Economic Survey

November 2012

Economic Policy Department
Ministry of Finance, the Economy and Investment
28th November, 2012

CIP Data

Economic Survey November 2012 / Economic Policy Department. - Valletta : Ministry of Finance, the Economy and Investment, 2012. 195 p. 24 cm.

ISBN: 978-99932-94-63-4

ISBN: 978-99932-94-64-1 Electronic version

The following symbols have been used throughout this document:

. . .	to indicate that data are not available;
0	to indicate that the figure is zero;
-	to indicate that data are not applicable or cannot be determined;
—	to indicate that the figure is negligible;

National Accounts estimates and other statistics which appear in this Economic Survey are provisional and subject to revision. Figures may not add up due to rounding.
This document is based on statistical information available up to 11th October 2012.

Printed at the Government Press
Price: **€5.00**

Contents

Boxes

Tables

Appendix Tables

Charts

Statistical Annex

1. State of the Economy

1. State of the Economy

The global economy has not yet recovered from the effects of the international financial crisis that started in 2007 and the subsequent economic recession. Indeed, the incipient recovery weakened significantly towards the end of 2011 and the first six months of 2012. Amid this sluggish economic performance, the Maltese economy went through a challenging period during the last quarter of 2011 and the first quarter of 2012. However, the Maltese economy returned to positive growth of 0.9 per cent in the second quarter of 2012 largely propelled by positive performance in the external sector.

Emerging services sectors continued to register positive growth rates during the first half of 2012. Further increases were also registered in more traditional services sectors. Tourist earnings and the number of tourists visiting Malta were also encouraging even when compared to the notable performance of last year and in spite of a weak start in the first quarter of 2012. Nevertheless, growth in gross value added stalled in construction, manufacturing, agriculture and in the utilities sectors.

The labour market continued to show signs of resilience. Despite the rise in labour force participation, the unemployment rate remained relatively unchanged whilst employment levels rose. The inflation rate, as measured by the twelve-month moving average of the Retail Price Index, decreased gradually during the twelve months to September 2012 to 2.3 per cent, down from 2.7 per cent recorded in September 2011.

A correction in macroeconomic imbalances is also notable with a significant decline in the current account deficit supported by a surplus of 6.8 per cent of GDP in the goods and services balance. The correction is partly supported by a lower private consumption to GDP ratio. Indeed private final consumption expenditure declined in both nominal and in real terms. This decline occurred in spite of the strength in the labour market suggesting that households might be postponing their consumption and increasing their savings.

Short-term deposits were on the rise whilst interest rate margins remained elevated. Credit growth remains slow particularly when one excludes mortgages and credit to General Government. Net inward foreign direct investment has also registered a reversal in the first half of 2012. Investment activity remains weak and largely bolstered by public investment. The ratio of gross fixed capital formation to GDP has remained low for the last three years.

The impact of the international economic recession on public finances in Malta was less significant than that observed in many other Member States of the EU or third countries. Indeed, between 2008 and 2011 Malta registered an increase in the debt-to- GDP ratio of less than 9 percentage points of GDP compared to a corresponding increase of almost 20 percentage points of GDP in the EU, 27 percentage points of GDP in the USA and nearly 38 percentage points of GDP in Japan. The General Government deficit in Malta declined below 3 per cent of GDP in 2011. Nevertheless, the shortfall between Government recurrent revenue and expenditure in the Consolidated Fund increased in the first nine months of 2012. This deterioration was primarily the result of higher recurrent expenditure. In addition, higher capital expenditure, lower indirect tax revenue and higher interest on public debt contributed further to the rise in the deficit. These were only in part offset by increases recorded in direct tax revenue and non-tax revenue.

Local Scene

Economic Growth

Gross Domestic Product declined marginally by 0.1 per cent in real terms during the first two quarters of 2012 when compared with the same period of 2011. This reflects a decline of 1.2 per cent registered in the first quarter followed by a positive growth rate of 0.9 per cent in the subsequent quarter. In nominal terms, the growth rate registered during the Survey period stood at 2.0 per cent down from a growth rate of 5.7 per cent registered in the same period of 2011.

The contraction in real GDP recorded in the first half of 2012 was driven mainly by domestic demand that contributed to a negative 1.2 percentage points with private consumption acting as the main drag towards growth alongside gross fixed capital formation. On the other hand, the external sector continued with its positive performance as net exports contributed 6.4 percentage points towards growth in the first half of 2012. On the other hand, changes in inventories contributed negatively to growth.

Sectoral Contribution to Gross Value Added

During the Survey period, GVA at basic prices increased by 1.4 per cent compared with a 5.0 per cent in the same period of 2011. Growth in GVA at basic prices is attributable to increases registered in a number of sectors of the economy with the exception of construction, manufacturing, agriculture, forestry and fishing, as well as in the activities related to electricity, gas, steam and air-conditioning supply, water supply, waste management and remediation activities. Significant increases were recorded in the financial and insurance activities, in the information and communication sector, in the professional, scientific and technical activities sector, and in the arts, entertainment and recreation, repair of household goods and other services sector. Looking at a slightly more disaggregated level, some notable developments emerge. GVA classified under the wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation and food services sector increased by 0.5 per cent during the period under observation. At a more disaggregated level, GVA at basic prices in the wholesale and retail trade sector in the January-June 2012 period stood at €291.4 million, a rise of 1.5 per cent when compared to the same period in 2011.

The accommodation and food service activities sector also registered a rise in its GVA at basic prices, amounting to €2.1million (1.9 per cent). On the other hand, during the Survey period, the transportation and storage sector decreased by 1.9 per cent to €177.4 million.

Labour Market

During the twelve months to May 2012, the Maltese labour market recorded a generally positive performance as reflected by increasing participation and employment levels and a relatively stable unemployment rate. Full-time employment increased by 1,938 or 1.3 per cent to 151,089. This was in line with the trend noted in previous years as the number of employees increased by 5,113 or 3.5 per cent to 149,764 during the three year period to December 2011. The upward trend observed during this three year period supported a significant increases in female employment which rose by 4,100 while male employment increased by 1,013.

In May 2012, the unemployment rate stood at 4.2 per cent while the number of unemployed persons stood at 6,698. This reflects a marginal increase in the unemployment rate of 0.1 percentage point when compared to May 2011. However, when these figures are considered against the developments that took place in December 2010 and December 2011, it is evident that the Maltese labour market has recovered rather well from the 2009 global economic crisis.

Throughout the year to May 2012, the share of direct production employment in total employment continued to decline whereas the share of market services continued to increase. This reflects a decline in direct production employment of

621 or 1.6 per cent to 37,036 while market services employment increased by 2,626 or 2.4 per cent to 113,439. The most significant increases were recorded in professional, technical and administrative activities, health and social work, education, arts, entertainment and recreation as well as transport and storage. On the other hand, the most significant decreases were recorded in manufacturing, construction and public administration. Consequently, at the end of May 2012, the share of market services in total employment stood at 75.4 per cent, up from 74.6 in May 2011.

Productive Activities

Statistical data for the first seven months of 2012 illustrates how the total turnover index of industry increased by 4.4 per cent when compared to the same period of last year. This was underpinned by an increase of 8.6 per cent in total domestic sales of the industry coupled with a rise of 0.5 per cent in export sales. During the same period, industry wages and salaries increased by 3.0 per cent. On the other hand, employment levels and hours worked decreased by 1.0 per cent and 0.5 per cent, respectively.

At a sectoral level, the increase in the total industry turnover index is mainly attributed to increases in the turnover index of electricity and water supply, and mining and quarrying sectors. Moreover, the manufacturing sector reported a marginal increase of 1.3 per cent in the turnover index when compared to the comparable period in 2011. This is underpinned by increases in both domestic and export sales which grew by 3.9 per cent and 0.5 per cent respectively.

Despite its small size, the agriculture and fisheries sector provides an important contribution to the economy of the Maltese islands. Agricultural factor income at current prices declined by 9.9 per cent in 2011 when compared to the previous year, while final production at basic prices increased by 1.6 per cent mainly as a result of increases in crop products and other animal products. In the first eight months of 2012, the wholesale value of fruit and vegetables sold through organised markets increased by 4.4 per cent when compared to the same period in 2011. Meanwhile, the total volume of slaughtering during the first eight months of this year declined by 15.3 per cent when compared to the same period last year.

Services Activities

During January-August 2012, tourist departures increased marginally by 0.8 per cent over the previous comparable period, to 981,286 visitors. Earnings from tourism registered an increase of 8.1 per cent during the first half of 2012, to €249.7 million. On a per capita basis, expenditure by tourists increased by 10.4 per cent to €411.3 during this period, while earnings per night spent increased from €51.2 to €53.5. The cruise liner industry also registered a positive performance, increasing from a level of 338,968 arrivals during January-August 2011 to 383,785 arrivals in the corresponding 2012 period. However, full-time employment in accommodation and food service activities declined marginally from 9,361 as at the end of May 2011 to 9,351 at the end of May 2012.

The Malta Financial Services Authority (MFSA) is the single regulator and supervisory authority for the financial services sector in Malta. The MFSA also manages the Registry of Companies and has the responsibility of the Listing Authority. During the first nine months of 2012 the MFSA continued to take an active part in the European System of Financial Supervisors (ESFS). A number of legislative developments were implemented by the Authority as well as the granting of new licences to institutions within the financial services sector. Furthermore, during the first three quarters of 2012, the MFSA concluded and signed a Memorandum of Understanding (MoU) with the Qatar Financial Centre Regulatory Authority.

During the first three quarters of 2012, Malta Enterprise (ME) maintained its efforts in attracting inward investment and supporting enterprise in Malta. During the first nine months of 2012, ME approved new and expansion projects and approved financial assistance through various incentive schemes. ME also coordinated a number of projects aimed at promoting innovation, technology transfers and providing technological infrastructure support to businesses. During January-September 2012, ME started offering the first one-stop shop service to businesses in Malta, as well as officially launching a national strategy with respect to digital games and continued working on the project of life sciences park. The Malta Industrial Parks Limited (MIPL) continued to manage a number of infrastructural projects that are co-financed through the European Regional Development Fund (ERDF).

Prices and Income

The domestic price level, as measured by percentage changes in the 12-month moving average for the Retail Price Index (RPI), gradually decreased from 2.73 per cent in September 2011 to 2.30 per cent in September 2012. Inflation in September was mainly underpinned by contributions from the Food and Transport and Communication sub-sectors.

The average weekly wage as derived from a sample of collective agreements stood at €287.96. This sample is made up of 206 companies with a total workforce of 25,016 employees, where 9,754 employees are engaged in direct production and 15,262 employees in the market services sector. The overall increase in the average weekly wage amounted to €5.37 or 1.9 per cent, with the highest percentage being registered in the Machinery sub-sector at 3.3 per cent.

Foreign Trade and Payments

Trade data for the first eight months of 2012 illustrates that total exports increased by €831.6 million, which is mainly accounted by the significant increase of fuel exports of €725.2 million. On the other hand, imports increased by €1,057 million. Movements of fuels also played a major role in the underlying trajectory of imports increasing by €1,164.2 million. Imports of industrial supplies and capital goods decreased whilst imports of consumer goods remained roughly unchanged compared to the first eight months of 2011. These developments resulted in a widening of the trade deficit, from €1,217.8 million in January - August 2011 to €1,443.2 million in the same period in 2012. Nonetheless, when excluding fuel the trade gap would have actually narrowed.

The current account deficit improved by €287.2 million, to register a deficit of €21.4 million or 0.7 per cent of GDP during the first six months of 2012. The contraction stemmed primarily from the reduction in the goods account deficit of €193.6 million. Concomitantly, the services account surplus improved marginally during the January-June 2012 period, as improvements in tourism and other services inflows more than offset the deterioration in transportation services outflows. Furthermore, the deficit in the income account decreased mainly due to higher portfolio investment net income, which, together with lower net payments on other investment income mitigated the higher payments of income on direct investment. Current Transfers net inflows increased mainly due to higher government transfers.

Despite the net outflow of 7.3 per cent of GDP in direct investment and a net outflow of 17.9 per cent of GDP in portfolio investments, Malta still registered an increase of 4.5 per cent of GDP in reserve assets during the first half of 2012. The increase in reserve assets was supported by an increase in capital inflows from other investment (17 per cent of GDP) and other net inflows which are classified as errors and omissions (measured at 11.0 per cent of GDP). Furthermore net financial derivatives contributed to a net inflow of capital of 2.1 per cent of GDP.

Financial Developments

During January to September 2012, the shortfall between central Government recurrent revenue and total expenditure increased to €282.2 million, a worsening of €93.8 million when compared to the same period in the previous year. This deterioration was the result of higher recurrent expenditure, higher capital expenditure, lower indirect tax revenue and higher interest on public debt. These developments were only in part offset by increases recorded in direct tax revenue and non-tax revenue.

During January-September 2012, total expenditure increased by €193.1 million when compared to the same period in 2011, to €2,203.6 million. This increase was mainly the result of higher recurrent expenditure and to a lesser extent an increase in capital expenditure and interest on public debt during the same period. During the first three quarters of 2012, higher outlays on Programmes and Initiatives accounted for almost 78 per cent of the increase in recurrent expenditure. Increased recurrent expenditure was mainly directed towards retirement pensions and medicines and surgical materials. Capital expenditure increased by €59.9 million to €243.4 million during the period under review. This increase was mainly due to higher productive spending as well as higher infrastructural capital expenditure, which more than offset a marginal decline in social capital expenditure. Interest on public debt amounted to €168.0 million. This represents an increase of €8.5 million over the same period of 2011. Government recurrent revenue registered an increase of €99.3 million to reach €1,921.4 million mainly on account of higher revenue from direct taxation, albeit non-tax revenue also registered an increase.

Malta's contribution to Euro Area broad money (M3), which includes deposit liabilities to both Maltese residents as well as to other residents of the Euro Area, increased by €505.6 million reaching €10,181.9 million at the end of August 2012 when compared to December of 2011. This increase was the result of an increase in net claims on non-residents of the Euro Area which more than offset the negative effect of an increase in the other counterparts component, as well as a small decline registered in the credit counterpart during the same comparative period.

Narrow money (M1) increased by €454.2 million in the first eight months of 2012, reaching €5,879.8 million when compared to €5,425.6 million registered in December 2011. Although this increase was broad-based across currency issued and overnight deposits, this development was mainly the result of an increase in overnight deposits from residents of Malta which increased by €389.1 million, reaching €4,980.0 million over the same comparative period.

The increase in M1 was also the main contributor to the increase in Intermediate Money (M2) which reached €9,979.2 million in the period January-August 2012, increasing by €507.2 million when compared to the level registered in December 2011. The composition of M2 shows a preference towards higher liquidity in the form of overnight deposits, although both deposits redeemable at notice up to three months, as well as deposits with agreed maturity of up to two years also registered an increase during the first eight months of this year when compared to December 2011. In fact, during this period, deposits redeemable at notice up to three months increased by €15.5 million reaching €140.6 million, while deposits redeemable at notice up to two years increased by €37.5 million to reach €3,958.8 million. These developments in deposits in the short term category were underpinned by an increase in deposits from Maltese residents as those from Euro Area residents declined marginally. On the other hand, the opposite occurred in the longer term deposits category. Loans to Maltese residents excluding the general Government increased by €103.4 million reaching €8,544.0 million in the first eight months of 2012 when compared to December of last year. This increase was mainly the result of increases in loans to households and individuals.

Since mid-2011, as the Euro debt crisis intensified, the Euro registered declines with respect to the major currencies. This is in contrast with the first two years of the financial crisis, where the Euro currency retained a degree of strength in respect of the major currencies, especially in respect of the US Dollar. Notwithstanding, in recent months, the Euro has partly regained some ground. Nevertheless, at the end of September 2011, the Euro was around 4.0 per cent lower in respect of the US Dollar from the level prevailing a year earlier. During the first nine months of 2012, the largest decline in the Euro was registered in respect of the UK Sterling. As at September 2012, the Euro had depreciated by around 8.0 per cent from the level prevailing in the comparable month in 2011. These movements were also reflected vis-à-vis the Japanese Yen.

International Scene

Despite better than expected performance in the first quarter of the year, global economic conditions worsened in the second quarter of 2012 when compared to the same period last year. In particular, global manufacturing slowed down sharply as global economic activity deteriorated further amidst growing downside risks. The elevated tensions and risks pose the question whether the global economy is currently undergoing renewed temporary turbulence on its way to recovery, or whether the current slowdown has a more lasting component. Overall, the decline in world growth has been broad-based, stemming in particular from the continued intensity of the crisis in the Euro

Area. Adding to the marked slowdown in growth in the Euro Area, growth in the US economy was also lower than previously expected while the developments in the advanced economies also weighed down on emerging and developing economies. According to the IMF World Economic Outlook of October 2012, the world economy is expected to grow by 3.3 per cent in 2012 when compared to a growth rate of 3.8 per cent registered last year.

Commodity prices increased sharply throughout the first quarter of 2012 as the overall IMF commodity price index registered an increase of 9.6 per cent in March of this year when compared to December 2011. This increase was broad-based across commodity categories as analogous developments were recorded in the commodity indices for food and metals which increased by 7.3 per cent and 7.7 per cent, respectively. The commodity price rally in the first quarter was driven by recovering market confidence in response to the European Central Bank's longer-term refinancing operations as well as better than expected global growth registered in the first quarter of the year. In comparison, the price of crude oil in US dollars increased by 16.3 per cent during the same comparative period. Subsequently, commodity prices declined in the second quarter of 2012, thus coinciding with the weakening in global economic growth. In fact, the IMF overall commodity price index declined during the second quarter of 2012 before edging up somewhat in the subsequent months leading to September on the back of higher food and oil prices.

The information contained in this section is based on macroeconomic projections as published by the European Commission in its Spring Economic Forecast of May 2012, as well as the International Monetary Fund's (IMF) World Economic Outlook of October 2012. Tables 1.1 to 1.3 and Charts 1.1 and 1.2 present a number of relevant economic indicators.

Economic activity in the US economy during the first half of 2012 was lower than previously expected. According to the IMF World Economic Outlook of October 2012, the slow growth in the US economy during the first half of 2012 is consistent with recoveries from previous financial crisis and busts in housing markets. Job creation slowed down at the start of 2012 after accelerating in the second half of last year while a weaker external sector during the second quarter of 2012 also weighed down on the US economy. Emerging and developing economies have also slowed down throughout the first half of 2012 as negative spillover effects from advanced economies continued to intensify. In fact, slower external demand from Europe weighed down on the external sector of emerging and developing economies while slowing domestic demand, notably from China, also contributed to the slowdown in economic activity.

World GDP, Volume

annual percentage change

Table 1.1

	2009	2010	2011	2012*
World	-0.6	5.1	3.8	3.3
Advanced Economies	-3.5	3.0	1.6	1.3
EU 27	-4.3	2.1	1.5	0.0
Euro Area	-4.4	2.0	1.4	-0.4
Germany	-5.1	4.2	3.0	0.9
France	-3.1	1.7	1.7	0.1
Italy	-5.5	1.8	0.4	-2.3
United Kingdom	-4.0	1.8	0.9	-0.4
United States	-3.1	2.4	1.8	2.2
Japan	-5.5	4.5	-0.8	2.2
Canada	-2.8	3.2	2.4	1.9
Emerging and Developing Economies	2.7	7.4	6.2	5.3
Russia	-7.8	4.3	4.3	3.7
China	9.2	10.4	9.2	7.8

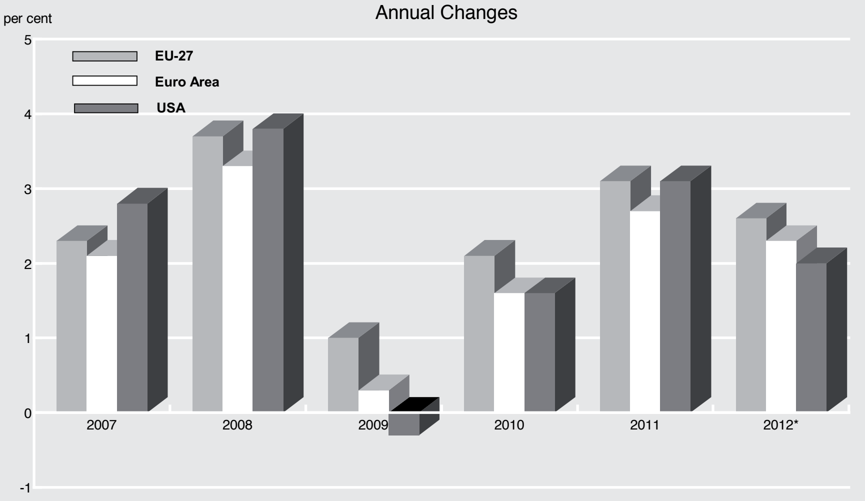
*Projections

Source: Eurostat, European Commission, IMF

Chart 1.1

Inflation Rates

Annual Changes



*Projections

Inflation: Harmonised Index of Consumer Prices*

percentage change on preceeding year

Table 1.2

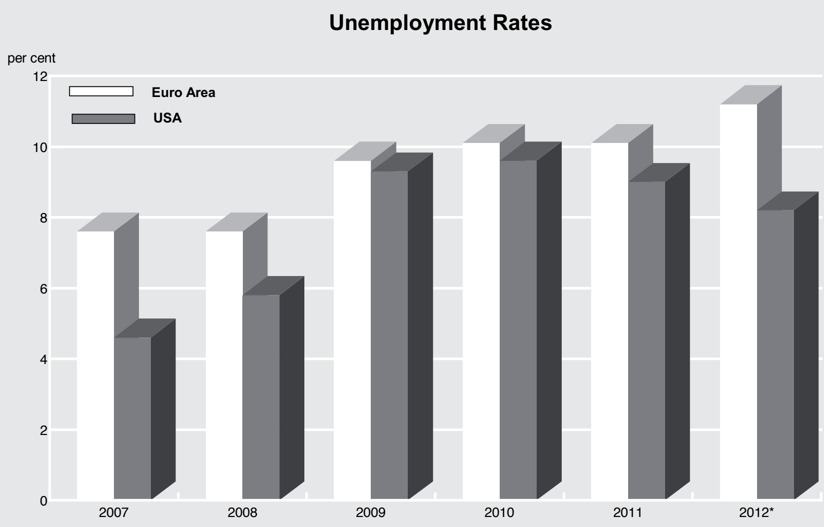
	2009	2010	2011	2012**
EU 27	1.0	2.1	3.1	2.6
Euro Area	0.3	1.6	2.7	2.3
Germany	0.2	1.2	2.5	2.2
France	0.1	1.7	2.3	1.9
Italy	0.8	1.6	2.9	3.0
United Kingdom	2.2	3.3	4.5	2.7
United States	-0.3	1.6	3.1	2.0
Japan	-1.3	-0.7	-0.3	0.0

*National index if not available

**Projections

Source: Eurostat, European Commission, IMF

Chart 1.2



*Projections

Unemployment Rate*

per cent of labour force

Table 1.3

	2009	2010	2011	2012**
Euro Area	9.6	10.1	10.1	11.2
Germany	7.8	7.1	5.9	5.2
France	9.5	9.7	9.6	10.1
Italy	7.8	8.4	8.4	10.6
United Kingdom	7.6	7.8	8.0	8.1
United States	9.3	9.6	9.0	8.2
Japan	5.1	5.1	4.6	4.5

*Series following Eurostat definition, based on the labour force survey

**Projections

Source: Eurostat, European Commission, IMF

The financial stress within the Euro Area intensified in the second quarter of 2012 with the crisis increasingly affecting Member States outside the euro zone given the existing strong financial and trade linkages. The rising uncertainty also had its toll on economic activity which contracted during the first half of the year while growth from investment came to a standstill. Additionally high household debt has also constrained private consumption while fiscal consolidation weighed down on economic activity and on household wealth.

Recent Developments

Economic growth in both the EU and Euro Area came to a standstill during the first quarter of 2012 following the loss in momentum experienced towards the end of last year. At the same time, both areas also experienced deteriorating confidence while the sovereign debt crisis and additional fiscal consolidation measures as well as a more subdued global economy also weighed on growth as the external sector suffered from the slowdown in global trade. The intensification of the financial stress during the second quarter of 2012 led to further spreading of negative spillovers across Member States and to a contraction of growth of 0.2 per cent in both the EU and Euro Area. Additionally, rising uncertainty also weighed down on investment.

Inflation in both the EU and Euro Area eased in the first half of 2012 from 2.9 per cent registered in the first quarter to 2.5 per cent registered in the subsequent quarter of this year. The easing of inflationary pressures came about mostly due to fading pass-through as well as negative base effects from higher energy prices experienced in 2011. Nevertheless, these developments hide diverging pressures across Member States, in particular as a result of consolidation measures in the from of increased direct and indirect taxation implemented in different Member States.

The labour market deteriorated further in both the EU and Euro Area during the first two quarters of this year, albeit the deterioration was stronger in the Euro Area. In fact, while the unemployment rate in the EU increased by 1.0 percentage point to 10.5 per cent in June 2012 from a year earlier, the rate of unemployment in the Euro Area increased by 1.4 percentage points during the same comparative period to reach 11.4 per cent in June of this year. The labour market worsened in both areas as favorable employment dynamics observed in a number of Member States are no longer offsetting the deteriorations being experienced in other countries, with the latter still facing a substantial structural adjustment process. Additionally, shedding of labour has continued in the construction industry while employment in manufacturing came to a standstill in the Euro Area and declined slightly in the EU as a whole.

Following a temporary interruption experienced in the last quarter of last year, growth in the German economy reached 0.5 per cent in the first quarter of 2012 buoyed by improved private sector sentiment. Despite continued support from domestic demand, growth during the second quarter of this year slowed to 0.3 per cent. The inflation rate in the German economy decreased from 2.3 per cent in the first quarter of this year to 2.0 per cent in the second quarter as oil prices subsided and core inflation reflected slower economic activity. Flexibility in the labour market continued to lend to its resilience despite the slowdown in economic activity. As a result, the unemployment rate in Germany decreased to 5.5 per cent in June 2012 when compared to 5.9 per cent registered a year earlier.

Growth in the French economy during the first quarter of 2012 benefited from a buoyant carry over from last year as growth in the final quarter of 2011 proved stronger than expected. Nevertheless, economic growth came to standstill registering no growth during the first and second quarters of 2012. This is mainly the result of a contraction in investment in the first quarter of the year combined with the introduction of a motor vehicles tax in early 2012 as well as to a slowdown in global economic activity negatively affecting net trade. In line with waning crude oil prices, inflation in France declined from 2.6 per cent in the first quarter of 2012 to 2.3 per cent in the subsequent quarter. The adverse conditions in the labour market also weighed down on wage negotiations, contributing to lower inflationary pressures. The unemployment rate in France increased to 10.4 per cent in June 2012 when compared to 9.6 per cent recorded in the same month last year.

The Italian economy experienced a contraction of 0.8 per cent in the first quarter as well as in the second quarter of 2012. The situation in early 2012 was adversely affected by a negative growth impulse from last year, nevertheless, high uncertainty as well as postponement of private sector spending plans, in light of the fall in disposable income, have also weighed down on economic activity in the first half of 2012. Despite declining from 3.8 per cent in the first quarter to 3.6 in the second quarter, the inflation rate remained relatively high as favorable developments in oil prices have been countered by fiscal consolidation measures. The unemployment rate increased to 10.7 per cent in June 2012 when compared to 8.1 per cent registered in June 2011, reflecting the contraction in economic activity.

