum. The repurchase agreement/term deposit rates were the 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 were the rates prevailing in the last dealings between banks in the official interbank market during the last month of the period being reported on. When no deals were transacted, the Central Bank of Malta fixing rate average was shown.

As from 1 January 2008, the Central Bank of Malta ceased to declare interest rates for its operations as the Maltese money market became part of the integrated euro area-wide interbank market. Thus, as from that date (and with some earlier data for convenience), the financial market interest rates shown in Table 1.18 are the key interest rates determined by the ECB for central bank operations throughout the euro area, and overnight (EONIA) and fixed-term (EURIBOR) rates on wholesale business in euro-denominated deposits as reported daily by a panel of active institutions in the euro area interbank market. Table 1.19 shows the weighted average rates paid on resident current, savings and time deposits by MFIs in Malta (in Maltese Liri to end-2007, in euro since), 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 by the interest rate applied thereto and dividing by the total amount.

Yields on Treasury bills and government securities up to end-2007 are rates on instruments denominated in Maltese Liri. All outstanding Treasury bills and government securities denominated in Maltese Liri were redenominated in euro at the beginning of 2008. The primary market rates on Treasury bills 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 means that no transactions occurred during the reference period. Until end-2007, the secondary market yields represented the selling rates quoted by the Central Bank of Malta at the end of the reference period for 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 MSE share index is based on the last closing trade prices of the shares of all eligible

companies weighted by their current market capitalisation. The index has a base of 1,000 on 27 December 1995.

## **Investment funds**

The investment funds sector consists of collective investment schemes licensed by the MFSA; the data in Table 1.14 exclude professional investor funds and money market funds. The balance sheet is aggregated, not consolidated, 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 (Table 2.4) 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.

Table 2.5 on 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. The difference is mainly explained by government transactions in financial assets, such as through privatisation receipts or the utilisation 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 (Table 2.6), which mainly relate to the debts of non-financial public sector corporations. 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. Government-guaranteed debt includes guarantees issued by the extra-budgetary units but excludes guarantees issued to them as they already feature in the general government external 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). The data refer to external loans with an original maturity of one year and over. Debt is recognised when disbursement of funds is effected. Data on debt denominated in other currencies are converted into euro using end-of-period exchange rates.

## **Part 3 Exchange Rates, External Transactions and Positions**

Up to end-2007, statistics on exchange rates showed the end-of-period and average exchange rates of the Maltese Lira against other currencies. The Maltese Lira average exchange rates were calculated as the arithmetic mean of the daily opening and closing Central Bank of Malta middle rates in the reference period.

From 2008, statistics on exchange rates (Tables 3.2a-3.2b) show the end-of-period and the average bilateral exchange rates of the euro against other selected major currencies.



The concepts and definitions used in the compilation of balance of payments and international investment position (IIP) statistics (Tables 3.3-3.5) are generally in line with the *IMF Balance of Payments Manual* (BPM5) and in accordance with ECB Guideline 2004/15 (as amended). Credit entries are recorded for e.g. exports, income receivable, and financial transactions 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 transactions 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 nonresidents of Malta and are, in most cases, valued at current market prices. Wherever possible a distinction is made between transactions and positions with residents of other euro area countries and those with non-residents of the euro area. Up to the end of 2007, official reserve assets (Table 3.4) comprised gold, claims on the IMF, and liquid claims held by the Central Bank of Malta on entities resident outside Malta, mainly central banks, other banks and governments, in line with the *IMF's Balance of Payments Manual* (BPM5). From 2008, official reserve assets correspond to the part of the reserve assets of the Eurosystem held by the Central Bank of Malta, and are confined to gold, claims on the IMF, and liquid claims held by the Central Bank of Malta on entities resident outside the euro area and denominated in currencies other than the euro. All euro-denominated assets, and assets denominated in any currency representing claims on entities resident in the euro area held by the Bank and classified as official reserve assets up to the end of 2007, were on Malta's entry into the euro area reclassified as portfolio investment or other investment, depending on the nature of the instrument.

Latest trade data are based on the respective NSO press release. Historical data are updated by the Central Bank of Malta on a monthly basis, going back thirteen months, while every calendar quarter data are revised going back three years.

The concepts used in the compilation of gross external debt generally comply 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 MFIs is being shown separately as a memorandum item as such debt is fully 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 in Table 4.3, which are based on the ETC's administrative records, and the RPI (Tables 4.8-4.9). Data on development permits (Tables 4.6-4.7) are taken 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). From March 2004, data are based on a weekly survey carried out throughout the reference quarter; from June 2005 data are weighted using a new procedure and are thus not strictly comparable with earlier figures. 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 Parts 1 and 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. The HICP, by contrast, (Table 4.10) covers all household final consumption expenditure irrespective of nationality or residence status.

Consequently, the HICP uses weights that cover not only resident private and institutional household expenditure but also expenditure by tourists in Malta. The differences in these weighting schemes account for the significant monthly disparities between the RPI and the HICP. The sources of data used in the compilation of the Central Bank of Malta's property prices index (Table 4.5) are the advertisements for the sale of properties in all localities in Malta and Gozo carried 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 of that 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.