The economy of the UK contracted by 0.3 per cent in the first quarter of 2012 followed by a slight further worsening registered in the second quarter of this year with a contraction of 0.4 per cent. Economic activity in the first half of 2012 has been constrained by lower private consumption expenditure stemming from high household debt as well as by the continued repair of public balance sheets which also weighed down on domestic demand. Indeed, the economy of the UK also continues to repair the damage caused by the financial crisis that hit the financial sector hard. Inflation in the UK declined from 3.5 per cent in the first quarter of 2012 to 2.4 per cent in the subsequent quarter stemming from subdued internal demand as well as lower prices in the energy and oil categories. The rate of unemployment remains high at 8.0 per cent in June 2012, unchanged from a year earlier.

Growth in the US economy stood at 0.5 per cent in the first quarter of 2012 before declining to 0.3 per cent in the second quarter of the year, continuing a modest recovery amidst a weak global environment. Growth in the US economy during the first half of 2012 was supported by a stabilizing housing market while the slowdown in the second quarter is attributable to weak external conditions as well as a slower momentum from internal demand due to slower business investment and a moderation in private consumption. Inflation reached 1.5 per cent in the second quarter of this year, remaining subdued as a result of economic slack as well as due to commodity price developments. The labour market remains weak although the unemployment rate declined to 8.2 per cent in June 2012 from 9.1 per cent registered a year earlier thanks to an acceleration of job creation which lasted mainly throughout the second half of last year.

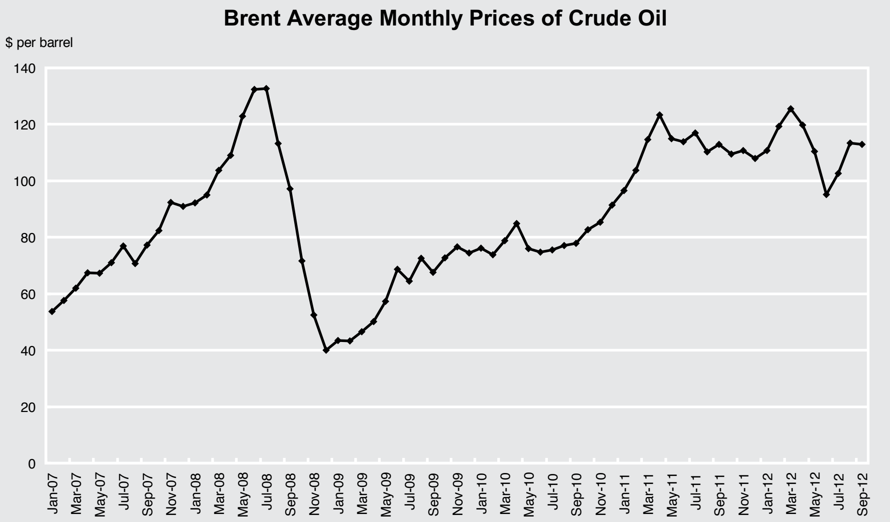
Growth in Asian economies has moderated throughout the first half of 2012, weighed down by weaker external demand from advanced economies, as well as due to weaker demand in China. In fact, slower growth in imports in most advanced economies has also corresponded with weaker export growth in Asia. The weakening in demand in the Chinese economy was mainly due to slowing growth as the economy continued to adjust to previous policy tightening. Growth in India also weakened in the first half of 2012 due to a stall in investment and a deterioration in business confidence following adverse exchange rate movements in the rupee, as well as a rising current account deficit. On the other hand, a number of Asian economies have registered higher growth, although this was stemming from reconstruction programmes following natural disasters, notably in Japan and in Thailand. Inflationary pressures in the region eased through the first half of this year on the back of commodity price developments, as well as a lagged effect of past policy tightening which was aimed at relieving overheating pressures.

Commodities Markets

The price of crude oil increased sharply through the last quarter of 2010 up to April 2011. In fact, in April 2011, the average monthly price of crude oil reached US$ 123.3 per barrel before subsequently edging downward to US$ 107.9 per barrel in December 2011, representing a price decline of 12.5 per cent. Comparatively, however, when adjusting by the Euro to US$ bilateral exchange rate, the price of crude oil declined only marginally by 4.1 per cent due to exchange rate developments which saw the euro losing value with respect to the US Dollar. Subsequently, by the end of the first quarter of 2012, the price of crude oil rallied upwards by 16.3 per cent reaching US$ 125.5 per barrel and therefore comparable to the record highs registered in mid-2008. This sharp increase during the first quarter of 2012 was mainly due to geopolitical tensions and potential losses relative to supplies from Iran which added to uncertainty in the oil market, reflecting the sensitivity of oil prices to expectations.

Subsequently, the price of crude oil declined by 24.1 per cent to reach US$ 95.2 per barrel in June of this year when compared to the price recorded earlier in March. The decline in the price of crude oil followed the deepening concerns about the Euro Area crisis as well as weaker demand from China and rising global supplies. Nevertheless, the EU embargo on Iranian oil ratcheted oil prices upwards in the third quarter of the year as the monthly average price of crude oil reached US$ 112.9 per barrel in September 2012. The average price of crude oil adjusted by the Euro to US$ bilateral exchange rate followed the dynamics of the price in US Dollars. During the period March-June 2012, the price of crude oil in Euro declined by 20.0 per cent while subsequently it increased by 15.5 per cent in the period June-September 2012. The price of crude oil is

Chart 1.3



expected to average around $106.2 and $105.1 per barrel in 2012 and 2013 respectively according to the IMF World Economic Outlook of October 2012. Chart 1.3 portrays the Brent average monthly price of crude oil for the period January 2007 to September 2012.

The IMF food price index has been declining since the second quarter of 2011 up to the end of the year, undergoing a downward adjustment of 15.6 per cent from April to December 2011. Subsequently, however, the IMF food price index increased by 7.0 per cent in April 2012 before declining only marginally by 3.3 per cent in June. The developments in the first half of 2012 were the result of continued strong demand despite the slowdown in global economic activity, as well as weather-related supply side concerns. The food price index experienced a further 8.9 per cent increase in July 2012 mainly driven by increases in grain and soybean prices. Thereafter, the IMF food price index remained at roughly the same level up to September of this year. Despite the recent increases, the current food price shock has not affected the major crops uniformly. Moreover, food prices have not been aggravated by international trade restrictions. As a result, the current price shock is not as severe as the one experienced in 2007-2008. In the short-term, supply-side factors should keep upward pressures on food prices, nevertheless, in the absence of further supply disruptions and trade restrictions, such pressures are expected to diminish over the medium-term. Overall, according to the IMF World Economic Outlook of October 2012, futures prices indicate that prices of major food crops should moderate by the end of 2013.

Metal prices have experienced a notable decline throughout the second half of 2011. In fact, the IMF metals price index has declined by 18.5 per cent during the period June-December 2011. The decline in metal prices during this period is mainly attributable to the drag on metal consumption stemming from the slowdown in economic activity. The decline in demand has been most notable in developing and emerging economies, particularly China. Subsequently, the IMF metals price index increased by 10.2 per cent in February 2012, as confidence in international markets recovered and as global growth surprised on the upside. This increase was, however, short lived as metal prices continued on their general downward trend up to August of this year, resulting in a further decline of 16.7 per cent. This continued decline in metal prices is in line with the slowing down in momentum of global economic activity, particularly in China, as well as other emerging economies. Nevertheless, according to the IMF World Economic Outlook of October 2012, metal prices are expected to rebound as of the fourth quarter of 2012 mainly in anticipation of more buoyant global economic activity as well as due to possible economic stimulus measures in China that could in turn significantly affect demand for metal.

Future Economic Prospects

Table 1.4 presents projections for the main economic indicators. Growth in the EU is forecasted to reach a standstill in 2012 as a whole while the Euro Area

Projections

Table 1.4

	2011	**2012***	**2013***
Real GDP (% change)			
Euro Area	1.4	-0.4	0.2
United States	1.8	2.2	2.1
Japan	-0.8	2.2	1.2
Inflation (% change)			
Euro Area	2.7	2.3	1.6
United States	3.1	2.0	1.8
Japan	-0.3	0.0	-0.2
Unemployment Rate (% of labour force)			
Euro Area	10.1	11.2	11.5
United States	9.0	8.2	8.1
Japan	4.6	4.5	4.4

*Projections

Source: Eurostat, European Commission, IMF is expected to contract by 0.4 per cent. The contraction in the Euro Area is expected as the fiscal consolidation process intensifies across the region. The comparatively better performance in the EU should be supported by stronger demand in economies which exhibited lower pre-crisis imbalances and also by stronger balance sheets as these factors have helped mitigate the negative spillovers from the Euro Area. Looking into next year, the Euro Area is expected to move into positive growth territory as economic activity picks up, gradually reaching a mild growth rate of 0.2 per cent. These developments are forecasted on the back of an improving external sector which should contribute towards stronger external demand driven mainly by major emerging economies, as well as an expected moderation in fiscal consolidation throughout much of the Euro Area. At the same time, uncertainty is expected to continue weighing down on confidence and activity over the forecast horizon. Additionally, the forecasts rest on the assumption that the crisis is successfully contained within the Euro Area.

Inflation should reach 2.6 per cent and 2.3 per cent in 2012 as a whole in the EU and the Euro Area respectively, thereby continuing the decline abated by the slowdown in economic activity. This decline in inflation is expected to persist even into the forthcoming year as temporary headline inflation pressures such as spikes in energy prices and effects of taxation wane. At the same time, core inflation is also forecasted to decline due to the slowdown in economic activity as well as still large output gaps. Additionally, downside risks to the growth outlook remain, thus also increasing the risks of even lower inflation materializing. Inflation in the Euro Area is expected to decline by 0.7 percentage points in 2013, reaching 1.6 per cent. Labour market conditions in both the EU and Euro Area are expected to remain weak over the forecast horizon and characterized by a degree of differentiation across Member States. Unemployment in the Euro Area is expected to reach 11.2 per cent in 2012 as a whole and to increase to 11.5 per cent in the forthcoming year.

Economic growth in the US economy is set to reach 2.2 per cent in 2012 as a whole, declining only marginally to 2.1 per cent in 2013. Uncertainty and weaker external demand are expected to weigh down on US economic growth throughout the forecast horizon. At the same time, possible fiscal consolidation developments could pose an additional burden on economic activity. As a result, the growth outlook for the US economy remains subject to domestic as well as external downside risks, particularly stemming from a possible further escalation of the Euro Area crisis. Inflation in the US should remain subdued as a result of the expected commodity price developments as well as economic slack, thus reaching 2.0 per cent in 2012 before declining to 1.8 per cent in 2013. The US labour market is forecast to remain weak with the unemployment rate reaching 8.2 per cent in 2012 and improving only marginally to 8.1 per cent in 2013.

2. Economic Growth

2. Economic Growth

The world economy, which continues to suffer from the fallout of the financial crisis, has not been able to return to the growth conditions that prevailed during the preceding decade. Some of the main economies in the Euro-Area continue to register growth below their potential in an economic environment conditioned by internal imbalances and related debt overhangs. The global economy weakened significantly towards the end of 2011 and continued to be rather sluggish in the first half of 2012 despite some encouraging results from the USA, and to a certain extent, from some emerging economies.

Against this background, the Maltese economy gradually lost momentum in the second half of 2011. Domestic consumption contracted as households reduced final consumption in the first half of 2012 as consumers became more guarded in their spending partly in view of unfolding uncertainty in the international environment. Lower consumer confidence, as confirmed by the Business and Consumers Surveys published by the EU Directorate-General for Economic and Financial Affairs (DG ECFIN), also contributed to the decline in private consumption. This development together with a decline in investment dampened domestic demand which led to negative growth in real Gross Domestic Product (GDP) during the last quarter of 2011 and the first quarter of 2012. The latest figures suggest that Malta's economy has returned to positive growth, with real GDP registering an increase of 0.9 per cent in the second quarter of 2012.

It is to be noted that data presented in this Chapter is based on national accounts data compiled according to the European Systems of Accounts (ESA95) methodology. This accounting framework enables comparability with EU Member States and allows a systematic and detailed description of the economy and its core components. Gross Domestic Product at current market prices is estimated by the National Statistics Office (NSO) from the production side, involving the aggregation of the output of various productive sectors net of the cost of intermediate inputs. A reconciliation of the production side with estimates of expenditure on output produced is then carried out.

Box 2.1

Forecast Estimates for January-December 2012

National Accounts data on the expenditure components of GDP is available up to the second quarter of 2012. This Box presents preliminary forecast figures for 2012, based on the assumption that the Euro Area will contract by around 0.7 per cent in the second half of 2012, with zero growth forecast for the first half of 2013. These assumptions reflect the latest estimates provided by the Consensus Forecast, DG ECFIN, and IMF.

Following a return to growth in the second quarter of 2012, the Maltese economy is expected to continue expanding. It is expected that the economy will be propelled by a recovery in private consumption expenditure as well as by sustained positive performance from the external sector despite the subdued growth in Malta’s main trading economies. Nominal GDP is expected to increase by 4.3 per cent by the end of this year while real GDP is expected to grow by 1.2 per cent.

Economic prospects in 2012 are conditioned by the contraction in private consumption and private investment recorded in the first half of the year. Indeed, private consumption which is a very important component of GDP is expected to contribute positively to growth in the second half of 2012. Government consumption expenditure and public investment are also expected to grow while private investment is expected to contribute negatively to GDP. The positive contribution of the external sector is expected to persist in the second half of 2012 with strong growth in exports of both goods and services. Imports of goods and services are also expected to increase albeit at a much slower rate. Changes in inventories will still contribute negatively to growth albeit at much more contained rate.

National Expenditure

Despite encouraging performance in terms of exports, GDP growth for the first half of 2012 was negative. Indeed, real growth in the first two quarters of 2012 declined compared with the same period of 2011. This contraction in the first half of 2012 is the result of a decline in GDP of 1.2 per cent in the first quarter followed by a positive growth rate of 0.9 per cent in the subsequent quarter. In nominal terms, the growth rate registered during the Survey period stood at 2.0 per cent, down from a growth rate of 5.7 per cent registered in the same period of 2011.

The contraction in real GDP recorded in the first half of 2012 was driven mainly by negative contributions from the domestic sectors of the economy. Indeed, domestic demand contributed to a negative 1.2 percentage points with private consumption acting as the main drag towards growth alongside gross fixed capital formation. On the other hand, the external sector continued with its positive performance as net exports contributed 6.4 percentage points towards growth in the first half of 2012. There were also significant negative contributions emanating from changes in inventories, which are also inclusive of

GDP by Category of Expenditure

Table 2.1 — € million

	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure(1)	3,733.9	3,783.7	3,970.6	1,949.8	1,937.9
General Government Final Consumption Expenditure	1,241.4	1,293.7	1,344.9	668.6	706.8
Gross Fixed Capital Formation	917.0	1,082.0	958.8	469.8	479.1
Changes in Inventories	49.5	(33.0)	(122.2)	78.5	(106.7)
Acquisitions less Disposals of Valuables	0.5	(17.2)	(25.0)	(16.1)	(3.9)
Exports of Goods and Services	4,904.5	6,065.6	6,614.0	3,207.1	3,435.6
Total Final Expenditure	10,846.9	12,174.9	12,741.2	6,357.7	6,448.9
Less Imports of Goods and Services	4,989.4	5,940.3	6,242.0	3,184.2	3,211.1
Gross Domestic Product	5,857.4	6,234.6	6,499.2	3,173.5	3,237.7
At Constant 2000 Prices					
Private Final Consumption Expenditure(1)	3,089.2	3,035.3	3,156.2	1,556.9	1,514.3
General Government Final Consumption Expenditure	929.8	938.1	968.3	482.6	500.6
Gross Fixed Capital Formation	652.9	737.9	630.0	296.7	292.9
Changes in Inventories	39.7	(23.4)	(93.5)	58.3	(76.8)
Acquisitions less Disposals of Valuables	0.4	(13.1)	(18.7)	(12.0)	(2.8)
Exports of Goods and Services	4,403.3	5,217.8	5,348.2	2,592.5	2,812.5
Total Final Expenditure	9,115.4	9,892.6	9,990.5	4,975.0	5,040.8
Less Imports of Goods and Services	4,491.7	5,111.9	5,116.8	2,622.2	2,691.4
Gross Domestic Product	4,623.7	4,780.7	4,873.7	2,352.9	2,349.4

(1) Includes NPISH final consumption expenditure

Source: National Statistics Office

a statistical residual. Given these developments, real GDP per capita decreased from €5,626.6 in the first half of 2011 to €5,586.8 in the comparable period of 2012, as illustrated in Chart 2.1. This represents a decline of 0.7 per cent. Table 2.1 provides GDP data by category of expenditure at current and constant market prices, while Table 2.2 shows the respective percentage changes.

GDP by Category of Expenditure

Percentage Changes

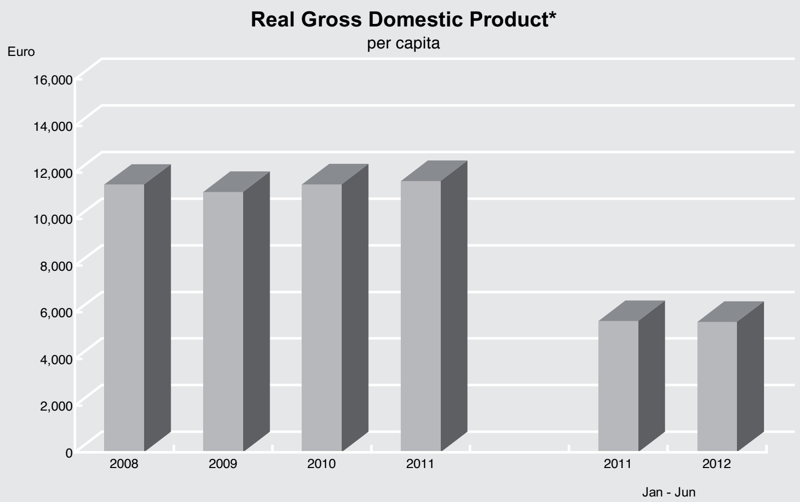
Table 2.2

	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure[1]	1.4	1.3	4.9	7.4	-0.6
General Government Final Consumption Expenditure	1.9	4.2	4.0	5.6	5.7
Gross Fixed Capital Formation	-12.1	18.0	-11.4	-0.5	2.0
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-10.1	23.7	9.0	13.4	7.1
Total Final Expenditure	-5.1	12.2	4.7	9.8	1.4
Less Imports of Goods and Services	-10.4	19.1	5.1	14.3	0.8
Gross Domestic Product	-0.0	6.4	4.2	5.7	2.0
At Constant 2000 Prices					
Private Final Consumption Expenditure[1]	-1.1	-1.7	4.0	5.6	-2.7
General Government Final Consumption Expenditure	-1.5	0.9	3.2	4.8	3.7
Gross Fixed Capital Formation	-16.5	13.0	-14.6	-12.8	-1.3
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-9.3	18.5	2.5	7.5	8.5
Total Final Expenditure	-6.3	8.5	1.0	5.4	1.3
Less Imports of Goods and Services	-10.1	13.8	0.1	7.8	2.6
Gross Domestic Product	-2.4	3.4	1.9	3.0	-0.1

[1]Includes NPISH final consumption expenditure

Source: National Statistics Office

Chart 2.1



*Based on total population

Private Final Consumption Expenditure

The private final consumption expenditure category defined as household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption expenditure registered a notable decline of 0.6 per cent in the first half of 2012 compared with an increase of 7.4 per cent registered in the same period of 2011. In real terms, the decline in private final consumption was more accentuated with a decline of 2.7 per cent recorded in the first two quarters of 2012. This decline has to be considered also against the context of the relatively high rates of growth in private consumption recorded in the corresponding quarters of 2011.

Given the developments outlined above, the proportion of private consumption in real GDP declined over the course of 2012. While in the first half of 2011 the proportion stood at 66.2 per cent, the ratio declined by 1.7 percentage points to a proportion of 64.5 per cent for the same period in 2012.

The decline in aggregate nominal private consumption was broadly distributed among the different expenditure categories. Declines were recorded in the food and non-alcoholic beverages subcategory, the alcoholic beverages and tobacco subcategory, the clothing and footwear subcategory as well as in items classified under the furnishings, household equipment and routine household maintenance subcategory. There were also declines in the health subcategory, the transport subcategory, and the communications subcategory. On the other hand increases were recorded in the hotel and restaurants subcategory, the housing, water, electricity, gas and other fuels subcategory as well as in the recreation subcategory and in items classified under the education subcategory.

Private consumers' expenditure also includes expenditure by Maltese tourists abroad and during the Survey period this component recorded an increase of 0.5 per cent over the comparable period of 2011. Expenditure by foreign tourists in Malta increased by 5.4 per cent, from €344.4 million in the first half of 2011 to €363.0 million in the same period of 2012. It is to be noted that in the compilation of national accounts, expenditure by tourists in Malta is deducted from private final consumption expenditure and is added up to exports of goods and services. This procedure is followed to avoid the double counting of expenditure by tourists in Malta.

Table 2.3 outlines data on Gross National Income in per capita terms (GNI), private final consumption expenditure and expenditure by tourists in nominal terms. During the period under review, GNI per capita increased significantly

GNI, Private Final Consumption Expenditure
and Expenditure by Tourists
(at current market prices)

Table 2.3

	2008	**2009**	**2010**	**2011**	**2011** Jan-Jun	**2012** Jan-Jun
Per Capita (€)						
GNI*	13,734	13,174	13,880	14,504	6,761	7,347
Private Final Consumption Expenditure*	8,929	9,022	9,095	9,481	4,663	4,608
Expenditure by Tourists	565	541	609	645	556	598
Per Capita (% change)						
GNI*		-4.1	5.4	4.5	-0.6	8.7
Private Final Consumption Expenditure*		1.0	0.8	4.2	6.6	-1.2
Expenditure by Tourists		-4.2	12.6	5.8	7.5	7.6

*Based on average total population
*Based on departing tourists

Source: National Statistics Office

by 8.7 per cent compared with a decline of 0.6 per cent registered in the same period of 2011. On the other hand, private final consumption per capita decreased by 1.2 per cent compared to an increase of 6.6 per cent in the first two quarters of 2011. Furthermore, tourists' expenditure per capita continued to improve, increasing by 7.6 per cent during the Survey period following an increase of 7.5 per cent in the first half of 2011.

General Government Final Consumption Expenditure

General Government expenditure registered an increase of 5.7 per cent in nominal terms during the Survey period which is broadly the same increase registered in the first half of 2011. In real terms, general Government expanditure increased by 3.7 per cent compared to an increase of 4.8 per cent in the first half of 2011.

General Government final consumption expenditure as a ratio of real GDP increased from 20.5 per cent in the first half of 2011 to 21.3 per cent in the corresponding period of 2012, an increase of 0.8 percentage points. It is noteworthy that general Government final consumption expenditure excludes outlays which finance transfer payments, such as Social Security benefits, subsidies and grants. Such items of expenditure do not reflect the production of goods and services but constitute a redistribution of funds between different sectors of the economy.

Gross Capital Formation

Gross Capital Formation comprises gross fixed capital formation, changes in inventories and acquisitions less disposals of valuables. The main item within this component, gross fixed capital formation (GFCF), registered a nominal increase of 2.0 per cent in the first six months of 2012, from €469.8 million in the first half of 2011 to €479.1 million in the same period of 2012. This increase in GFCF was underpinned by an increase of 20.8 per cent in Government investment while private investment registered a decline of 1.3 per cent in the first half of 2012 as weaknesses in the construction sector continued to prevail. Indeed a further analysis of the components of investment indicates a significant decline in the construction subcategory, mainly driven by declines in housing investments. Investment in equipment also registered a marginal decline. This was underpinned by strong declines in transport equipment. On the other hand, the metal products and machinery subcategory classified under the equipment subsector registered a positive growth rate of 8.5 per cent during the Survey period.

Gross Fixed Capital Formation

Table 2.4

	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
At Current Market Prices					
Gross Fixed Capital Formation (€ million)	917.0	1,082.0	958.8	469.8	479.1
% change	-12.1	18.0	-11.4	-0.5	2.0
GDP (€ million)	5,857.4	6,234.6	6,499.2	3,173.5	3,237.7
(GFCF/GDP) %	15.7	17.4	14.8	14.8	14.8
At Constant 2000 Prices					
Gross Fixed Capital Formation (€ million)	652.9	737.9	630.0	296.7	292.9
% change	-16.5	13.0	-14.6	-12.8	-1.3
GDP (€ million)	4,623.7	4,780.7	4,873.7	2,352.9	2,349.4
(GFCF/GDP) %	14.1	15.4	12.9	12.6	12.5

Source: National Statistics Office

The ratio of investment to nominal GDP remained practically unchanged at 14.8 per cent during the January-June 2012 period. In real terms the ratio declined marginally, from 12.6 per cent in the first half of 2011 to 12.5 per cent in the same period of 2012. Gross fixed capital formation in both nominal and constant terms as well as the ratio to GDP is presented in Table 2.4.

Foreign Demand and Supply

Developments in the external sector have a considerable impact on the performance of the local economy. Despite sluggish growth in world trade and continued uncertainty in the international economy, Malta managed to register very encouraging performance in terms of exports. Indeed, during the first half of 2012, net exports contributed positively to growth as exports increased by 7.1 per cent in nominal terms during the Survey period. In real terms, the increase in exports amounted to 8.5 per cent. On the other hand, nominal imports increased by 0.8 per cent during the first half of 2011 while in real terms the increase in imports amounted to 2.6 per cent.

During the Survey period, imports of goods in real terms increased by 1.6 per cent while imports of services registered an increase of 4.7 per cent. With regards to real exports, services increased by 3.9 per cent while exports of goods increased by 11.0 per cent. A more disaggregated analysis reveals that the decline in imports of goods was primarily driven by declines in chemicals, semi-manufactured goods, and machinery and transport equipment. On the other hand, the increase in exports of goods was underpinned by increased exports of mineral fuels, chemicals and semi-manufactured goods.

In view of the positive performance in terms of net exports, the current account continued to improve. Indeed, in the first half of 2012 the ratio of the current account to GDP turned to a positive of 0.7 per cent compared with a negative of 9.7 per cent registered in the same period of 2011.

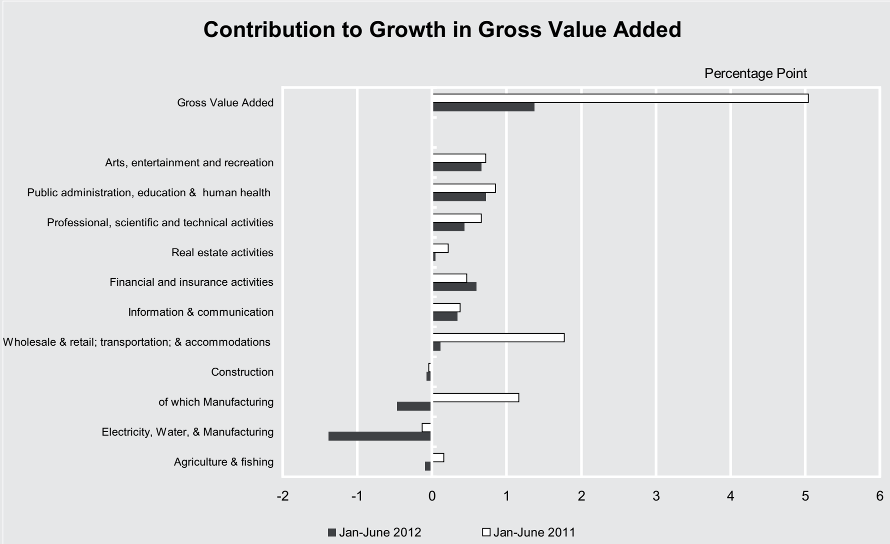
Sectoral Contribution to Gross Value Added

Gross Value Added (GVA) is defined as the value generated by any unit engaged in the production activity and is obtained as the excess of output over intermediate consumption. Intermediate consumption consists of the value of goods and services consumed as inputs in the process of production, excluding the consumption of fixed assets. Gross value added at basic prices does not include taxes less subsidies on products as output is valued at basic prices, while intermediate consumption is measured at purchasers' prices. The contributions to growth in GVA during the Survey period are shown in Chart 2.2.

During the Survey period, GVA at basic prices increased by 1.4 per cent compared with a 5.0 per cent in the same period of 2011. As shown in Table 2.5, growth in GVA at basic prices is attributable to increases registered in all sectors of the economy with the exception of construction, manufacturing, agriculture, forestry and fishing, as well as in the activities related to electricity, gas, steam and air-conditioning supply, water supply, waste management and remediation activities. Significant increases were recorded in the financial and insurance activities, in the information and communication sector, in the professional, scientific and technical activities sector, and in the arts, entertainment and recreation, repair of household goods and other services sector.

During the Survey period, GVA at basic prices in agriculture, forestry and fishing decreased by €2.4 million, from €46.4 million in the first half of 2011 to €44.0 million in the same period of 2012.

Chart 2.2



*Includes accommodation and food services

**Includes quarrying

GVA in the construction sector decreased by 1.8 per cent or €2.1 million during the first two quarters of 2012 when compared to the same time period of the previous year. This slight decrease follows the trend that prevailed in the first half of 2011 whereby a decline of 1.0 per cent was registered when compared to the same period of 2010.

GVA classified under the wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation and food services increased marginally by 0.5 per cent during the same period. At a more disaggregated level, GVA at basic prices in the wholesale and retail trade sector in the January-June 2012 period stood at €291.4 million, a rise of 1.5 per cent when compared to the same period in 2011. On the other hand, during the survey period, the transportation and storage sector decreased by 1.9 per cent to €177.4 million. The accommodation and food service activities sector also registered a rise of €2.1 million in GVA at basic prices.

The manufacturing sub-sector also registered negative growth rates, decreasing by €13.0 million or 3.4 per cent during the first two quarters of 2012 over the same period of 2011. This decrease registered in the January-June period of 2012 contrasts with an increase of 8.9 per cent registered in the first half of 2011. At a more detailed sectoral level, significant increases were recorded in the repair and installation of machinery and equipment (14 per cent), the manufacturing of other transport equipment (16 per cent), in the manufacturing of motor vehicles, trailers and semi-trailers (21 per cent) and in the manufacturing of electrical equipment (26 per cent). These increases were more than offset by declines which were recorded in the manufacturing of wearing apparel (14 per cent), manufacturing of machinery and equipment (16 per cent), the manufacturing of coke and refined petroleum products (17 per cent), and manufacturing of computer and electronic equipment (29 per cent).

The information and communication sector registered an increase in GVA of 6.7 per cent in the first half of 2012, equivalent to €9.4 million, thus reaching the level of €149.0 million during the Survey period. Moreover, activities

Sectoral Contribution to Gross Value Added

(at basic prices)

Table 2.5 € million

	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
Agriculture, forestry and fishing	90.9	96.4	97.0	46.4	44.0
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	795.3	842.5	788.4	417.3	378.8
of which Manufacturing	651.0	701.5	727.0	377.5	364.5
Construction	237.8	231.2	229.0	114.7	112.6
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	1,104.4	1,165.6	1,223.8	581.0	584.1
Information and communication	268.0	264.0	286.8	139.6	149.0
Financial and insurance activities	325.1	427.4	479.3	234.6	251.1
Real estate activities	324.0	334.5	345.6	172.3	173.5
Professional, scientific and technical activities; administrative and support service activities	410.9	440.2	467.6	226.9	239.1
Public administration and defence; compulsory social security; education; human health and social work activities	990.5	1,042.0	1,085.7	544.1	564.2
Arts, entertainment and recreation, repair of household goods and other services	533.4	584.6	623.4	309.3	327.8
Gross Value Added	5,080.4	5,428.4	5,626.6	2,786.1	2,824.2

Source: National Statistics Office

classified under the financial and insurance activities reported an increase in GVA of 7.0 per cent during the first two quarters of 2012 compared with the same period in 2011.

GVA in the professional, scientific and technical activities; administration and support services activities increased by €12.2 million or 5.4 per cent compared with a 8.4 per cent increase registered in the same period of 2011. GVA in the public administration and defence, compulsory social security; education; human health and social work activities increased by 3.7 per cent during the Survey period, while GVA increased by 6.0 per cent in the sector comprising arts, entertainment and recreation, repair of household goods and other services.

Gross National Income

Gross National Income (GNI) is calculated by adjusting GDP at market prices for net compensation received from or paid to the rest of the world, subsidies less taxes from/to the rest of the European Union and net income property from the rest of the world. Hence, GNI represents the total primary income receivable by resident institutional units.

During the January-June 2012 period, GNI at market prices increased significantly by €262.3 million, or by 9.3 per cent. This growth in GNI was underpinned by a substantial decline in the amount of outflow of property income to the rest of the world. Indeed, this item declined from a net outflow of €342.5 million in January-June 2011 to a net outflow of €147.3 million in the corresponding period of 2012. This constitutes an improvement of €195.2 million. GNI was also boosted by a reversion in net subsidies on products from the EU from net taxes of €2.7 million in the first half of 2011 to a positive position of €0.8 million registered in the first half of 2012. On the other hand, outflows under the net compensation of employees from the rest of world increased from €0.9 million to €1.6 million over the Survey Period. Developments in GNI are shown in Table 2.6.

Chart 2.3 illustrates the developments in compensation of employees and GDP at market prices over the period 2008-2011 and the first half of 2011 and 2012. Compensation of employees increased by 3.1 per cent during the Survey period compared with an increase of 4.0 per cent in the same period of 2011. This increase was mainly underpinned by notable increases in the compensation of employees in the wholesale and retail trade subsector which also includes the

Gross National Income

Table 2.6 € million

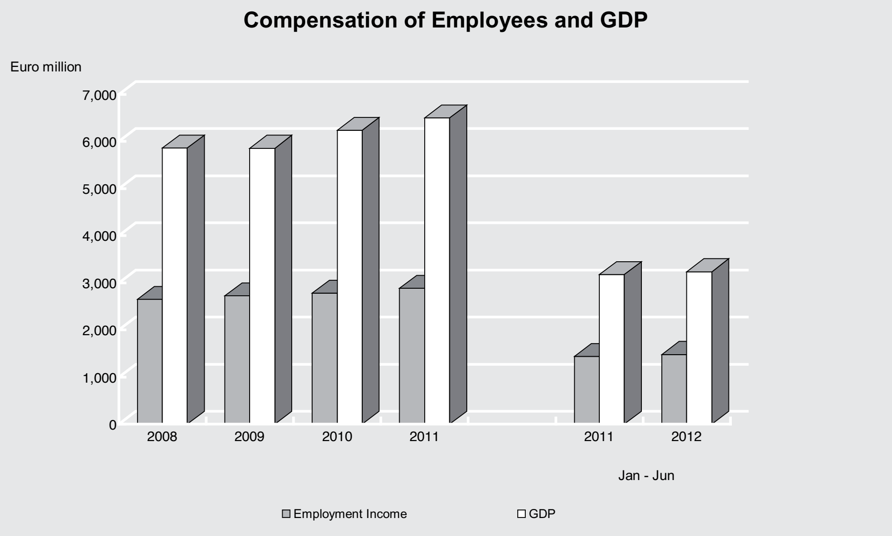
	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
Compensation of employees	2,726.4	2,785.0	2,882.2	1,436.8	1,481.7
Gross operating surplus and mixed income	2,364.9	2,656.9	2,753.6	1,354.3	1,349.8
Taxes on production and imports	830.1	859.5	928.3	415.9	442.5
Less Subsidies	64.0	66.8	64.9	33.4	36.3
Gross Domestic Product at current market prices	**5,857.4**	**6,234.6**	**6,499.2**	**3,173.5**	**3,237.7**
Net compensation of employees from the rest of the world	7.5	-2.5	-1.6	-0.9	-1.6
Subsidies less Taxes on products from/to the rest of the EU	-9.8	-0.6	-8.5	-2.7	0.8
Net property income from the rest of the world	-402.8	-456.8	-414.8	-342.5	-147.3
Gross National Income at current market prices	**5,452.4**	**5,774.6**	**6,074.3**	**2,827.4**	**3,089.7**

Source: National Statistics Office

transportation and storage, the professional, scientific and technical activities subsector, the public administration subsector as well as in the sector which encompass the arts, entertainment and recreation. During the first six months of 2012, the share of employee compensation to GDP at market prices increased marginally by 0.5 percentage points, from a ratio of 45.3 per cent to 45.8 per cent, as compensation of employees increased at a slightly higher rate relative to the growth in GDP.

Compensation per employee as measured by average nominal weekly compensation per employee stood at €337.35 during the first half of 2012

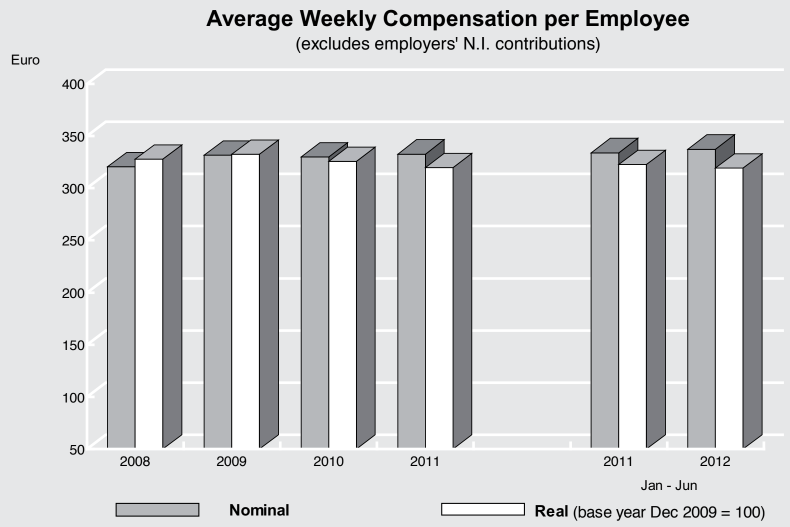
Chart 2.3



compared to €333.94 in the same period of 2011. This represents an increase of 1.0 per cent. In real terms, average weekly compensation during the first half of 2012 stood at €319.25 down by 1.1 per cent when compared with the first two quarters of 2011. These rather subdued growth rates in compensation per employee are underpinned by moderate increases in nominal compensation of employees compared to more sustained growth in employment. It is to be noted that data in respect of wages and salaries relates to national accounts data and hence incorporate the earnings of both full-time and part-time employees, with the latter becoming increasingly more relevant, partly as a result of the increasing female participation in the economy. Furthermore, in estimating average weekly wages per employee the segment of National Insurance contribution paid by employers is excluded from calculations. Real average weekly wage figures were obtained by deflating them by the Retail Price Index. Developments in wages and salaries are shown in Chart 2.4 and Table 2.7.

Whereas during the Survey period growth in compensation of employees was positive, growth in gross operating surplus and mixed income was negative. Indeed, gross operating surplus decreased by 0.3 per cent during the first half of 2012. This decline follows an increase of 6.2 per cent registered in the same period of 2011. These developments meant that the ratio of gross operating surplus to GDP at market prices also declined by 1.0 percentage point from 42.7 per cent in the first half of 2011 to 41.7 per cent in the same period of 2012.

Chart 2.4



Average Weekly Wage per Employee*

Table 2.7

	Nominal		Real**	
	Value	Change	Value	Change
	€	%	€	%
2008	320.47	5.4	327.71	1.1
2009	331.71	3.5	332.31	1.4
2010	329.96	-0.5	325.60	-2.0
2011	332.63	0.8	319.53	-1.9
2011 (Jan-Jun)	333.94	1.8	322.80	-0.9
2012 (Jan-Jun)	337.35	1.0	319.25	-1.1

*Excludes employers' National Insurance contributions

**Base year of RPI index (December 2009=100)

Source: National Statistics Office

Meanwhile, taxes on production and imports increased by €26.6 million during the first two quarters of 2012 while subsidies increased only by €2.9 million. This resulted into an increase of net taxes of €23.7 or 6.2 per cent during the first half of 2012.

3. Employment

3. Employment

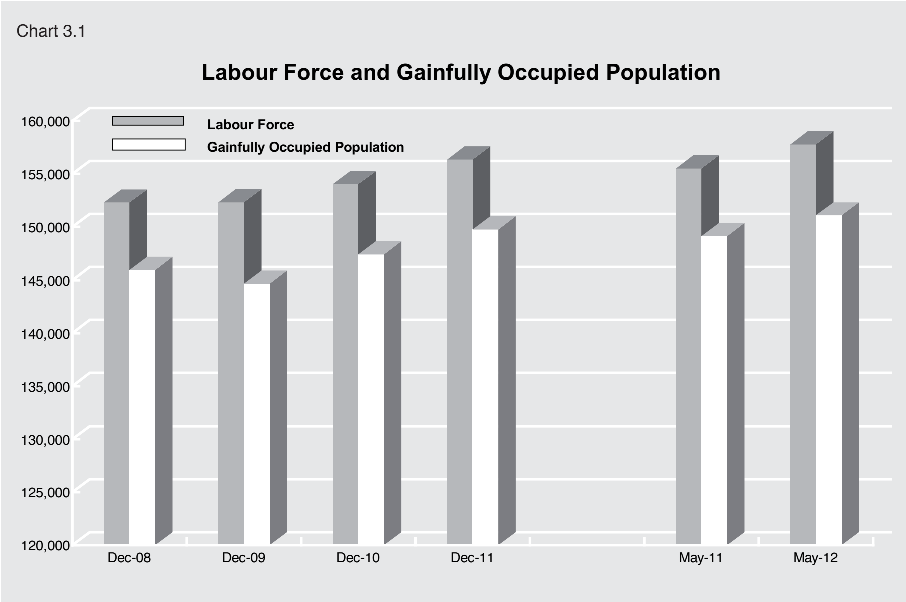
During the year to May 2012, the Maltese labour market recorded a generally positive performance as reflected by increasing participation and employment levels and a relatively stable unemployment rate. The increasing participation and employment levels consolidates the trend recorded in recent years whilst the stabilisation of the unemployment rate suggests that the labour market has recovered from the recessionary impact experienced in 2009. The same sectors which proved resilient during the global economic crisis were the ones which continued to drive employment growth in the twelve months to May 2012[1]. These include professional, technical and administrative activities as well as art, recreation and entertainment activities amongst others.

The overview of developments in the labour market presented in this Chapter covers the period from December 2009 to December 2011 and on the basis of more recent data the period from May 2011 to May 2012. While the latest data for employment relates to the month of May that for unemployment relates to the month of September. The data presented in this Chapter are based on the administrative records of the Employment and Training Corporation (ETC). In line with its policy for the revision of provisional data, ETC has revised its employment statistics published earlier, with the aim of attaining a continuous update of labour market data. As a result, the data in this Chapter are not directly comparable to those presented in previous issues of the Economic Survey.

Labour Market Developments

Throughout the year to May 2012, full-time employment increased by 1,938 or 1.3 per cent to 151,089. Chart 3.1 shows that this is a continuation of the trend noted in previous years. In fact, during the three year period to 2011 the number of full-time gainfully occupied employees increased by 5,113 or 3.5 per cent to 149,764.

The upward trend reflects significant increases in female employment which rose by 4,100 or 8.7 per cent during the three-year period. At the same time, male employment increased by 1,013 or 1.0 per cent. The developments observed during the twelve months to May 2012 show a continuation of these trends in both female and male employment. In fact, the number of full-time gainfully occupied males increased by 390 or 0.4 per cent to stand at 99,180 while female full-time employment rose by 1,548 or 3.1 per cent to stand at 51,909. Consequently, the share of females in total full-time employment rose from 32.5 per cent in December 2009 to 34.4 per cent in May 2012.



The increase in female employment follows an increase in female participation in the labour market. Indeed, over the three year period from December 2009 to December 2011, the female labour supply increased by 3,839 or 7.9 per cent while male labour supply increased by 181 or 0.2 per cent. During the twelve months to May 2012, female labour supply increased by 1,724 or 3.3 per cent while male labour supply increased by 546 or 0.5 per cent. Following these developments female labour supply in May 2012 stood at 53,370 while that for males stood at 104,417. Consequently, total labour supply stood at 157,787, reflecting an increase of 2,270 or 1.5 per cent over May 2011.

In May 2012, the unemployment rate stood at 4.2 per cent while the number of unemployed persons (including persons under both Part I and Part II of the employment Register) stood at 6,698. This reflects a marginal increase in the unemployment rate of 0.1 percentage point when compared to May 2011. However, the developments observed in December 2010 and December 2011 suggest that the Maltese labour market has recovered from the higher unemployment rates recorded during 2009 and 2010 following the onset of the global economic crisis.

From a gender perspective, during the twelve months to May 2012, the number of unemployed females increased by 176 or 13.7 per cent to 1,461 while the number of unemployed males increased by 156 or 3.1 per cent to 5,237.

Box 3.1

The Labour Force Survey

The Labour Force Survey (LFS) is a household survey carried out by the National Statistics Office (NSO) in accordance with the methodologies of Eurostat and the International Labour Organisation (ILO). The LFS provides information regarding the labour market, salary conditions and other indicators related to the labour market. It is not directly comparable to the data from ETC mainly due to differences in definitions and methodology of the two databases. Additionally, one must express caution in interpreting LFS results over time as absolute changes of 1,800 or less may be the result of a sampling error.

During the year to the second quarter of 2012, the labour supply increased by 3,414 or 1.9 per cent to 183,705. At the same time, employment increased by 3,603 or 2.1 per cent to 171,728. This reflects a decrease of 1,267 or 1.1 per cent in male employment to 109,083 in the second quarter of 2012 and an increase in female employment of 4,870 or 8.4 per cent to 62,645. Consequently, at the end of this period male employment accounted for 63.5 per cent of total employment while females accounted for the remaining 36.5 per cent. Unemployment decreased by 189 or 1.6 per cent to 11,977, largely reflecting a decrease in male unemployment.

At the end of the second quarter of 2012, the activity rate stood at 62.6 per cent, up from 61.5 per cent when compared to the same quarter of 2011. This reflected a decrease of 1.1 percentage points in the male activity rate to 77.7 per cent and an increase in female activity rate of 3.4 percentage points to 47.0 per cent. At the same time, the number of inactive persons decreased by 373 or 0.2 per cent to 173,981, of which 65.4 per cent was accounted for by females.

Throughout the same period, the employment rate increased by 1.2 percentage points to 58.5 per cent. This reflects an increase in the female employment rate from 40.5 per cent to 43.9 per cent and a decline in the male employment rate from 73.5 per cent in the second quarter of 2011 to 72.5 per cent in the second quarter of 2012.

The unemployment rate during the second quarter of 2012 stood at 6.5 per cent, 0.2 percentage points lower than that recorded in the second quarter of 2011. This reflected a decline in the female unemployment rate and a marginal decline in the male unemployment rate. In fact, the male unemployment rate decreased by 0.1 percentage point to 6.5 per cent while the female unemployment rate decreased by 0.5 percentage points to 6.6 per cent. From an age distribution

Box 3.1 cont.

perspective, the unemployment rate increased for people aged between 15 and 24 years by 1.1 percentage point to 16.1 per cent. At the same time a decline of 0.3 percentage points was recorded in the unemployment rate for persons aged 25 and more, ending the period under review at 4.8 per cent.

During this period the average gross annual salary increased from €15,016 in the second quarter of 2011 to €15,480 in the second quarter of 2012. The highest average gross annual salaries were those of legislators, senior officials and managers at around €23,000 followed by those of professionals at almost €21,000. Meanwhile, the lowest average wages were earned by persons in elementary occupations, at around €11,000.

Consequently, females accounted for 21.8 per cent of the total unemployed whereas males accounted for the remaining 78.2 per cent. From a longer term perspective, during the three year period from December 2009 to December 2011, the number of unemployed males and females decreased by 832 and 261, respectively.

Private and Public Sector Employment

The increase in full-time employment observed in the twelve months to May 2012 was driven by developments in private sector employment as employment levels in the public sector declined. Specifically, Table 3.1 shows that during the year to May 2012, public sector employment declined by 371 or 0.9 per cent to 40,854 while private sector employment increased by 2,309 or 2.1 per cent to 110,235. The observed developments throughout the twelve months to May 2012 are in part a continuation of past trends. Indeed, in December 2011, private sector employment increased by 4,819 or 4.6 per cent when compared to December 2009. However, public sector employment increased by 294 or 0.7 per cent over the same period. Consequently, in May 2012 the share of private sector employment in the total full-time gainfully occupied population increased to 73.0 per cent as shown in Chart 3.2.

Employment in the private sector was largely driven by an increase in the number of employees as the number of self-employed persons increased marginally throughout the three year period from December 2009 to December

Labour Market Performance

Table 3.1

	2009 Dec	2010 Dec	2011 Dec	2011 May	2012 May
Labour Supply	152,331	154,042	156,351	155,517	157,787
Males	103,676	103,801	103,857	103,871	104,417
Females	48,655	50,241	52,494	51,646	53,370
Gainfully Occupied	144,651	147,436	149,764	149,151	151,089
Males	97,690	98,585	98,703	98,790	99,180
Females	46,961	48,851	51,061	50,361	51,909
Total Private Sector	103,822	106,812	108,641	107,926	110,235
Private Direct Production	30,635	31,203	31,015	31,138	30,687
Private Market Services	72,664	75,059	77,125	76,253	79,075
Temporary Employment	523	550	501	535	473
Total Public Sector	40,829	40,624	41,123	41,225	40,854
Public Sector	40,710	40,491	40,992	41,079	40,713
Temporary Employment	119	133	131	146	141
Registered Unemployed*	7,680	6,606	6,587	6,366	6,698
Males	5,986	5,216	5,154	5,081	5,237
Females	1,694	1,390	1,433	1,285	1,461
% of Labour Supply	5.0	4.3	4.2	4.1	4.2
of which unemployment under Part I (%)	4.0	3.9	3.9	3.9	3.8
Self-Employed**	17,588	17,660	17,629	17,712	17,776
Males	14,825	14,804	14,632	14,748	14,685
Females	2,763	2,856	2,997	2,964	3,091
% of Gainfully Occupied	11.5	11.5	11.3	11.4	11.3
Memorandum:					
Total Direct Production***	37,949	37,996	37,551	37,657	37,036
Total Market Services***	106,060	108,757	111,581	110,813	113,439
Total Private Sector Share	71.8%	72.4%	72.5%	72.4%	73.0%
Total Public Sector Share	28.2%	27.6%	27.5%	27.6%	27.0%
Part-time Employment as Primary Job	27,140	28,245	30,201	28,976	31,102

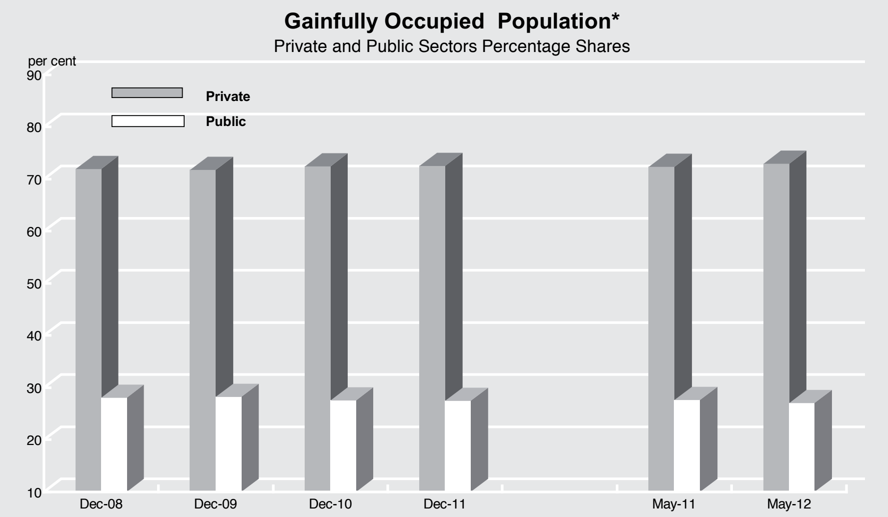
*Includes both Parts I and II of the Registered Unemployed

**Included in the Private Sector

***Excluding temporary employees

Source: Employment and Training Corporation

Chart 3.2



*Including temporary employees

2011. The increase in the number of self-employed reflects significant increases in the number of female self-employed. Indeed, the number of self-employed females increased by 234 or 8.5 per cent while the number of male self-employed declined by 193 or 1.3 per cent. A closer look at recent developments shows that during the year to May 2012 the number of females self-employed increased by 127 or 4.3 per cent to 3,091 while the number of male self-employed declined by 63 or 0.4 per cent to 14,685. Overall, during the twelve months to May 2012, the number of self-employed increased by 64 or 0.4 per cent to 17,776.

The decline observed in public sector employment throughout the three-year period to December 2011 has been largely driven by employment declines in companies with public sector majority shareholding. However, the decline in public sector employment recorded during the twelve months to May 2012 reflects decreases in the employment complement across government departments and companies with public sector majority shareholding. Indeed, employment in government departments during the year to May 2012 declined by 258 or 0.8 per cent to 30,237. Table 3.2 shows that at the same time employment in companies with public sector majority shareholding declined by 276 or 13.3 per cent to 1,807 while employment in independent statutory bodies increased by 168 or 2.0 per cent to 8,669.

Public Sector Employment

Table 3.2

	2009 Dec	2010 Dec	2011 Dec	2011 May	2012 May
Government Departments	30,019	29,967	30,440	30,495	30,237
Companies with public sector majority shareholding	2,210	2,089	1,970	2,083	1,807
Independent Statutory Bodies	8,481	8,435	8,582	8,501	8,669
Temporary Employees	119	133	131	146	141
Total	40,829	40,624	41,123	41,225	40,854

Source: Employment and Training Corporation

Sectoral Employment

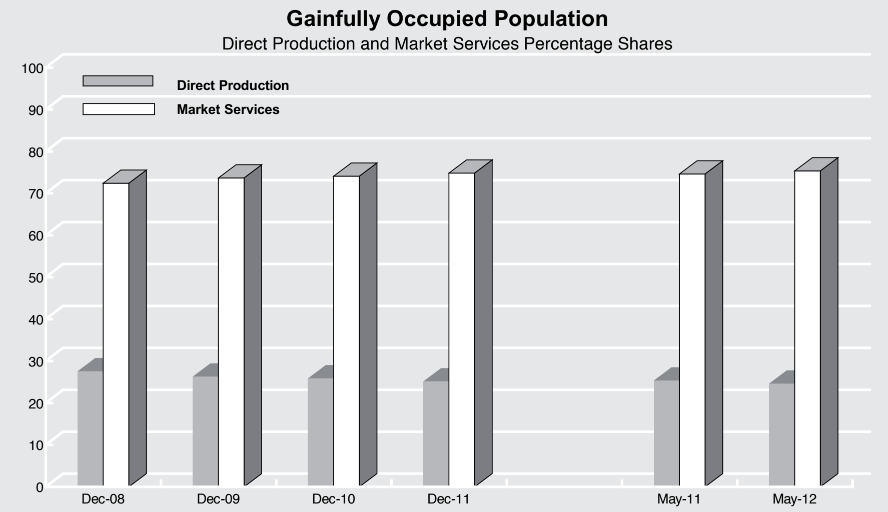
Chart 3.3 shows that during the year to May 2012, the share of direct production employment in total employment continued to decline whereas the share of market services continued to increase. This reflects a decline in direct production employment of 621 or 1.6 per cent to 37,036 while market services employment increased by 2,626 or 2.4 per cent to 113, 439. Consequently, at the end of May 2012, the share of market services in total employment stood at 75.4 per cent, up from 74.6 in May 2011.

Direct Production

The developments recorded in direct production employment during the twelve months to May 2012 largely reflect the worsening performance of the manufacturing and construction sectors. Table 3.3 shows that during the same period, all other direct production sectors recorded declines in the employment levels.

Throughout the year to May 2012, construction sector employment recorded a decline of 261 or 2.1 per cent to 12,231. This reflects a decline in both private and public sector construction employment as they declined by 151 and 110 respectively. These developments are a continuation of the trend recorded in previous years. Indeed, total construction employment declined from 12,868 in December 2009 to 12,332 in December 2011.

Chart 3.3



During the twelve months to May 2012, the manufacturing sector recorded a decline of 264 or 1.3 per cent to 19,455. However, when the analysis is extended back to 2009, it is noted that in December 2011 total manufacturing employment increased by 377 or 2.0 per cent when compared to December 2009. A closer look at the manufacturing sector shows that the declines experienced throughout the twelve months to May 2012 were accounted for the private sector whereas those relating to the three years to December 2011 were accounted for by both the private and public sector.

Table 3.4 shows that in the twelve months to May 2012, total private sector declines in manufacturing employment amounted to 410. These were partly offset by an increase of 146 in the private sector. Meanwhile, employment in public sector manufacturing remained unchanged.

Table 3.5 shows that over the year to May 2012, the largest decline in the manufacturing sector was recorded in the manufacturing of computers, electronic equipment and machinery sub-sector. Indeed as illustrated in Chart 3.4, employment in this subsector fell by 154 or 4.8 per cent to 3,069. From a longer term perspective, the most notable increases were recorded in the manufacturing of coke, chemical and pharmaceutical products and the manufacturing of rubber, plastic and other non-metallic products subsectors. In fact, during the three years to December 2011, employment in the manufacturing of coke, chemical and pharmaceutical products subsector increased by 154 or

Employment in Direct Production*

Table 3.3

	2009 Dec	2010 Dec	2011 Dec	2011 May	2012 May
Agriculture, forestry and fishing	2,188	2,180	2,150	2,121	2,102
Private	2,026	2,022	1,989	1,964	1,941
Public	162	158	161	157	161
Mining and Quarrying	403	352	309	323	286
Private	403	352	309	323	286
Public	0	0	0	0	0
Manufacturing	19,215	19,741	19,592	19,719	19,455
Private	18,795	19,638	19,528	19,654	19,390
Public	420	103	64	65	65
Electricity, gas, steam and air conditioning supply	1,645	1,624	1,593	1,598	1,567
Private	3	3	4	1	2
Public	1,642	1,621	1,589	1,597	1,565
Water supply and waste management	1,630	1,620	1,575	1,404	1,395
Private	239	273	272	265	288
Public	1,391	1,347	1,303	1,139	1,107
Construction	12,868	12,479	12,332	12,492	12,231
Private	9,169	8,915	8,913	8,931	8,780
Public	3,699	3,564	3,419	3,561	3,451
Total Employment in Direct Production	37,949	37,996	37,551	37,657	37,036
Private	30,635	31,203	31,015	31,138	30,687
Public	7,314	6,793	6,536	6,519	6,349

* Excluding temporary employees

Source: Employment and Training Corporation

Changes in Manufacturing Employment*

Table 3.4

	2010-09 Dec	2011-10 Dec	2012-11 May
Total Change	526	-149	-264
Private	843	-110	-264
Public	-317	-39	0
Total Private Increases	914	271	146
Total Public Increases	0	0	2
Total Private Decreases	-71	-381	-410
Total Public Decreases	-317	-39	-2

* Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

Manufacturing Employment*

Table 3.5

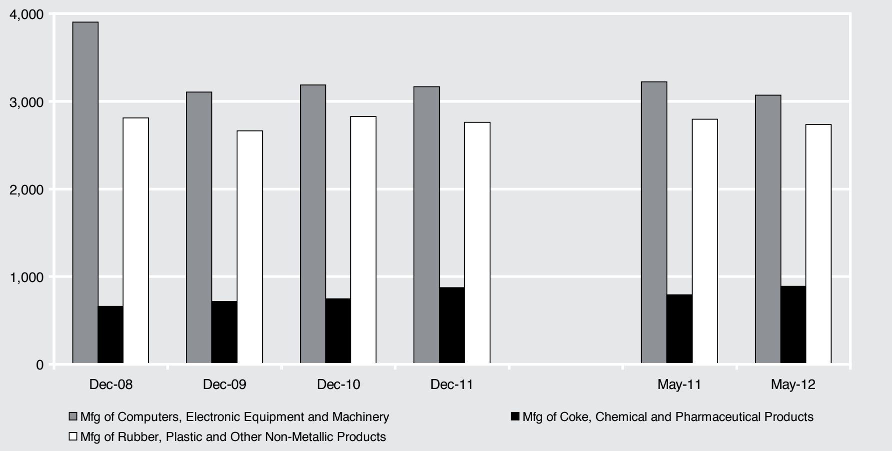
	2009 Dec	2010 Dec	2011 Dec	2011 May	2012 May
Mfg of Food Products, Beverages and Tobacco	3,268	3,291	3,281	3,207	3,245
Private	3,268	3,291	3,281	3,207	3,245
Public	0	0	0	0	0
Mfg of Textiles and Leather Products	933	919	936	918	930
Private	933	919	936	918	930
Public	0	0	0	0	0
Mfg of Wood and Printing	1,815	1,756	1,737	1,861	1,850
Private	1,757	1,700	1,682	1,806	1,793
Public	58	56	55	55	57
Mfg of Coke, Chemical and Pharmaceutical Products	719	747	873	794	890
Private	719	747	873	794	890
Public	0	0	0	0	0
Mfg of Rubber, Plastic and Other Non-Metallic Products	2,663	2,828	2,758	2,793	2,736
Private	2,663	2,828	2,758	2,793	2,736
Public	0	0	0	0	0
Mfg of Basic Metals and Fabricated Metal Products	1,500	1,687	1,543	1,455	1,380
Private	1,500	1,687	1,543	1,455	1,380
Public	0	0	0	0	0
Mfg of computer, electronic equipment and machinery	3,106	3,187	3,167	3,223	3,069
Private	3,106	3,187	3,167	3,223	3,069
Public	0	0	0	0	0
Mfg of Transport Equipment	810	905	885	1,077	1,008
Private	810	905	885	1,077	1,008
Public	0	0	0	0	0
Mfg of Furniture	1,321	1,342	1,243	1,259	1,223
Private	1,321	1,342	1,243	1,259	1,223
Public	0	0	0	0	0
Manufacturing n.e.c.	3,080	3,079	3,169	3,132	3,124
Private	2,718	3,032	3,160	3,122	3,116
Public	362	47	9	10	8
Total Manufacturing Employment	19,215	19,741	19,592	19,719	19,455

* Excluding temporary employees

Source: Employment and Training Corporation

Chart 3.4

Developments in Employment in Selected Manufacturing Sectors



21.4 per cent. At the same time, employment in the manufacturing of rubber, plastic and other non-metallic products subsector increased by 95 or 3.6 per cent.

During the same period, notable decreases in manufacturing employment were recorded in the manufacturing of wood and printing and the manufacturing of furniture subsectors. In fact, in December 2011, employment in the manufacturing of wood and printing sector declined by 78 or 4.3 per cent when compared to December 2009. During the same time, employment in the manufacturing of furniture declined by 78 or 5.9 per cent.

Following these developments, the largest shares in the manufacturing sector were accounted for by the manufacturing of food, beverages and tobacco, the manufacturing of computers, electronic equipment and machinery, manufacturing not elsewhere classified and manufacturing of rubber, plastic and other non-metallic products subsectors. Each of these subsectors accounted for around 16.0 per cent of total manufacturing employment.

Market Services

The drivers behind the growth recorded in the market services sector during the twelve months to May 2012 were the professional, technical and administrative activities, transport and storage, education, health and social work as well as art, entertainment and recreation subsectors. Notably, employment in the financial and insurance activities sector was relatively stable. The increase in employment registered during this period was driven by the private sector. In fact, total private sector employment increases amounted to 2,836 whereas increases in public sector employment amounted to 336. However, Table 3.6 shows that the public sector also contributed to employment growth in market services in previous years.

Table 3.7 shows that during the twelve months to May 2012, employment in the transport and storage sector increased by 422 or 4.9 per cent to 9,041. This was a continuation of the trend noted in previous years as employment within the sector increased from 8,677 in December 2009 to 8,953 in December 2011.

Employment in the accommodation and food services sector remained relatively stable throughout the years. Indeed, in May 2012 employment within the sector amounted to 9,351, a marginal decrease of 10 employees or 0.1 per cent over the same month in the previous year. When comparing December 2011 to December 2009, employment within the sector increased by 76 or 0.8 per cent.

In May 2012, employment in the financial and insurance activities increased by 92 or 1.4 per cent when compared to the same month in 2011. This contrasts with the significant growth rates recorded in previous years. Indeed, in December 2011 employment within the sector stood at 6,848, up by 527 or 8.3 per cent when compared to December 2009.

Changes in Employment in Market Services*

Table 3.6

	2010-09 Dec	**2011-10** Dec	**2012-11** May
Total Change	2,697	2,824	2,626
Private	2,395	2,066	2,822
Public	302	758	-196
Total Private Increases	3,912	3,382	2,836
Total Public Increases	2,091	2,792	336
Total Private Decreases	-1,517	-1,316	-14
Total Public Decreases	-1,789	-2,034	-532

*Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

Employment in Market Services*

Table 3.7

	2009 Dec	2010 Dec	2011 Dec	2011 May	2012 May
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	22,652	22,945	22,919	23,115	23,264
Private	22,652	22,945	22,919	23,115	23,264
Public	0	0	0	0	0
Transport and Storage	8,677	8,710	8,953	8,619	9,041
Private	6,391	6,454	6,766	6,362	7,046
Public	2,286	2,256	2,187	2,257	1,995
Accomodation and food service activities	9,379	9,474	9,455	9,361	9,351
Private	9,312	9,406	9,455	9,304	9,351
Public	67	68	0	57	0
Information and communication	4,650	4,887	4,951	4,868	4,874
Private	4,212	4,438	4,525	4,433	4,429
Public	438	449	426	435	445
Financial and insurance activities	6,321	6,629	6,848	6,750	6,842
Private	5,702	5,983	6,202	6,114	6,197
Public	619	646	646	636	645
Real estate activities	950	985	972	1,020	1,011
Private	928	964	948	1,002	992
Public	22	21	24	19	19
Professional, technical and administrative activties	12,478	13,188	13,720	14,320	15,157
Private	11,663	12,361	12,915	13,381	14,230
Public	815	827	805	939	927
Public Administration	10,851	10,698	10,700	10,705	10,504
Private	8	8	10	0	0
Public	10,843	10,690	10,690	10,705	10,504
Education	13,123	13,331	13,578	13,349	13,641
Private	3,741	3,796	3,990	3,661	3,870
Public	9,382	9,535	9,588	9,688	9,771
Health and social work	10,686	7,565	12,140	11,836	12,350
Private	2,311	794	2,637	2,553	2,852
Public	8,375	6,771	9,503	9,283	9,498
Arts, entertainment and recreation	3,038	6,928	3,802	3,580	4,027
Private	2,491	4,494	3,220	3,043	3,472
Public	547	2,434	582	537	555
Other service activties	3,255	3,417	3,543	3,289	3,377
Private	3,253	3,416	3,538	3,285	3,372
Public	2	1	5	4	5
Total Employment in Market Services	106,060	108,757	111,581	110,813	113,439

* Excluding temporary employees

**Includes Persons Employed with Private Households

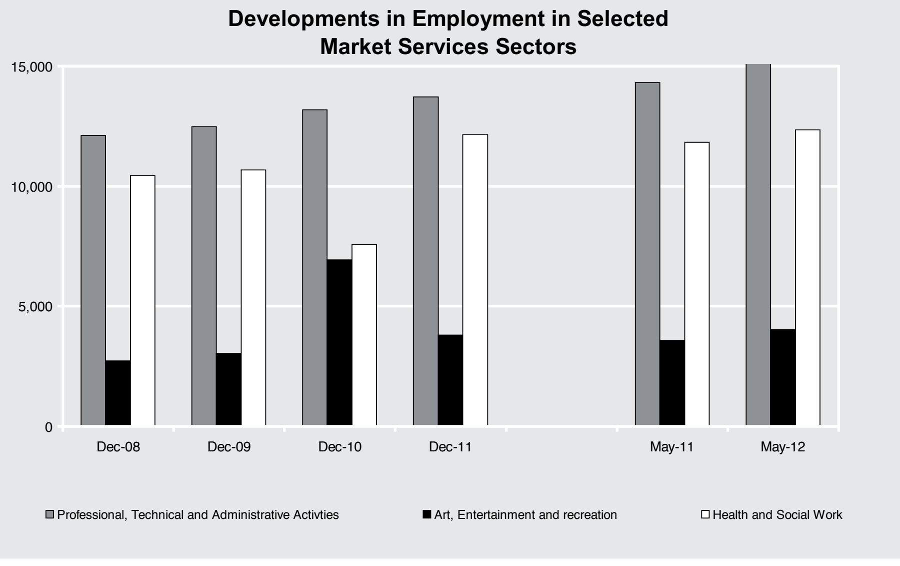
Source: Employment and Training Corporation

Chart 3.5 shows that employment in professional, technical and administrative activities increased by a significant 837 or 5.8 per cent over the year to May 2012. These increases were primarily driven by developments in office administration and business support activities as well as legal activities, management consultancy activities and security and investigation activities. Significant increases were also recorded in previous years. In December 2011, employment in professional, technical and administrative activities grew by 1,242 or 10.0 per cent when compared to December 2009.

During the year to May 2012, a notable decline was recorded in public administration employment. Indeed, the number of persons employed within this sector fell by 201 or 1.9 per cent to 10,504. Similar developments were noted in previous years when public administration employment fell from 10,851 in December 2009 to 10,700 in December 2011.

Over the twelve months to May 2012, employment in education increased by 292 or 2.2 per cent to 13,641. Notably, more than two-thirds of this increase was driven by increases in private sector employment. During the same period employment in health and social work increased by 514 or 4.3 per cent to 12,350. Similar developments were noted in previous years for both these sectors. In fact, over the period from December 2009 to December 2011 employment in the education sector grew by 455 or 3.5 per cent while employment in the health and social work sector grew by 1,454 or 13.6 per cent.

Chart 3.5



Other notable developments took place in the arts, entertainment and recreation sector. Indeed, during the year to May 2012 employment in this sector grew by 447 or 12.5 per cent to 4,027. This is a continuation of the trend noted in previous years. Indeed, in December 2011 employment within the sector grew by 764 or 25.1 per cent when compared to December 2009.

The largest shares in employment within the market services sector are accounted for by wholesale and retail trade, professional, technical and administrative activities as well as education, health and social work.

Unemployment

The analysis in this section relates to data for September 2012 and focuses only on persons listed under Part I of the Register. These include new job-seekers who left school, re-entrants into the labour market and job losers who have been made redundant. The analysis therefore excludes those unemployed persons that fall under part II of the Register, that is, workers who have been dismissed from work due to disciplinary action, those who left work on their own free will, refuse work or training opportunities or were struck off the Register after an inspection by law enforcement personnel.

Table 3.8 shows that during the twelve months to September 2012 the number of unemployed persons under Part I of the Register increased by 347 to stand at 6,241. Out of these, 43.7 per cent have been registering for a period between 9 to 48 weeks, an increase of 7.0 percentage points when compared to September 2011. In contrast, the share of the long-term unemployed in total unemployment (defined as those unemployed for over 48 weeks) declined by 5.9 percentage points to 35.1 per cent. At the same time, the share of persons registering for less than 9 weeks declined by 1.1 percentage point to 21.2 per cent.

In terms of age distribution, Table 3.9 shows that the share of old and young cohorts in total unemployment declined. In fact, the share of those aged between 16 and 24 years in total unemployment decreased from 18.0 per cent in September 2011 to 10.7 per cent in September 2012 while the share of those aged over 49 years declined from 28.7 per cent in September 2011 to 25.3 per cent in September 2012. At the same time, the share of persons aged between 25 and 49 years in total unemployment increased by 10.7 percentage points to 64.0 per cent.

Registered Unemployed*
by duration of registration

Table 3.8

	Registered Unemployed	under 9 weeks %	9 - 48 weeks %	over 48 weeks %
2007	5,469	19.6	37.4	43.0
2008	5,785	21.0	39.1	39.9
2009	6,952	20.4	40.3	39.3
2010	5,986	19.8	38.2	42.0
2011	5,924	19.5	40.2	40.3
2011 (Sep)	5,894	22.3	36.7	41.0
2012 (Sep)	6,241	21.2	43.7	35.1

*Includes Part I of the Registered Unemployed

Source: Employment and Training Corporation

Registered Unemployed*
by age distribution

Table 3.9

	Registered Unemployed	16 - 24 years %	25 - 49 years %	over 49 years %
2007	5,469	20.6	58.9	20.5
2008	5,785	18.6	58.1	23.3
2009	6,952	19.5	55.5	25.0
2010	5,986	17.5	54.4	28.1
2011	5,924	17.1	53.4	29.5
2011 (Sep)	5,894	18.0	53.3	28.7
2012 (Sep)	6,241	10.7	64.0	25.3

*Includes Part I of the Registered Unemployed

Source: Employment and Training Corporation

Table 3.10 shows data for the registered unemployed classified by occupation as at September 2012. The increase in unemployment recorded during the year to September 2012 was reflected in a higher share of unemployment related to the non-manual category. Indeed, the share of the non-manual category unemployment in total unemployment increased by 1.3 percentage points to 44.0 per cent while the share of the manual category declined by 2.4 percentage points to 47.9 per cent. The largest share in the non-manual category relate to clerical, technological and professional work while the largest shares in the manual category relate to labouring and construction. The miscellaneous category constitutes a large share in both manual and non-manual categories.

Registered Unemployed Classified by Occupation*

at September 2012

Table 3.10

	Registered Unemployed			Percentage Share		
	Males	Females	Total	Males	Females	Total
Non-Manual						
Clerical & related workers	492	474	966	10.2	33.1	15.5
Supervisory	35	1	36	0.7	0.1	0.6
Technological & professional	692	163	855	14.4	11.4	13.7
Miscellaneous non-manual	554	332	886	11.5	23.2	14.2
Total Non-Manual	1,773	970	2,743	36.9	67.7	44.0
Manual						
Agriculture	208	0	208	4.3	0.0	3.3
Construction	493	0	493	10.3	0.0	7.9
Textiles	2	4	6	0.0	0.3	0.1
Printing	3	0	3	0.1	0.0	0.0
Metal working	167	1	168	3.5	0.1	2.7
Catering	171	36	207	3.6	2.5	3.3
Other services	403	147	550	8.4	10.3	8.8
Labouring	497	70	567	10.3	4.9	9.1
Miscellaneous	668	117	785	13.9	8.2	12.6
Total Manual	2,612	375	2,987	54.3	26.2	47.9
Disabled persons	424	87	511	8.8	6.1	8.2
Total	4,809	1,432	6,241	100.0	100.0	100.0

*Includes Part I of the Registered Unemployed

Source: Employment and Training Corporation

Part-Time Activity

As in recent years, during the year to May 2012 part-time employment was on the increase. Indeed, during these twelve months total part-time employment rose by 3,127 or 6.1 per cent to 54,370. From a longer term perspective, by the end of December 2011 total part-time employment increased by 5,397 or 11.2 per cent when compared to the same month in 2009.

These developments reflect increases in both male and female employment. In fact, during the year to May 2012 male part-time employment increased by 1,350 or 4.9 per cent while female part-time employment increased by 1,777 or 7.5 per cent. Consequently, in May 2012 the total number of part-time males and females stood at 28,904 and 25,466 respectively.

The noted upward trend in part-time employment reflects increases in both part-timers holding a full-time job and part-time as a primary job. However, part-time as a primary job accounted for more than two-thirds of the increase in total part-time employment such that the share of part-timers holding a fulltime job declined to 42.8 per cent while the share of persons holding a part-time as their primary job increased to 57.2 per cent. Notably, Table 3.11 shows that the larger share of part-timers holding a full-time job is the male category. The opposite holds true in the case of part-time as a primary job, where females account for the larger share.

Part-Time Employment

Table 3.11

	2009 Dec	**2010** Dec	**2011** Dec	**2011** May	**2012** May
Part-Timers holding a full-time job	20,903	22,249	23,239	22,267	23,268
Males	14,796	15,488	15,953	15,501	15,933
Females	6,107	6,761	7,286	6,766	7,335
Part-Timers as a primary job	27,140	28,245	30,201	28,976	31,102
Males	11,015	11,744	12,559	12,053	12,971
Females	16,125	16,501	17,642	16,923	18,131
Total Part-Time Employment	48,043	50,494	53,440	51,243	54,370
Males	25,811	27,232	28,512	27,554	28,904
Females	22,232	23,262	24,928	23,689	25,466

Source: Employment and Training Corporation

Indeed, during the year to May 2012, the number of females with part-time as their primary job increased by 1,208 or 7.1 per cent to 18,131 while the number of males increased by 918 or 7.6 per cent to 12,971. During the same period, male part-timers holding a full-time job increased by 432 or 2.8 per cent to 15,933 while females part-timers increased by 569 or 8.4 per cent to 7,335.

Footnote:

[1] The structure of the tables in this Chapter and the period of statistical coverage used for this Economic Survey differs from that of previous Economic Surveys due to the adoption of the new NACE Rev 2 classification by the Employment and Training Corporation in the compilation of labour market information.

4. Productive Activities

4. Productive Activities

The sharp deterioration in international trade in the aftermath of the severe international recession had a strong impact on the Maltese industry during 2008 and 2009. However, positive signs of recovery were noted in 2010 and in a slightly less pronounced manner in 2011. Such signs of recovery were felt mostly in the sectors which are mainly domestically-oriented. Positive developments are even stronger for the first seven months of 2012 as domestic sales continued to grow significantly.

The first part of this Chapter looks at the Industrial Index and analyses the performance of the local industry. Turnover is deflated by use of the Industrial Producer Prices Index. The number of hours worked are used for those enterprises for which no production quantities are collected. It is important to note that these indicators are classified according to NACE Rev. 2, which is the latest methodology adopted by National Statistics Office (NSO) and are presented as indices using 2005 as the base year. Appendix Table 4.1 provides percentage growth rates of various indicators for the industry while Appendix Table 4.2 provides percentage growth rates of various indicators for the manufacturing sector at sub-sectoral level.

Activity in the local industry is composed of mining and quarrying, manufacturing, and electricity and water supply. As can be shown in Chart 4.1, following the contraction recorded in 2009, the total turnover index increased notably by 18.1 per cent in 2010 and continued to increase, albeit at the marginal rate of 0.3 per cent in 2011. In the seven months to July 2012, the turnover index increased by 4.4 per cent when compared to the same period last year mainly on the back of a significant increase in domestic sales and a marginal increase of 0.5 per cent in export sales. At a sectoral level, this development is mainly attributed to increases in the turnover index of mining and quarrying and electricity and water supply sectors. Developments in the total industry index are depicted in Chart 4.1 while Chart 4.2 illustrates performances in the industry's export and domestic sales index in the period under review.

The performance recorded for wages and salaries during 2009 and 2010 was subdued, showing declines of 11.9 per cent and 1.5 per cent respectively. However, a 4.0 per cent recovery in the wages and salaries index was recorded in 2011. This recovery is also evident during the first seven months of 2012, where wages and salaries increased by 3.0 per cent. As illustrated in Chart 4.3, this is not consistent with the performance reported for employment levels and hours worked, which recorded decreases of 1.0 per cent and 0.5 per cent

Chart 4.1

Developments in the Industrial Turnover

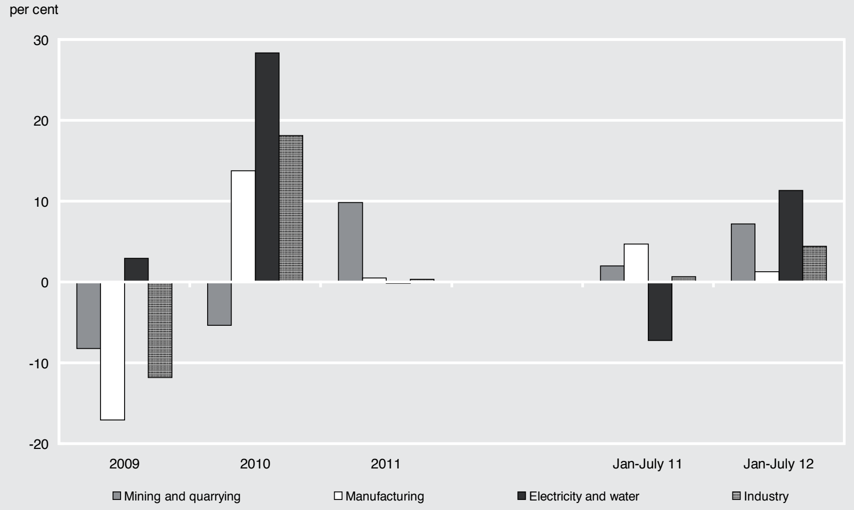


Chart 4.2

Developments in Exports and Domestic Sales

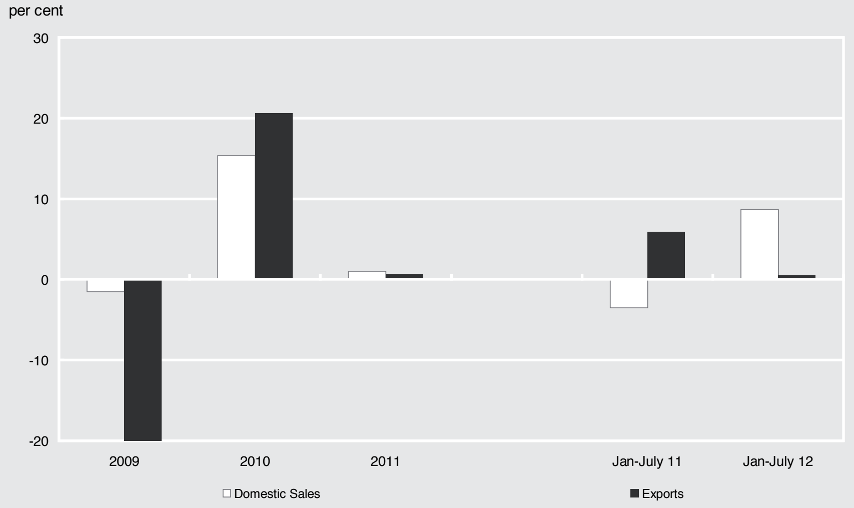
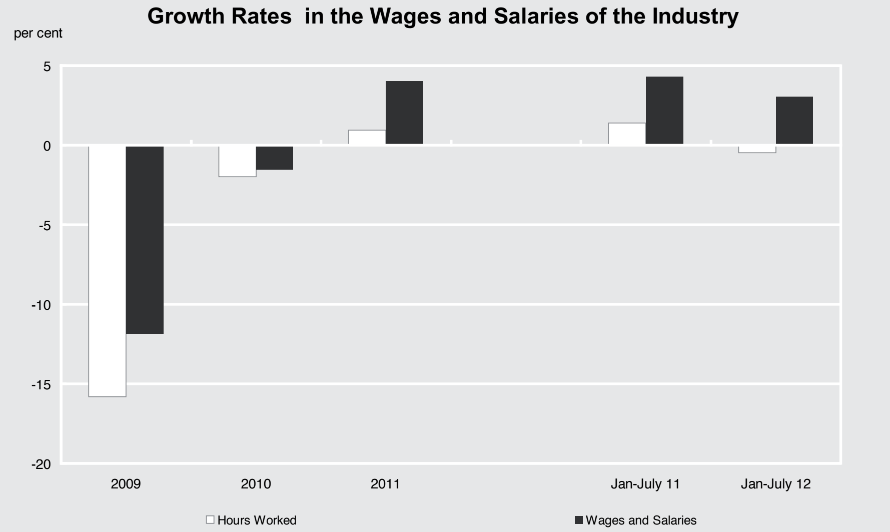


Chart 4.3



respectively over the January-July period. The following section provides a brief sectoral analysis covering indicators for total turnover, export sales, domestic sales and wages and salaries.

The negative performance of the mining and quarrying sector evidenced in 2009 and 2010 was reversed following a significant increase of 9.8 per cent in 2011. This positive performance persisted also during the first seven months of 2012 as the turnover index increased by 7.2 per cent when compared to the same period of the previous year. At the same time, the supply-side reported a decline in its performance. Indeed, the wages and salaries index decreased by 3.2 per cent over the same period due to lower employment levels and hours worked.

The manufacturing sector continued its recovery in 2011 as the total turnover index increased marginally by 0.5 per cent. A similar performance is evident in the first seven months of 2012 as the total turnover index increased by 1.3 per cent over the same period. This reflects increases in both domestic and export sales, which grew by 3.9 per cent and 0.5 per cent respectively when compared to the same period last year, as shown in Chart 4.4. Notwithstanding these developments, employment levels were on the downside, declining by 0.2 per cent when compared to the same comparable period. Conversely, both hours worked and the wages and salaries index increased during the January-July 2012 period, the latter increasing by 3.6 per cent when compared to the same period last year. The developments in wages and salaries in the manufacturing

Chart 4.4

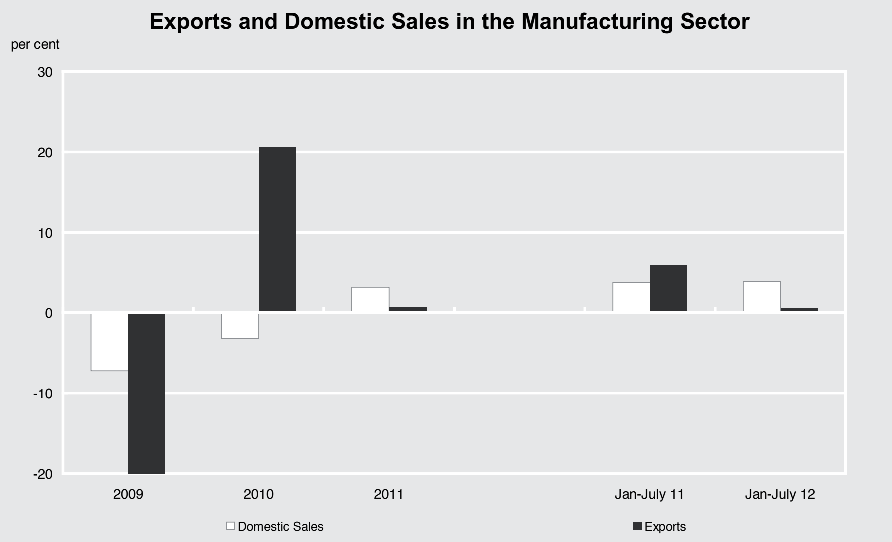
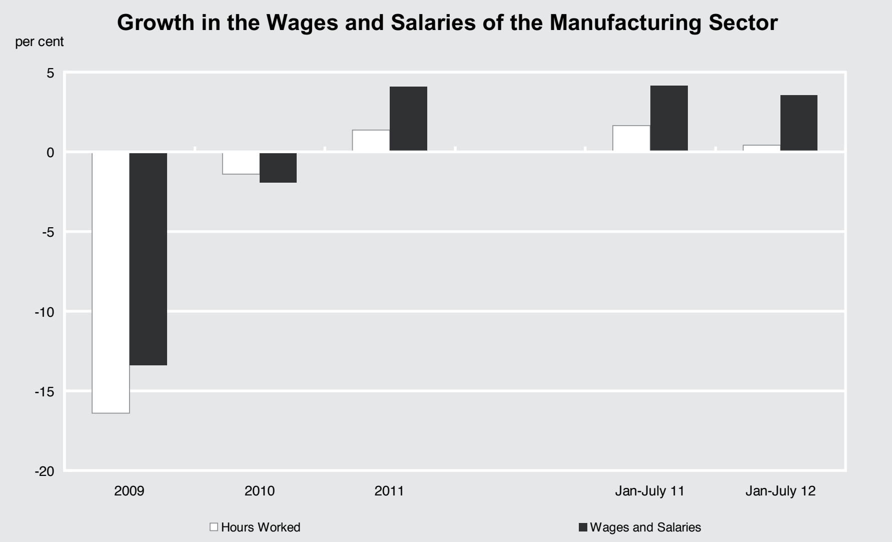


Chart 4.5



sector are depicted in Chart 4.5.

The electricity and water supply sector reported a decline of 0.2 per cent in its turnover index for 2011 when compared to 2010. In the first seven months of 2012, the electricity and water supply sector registered an increase of 11.3 per cent in the turnover index when compared to the same comparable period of the previous year. At the same time, the wages and salaries index rose by 0.8 per cent, despite declines of 6.6 per cent and 6.2 per cent respectively in hours worked and employment levels over the same period of last year.

Notwithstanding its small size, the local agricultural and fisheries sector represents an important activity in the Maltese Islands. In 2011, agricultural factor income at current prices suffered a decrease of 9.9 per cent over the preceding year. Final production at basic prices experienced an increase of 1.6 per cent over the previous year driven by an increase in crop products and other animal products. During the first half of 2012, the industry's share on total gross value added accounted for 1.6 per cent, registering only a marginal decline compared to a share of 1.7 per cent registered in the same period last year. During the period January-August 2012, the total value of imports of major agricultural commodities incremented by 13.4 per cent when compared to the same period of the previous year. The total volume of slaughtering in the first eight months of 2012 decreased by 15.3 per cent when compared to the same period in 2011 whereas the value of fish landings increased by 9.7 per cent over the same comparative period.

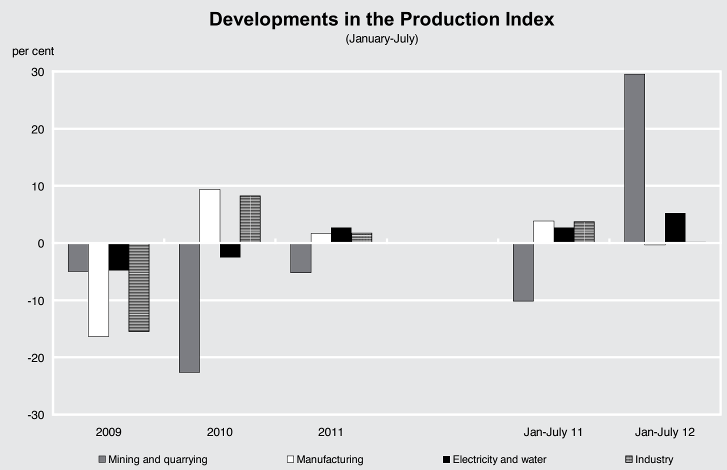
Box 4.1

The Industrial Production Index

The Industrial Production Index is a measure of economic activity and developments in this index can be used to describe the economic cycles of industry. The index monitors the changes in production in leading products from a sample of industrial enterprises and is compiled with 2005 as a base year. These sampled enterprises cover over 95 per cent of total industrial production. The index is classified according to Nace Rev. 2.

In 2011, the overall industrial production index increased by 1.7 per cent, following the recovery in 2010. In the first seven months of 2012, the overall industrial production index increased marginally by 0.1 per cent, when compared to the 3.7 per cent growth rate registered in the index for the January-July 2011 period. This was mainly underpinned by increases in the production index of the mining and quarrying and energy sectors, while the manufacturing sector reported a marginal decline in its production index. The growth performance in the industrial production index for the period under review is illustrated in Chart 1.

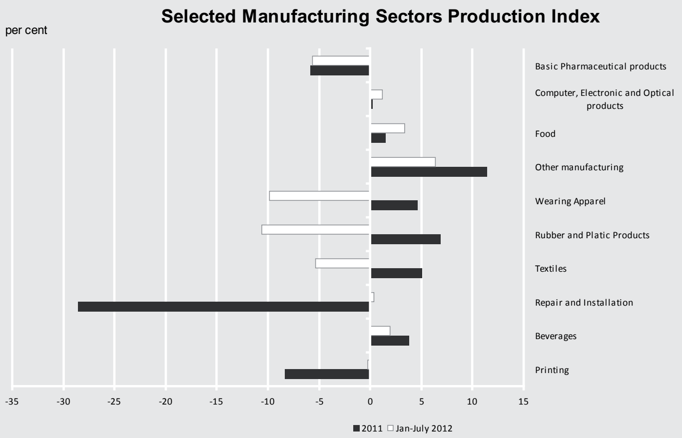
Chart 1



Box 4.1 cont.

The manufacturing sector's production index has declined by 0.3 per cent in January-July 2012 compared to a growth rate of 3.8 per cent in the production index recorded over the same comparable period last year. This mainly reflects declines in the manufacture of leather and related products (10.7 per cent), rubber and plastic products (10.6 per cent), wearing apparel (9.8 per cent), non-metallic mineral products (8.2 per cent), basic pharmaceutical products (5.6 per cent) and textiles (5.3 per cent). On the other hand, sub-sectors which reported an increase in the production index include the manufacture of chemicals and chemicals products (9.5 per cent), other manufacturing (6.3 per cent) and food products (3.3 per cent). The developments in the Production Index for the main manufacturing sectors are depicted in Chart 2.

Chart 2



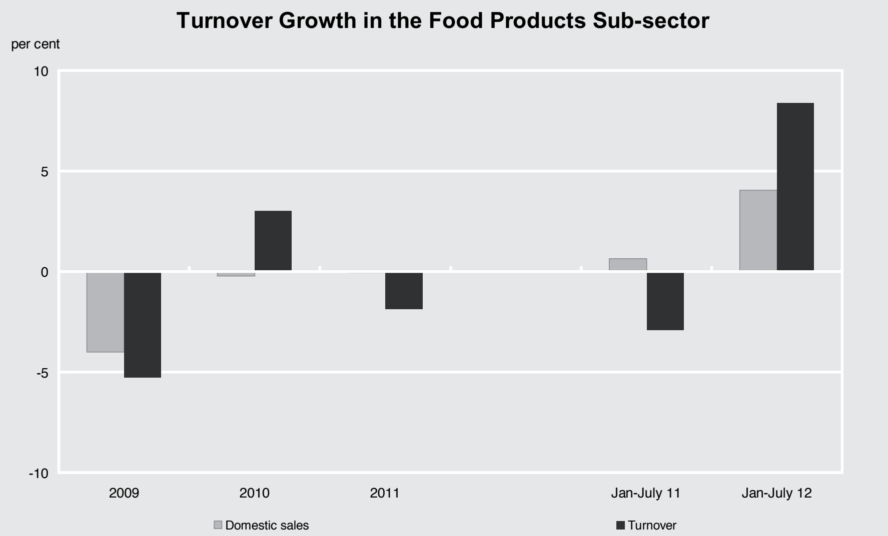
This Chapter proceeds with an analysis of the performance of the main sub-sectors of the domestic manufacturing industry, focusing on the main trends emanating from short-term cyclical indicators.

Domestic Manufacturing Performance

Food Products

The larger share of production in the manufacture of food products is oriented towards the domestic market. The total turnover index was relatively volatile

Chart 4.6



during the 2009-2011 period. As illustrated in Chart 4.6, the total turnover index for January-July 2012 increased by 8.4 per cent. This reflects a significant increase in export growth and in the domestic sales index of 21.6 per cent and 4.1 per cent respectively, for the period under review.

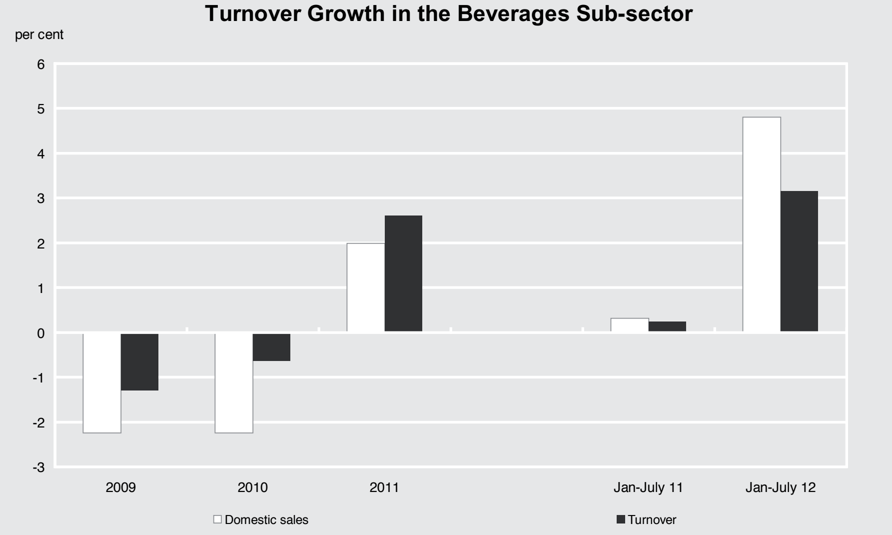
Moreover, employment levels increased by 5.6 per cent during the first seven months of 2012, following a decline of 3.3 per cent in the same period for 2011. At the same time, hours worked increased by 4.4 per cent. Consequently, these developments gave rise to an increase of 7.5 per cent in the wages and salaries index when compared to the previous comparable period.

Beverages

The manufacture of beverages is almost exclusively wholly oriented towards the local market. The total turnover index rose by 2.6 per cent in 2011, over the levels reported for 2009 and 2010. This is mainly due to increases in domestic sales of around 2 per cent. It is noteworthy to highlight that exports experienced positive developments as well. As shown in Chart 4.7, this sub-sector's turnover increased in January-July 2012 when compared to the comparable 2011 period. This is mainly reflected in an increase in domestic sales of 4.8 per cent. On the other hand, export sales declined during the same period under review.

Following the declines recorded in the 2009-2011 period, employment recovered

Chart 4.7



during the first seven months of 2012 and registered an increase of 3.5 per cent. For 2011, the wages and salaries index registered a moderate increase despite the declines reported in both the employment levels and hours worked in the same period.

Wearing Apparel

The manufacture of wearing apparel sub-sector is largely export-oriented and has been facing increased international competition especially from manufacturers in low-cost locations. As shown in Chart 4.8, the downward trend in the total turnover index persisted for the first seven months of 2012. This was mainly underpinned by declines in domestic and export sales of 15.0 per cent and 14.2 per cent respectively, for the period under review. Furthermore, declines in employment levels are also evident for the same period. At the same time, wages and salaries increased significantly by around 15 per cent while hours worked increased by 4.0 per cent.

Printing and Reproduction of Recorded Media

The printing and reproduction of recorded media sub-sector is largely directed towards the international market. Following the declines experienced in the turnover index for 2010 when compared to 2008 and 2009, the index reported a significant increase of 25.5 per cent for 2011. However, a decline of 1.6 per cent is reported in the turnover index for the first seven months of 2012. This reflects

Chart 4.8

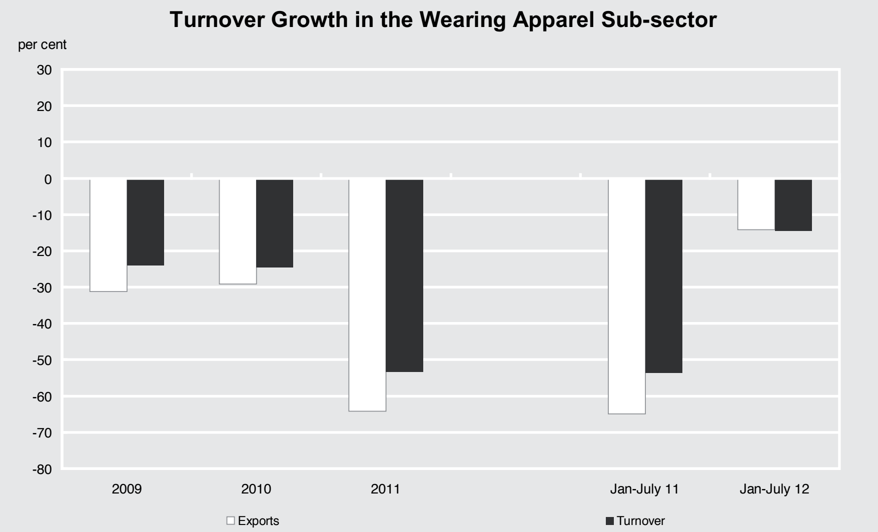
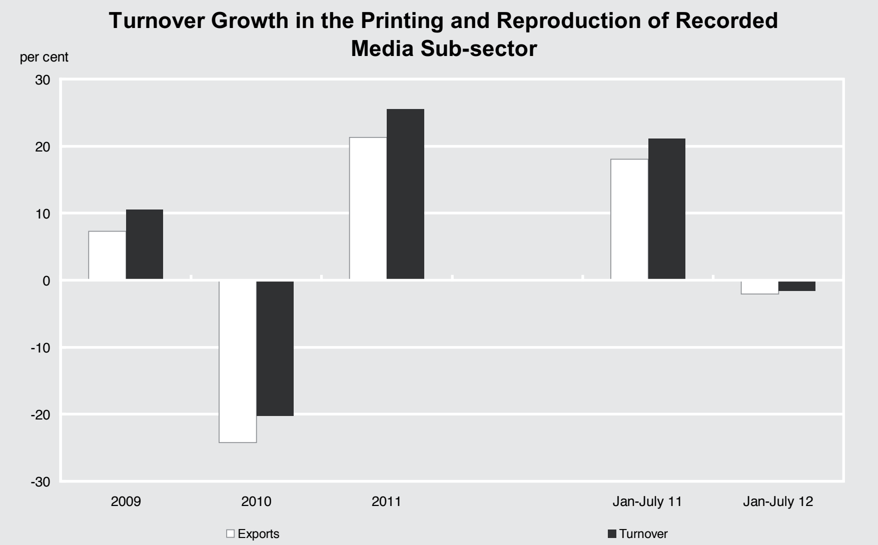


Chart 4.9



declines in domestic and export sales of 2.2 per cent and 2.1 per cent respectively for the same period under review. During the same period, employment levels decreased by 2.7 per cent. On the contrary, both hours worked and wages and salaries increased by 1.5 per cent and 7.7 per cent respectively, during the same period. These developments are shown in Chart 4.9.

Basic Pharmaceutical Products

Following the decline in performance in 2009 and the pick up in the turnover index during 2010, the basic pharmaceutical products sub-sector recorded a decline of 0.8 per cent in 2011. However, in January-July 2012, the turnover index registered a significant increase of 9.8 per cent stemming from increases in both domestic and export sales, as shown in Chart 4.10.

During the January-July 2012 period, employment levels increased by 7.2 per cent, pushing up the wages and salaries index by 14.0 per cent when compared to the same period a year earlier. At the same time, hours worked increased by 11.6 per cent.

Rubber and Plastic Products

The production of the rubber and plastic products sub-sector is mainly directed towards the international market. As illustrated in Chart 4.11, this sub-sector

Chart 4.10

Turnover Growth in the Basic Pharmaceuticals Sub-sector

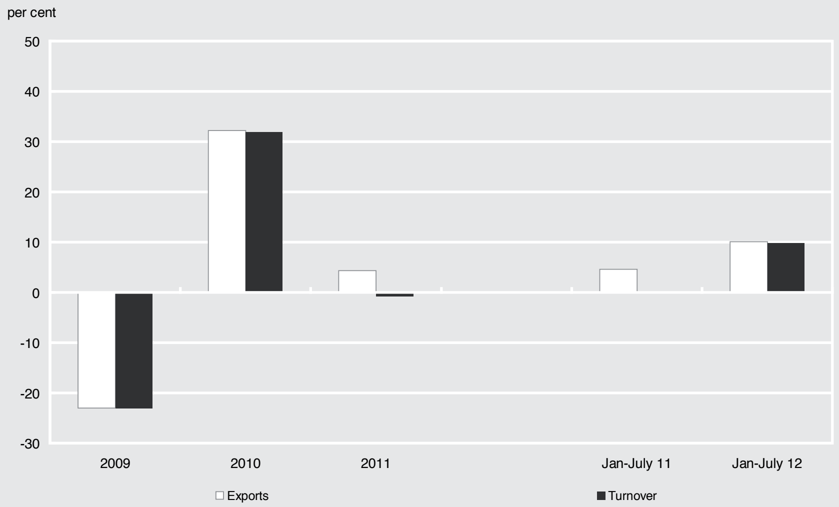
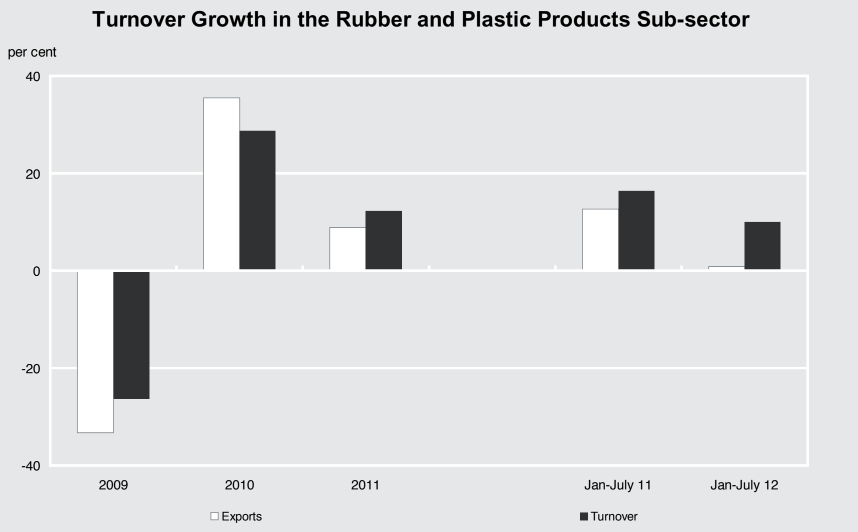


Chart 4.11



experienced a pronounced downturn in 2009 which was reversed in the following years. This positive performance was sustained during the first seven months of 2012 as turnover increased by 10.0 per cent when compared to the same period last year. This positive performance was mostly underpinned by a rise in domestic sales of 32.9 per cent as export sales evidenced a marginal increase.

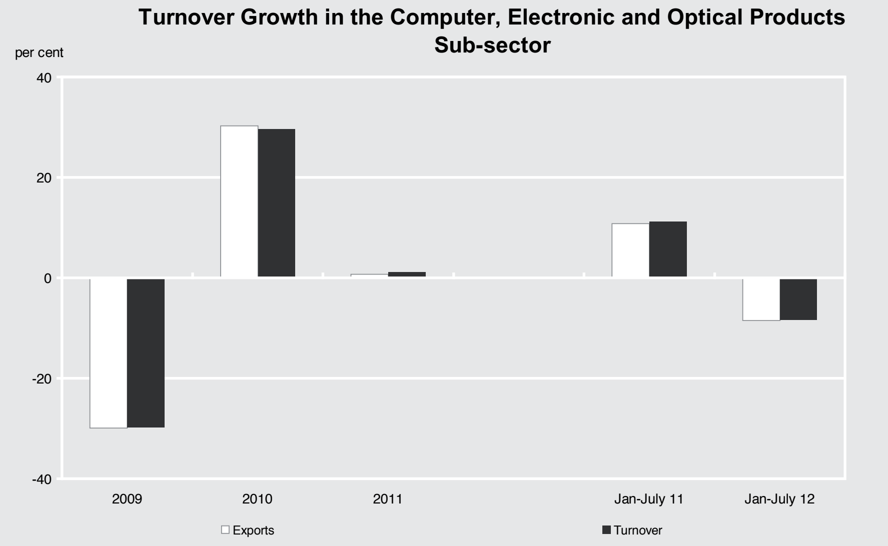
Positive performances are also evident from the supply-side of this sub-sector as employment levels and hours worked rose by 3.4 per cent and 6.8 per cent, respectively, resulting in an increase in wages and salaries of 4.5 per cent over the January-July 2012 period.

Computer, Electronic and Optical Products

The manufacture of computer, electronic and optical products sub-sector is almost exclusively export-oriented. This sub-sector mainly consists of a small number of relatively large foreign subsidiaries whose main activity involves the production of electronic products, for which demand is very sensitive to international economic developments.

As can be shown in Chart 4.12, following the negative performance in 2009, this sub-sector recovered in the following years. The turnover index for 2011

Chart 4.12



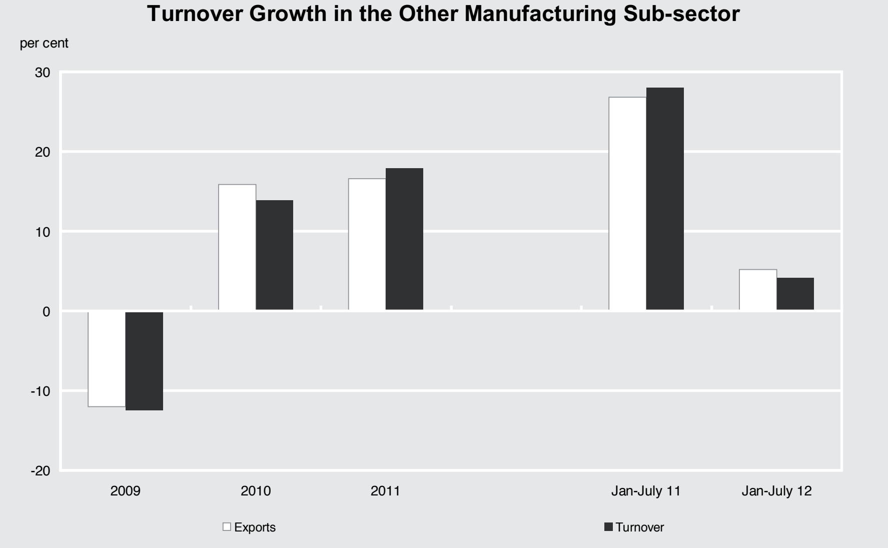
increased marginally by 1.2 per cent. However, a decline of 8.4 per cent in the turnover index is evident for the first seven months of 2012. This is the result of declines in both domestic and export sales.

During the same period, both employment levels and hours worked registered a decline of 4.1 per cent, contributing to a decline of 3.7 per cent in the wages and salaries index.

Other Manufacturing

This sub-sector involves mainly firms engaged in the manufacture of toys, games and jewellery items which are mostly directed towards the export market. As is illustrated in Chart 4.13, the total turnover index experienced a downturn in 2009 which was reversed in the following years. In the first seven months of 2012, the turnover index increased by 4.1 per cent when compared to the same comparable period last year. This reflects growth in export sales of 5.2 per cent which was partly offset by a decrease in domestic sales. Furthermore, wages and salaries increased by 7.2 per cent during the same period, underpinned by a rise in hours worked.

Chart 4.13



Agriculture and Fisheries

The agriculture and fisheries sector provides a small contribution to the Maltese economy. Nevertheless, this sector still maintains its importance due to its impact on the environment and landscape. The local agricultural sector also contributes to the welfare of the farming community by maintaining the framework whereby the diverse produce is marketed and distributed. Moreover, the fishing industry contributes to the local heritage and also to the tourism industry. The decline in the share of gross value added of the agriculture and fisheries sector in the total economy which was observed during the recent past has somewhat stabilised since 2009. Indeed, during the first half of 2012, the sector's share on total gross value added stood at 1.6 per cent compared to a share of 1.7 per cent recorded in the same period last year. What follows is a review of the Economic Accounts for Agriculture for 2011. Furthermore, the latest developments in the agriculture and fisheries industries are presented based upon the most recently available data for 2012.

Economic Accounts for Agriculture

Malta's agricultural activities include the production of fruit and vegetables, livestock, and dairy products. In turn, this produce serves as an input for the processing of meat and meat preparations, canning of fruit and vegetables, animal feeds, and wines. Due to their small size, local agricultural activities lack economies of scale, while operators in this sector also encounter challenges concerning scarce water supply and fragmented land ownership.

The Economic Accounts for Agriculture which are published by the National Statistics Office (NSO) comprise agricultural statistics based on methodologies according to the Economic Accounts for Agriculture and Forestry as well as the revised methodology on Agriculture Labour Input Statistics. Thus, these are not directly comparable with data presented in other Chapters of this Economic Survey.

Agricultural factor income at current market prices decreased by 9.9 per cent in 2011 when compared to the previous year, reaching €70.5 million. This decline was mainly the result of a decrease in subsidies not directly linked with production. There was also an increase in intermediate consumption as well as lower subsidies on production. These developments more than outweighed the increase in total final production at producer prices. Developments in factor income at current prices for the period 2008-2011 are presented in Table 4.1.

As portrayed in Table 4.2, entrepreneurial income decreased by 10.9 per cent in 2011 when compared to 2010, reaching €64.4 million. The share of entrepreneurial income in factor income at market prices in 2011 amounted

Agriculture Factor Income at Current Prices

Table 4.1 — € thousand

	2008	2009	2010	2011
Total final production at producer prices	127,181	125,272	123,028	126,714
add subsidies on production	9,635	4,673	3,414	1,792
Total final production at basic prices	136,815	129,944	126,442	128,506
less intermediate consumption	80,221	69,724	67,680	70,563
Gross value added at basic prices	56,594	60,221	58,762	57,943
less fixed capital consumption	3,992	4,307	5,345	4,747
Net value added at basic prices	52,603	55,914	53,417	53,196
add other subsidies not directly linked with production	7,684	13,168	24,804	17,263
Factor income at current prices	60,287	69,082	78,220	70,458

Source: National Statistics Office

Distribution of Factor Income
(at Current Prices)

Table 4.2 — € thousand

	2008	2009	2010	2011
Factor Income	60,287	69,082	78,220	70,458
Entrepreneurial income (profits)	54,596	63,306	72,269	64,386
Compensation of employees (wages)	4,443	4,426	4,609	4,693
Interest	764	842	840	883
Rents	484	507	502	496

Source: National Statistics Office

to 91.4 per cent, representing a 1.0 percentage point decline over the previous year. Compensation of employees experienced a slight increase, reaching €4.7 million in 2011. Interest also increased, reaching €0.9 million while rent remained stable at €0.5 million.

Table 4.3 presents final production at basic prices by type of product. During 2011, final production at basic prices increased by 1.6 per cent over the previous year, reaching €128.5 million. This increase was mainly the results of the contribution of other animal products and crop products which increased by 5.9 per cent and 4.0 per cent respectively. On the other hand, secondary activities and livestock products declined by 3.2 per cent and 2.4 per cent respectively during the same comparative period.

Annual producer price indices related to agricultural products for the period 2009-2011 are shown in Table 4.4. Changes in the prices of fruit, vegetables and animal products are reflected in the output price indices. On the other hand, input price indices reflect the purchase prices of raw materials and services derived from the other industries. As a result, changes in the output and input indices impact directly on the performance and profitability of the agricultural sector. The data shows a relatively higher increase in the input expenses incurred in 2011 when compared to the prices of agricultural products during the same period.

In 2011, the output index increased by 2.3 per cent when compared to the previous year. This increase mainly resulted from increases registered in the output index of animal products as well as the animals' output index which

Final Production at Basic Prices by Type of Product

(at Current Market Prices)

Table 4.3 — € thousand

	2008	2009	2010	2011
Final production at basic prices	136,815	129,944	126,442	128,506
Livestock products	49,542	45,959	45,256	44,172
Other animal products	28,180	25,615	24,083	25,494
Crop products	51,209	50,527	49,452	51,431
Secondary activities	7,885	7,843	7,650	7,409

Source: National Statistics Office

Annual Producer Price Indices for Agricultural Products

(2005 = 100)

Table 4.4

	Weight	2009	2010	2011
Output Index at Producer Prices	**100.0**	**116.4**	**114.2**	**116.8**
Forage	2.8	119.5	116.6	130.4
Potatoes	6.5	125.4	119.5	113.1
Fresh vegetables	22.0	117.8	108.6	103.5
Fruit	4.8	117.1	118.6	103.7
Animals	42.9	109.7	111.0	113.7
Animal products	21.0	125.2	123.4	139.2
Input Index at Producer Prices	**100.0**	**120.3**	**124.3**	**138.8**
Goods and Services Currently Consumed in Agriculture	**91.7**	**120.9**	**125.5**	**140.9**
Seeds and planting stock	4.1	120.3	130.8	130.0
Energy; lubricants	11.1	115.9	130.7	153.1
Fertilisers and soil improvers	1.7	160.4	153.2	156.0
Plant protection products and pesticides	0.9	127.1	146.4	133.9
Veterinary expenses	2.3	117.3	119.7	128.2
Animal feeding stuffs	46.7	119.5	121.9	146.3
Maintenance of materials	9.0	127.5	128.5	130.0
Maintenance of buildings	4.1	105.5	110.3	113.7
Other goods and services	11.9	126.3	131.9	129.3
Goods and Services Contributing to Agricultural Investment	**8.3**	**112.8**	**111.7**	**115.3**

Source: National Statistics Office

increased by 12.8 per cent and 2.4 per cent respectively. The output index of forage increased by 11.8 per cent during the same period, nevertheless, due to its lower weight on the total index, it contributed only marginally to the overall increase. These developments more than outweighed the declines registered in fruit, potatoes and fresh vegetables indices which in 2011 declined by 12.6 per cent, 5.4 per cent, and 4.7 per cent respectively when compared to the previous year.

The input index experienced an increase of 11.7 per cent in 2011 over the previous year. This increase was underpinned by increases in animal feeding stuffs index and the energy and lubricant index, which increased by 20.0 per cent and 17.1 per cent respectively.

Fisheries

Even though the Maltese fisheries sector is small in size, it provides an important contribution to the socio-economic and environmental wellbeing of the Maltese

Box 4.2

Recent Developments in the Agricultural Sector

During the period January-September 2012, the amount of aid provided by Government through the Agriculture Support Scheme amounted to €2.4 million. The financial and incentive scheme provided under the Special Market Programme for Maltese Agriculture assists the local agricultural industry in adapting to the liberalisation of trade following the removal of levies that were imposed on imported agricultural and agro-food products that entered into force in 2004.

In the first eight months of 2012, the total volume of slaughtered beef, pork and broilers decreased by 1,297 tonnes, representing a decline of 15.3 per cent over the same period in 2011. This was mainly the result of a decline of 25.9 per cent (1,280 tonnes) in slaughtering of pork. Meanwhile, slaughtering of beef declined by 6.0 per cent (45 tonnes) in the first eight months of 2012 over the same period in 2011, while slaughtering of broilers increased by 1.0 per cent (28 tonnes) over the same comparative period. Table 4a illustrates the main indicators for the agricultural sector.

During the January-August 2012 period, the total volume of fresh fruit and

Box 4.2 cont.

Agricultural Indicators

Table 4a

	2011 Jan-Aug	2012 Jan-Aug
Slaughtering (tonnes)		
Beef	754	709
Pork	4,935	3,655
Broilers	2,775	2,803
	(2005 = 100)	
Fresh Fruit		
Price Index	117.8	136.3
Volume Index	139.3	119.1
Fresh Vegetables		
Price Index	101.9	122.0
Volume Index	113.5	104.2

Source: National Statistics Office

vegetables sold through organised markets amounted to 30,257 tonnes. This represented a decline of 8.7 per cent when compared to the same period in 2011. During this period, the average price of fruit and vegetables increased. Indeed, in the first eight months of 2012 the wholesale value of fruit and vegetables amounted to €14.4 million, representing an increase of 4.4 per cent.

During the first eight months of 2012, the price index for fresh fruit stood at 136.3, an increase of 15.7 per cent when compared to the same period of the previous year. At the same time, the volume index for fresh fruit experienced a decrease of 14.5 per cent during the same period. This decline was led primarily by the decline recorded in the volume of peaches and to a much lesser extent due to declines recorded in sweet oranges, nectarines, lemons, and oranges.

The price index for vegetables amounted to 122.0 for the first eight months of 2012 compared to 101.9 in the same period of 2011. This represents an increase of 19.7 per cent. On the other hand, the volume index for fresh vegetables declined by 8.2 per cent during the same comparative period. The decline in volume of vegetables was broad-based, although particularly accentuated declines in potatoes, dry onions, cauliflowers, and carrots were registered.

Box 4.2 cont.

Table 4b portrays the data for imports of major agricultural products. During the January-August 2012 period, the total value of imports of major agricultural commodities increased by 13.4 per cent when compared to the same period in 2011, reaching €317.4 million. The main contribution to this increase came from inports of fish which increased by €25.1 million. Other notable increases were registered in ‘vegetable and fruit preparations’ (18.8 per cent), ‘preparations of meat and fish’ (15.2 per cent), ‘cereals’ (14.1 per cent), ‘beverages, spirits and vinegar’ (12.5 per cent), and ‘dairy produce’ (6.2 per cent). On the other hand, declines were registered in edible fruit and nuts, and feeds which decreased by 19.5 per cent, and 2.4 per cent respectively. Live animals remained constant at €0.2 million.

Imports of Major Agricultural Commodities

Table 4b € million

	2009	**2010**	**2011**	**2011** Jan-Aug	**2012** Jan-Aug
Live Animals	0.9	0.6	0.3	0.2	0.2
Meat and Edible Offals	46.6	44.2	49.9	33.4	33.9
Fish	26.0	24.0	23.6	16.2	41.3
Dairy Produce	36.0	37.2	41.6	27.6	29.3
Edible Fruits and Nuts	26.6	30.7	28.8	19.5	15.7
Cereals	22.5	22.8	27.8	19.0	21.6
Preparations of Meat, Fish	33.7	36.3	36.8	25.4	29.3
Sugar & Confectionery	14.8	20.3	23.4	16.5	17.0
Cereal Prep.	53.0	51.0	53.4	33.4	33.9
Veg. and Fruit Prep.	22.1	20.9	22.2	14.4	17.1
Misc. Edible Prep.	33.4	33.4	33.1	22.1	22.5
Beverages, Spirits, Vinegar	43.0	47.1	47.1	31.5	35.4
Feeds	28.1	27.9	31.3	20.7	20.2
Total	386.9	396.3	419.4	279.8	317.4

Source: National Statistics Office

islands. The activities in the local fisheries industry include traditional fishing methods and also fish farming aquaculture methods. The local fish market is catered for by traditional fishing techniques which mainly provide for dolphin-fish (lampuki), blue fin tuna, and swordfish. Aquaculture fish farming is mainly related to the export sector.

Price and volume indices for fresh fish for the period January-August 2011 and 2012 are shown in Table 4.5. During the first eight months of 2012, the price index for fresh fish experienced an increase of 9.7 per cent when compared to the same period in 2011. On the other hand, a decrease of 6.5 per cent was registered in the average volume of fresh fish over the same comparative period. This decline was mainly the result of a lower volume of sword fish, followed by lower volume in the other species category. In fact, these declines more than outweighed increases registered in the volume of blue-fin tuna and dog-fish.

Fresh Fish Indices

Table 4.5 2005 = 100

	2011 Jan-Aug	**2012** Jan-Aug
Price Index	112.8	123.7
Volume Index	99.2	92.8

Source: National Statistics Office

Indicators of Industrial Activity

(2005=100)

Appendix Table 4.1

% of growth indices

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
TOTAL INDUSTRY					
Turnover	-11.81	18.12	0.32	0.68	4.41
Domestic	-1.51	15.35	1.03	-3.53	8.64
Exports	-20.02	20.60	0.69	5.87	0.52
Employment	-9.87	-2.91	0.65	1.10	-0.97
Hours Worked	-15.80	-2.00	0.96	1.40	-0.49
Wages and salaries	-11.85	-1.53	4.02	4.31	3.05
MINING AND QUARRYING					
Turnover	-8.22	-5.36	9.84	1.97	7.21
Domestic	-8.22	-5.36	9.84	1.97	7.21
Exports	-	-	-	-	-
Employment	-14.54	0.12	-3.71	-3.12	-6.39
Hours Worked	-14.74	2.05	-4.49	-6.38	-2.55
Wages and salaries	-12.16	6.93	-2.31	-1.92	-3.17
MANUFACTURING TOTAL					
Turnover	-17.06	13.76	0.51	4.71	1.27
Domestic	-7.22	-3.19	3.17	3.77	3.90
Exports	-20.02	20.60	0.69	5.87	0.52
Employment	-10.57	-2.86	1.00	1.47	-0.15
Hours Worked	-16.39	-1.40	1.37	1.66	0.43
Wages and salaries	-13.42	-1.92	4.11	4.16	3.56
ELECTRICITY AND WATER SUPPLY					
Turnover	2.93	28.36	-0.17	-7.26	11.33
Domestic	2.93	28.36	-0.17	-7.26	11.33
Exports	-	-	-	-	-
Employment	-4.29	-3.57	-1.36	-1.03	-6.22
Hours Worked	-11.95	-6.09	-1.29	0.32	-6.64
Wages and salaries	-3.50	-0.04	3.91	5.39	0.82

Source: National Statistics Office

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 — % of growth indices

SECTORAL MANUFACTURING INDICES	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
MANUFACTURE OF FOOD PRODUCTS					
Turnover	-5.27	3.04	-1.88	-2.91	8.38
Domestic	-4.00	-0.22	-0.04	0.64	4.06
Exports	-8.58	14.39	-0.81	-4.12	21.56
Employment	-3.51	-5.22	-2.17	-3.32	5.64
Hours Worked	-1.99	-3.72	-0.29	-1.10	4.38
Wages and salaries	6.92	1.31	-2.97	-2.80	7.47
MANUFACTURE OF BEVERAGES					
Turnover	-1.29	-0.63	2.61	0.25	3.15
Domestic	-2.24	-2.24	1.99	0.31	4.81
Exports	149.37	99.24	21.77	-1.14	-38.35
Employment	-0.74	-5.89	-1.59	-2.78	3.50
Hours Worked	-6.22	-4.60	-1.30	-4.91	5.56
Wages and salaries	2.74	-2.60	0.59	0.76	2.67
MANUFACTURE OF TEXTILES					
Turnover	-5.68	14.14	33.53	43.72	-2.36
Domestic	-1.58	0.97	-14.74	-7.00	-4.17
Exports	-5.78	14.50	34.69	44.94	-2.33
Employment	-2.08	-2.45	3.25	3.98	2.07
Hours Worked	-10.84	3.55	3.47	3.73	5.25
Wages and salaries	-1.95	-11.05	34.94	23.34	18.40
MANUFACTURE OF WEARING APPAREL					
Turnover	-24.00	-24.54	-53.41	-53.59	-14.44
Domestic	1.53	-17.92	-24.06	-20.65	-14.99
Exports	-31.15	-29.14	-64.20	-64.97	-14.22
Employment	-5.08	-4.46	-9.85	-10.83	-5.34
Hours Worked	-13.04	10.56	-7.16	-9.67	4.02
Wages and salaries	-14.77	-1.41	3.54	-3.28	14.79

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 continued

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
MANUFACTURE OF LEATHER AND RELATED PRODUCTS					
Turnover	-12.29	-10.68	-7.56	-10.66	-14.58
Domestic	25.96	-40.42	-53.76	-62.73	-43.02
Exports	-27.62	10.13	8.37	17.33	-11.34
Employment	-15.25	-23.28	-32.13	-44.79	-8.06
Hours Worked	-12.90	-24.49	-35.29	-49.14	-5.62
Wages and salaries	-7.64	-22.83	-29.38	-41.20	-5.13
MANUFACTURE OF WOOD AND WOOD PRODUCTS					
Turnover	-5.17	1.47	-13.39	-29.70	1.68
Domestic	-2.51	-5.87	-3.38	-20.32	-2.23
Exports	-	-	-	-	-100.00
Employment	-8.73	-10.32	0.68	1.13	-0.08
Hours Worked	-14.08	-4.71	2.99	5.09	-3.43
Wages and salaries	-3.54	-1.76	6.17	5.23	5.52
MANUFACTURE OF PAPER AND PAPER PRODUCTS					
Turnover	-11.46	6.17	12.79	15.66	5.67
Domestic	-11.14	6.05	13.38	16.43	6.06
Exports	-34.39	17.92	-26.70	-34.61	-45.33
Employment	-1.14	-2.64	-2.68	-1.47	-5.92
Hours Worked	-4.35	-1.75	-1.01	2.76	-12.61
Wages and salaries	-7.11	4.04	-1.02	-2.85	-4.51
PRINTING AND REPRODUCTION OF RECORDED MEDIA					
Turnover	10.55	-20.22	25.54	21.19	-1.61
Domestic	16.67	0.04	25.55	22.77	-2.16
Exports	7.30	-24.20	21.33	18.04	-2.07
Employment	13.32	-2.42	0.35	0.61	-2.72
Hours Worked	4.86	-7.27	5.72	3.69	1.51
Wages and salaries	15.77	-4.60	3.82	1.80	7.66

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 continued

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS					
Turnover	-14.20	-12.32	-31.19	-33.84	2.29
Domestic	-0.69	-8.66	-32.25	-29.12	-6.63
Exports	-26.19	6.85	-15.32	-41.17	91.90
Employment	-6.45	-4.82	-0.71	-3.68	-0.50
Hours Worked	-7.75	-4.74	-4.50	-5.75	-2.93
Wages and salaries	-3.65	-0.06	4.70	1.07	1.96
MANUFACTURE OF BASIC PHARMACEUTICAL PRODUCTS					
Turnover	-23.01	31.88	-0.80	0.20	9.81
Domestic	-17.26	-37.42	-38.54	-28.18	4.57
Exports	-23.03	32.22	4.33	4.58	10.06
Employment	4.01	8.71	9.14	9.88	7.22
Hours Worked	8.22	5.99	4.40	3.10	11.59
Wages and salaries	18.65	9.60	15.46	14.60	13.97
MANUFACTURE OF RUBBER AND PLASTIC PRODUCTS					
Turnover	-26.32	28.72	12.28	16.40	10.04
Domestic	-12.49	18.30	25.87	30.05	32.90
Exports	-33.30	35.46	8.87	12.66	0.84
Employment	-15.78	8.62	10.53	13.71	3.44
Hours Worked	-15.79	10.08	13.07	14.58	6.75
Wages and salaries	-18.71	25.76	7.88	12.24	4.46
MANUFACTURE OF OTHER NON-METALLIC PRODUCTS					
Turnover	-12.31	-1.70	-5.18	-5.91	1.44
Domestic	-12.81	-6.39	-7.26	-8.85	2.17
Exports	-5.73	56.43	3.83	11.13	-6.98
Employment	-0.34	-4.27	-7.50	-7.98	-1.00
Hours Worked	-4.46	-3.70	-7.44	-8.60	-2.91
Wages and salaries	-0.77	0.75	-3.55	-5.67	1.70

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 continued

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
MANUFACTURE OF FABRICATED METAL PRODUCTS					
Turnover	-23.66	-6.94	-2.42	0.51	-10.82
Domestic	-26.43	-7.70	1.32	3.04	-10.15
Exports	-15.16	-5.02	-10.86	-2.61	29.66
Employment	-0.75	3.59	-13.33	-12.63	-0.88
Hours Worked	0.43	5.26	-12.41	-9.59	-5.68
Wages and salaries	0.30	9.53	-3.02	0.72	-1.62
MANUFACTURE OF COMPUTER, ELECTRONIC AND OPTICAL PRODUCTS					
Turnover	-29.78	29.68	1.18	11.27	-8.44
Domestic	-14.38	-58.80	296.69	267.05	-8.09
Exports	-29.89	30.24	0.71	10.83	-8.49
Employment	-25.46	-10.76	4.75	5.74	-4.10
Hours Worked	-33.00	-3.43	6.33	11.31	-4.07
Wages and salaries	-27.44	1.02	0.89	3.68	-3.71
MANUFACTURE OF ELECTRICAL EQUIPMENT					
Turnover	120.66	-19.57	-69.44	-74.84	232.30
Domestic	23.99	48.51	-15.88	4.03	-17.08
Exports	134.80	-21.62	-73.18	-80.24	334.82
Employment	-15.50	-12.13	-7.58	-5.27	-4.91
Hours Worked	-15.30	-9.63	-14.64	-12.98	-1.98
Wages and salaries	-2.59	4.10	-11.49	-11.37	-5.47
MANUFACTURE OF MACHINERY AND EQUIPMENT N.E.C.					
Turnover	-35.12	15.71	24.21	18.20	4.68
Domestic	19.24	0.40	26.97	21.41	13.60
Exports	-43.61	20.49	18.21	16.57	-1.30
Employment	-16.58	11.70	19.44	24.02	1.70
Hours Worked	-18.20	19.46	17.94	23.34	-5.40
Wages and salaries	-11.31	15.86	20.05	24.57	2.07

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 continued

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
MANUFACTURE OF MOTOR VECHICLES,					
TRAILERS AND SEMI-TRAILERS					
Turnover	0.57	34.12	4.42	5.91	3.41
Domestic	-6.52	39.38	16.35	15.44	9.63
Exports	0.62	34.08	3.71	5.69	3.21
Employment	11.44	13.07	12.44	18.05	-4.26
Hours Worked	6.56	17.26	14.83	14.58	-5.06
Wages and salaries	3.62	25.80	10.15	12.05	-0.21
MANUFACTURE OF OTHER					
TRANSPORT EQUIPMENT					
Turnover	26.96	-6.86	13.80	10.97	0.45
Domestic	26.96	-6.86	13.80	10.97	0.45
Exports	-	-	-	-	-
Employment	0.00	20.00	5.20	1.41	-0.84
Hours Worked	-1.57	22.40	18.36	14.68	-22.42
Wages and salaries	5.48	20.43	11.23	12.36	-1.85
MANUFACTURE OF FURNITURE					
Turnover	-12.94	-3.21	-16.37	-17.46	-14.31
Domestic	-9.99	-2.72	-11.32	-12.03	-14.60
Exports	-73.96	-28.36	-30.80	-39.41	-4.00
Employment	-15.72	-1.74	-13.07	-11.92	-3.81
Hours Worked	-13.44	-1.36	-16.31	-13.69	-5.76
Wages and salaries	-11.67	1.79	-16.80	-13.27	-9.13
OTHER MANUFACTURING					
Turnover	-12.48	13.92	17.86	27.96	4.13
Domestic	-8.98	4.97	28.83	35.02	-6.97
Exports	-12.00	15.88	16.62	26.84	5.18
Employment	-2.97	4.52	6.69	7.74	-0.84
Hours Worked	-6.84	9.55	5.72	9.38	1.19
Wages and salaries	-2.50	11.95	6.95	7.46	7.16

Short-term Activity Indicators for Manufacturing

(2005=100)

Appendix Table 4.2 continued

	2009	2010	2011	Jan-Jul 2011	Jan-Jul 2012
REPAIR AND INSTALLATION OF MACHINERY AND EQUIPMENT					
Turnover	-26.53	14.30	11.10	7.44	26.46
Domestic	-11.94	3.63	35.21	66.68	90.11
Exports	-28.26	15.65	3.14	-2.68	20.07
Employment	-38.65	-21.42	-0.74	-2.33	-3.01
Hours Worked	-44.78	-20.72	-6.20	-10.62	1.02
Wages and salaries	-44.09	-54.39	9.80	2.86	1.40

Source: National Statistics Office

5. Services Activities

5. Services Activities

The tourism industry is a major contributor to employment for the Maltese labour market and an important source of income for the local economy. This industry has faced a challenging environment for a number of years but has proved to be very resilient in spite of its exposure to external conditions over which operators have no control. Tourism is characterised by increased market segmentation and is facing an increasing number of competing emerging destinations. Furthermore, this industry is facing several economic challenges that might impinge on its performance. The international economic crisis, volatile commodity prices and exchange rate developments, all affect the operating conditions in the industry over the short to medium term. Moreover, on the domestic front, the restructuring of the national airline operator presented a further challenge to the performance of this industry.

However, despite these challenges, following a slowdown in the local tourism industry in the first quarter of 2012, a positive performance was registered for the period January-August 2012, as shown in Table 5.1, which shows some of the most important indicators for the tourism industry. During the first eight months of 2012, both the Government and the Malta Tourism Authority (MTA) continued in their efforts to address underserved routes, thus enhancing Malta's accessibility by air. Moreover, the Government and the private sector continued to invest in this sector, namely through efforts to diversify the tourist market and to upgrade the domestic tourism product. The MTA continued to strengthen its marketing efforts through the launching of advertising campaigns. Furthermore, in July 2012 the Ministry for Tourism, Culture and the Environment launched the Tourism Policy for the Maltese Islands for 2012-2016. This policy follows the National Tourism Policy 2007-2011 which introduced measures and actions aimed at enhancing Malta's accessibility, improving Malta's tourism product and ensuring effective marketing efforts.

This Chapter presents an analysis of the developments within the tourism industry during the first eight months of 2012. In addition, this Chapter also provides an overview of the developments for the period January-September 2012 within the Malta Financial Services Authority (MFSA) and the Malta Enterprise (ME) Corporation in view of their important role within the services industry.

Main Tourism Indicators

Table 5.1

	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
Tourist Departures	1,182,490	1,338,841	1,414,619	973,909	981,286
Nights spent (000's)	9,949	11,148	11,691	7,989	8,463
Cruise Passengers*	419,627	474,272	541,565	338,968	383,785
Total full-time employment in accommodation and food service activities**	9,379	9,474	9,455	9,361[1]	9,351[1]

*Excluding Maltese cruise passengers

**The data presented is based on the distribution of the administrative records of the ETC of the gainfully occupied population according to the standard NACE classification of economic activities. The structure and period of statistical coverage used for this Economic Survey differs from that of previous Economic Surveys due to the adoption of the new NACE Rev 2 classification by the ETC in the compilation of labour market information.

[1]Data as at end of May

Source: National Statistics Office, Employment and Training Corporation

Tourism

In the first eight months of 2012, the tourism industry was characterised by a challenging economic climate, in particular in Malta's main source markets of UK and Italy. Furthermore, it is pertinent to note that figures for tourism in 2011 were boosted by the significant flow of visitors in connection with the war in Libya during the first quarter of 2011. However, the local tourism industry remained resilient, and following a slowdown in the first quarter of 2012, the industry registered a notable rebound in the subsequent months up to August 2012.

Tourist departures between January-August 2012 stood at 981,286, a marginal increase of 0.8 per cent over the corresponding period in 2011. Total nights spent increased by 5.9 per cent during the period under review, while the average length of stay increased slightly by 0.4 nights to 8.6 nights. During this period, cruise passenger arrivals increased by 13.2 per cent over the corresponding

2011 period to 383,785 arrivals. Meanwhile, full-time employment in the accommodation and food service activities declined marginally from 9,361 to 9,351 during the year to May 2012.

During January-August 2012, the MTA intensified its efforts to address the ever changing consumer needs and to develop appropriate marketing strategies. The MTA and the Government continued with their efforts to address underserved routes, the promotion of the Meetings, Incentives, Conference and Exhibition (MICE) segment and all year round marketing events to address the seasonality issue in the domestic tourism industry. To counter for the drop in seating capacity, the MTA and the Government have increased their efforts with tour operators to achieve a higher volume of seats available to Malta during the winter season.

During the period under review, MTA was awarded the Destination of the Year award at the 2012 Travel Trade Gazette Awards in London, whereby the criteria on which destinations were judged included support for agents across a variety of platforms, innovation in the marketing and the positioning of the destination, full engagement with tour operators including joint marketing programmes, new and innovative engagement with consumers, and return on investment and business success. Furthermore, Government continued to invest in capital and infrastructural projects that improved the local tourism product. It also initiated schemes that encouraged investment from the private sector to further improve the tourism product and services.

Monthly Distribution

The first three months of 2012 recorded a decline in the number of tourist departures when compared to the corresponding months in 2011. As explained above, these developments were conditioned by the heavy visitor traffic from Libya recorded in the first two months of 2011, in particular, as regards sea passenger traffic. Furthermore, developments in tourist movements recorded during these earlier months of 2012 were also the result of a reduction in seat capacity, which was also reflected in the number of aircraft landings in Malta.

However, record tourist levels were observed in each of the subsequent months up to August 2012. Tourist arrivals in April 2012 increased by 1.8 per cent over the previous period, reaching the level of 122,979, which is the highest absolute level of arrivals for this month. The months of May, June and July also recorded increases in tourist departures, increasing by 2.5 per cent, 6.2 per cent and 7.2 per cent, respectively. Furthermore, 199,430 tourists visited Malta in August,

Monthly Tourist Departures

Table 5.2

	2009	2010	2011	2012
January	51,450	55,013	64,092	61,282
February	51,199	53,135	65,661	61,788
March	71,129	76,431	100,202	80,071
April	101,557	100,657	120,817	122,979
May	108,165	128,639	130,355	133,659
June	113,930	137,525	138,733	147,361
July	135,773	160,321	162,994	174,715
August	172,438	195,115	191,054	199,430
January/August	805,641	906,836	973,909	981,286
% change		12.6	7.4	0.8
September	130,244	151,021	154,035	
October	124,150	146,716	147,876	
November	72,484	79,297	83,817	
December	49,970	54,970	54,982	
Total	1,182,490	1,338,841	1,414,619	
% change	-8.4	13.2	5.7	

Source: National Statistics Office

an increase of 4.4 per cent over the previous comparable period, which is also the highest number of tourists that visited Malta in a single month. As shown in Table 5.2, August remained the peak month for inbound tourism during the period under review, accounting for 20.3 per cent of the total tourist departures during the Survey period, followed by July with a share of 17.8 per cent.

Table 5.3 shows the quarterly distribution of tourist departures for the period

Quarterly Distribution of Tourist Departures

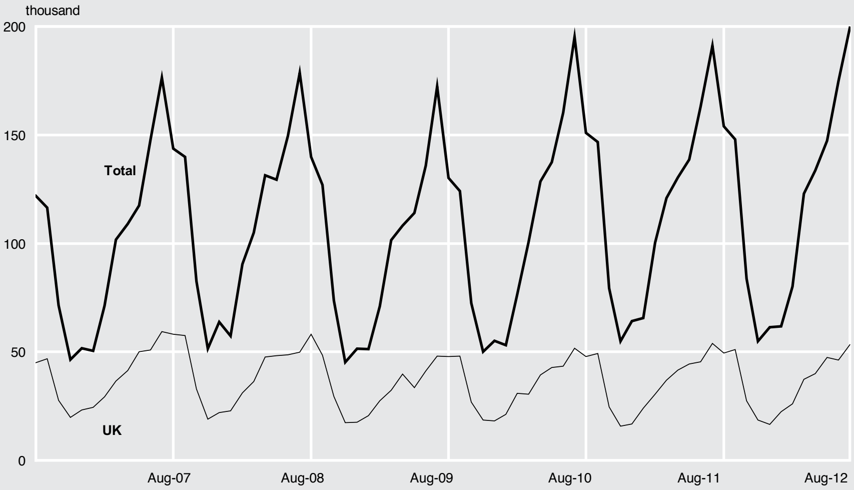
Table 5.3 per cent

	2008	2009	2010	2011
Q1	16.4	14.7	13.8	16.3
Q2	28.3	27.4	27.4	27.6
Q3	36.2	37.1	37.8	35.9
Q4	19.0	20.9	21.0	20.3

Source: National Statistics Office

Chart 5.1

Tourist Departures

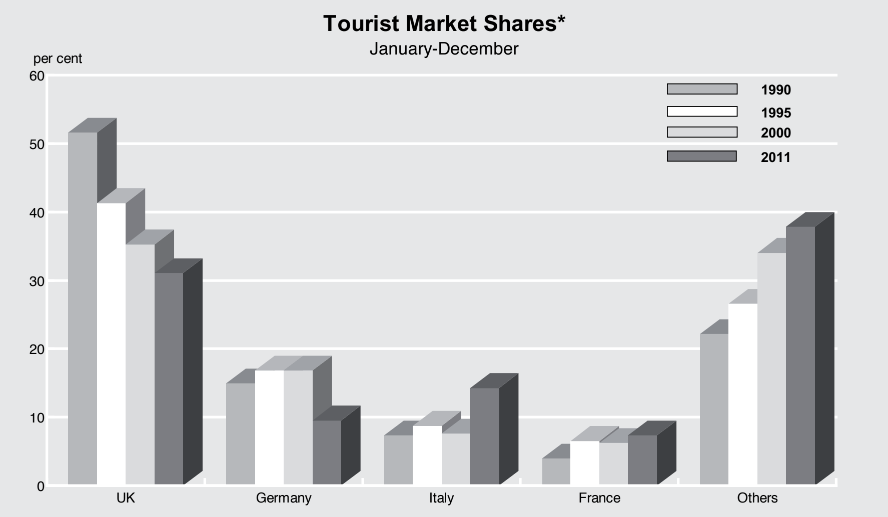


January-December 2008-2011. The first two quarters of 2011 recorded an increase in share over the previous comparable periods, where such an increase is attributable to visitors flow following the unrest in Libya, the timing of Easter in April and also due to the weak performance in the corresponding month in 2010 when European airspace was closed for about a week due to the ash cloud following the eruption of a volcano in Iceland. Meanwhile, the distribution of tourist departures in the third and fourth quarter recorded a decline over the corresponding 2010 period. As shown in Chart 5.1, Malta's tourism trends continued to exhibit strong seasonality patterns with the four months between June and September accounting for around 47 per cent of the tourist departures recorded during 2008-2011. This concentration implies significant challenges for the domestic tourism industry, in particular, on the infrastructure, hotel occupancy, as well as the labour market.

Tourist Nationality

Chart 5.2 illustrates the relative market share of Malta's main source markets over January-December 1990-2011. With regards to tourist nationality, the UK remains the major market in the Maltese tourism sector. However, its share has generally declined over the years, while other markets have gained in importance. The UK market share declined from 51.6 per cent in 1990 to 31.1

Chart 5.2



*As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not strictly comparable to previous periods. Until March 2004, data for sea arrivals was taken from embarkation cards. Thereafter, data for sea departures was taken from the Inbound Tourism Survey.

per cent in 2011. The German market increased its share between 1990 and 2000 but then registered a drop in its market share to 9.5 per cent in 2011. By contrast, the share of the Italian market fluctuated from 7.3 per cent in 1990 to 14.3 per cent in 2011. Meanwhile, the share of the French market increased to 6.5 per cent in 1995 and subsequently increased to 7.3 per cent in 2011. The share of the 'other' markets category increased from 22.2 per cent in 1990 to 37.9 per cent in 2011. This is indicative of an increasingly diversified market especially in recent years. In fact, it is interesting to note that Spain's market share increased from 1.8 per cent of the total tourist departures in 2006 to 5.1 per cent in 2010, which then declined marginally to 4.5 per cent in 2011. The emergence of this market reflects the introduction of a low cost airline that commenced its operations in June 2007, thus opening up the possibility of an increased inflow of tourists from Spain.

Tourist Departures by Nationality

Table 5.4

	2009	**2010**	**2011**	**2011** Jan-Aug	**2012** Jan-Aug
United Kingdom	398,472	415,099	439,282	292,925	289,436
Germany	127,373	126,193	134,537	84,938	88,004
Italy	161,737	219,663	201,761	144,720	143,317
France	71,930	86,516	103,590	76,660	77,825
Spain	44,551	67,842	63,064	45,179	46,924
Netherlands	33,419	33,425	39,028	26,796	27,357
Scandinavia*	66,779	92,881	93,394	63,750	68,431
Libya	14,281	15,864	6,240	4,523	10,410
Belgium	23,746	24,296	31,684	22,590	18,771
Austria	21,218	19,908	19,595	13,904	12,644
Switzerland	21,038	21,522	25,152	15,785	17,157
USA	13,943	16,418	16,565	11,901	13,255
Others	184,003	199,213	240,726	170,237	167,755
TOTAL	1,182,490	1,338,841	1,414,619	973,909	981,286

*Includes Denmark, Finland, Norway, Sweden

Source: National Statistics Office

During January-August 2012, the main source markets maintained almost the same market share recorded in the corresponding 2011 period. The UK market share remained relatively stable at around 30 per cent. Similarly, the French market maintained a relatively stable share at around 8 per cent of the total tourist departures. During the same period, the German and Italian markets recorded a share of around 9 per cent and 15 per cent respectively, almost at par with the comparable 2011 period.

A detailed breakdown of tourist departures by nationality is presented in Table 5.4. During January-August 2012 tourist departures from the UK and Italy recorded a decline, which may be attributable to the fiscal retrenchment underway. The number of visitors from the UK, which accounts for just below a third of total arrivals, fell by 1.2 per cent during the first eight months of 2012 over the previous comparable period. Furthermore, tourists from Italy, Malta's second largest source market, contracted by 1.0 per cent, while the number of tourists from Belgium declined by 16.9 per cent during the first eight months of 2012 over the corresponding 2011 period. Meanwhile, during the period under review, arrivals from Germany increased by 3.6 per cent, while arrivals from Spain and Scandinavia increased by 3.9 per cent and 7.3 per cent, respectively, reflecting an increase in seating capacity and routes to Malta.

Cruise Passengers

During January-August 2012, cruise passenger arrivals (excluding Maltese passengers) recorded a significant increase of 13.2 per cent over the previous comparable period, reaching a level of 383,785 arrivals. The flight-cruise concept, which allows cruise passengers to combine a cruise with a land based holiday, is increasing in importance and attracting an increased number of passengers. This performance is encouraging especially in view of the fact that the economic climate tends to have an impact on the distances and destinations travelled by cruise liners. The initiatives being undertaken locally to promote Malta as a home port from where cruise passengers can start and end their cruise, together with agreements with cruise liners to extend their cruises to Malta, can add value to the economy.

Accommodation

Table 5.5 provides data concerning Malta's accommodation capacity by category of units and beds for the period ending July 2012. It is pertinent to point out that the changes in accommodation levels in Table 5.5 reflect the opening of new accommodation, closure of existing accommodation, as well as re-classifications of the accommodation units.

By the end of July 2012, the number of Hotels increased by 7 units over the December 2011 level. This increase was due to increases in the number of hotels within the 4-Star and 3-Star hotel category. In terms of hotel bed-stock capacity, in July 2012, there was an increase of 3,945 beds over the December 2011 level with increases registered in all the hotel categories. By the end of July 2012, the total number of guesthouses, aparthotels and hostels increased by 15 units and the number of beds in this category increased by 944 beds. These changes also indicate further diversification of tourist type with different segments of the accommodation sector benefiting albeit at differing degrees, from the buoyancy of the tourism industry.

Another important element in the analysis of the tourism industry is the occupancy rate for various types of accommodation. As illustrated in Table 5.6, during January-July 2012, all the accommodation categories reached their peak inflow in July. The 5-Star and 4-Star hotel accommodation categories recorded

Main Types of Tourist Accommodation

Table 5.5

	2010 (Dec)		**2011 (Dec)**		**2012 (Jul)**	
	Establishments	Bed-Places	Establishments	Bed-Places	Establishments	Bed-Places
Hotels						
Five Star	15	6,897	15	6,905	15	7,144
Four Star	37	13,273	37	13,578	41	16,713
Three Star	36	9,094	35	8,349	38	8,822
Two Star	7	527	7	489	7	587
Total	95	29,791	94	29,321	101	33,266
Other N.E.C.						
Guesthouses	21	620	17	489	23	669
Aparthotels	20	4,006	19	3,655	26	4,368
Hostels	7	1,056	6	1,126	8	1,177
Other N.E.C. Total	48	5,682	42	5,270	57	6,214

Source: National Statistics Office

Monthly Accommodation Occupancy Rates - 2012*

Table 5.6 per cent

	Hotels				Tourist Villages & Aparthotels Hostels &
	5 Star	4 Star	3 Star	2 Star	Guesthouses
January	29	44	22	17	22
February	40	57	27	18	25
March	45	55	32	23	28
April	64	69	44	32	39
May	67	66	45	42	44
June	79	78	57	36	54
July	90	90	79	42	64
Average	59	66	44	31	40

* Net Occupancy levels for Collective Accommodation Establishments based on the ACCOMSTAT Census

Source: National Statistics Office

the highest occupancy rate of around 90 per cent. The 3-Star and the 2-Star hotel accommodation categories recorded an occupancy rate of 79 per cent and 42 per cent, respectively in July. Over the period January-July, the 4-Star hotel category recorded the highest average occupancy rate of 66 per cent followed by that of the 5-Star hotel of 59 per cent.

The average length of stay by tourists is another important indicator of the performance of the tourism industry. During January-August 2012, the average length of stay increased marginally to 8.6 nights.

Employment

Data for employment in hotels and restaurants is based on the administrative records of the Employment and Training Corporation (ETC) of the gainfully occupied population according to the standard NACE classification of economic activities. Data in this section is provided as at end of May for 2011 and for 2012.

Employment in the accommodation and food service activities remained almost unchanged at 9,351 persons in May 2012 reflecting the fact that the recovery in tourism was still at its initial stages. Employment in this sector corresponded to 6.2 per cent of the gainfully occupied population in May 2012. Private sector employment in the accommodation and food service activities accounted for 11.8 per cent of the persons employed in private market services.

Tourism Earnings

Tourism earnings are an important indicator of the performance of the domestic tourism industry. Data on earnings from tourism are provided in Table 5.7, while Chart 5.3 depicts tourism earnings per capita. Data in this section for 2011 and for 2012 is provided for the January-June period.

During January-June 2012, tourism earnings recorded an increase of 8.1 per cent, increasing from €231.0 million in January-June 2011 to €249.7 million. Similarly, per capita earnings increased by 10.4 per cent to €411.3 and earnings per nights spent increased to €53.5 during the first six months of 2012 from €51.2 in the corresponding 2011 period.

During January-June 2012, earnings from tourism accounted for 12.9 per cent

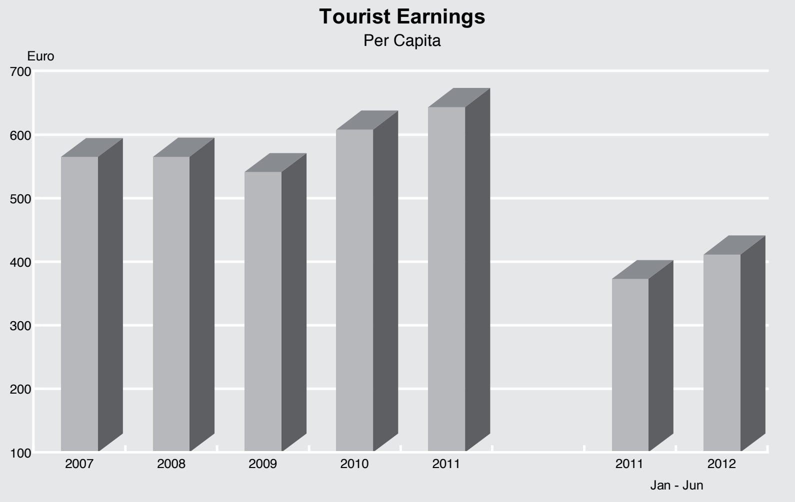
Earnings from Tourism

Table 5.7

	Earnings (€ million)	Per Capita Earnings (€)	Earnings Per Nights Spent (€)	Ratio to exports of goods and services (%)
2009	639.8	541.1	64.3	13.0
2010	813.9	609.0	73.1	13.1
2011	910.0	644.6	77.9	12.3
2011 (Jan-Jun)	231.0	372.7	51.2	13.8
2012 (Jan-Jun)	249.7	411.3	53.5	12.9

Source: National Statistics Office

Chart 5.3



of exports of goods and services, a decrease of 0.9 percentage points over the corresponding 2011 period.

Malta Financial Services Authority

The MFSA, which was established in July 2002, regulates and supervises all financial activity, including credit and financial institutions, investment, trust and insurance business, occupational pensions and trustees. The MFSA also manages the Registry of Companies and has the responsibility of the Listing Authority. During January-September 2012, the MFSA has continued to take an active part in the European System of Financial Supervisors, which was introduced to the sector in January 2011. The MFSA continued also to take an active part in the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Systemic Risk Board (ESRB).

During the period under review, a significant number of new licences were issued by the Authority. New licenses were issued for financial and credit institutions coupled with increases in the issuing of licences to insurance companies, trustees, retirement schemes and retirement scheme administrators. During the period under review, 7 investment services licences were issued, leading to a total number of licences of 113 by the end of September 2012. The number of recognised fund administrators increased by 2 thus reaching 26 by the end of the period under review.

The MFSA issued also 100 new Collective Investment Scheme (CIS) licences, increasing the total number of CIS licences to 823 as at the end of September 2012. During January-September 2012, the number of financial institutions licensed under the Banking Act (1994) and the Financial Institutions Act (1994) increased by 8 units, increasing the financial institutions to 23. In addition to these, as at the end of September 2012, MFSA issued 4 new licenses to insurance companies bringing the total to 57 insurance companies. During the first three quarters of 2012, the Authority expanded the number of trustees, whereby by the end of September 2012, there was an addition of 7 trustees, increasing the total companies authorised as trustees to 129. During January-September 2012, 2,869 companies and partnerships were registered with the Registry of Companies. Furthermore, during January-September 2012, 5 retirement schemes were licensed bringing the total to 17 retirement schemes. During the period under review, the MFSA also licensed 2 retirement scheme administrators bringing the total number of retirement scheme administrators to 9.

In line with its regulatory and supervisory role, the MFSA continued to propose various amendments in order to enhance the legal and regulatory framework of financial services. The Authority conducted a number of consultations, mainly concerning the transposition of the EU Directives including the Alternative Investment Fund Managers Directive (AIFMD), the updating of Listing Rules and the Depositor Compensation Scheme, as well as changes to other financial services laws. During this period, the MFSA has also been involved in EU development work on the Capital Requirements Directive IV, Solvency II, the Financial Conglomerates Directive, the Insurance Mediation Directive and the Directive on Institutions for Occupational Retirement Provision.

A number of banking rules authorised under the Banking Act 1994, were revised and came into force on January 2012, including the Large Exposures of Credit Institutions, the Own Funds of Credit Institutions, the Capital Adequacy of Credit Institutions, the Supervision on a Consolidated Basis of Credit Institutions, and the Supervisory Review Process of Credit Institutions.

During the first nine months of 2012, the MFSA concluded and signed a Memorandum of Understanding (MoU) with the Qatar Financial Centre Regulatory Authority. This MoU established a framework for assistance, the sharing of supervisory information and cross-border co-operation in matters related to the supervision and regulation of banking, financial and insurance-related activities to the extent permitted by the laws and regulations in force in Malta and Qatar.

During the period under review, the MFSA through the MFSA Education Consultative Council (ECC) completed the job exposure scheme in the Financial Services Programme, aimed at helping young people plan a career in the financial services industry in Malta. Throughout the period under review, the MFSA continued to offer training to sustain the growing needs of the industry and continued with its responsibilities for consumer education and consumer protection in the financial services sector. Moreover, the Authority also continued to strive to encourage fair and open competition in the financial services sector.

Malta Enterprise Corporation

Malta Enterprise (ME) is enabled by the Malta Enterprise Act (ME Act) to support the development of enterprise in Malta, and is responsible for promoting and facilitating international investment in Malta. The Corporation is responsible for the growth and development of Maltese enterprises both locally and internationally. It provides pre-investment advice and support, start-up assistance as well as post investment services and aftercare facilities. ME also offers trade promotion services aimed at introducing foreign companies to suitable manufacturers, service providers, suppliers and potential strategic partners in Malta. Malta Industrial Parks Limited (MIPL), which works closely to the ME is responsible for the administration and maintenance of various industrial estates and the factories located within it.

ME launched the National Strategy for Digital Games on the 27 April 2012, with the objective of facilitating the development of the digital gaming sector in Malta. Besides this, the Corporation continued with the project on the Life Sciences Centre (LSC), whereby the Centre will cover over 9,000sqm of operational spaces, ranging from 50sqm units to over 200sqm.

During January-September 2012, the Corporation approved 20 new projects, of which, 13 were locally-owned and 7 were foreign-owned. The new approved projects were related to activities in different sectors such as digital game production, as well as in the manufacturing sector. These new projects ranged from projects requiring new industrial property, to projects which will lead to the establishment of new value added activities within existing enterprises, to energy optimisation investments, to support through specific incentive schemes such as the Networks Support and Exploratory Award schemes. ME also approved assistance to 10 expansion projects, 5 of which were undertaken by locally-owned concerns while the other half originated from foreign owned companies already operating from Malta.

In the first nine months of 2012, ME approved the allocation of 13,655sqm in industrial space to the approved projects. Additionally, these companies were approved a total of €4.9 million in access to finance assistance by ME. Furthermore, ME offered a number of incentives ranging from tax credits, co-financing grants, specific access to finance schemes and business advisory support, as well as assistance through the ERDF. A number of support measures were launched by ME in order to support enterprises in their research and development (R&D) activities. Such support measures, in the form of tax credits or co-financing grants, aim to address the various stages of the R&D process. Funds to companies were also available through the EUREKA, an intergovernmental network to support market-oriented R&D and innovation projects by industry, research centres and universities across all technological sectors.

Another support measure offered by ME is the Business Advisory Service in the areas of energy audits, marketing and business management; research, technological development and innovation; enterprise support; international competitiveness and export readiness; quality improvement; human resource management; start-up; and refurbishment of hotels, accommodation facilities and restaurants. In the first nine months of 2012, ME allocated 108 advisory services for a value of €43,645. Another support service offered by the ME is that through the Enterprise Europe Network (EEN), which provided 207 specialised advisory services, 35 partnership proposals and 11 partnership agreements during the first nine months of 2012. Furthermore, as from January 2012, ME started offering the first one-stop shop service to businesses in Malta, through Business First. This service supports the growth and successful operation of businesses, not only by directing businesses to the information they are requesting but also by providing guidance on ME schemes and incentives. During this period, the main areas which benefited from this customised mentoring service were the research, technology and innovation, the business advisory and enterprise support, as well as the start-ups and the marketing and business management.

During the period under review, ME also offered fiscal incentives through the schemes of the Get Qualified Scheme, the Investment Aid Scheme and the MicroInvest Scheme. In the first nine months of 2012, the Corporation approved 459 applications under the Get Qualified Scheme, with a value of €1.9 million in tax credits. ME has also reviewed and approved applications for fiscal aid under the ME Act and the Business Promotion Act (BPA). Such assistance, in the form of tax foregone, reached €38.8 million approved to 73 beneficiaries under the ME Act, and €12.5 million approved to 474 beneficiaries under the BPA. Meanwhile, during the first nine months of 2012 around 1,000 enterprises benefited from the MicroInvest Scheme with a total tax credit value of €7.8 million for a declared investment of €18.0 million.

During January-September 2012, ME was entrusted with the administration of seven ERDF funded schemes, whereby 6 schemes were launch under the 'ERDF – 20 Million for Industry Schemes' and another scheme was launched under the '15 Million Energy Scheme'. Up to September 2012, 42 applications were approved under the 20 Million for Industry Scheme with a total allocated grant of €3.3 million, where the projects involved focused on international competitiveness, small start-ups, innovation, environment and R&D.

During the period under review, ME also continued to run the incubation program for innovative start-up companies through the Kordin Business Incubation Centre (KBIC). During January-September 2012, 2 new start-up companies started their pre-incubation program at KBIC. By the end of September 2012 the percentage occupancy at KBIC stood at 50 per cent.

Furthermore, during the period under review, the MIPL issued a number of contracts through which clients were allocated land, leased property, signed development agreements as well as encroachment agreements. The MIPL continued to manage a number of infrastructural projects that are co-financed through the ERDF. These projects include the rebuilding of roads, upgrading of industrial estates, and child care centres.

6. Prices and Incomes

6. Prices and Incomes

This Chapter will review domestic price movements during the last twelve months together with a comparison of inflation rates in the EU Member States. Furthermore, an analysis of developments in average sectoral wages on the basis of a representative sample of companies based on collective agreements deposited within the Department of Industrial and Employment Relations, over the period spanning from September 2011 to September 2012 is presented in the second part of this Chapter[1].

During the twelve months to September 2012, the overall 12-month moving average inflation rate, as measured by the Retail Price Index (RPI) decreased gradually from 2.73 per cent in September 2011 to 2.30 per cent twelve months later (September 2012). The largest contributors to this rate of inflation were the Food and Transport and Communications sub-indices while there were negative contributions from the Clothing and Footwear sub-index.

The overall average weekly wage increased by €5.37 or 1.9 per cent. The highest percentage weekly wage rise standidng at 3.3 per cent was registered in the Machinery sub-sector. It is of interest to note that the highest percentage of employees earned a weekly wage between €225.83 and €275.82 during the period under observation, while around 21 per cent of all employees in the sample earned an average weekly wage of more than €325.83.

Inflation

The 12-month moving average of the Retail Price Index (RPI) provides the official measure of inflation in Malta. This measure is calculated by comparing the average RPI in the 12-months leading to the month under consideration with the corresponding average in the previous 12-month period. Table 6.1 shows the 12-month moving average between January 2009 and September 2012 whilst Chart 6.1 provides a graphical representation. In addition, Table 6.2 illustrates the monthly RPI for the period January 2009 and September 2012 in terms of base December 2009.

As illustrated in Chart 6.1, between 2010 and 2012, the inflation rate was less volatile when compared to the previous period starting September 2007. In October 2011, the 12-month inflation rate stood at 2.82 per cent, increasing gradually from the rate of 0.75 per cent recorded in August 2010. During 2012, the inflation rate declined by around 0.4 percentage points in the first nine

Box 6.1

Harmonised Index of Consumer Prices (HICP)

This consumer price inflation index is compiled by Eurostat and the national statistical institutes in accordance with harmonised statistical methods. Given that this inflation index is compiled according to a harmonised approach, it enables direct comparability between EU Member States.

The Table below presents inflation rates as measured by the 12-month moving average HICP for the period January 2009 to August 2012. The HICP inflation rate increased gradually during 2011, reaching 2.9 per cent in October 2011. Subsequently, it reversed its direction and dropped slightly to 2.4 per cent during the first quarter of 2012. In August the rate of inflation was 2.9 per cent.

Harmonised Index of Consumer Prices
12-Month Moving Average Inflation Rate

per cent

	2009	2010	2011	2012
January	4.6	1.7	2.2	2.4
February	4.6	1.5	2.4	2.4
March	4.6	1.2	2.5	2.4
April	4.5	0.9	2.7	2.5
May	4.5	0.8	2.7	2.6
June	4.3	0.7	2.8	2.7
July	3.9	0.9	2.8	2.8
August	3.6	1.0	2.8	2.9
September	3.2	1.2	2.8	
October	2.7	1.4	2.9	
November	2.3	1.7	2.7	
December	1.8	2.0	2.5	

Source: National Statistics Office

Inflation developments during the past twelve months mainly reflect upward price movements in the fuels, restaurants, fish and seafood, passenger transport by road and meat sub-indices. On the other hand, items like telephone and telefax equipment and services and garments recorded the highest negative 12-month contribution to the overall index.

months, decreasing gradually from 2.65 per cent recorded in January 2012 to 2.30 per cent in September 2012.

12-Month Moving Average Inflation Rate

Table 6.1 per cent

	2009	2010	2011	2012
January	4.26	1.88	1.65	2.65
February	4.30	1.58	1.79	2.67
March	4.32	1.26	1.99	2.61
April	4.36	1.03	2.10	2.63
May	4.34	0.85	2.25	2.51
June	4.23	0.74	2.41	2.42
July	3.95	0.76	2.50	2.36
August	3.71	0.75	2.64	2.28
September	3.46	0.80	2.73	2.30
October	2.99	0.96	2.82	
November	2.56	1.19	2.82	
December	2.09	1.51	2.72	

Source: National Statistics Office

Retail Price Index

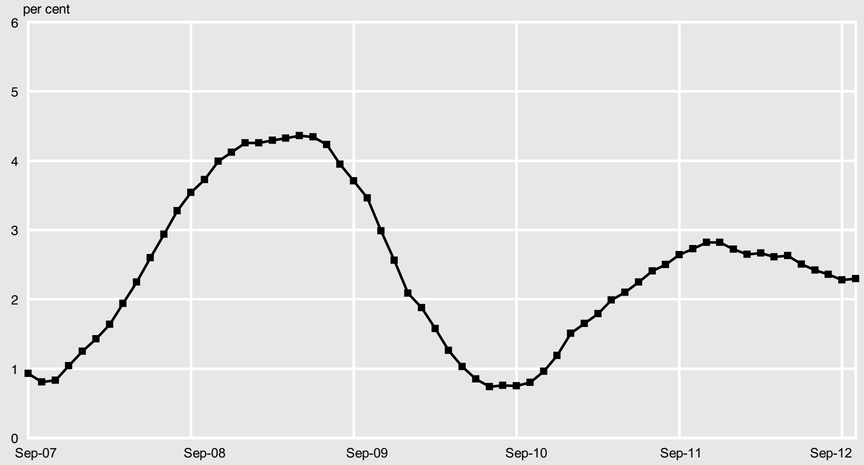
Table 6.2 December 2009=100

	2009	2010	2011	2012
January	98.39	99.49	102.20	104.11
February	99.36	99.86	102.13	104.74
March	100.13	100.43	103.13	105.17
April	100.25	101.44	103.89	106.59
May	100.25	101.61	104.78	106.61
June	99.82	101.21	104.55	106.82
July	99.45	101.07	103.94	106.13
August	99.44	100.96	104.15	106.49
September	99.89	101.65	104.45	107.47
October	100.65	102.39	105.37	
November	100.26	102.70	105.13	
December	100.00	103.25	105.44	
Average Jan-Dec	99.82	101.34	104.10	

Source: National Statistics Office

Chart 6.1

12-Month Moving Average Inflation Rate



Further analysis at sub-index level provides more insight into the underlying inflationary pressures. Indeed, the highest change at sub-index level is noted in the Other Goods and Services, showing an increase of 5.04 per cent. This was followed by increases in the Food and Beverages and Tobacco sub-indices. The average for the twelve months to September of the 2010-2012 period for the sub-indices composing the RPI are presented in Table 6.3.

During the twelve months to September 2012, the Food sub-index, which carries the second highest weighting within the RPI, rose by 4.33 per cent over the comparable level for 2011. This increase was slightly higher than that recorded during the previous twelve months. The contribution to the overall rate in September stood at 0.92 percentage points, and it mainly reflected developments in fish, meat, vegetables, take-aways and served meals. On the other hand, unprocessed potatoes contributed negatively to inflation developments for food.

The 12-month moving average rate for the Beverages and Tobacco sub-index, increased from 1.94 per cent in September 2011 to 4.15 per cent in the same month in 2012, with a resulting contribution of 0.25 percentage points to the headline inflation rate. All sub-items under this category showed persistent annual increases during the twelve month period to September. The highest 12-month moving average contributions to inflationary developments for beverages were recorded in cigarettes and non-alcoholic beverages.

Index by Commodity Group

(Average for 12 months to September)

Table 6.3

December 2009=100

Commodity Group	Weight	2010	2011	2012
Food	21.23	101.39	105.22	109.78
Beverages and Tobacco	6.09	100.01	101.95	106.18
Clothing and Footwear	7.41	87.63	87.99	85.38
Housing	7.61	101.04	105.60	107.42
Water, Electricity, Gas and Fuels	3.36	118.53	128.02	129.52
Household Equipment & House Maintenance Costs	6.59	99.90	98.41	100.13
Transport and Communications	22.76	102.30	105.48	107.65
Personal Care and Health	8.57	100.62	102.33	103.47
Recreation and Culture	9.28	100.37	101.56	102.42
Other Goods and Services	7.10	100.47	103.80	109.03

Source: National Statistics Office

In September 2012, the Clothing and Footwear sub-index was the only category that showed declines in its index. Indeed, it decreased by 2.97 per cent, with a negative contribution of 0.22 percentage points on the overall index, in contrast to the marginal positive contribution recorded during the same comparable period in 2011. Negative annual changes in this sub-index persisted during most of the last twelve months. These developments mainly emanated from outwear for both men and women. Marginal positive contributions were noted in underwear and men’s footwear.

The Housing sub-index registered an increase of 1.72 per cent, thus contributing 0.13 percentage points to the overall 12-month moving inflation rate. This increase was less than the 4.51 per cent recorded during the previous 12-month period. The materials for painting sub-item recorded the highest contribution to developments in prices for housing alongside materials for plumbing and sanitary and parts of household appliances.

The Water, Electricity, Gas and Fuels sub-index recorded a marginal increase of 1.17 per cent when compared to the 8 per cent recorded during the previous period over September 2011. In September 2012, the contribution of this sub-index to headline inflation stood at 0.04 percentage points mainly attributed to developments in gas prices and liquid fuels.

The 12-month average rate for the Household Equipment and House Maintenance Cost sub-index in September 2012 increased by 1.75 per cent, in contrast to a drop of 1.50 per cent recorded in September 2011. The contribution of this sub-index to the 12-month average in September stood at 0.12 percentage points mainly underpinned by developments in furniture, household appliances and textile articles. On the other hand, marginal negative contributions to inflationary developments were reported in carpets.

In September 2012, the 12-month moving average rate for the Transport and Communications sub-index increased by 2.06 per cent, which generates a contribution of 0.47 percentage points. During the period under review, the main drivers of inflationary developments were fuels and air transport services while telephone and telephone services contributed negatively to overall headline inflation.

In September 2012, the 12-month moving average rate for the Personal Care and Health sub-index increased by 1.11 per cent making a contribution of 0.10 percentage points to the headline inflation rate. Major developments were recorded in medical, dental and hospital services with medical services showing the highest contribution. Marginal declines in the 12-month moving average were attributable to medicines, therapeutic appliances and equipment and toiletries.

The Recreation and Culture sub-index recorded an increase of 0.85 per cent in its 12-month average in September 2012, compared to 1.19 per cent during the same month last year. In addition, total contribution of the sector has decreased from 0.11 to 0.08 percentage points over last year. The main contributions to the rise in inflation were books and newspapers, education expenses and stationery goods. Meanwhile, licenses and administrative fees and audio visual equipment contributed negatively to headline inflation.

The highest increase in the 12-month average was recorded in the Other Goods and Services sub-index at 5.04 per cent which means the sector contributed 0.36 percentage points to headline inflation. Data shows that major developments to this index were mainly attributed to jewellery, watches and clocks, non-durable goods and services for pets and pet food.

International Comparison

Table 6.4 presents data on the inflation rates for EU Members States as at August 2012. The inflation rate is based on an estimation of the 12-month moving average of the Harmonised Index for Consumer Prices (HICP). This harmonised

European Union Inflation Rates
(Harmonised Index of Consumer Prices)

Table 6.4 per cent

	2009	2010	2011	2012[1]
Austria	0.4	1.7	3.1	2.8
Belgium	0.0	2.3	3.4	3.0
Bulgaria	2.5	3.0	3.8	2.3
Cyprus	0.2	2.6	3.1	3.5
Czech Republic	0.6	1.2	1.9	3.4
Denmark	1.1	2.2	2.7	2.5
Estonia	0.2	2.7	5.2	4.5
Finland	1.6	1.7	3.2	3.1
France	0.1	1.7	2.1	2.5
Germany	0.2	1.2	2.2	2.4
Greece	1.3	4.7	3.7	1.8
Hungary	4.0	4.7	4.0	5.1
Ireland	-1.7	-1.6	0.6	1.8
Italy	0.8	1.6	2.5	3.6
Latvia	3.3	-1.2	3.6	3.1
Lithuania	4.2	1.2	3.8	3.5
Luxembourg	0.0	2.8	3.5	3.2
Netherlands	1.0	0.9	2.2	2.7
Poland	4.0	2.7	3.5	4.0
Portugal	-0.9	1.4	3.2	3.3
Romania	5.6	6.1	6.9	2.9
Slovakia	0.9	0.7	3.2	4.1
Slovenia	0.9	2.1	1.9	2.6
Spain	-0.2	2.0	3.0	2.3
Sweden	1.9	1.9	1.6	1.0
United Kingdom	2.2	3.3	4.1	…
EU 27	1.0	2.1	2.9	2.9
Euro Area	0.3	1.6	2.5	2.7
Malta	1.8	2.0	2.8	2.9

[1] For 2012, figures relate to August

Source: Eurostat, National Statistics Office

approach enables direct comparability among Member States.

Inflationary developments in the European Union in August 2012 show that Hungary registered the highest inflation, with a rate of 5.1 per cent, followed by Estonia at 4.5 per cent, Slovakia at 4.1 per cent, Poland at 4.0 per cent and Italy at 3.6 per cent. The lowest inflation rate was recorded in Sweden at 1.0 per cent followed by Greece and Ireland both at 1.8 per cent. The average inflation rate in the EU 27 Member states was 2.9 per cent. This was mainly driven by increases in the 12-month moving average inflation rates for Alcoholic beverages, tobacco and narcotics (4.8 per cent), Housing, water, electricity, gas and other fuels (4.8 per cent) and Transport (4.5 per cent). On the other hand, a slight drop was only recorded in the Communications sub-index (-1.0 per cent).

The rate of inflation in Malta in August 2012 coincided with that for the EU27 at 2.9 per cent. At a sub-sectoral level, the increases in the 12-month moving average inflation rate were driven by Transport (5.72 per cent), followed by Food and non-alcoholic beverages (5.34 per cent) and Restaurants and hotels (5.04 per cent). Declines were registered in the Communications sub-index (-8.6 per cent).

Sectoral Wages

This section provides an analysis of developments in average weekly wage rates based on collective agreements as deposited with the Department of Industrial and Employment Relations, covering the period between September 2011 and September 2012. The sample under review is made up of 206 firms employing 25,016 employees, where 79 firms are engaged in direct production and employ 9,754 persons while the remaining 127 firms operate in the market services sector and employ 15,262 persons. The data for weekly wages is divided into four major employment categories namely labourers, skilled tradesmen, clerical and managerial grades. Definite contracts of employment are not considered in this analysis. The data also excludes employment benefits over and above the basic wage, such as production bonuses, overtime payments, social security and allowances, and other non-wage income. Non-wage income can be quite significant for some categories of employment. Hence the employees' actual average weekly remuneration might be higher than that reported in this study. Moreover, since the information in this Chapter is based on a sample of collective agreements and includes only the basic weekly wage, the results shown in the following tables cannot be directly compared to data based on the gainfully occupied population included in other Chapters of this Economic Survey.

It is also to be noted that the tables and data presented in this Chapter are not directly comparable to those published in previous Economic Surveys, in view of changes in methodology applied and the sampling procedure adopted. Inclusions and exclusions of firms further complicates the issue of comparability. Comparability might be hampered when a new collective agreement results in a reclassification of grades or when new trainees are paid the entry level pay wage.

The methodology also groups collective agreements on the basis of their respective sub-sector of economic activity. The average of the minimum and maximum wage scales for each individual collective agreement is then calculated. This gives the sub-sectoral mean wage. In cases where the collective agreement excludes the cost of living increases, the figures are then adjusted accordingly. The Cost of Living Adjustment (COLA) for the year 2012 as announced during the 2011 budget stood at €4.66.

Sectoral average weekly wages as at September 2011 are shown in Table 6.5. The overall weighted average wage for all firms stood at €282.59. The weighted

Average Weekly Wages - September 2011

Table 6.5 €

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	231.77	232.94	224.78	245.75	232.30
Food	219.61	277.56	234.38	361.11	253.84
Beverages	247.74	305.77	256.17	324.18	270.92
Textiles, Footwear and Clothing	206.27	235.00	208.43	214.80	210.54
Furniture & Fixtures	239.31	274.19	-	290.36	266.81
Paper & Printing	300.12	347.28	280.41	327.78	315.92
Chemicals	230.96	285.32	286.78	326.63	252.93
Non-Metallic Products	196.25	241.67	-	250.40	222.21
Metal Products	245.98	240.74	246.42	271.16	249.12
Machinery	175.50	213.33	196.46	242.01	203.64
Electrical Machinery	192.38	255.14	217.77	297.42	223.23
Transport Equipment	216.17	252.21	239.43	280.44	248.56
Miscellaneous	246.86	270.15	274.31	289.23	258.91
Electricity & Gas Services	232.15	264.61	260.58	411.99	273.13
Construction	207.59	258.01	263.92	-	220.19
Wholesale & Retail Trade	218.42	238.39	255.63	304.77	239.67
Banking & OFI	262.98	286.96	295.42	486.73	323.93
Insurance & Real Estate	231.02	240.22	245.69	266.83	244.88
Transport	232.18	270.67	273.77	481.62	307.98
Storage and Warehousing	230.60	255.04	244.37	291.77	242.26
Communications	261.93	287.33	250.04	357.46	286.76
Community & Business	218.31	266.59	264.56	390.00	308.60
Recreation Services	233.56	246.67	240.67	283.44	243.77
Hotels & Catering Ests	223.61	247.98	238.86	264.99	235.91
All Firms	224.13	269.93	276.14	380.72	282.59
Direct Production	224.29	272.69	251.35	320.62	251.22
Market Services	223.86	266.89	278.80	401.94	302.64

Compiled from data provided by the Department of Industrial and Employment Relations and Employment and Training Corporation average wage for those employed in direct production stood at €251.22 while the average wage for those employed in services stood at €302.64. This implies a wage gap of €51.42. It is to be noted that the highest average weekly wage rates were recorded in the Banking and Other Financial Institutions (OFI) sub-sector (€323.93) and the Paper and Printing sub-sector (€315.92). These were followed by Community & Business (€308.60), Transport (€307.98), Communications (€286.76) and Electricity & Gas Services (€273.13) sub-sectors. On the other hand, the lowest average wages were recorded in the Machinery sub-sector (€203.64), the Textiles, Footwear and Clothing (€210.54) and the Construction (€220.19) sub-sector. The lowest weekly average wage rate among the four employment categories in September 2011 amounted to €175.50 and was earned by the labourer grade in the Machinery sub-sector. On the other hand the highest weekly average wage rate was earned by the Banking and OFI managerial grade (€486.73).

Table 6.6 shows the average weekly wage rates for the various employment categories as per September 2012. The weighted average weekly wage for all firms stood at €287.96. The best performing sub-sectors as at September 2012 remained unchanged from those in September 2011, namely the Banking and Other Financial Institutions sub-sector with a weekly average weighted remuneration of €328.59, and the Paper & Printing sub-sector with a weekly wage of €320.57. Similarly, the least remunerated sub-sectors in the sample remained the Machinery sub-sector (€210.34), the Textile, Footwear and Clothing sub-sector (€215.20) and the Construction sub-sector (€224.79). The lowest reported wage, that is the labourer grade under the Machinery sub-sector (€182.53), was still €24.42 or 15.4 per cent over the National Minimum Wage for 2012 which stood at €158.11. The highest average wage remained that of the managerial grade in the Banking and OFI sub-sector at €491.39, while other relatively high wages were those for the managerial grade in the Transport sub-sector (€486.55) and the Electricity & Gas Services sub-sector (€416.65).

Since both Table 6.5 and Table 6.6 use the same employment weighting structure and the same sample of firms, they are directly comparable. Therefore, the differences in the corresponding wage rates represent the actual change in wages occurring during the period under observation. The percentage changes in average weekly wage occurring between September 2011 and September 2012 are shown in Table 6.7. The weighted average increase for all firms stood at 1.9 per cent. During this period, the average wage in the direct production increased by €4.72 to reach €255.94 in September 2012 while the average weekly wage rate in the market services sector increased by €5.80, reaching €308.44 in September 2012. Consequently, a wage increase of 1.9 per cent was registered in both the direct production and the market services sector. The sub-

Average Weekly Wages - September 2012

Table 6.6 €

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	236.43	237.60	229.44	250.41	236.96
Food	224.37	282.22	239.18	365.77	258.59
Beverages	252.40	310.43	260.83	328.84	275.58
Textiles, Footwear and Clothing	210.93	239.66	213.09	219.46	215.20
Furniture & Fixtures	243.97	278.85	-	295.02	271.47
Paper & Printing	304.78	351.92	285.07	332.44	320.57
Chemicals	235.67	290.03	291.65	331.38	257.65
Non-Metallic Products	200.91	246.33	-	255.06	226.87
Metal Products	250.64	245.40	251.08	275.82	253.78
Machinery	182.53	219.80	201.12	249.11	210.34
Electrical Machinery	197.04	259.80	222.43	302.08	227.89
Transport Equipment	220.83	256.87	244.09	285.10	253.22
Miscellaneous	251.52	274.71	278.97	293.89	263.56
Electricity & Gas Services	236.81	269.27	265.24	416.65	277.79
Construction	212.25	262.67	268.58	-	224.79
Wholesale & Retail Trade	223.24	243.17	260.44	311.87	244.78
Banking & OFI	267.64	291.62	300.08	491.39	328.59
Insurance & Real Estate	235.68	244.88	250.35	271.49	249.54
Transport	236.84	275.45	278.46	486.55	312.73
Storage and Warehousing	235.26	259.70	249.03	296.43	246.92
Communications	266.59	291.99	254.70	362.10	291.42
Community & Business	224.33	271.36	269.92	398.88	315.66
Recreation Services	238.22	251.33	245.33	288.10	248.43
Hotels & Catering Ests	228.27	252.64	243.52	269.65	240.57
All Firms	229.11	274.68	280.96	387.57	287.96
Direct Production	229.00	277.45	256.03	325.35	255.94
Market Services	229.31	271.63	283.63	409.54	308.44

Compiled from data provided by the Department of Industrial and Employment Relations and Employment and Training Corporation

sectors which recorded the highest percentage increases were the Machinery sub-sector which registered an increase of 3.3 per cent and the Community & Business sector with an increase of 2.3 per cent. Among the employment categories, the labourer grade under the Machinery sub-sector registered the highest percentage increase (4.0 per cent) followed by the tradesman grade (3.0 per cent) under the same category.

Table 6.8 provides information about the distribution of average weekly wages along different brackets as at September 2012. The largest share of employees (32.9 per cent) for all firms earned on average a weekly wage between €225.83

Changes in Average Weekly Wages

September 2012 - September 2011

Table 6.7 per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	2.0	2.0	2.1	1.9	2.0
Food	2.2	1.7	2.0	1.3	1.9
Beverages	1.9	1.5	1.8	1.4	1.7
Textiles, Footwear and Clothing	2.3	2.0	2.2	2.2	2.2
Furniture & Fixtures	1.9	1.7	-	1.6	1.7
Paper & Printing	1.6	1.3	1.7	1.4	1.5
Chemicals	2.0	1.7	1.7	1.5	1.9
Non-Metallic Products	2.4	1.9	-	1.9	2.1
Metal Products	1.9	1.9	1.9	1.7	1.9
Machinery	4.0	3.0	2.4	2.9	3.3
Electrical Machinery	2.4	1.8	2.1	1.6	2.1
Transport Equipment	2.2	1.8	1.9	1.7	1.9
Miscellaneous	1.9	1.7	1.7	1.6	1.8
Electricity & Gas Services	2.0	1.8	1.8	1.1	1.7
Construction	2.2	1.8	1.8	-	2.1
Wholesale & Retail Trade	2.2	2.0	1.9	2.3	2.1
Banking & OFI	1.8	1.6	1.6	1.0	1.4
Insurance & Real Estate	2.0	1.9	1.9	1.7	1.9
Transport	2.0	1.8	1.7	1.0	1.5
Storage and Warehousing	2.0	1.8	1.9	1.6	1.9
Communications	1.8	1.6	1.9	1.3	1.6
Community & Business	2.8	1.8	2.0	2.3	2.3
Recreation Services	2.0	1.9	1.9	1.6	1.9
Hotels & Catering Ests	2.1	1.9	2.0	1.8	2.0
All Firms	2.2	1.8	1.7	1.8	1.9
Direct Production	2.1	1.7	1.9	1.5	1.9
Market Services	2.4	1.8	1.7	1.9	1.9

Compiled from data provided by the Department of Industrial and Employment Relations and Employment and Training Corporation

- €275.82. The majority of those employed in the direct production sector earned an average weekly wage that ranged between €225.83 and €275.82 while the largest proportion of employees in the services sector earned a salary in the range of €275.83 to €325.82. The percentage of employees earning up to €175.82 per week stood at 1.5 per cent with Textiles, Footwear and Clothing being the sub-sector with highest relative share of employees under this wage bracket. On the other hand, the highest majority of employees earning more than €325.83 resulted in the Paper and Printing sub-sector with 62.6 per cent.

Proportion of Sampled Employees in Wage Ranges

Table 6.8 per cent

Sector \ Wage Range	Up to €175.82	€175.83 -€225.82	€225.83 - €275.82	€275.83 -€325.82	Over €325.83
Oil Drilling	0.0	0.0	100.0	0.0	0.0
Food	0.0	13.9	62.4	10.2	13.6
Beverages	0.0	3.6	41.9	49.4	5.2
Textiles, Footwear & Clothing	8.8	79.6	11.6	0.0	0.0
Furniture & Fixtures	0.0	0.0	40.5	59.5	0.0
Paper & Printing	0.0	3.6	27.3	6.5	62.6
Chemicals	0.0	4.7	69.4	11.2	14.7
Non-Metallic Products	0.0	45.5	54.5	0.0	0.0
Metal Products	0.0	13.0	80.6	6.5	0.0
Machinery	0.0	58.8	41.2	0.0	0.0
Electrical Machinery	6.2	60.0	16.7	17.1	0.0
Transport Equipment	0.0	16.8	58.9	24.3	0.0
Miscellaneous	0.8	7.0	63.0	29.2	0.0
Electricity & Gas	0.0	0.0	84.6	0.0	15.4
Construction	0.0	69.0	31.0	0.0	0.0
Wholesale & Retail Trade	0.0	32.6	51.3	10.6	5.5
Banking & OFI	0.0	0.0	10.7	73.6	15.7
Insurance & Real Estate	0.0	0.0	100.0	0.0	0.0
Transport	0.2	6.5	65.2	5.3	23.0
Storage and Warehousing	0.0	0.0	88.9	11.1	0.0
Communications	0.0	1.8	39.7	34.8	23.7
Community & Business	1.9	21.7	12.6	23.3	40.5
Recreation Services	0.0	26.5	55.1	18.4	0.0
Hotels & Catering Ests	0.1	27.1	56.4	11.2	5.2
All Firms	1.5	18.6	32.9	25.7	21.3
Direct Production	2.4	26.3	45.4	14.2	11.7
Market Services	0.9	13.8	25.0	33.0	27.3

Compiled from data provided by the Department of Industrial and Employment Relations and Employment and Training Corporation

The differences in the average weekly wage rates as presented by Table 6.8 are between different sub-sectors and between firms arising from the different levels of skills and expertise. The take-home pay may vary according to the individual entity and might be higher than that presented in Table 6.8 due to other production bonuses and allowances.

Footnote:

[1] This Chapter contains statistics for the RPI that go beyond the cutoff date.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

When compared to the corresponding period during 2011, the current account deficit improved by €287.2 million, to register a deficit of €21.4 million or 0.7 per cent of GDP during the first six months of 2012. The contraction is primarily linked to a reduction in the goods account deficit of €193.6 million.

As opposed to the balance of payments statistics, trade statistics suggest a widening trade gap. Exports of fuels increased significantly by €725.2 million, thereby accounting for most of the €831.6 million increase in total exports. Concomitantly, imports increased by €1,057 million resulting in a widening of the trade deficit, from €1,217.8 million in January-August 2011 to €1,443.2 million in the same period in 2012. Trade in fuel also played a major role in the widening of the trade gap noticed in the trade statistics. Indeed the trade gap narrowed when excluding fuel import and export. It is however worth noting that apart from the difference in the time period being analysed balance of payments data includes various adjustments to the trade statistics notably adjustments for coverage and for classification. Balance of payments data also include port procurements and repairs on goods.

The services account surplus registered a slight improvement during the January-June 2012 period, as improvements in tourism and other services inflows more than offset the deterioration in transportation services outflows. The deficit in the income account decreased mainly due to higher net portfolio investment income, which together with lower other investment income net outflows more than offset increased direct investment net outflows. On the other hand, current transfers net inflows increased mainly due to higher government transfers. Nonetheless, net inflows in the capital and financial account inclusive of errors and omissions were more than sufficient to finance the current account deficit. As a result of these developments reserve assets increased by 4.5 per cent of GDP during the first half of 2012.

This Chapter is based on the latest available National Statistics Office (NSO) data. Foreign trade data covers January-August 2012 while data for the balance of payments is limited to January-June 2012. Data on fund flows with respect to trade in goods in the balance of payments section is taken from Balance of Payments accounts for Goods (free on board), which is not directly comparable with data for goods in trade statistics, which is used in the foreign trade section.

Foreign Trade

The visible trade gap stood at €1,443.2 million during the first eight months of 2012, and widened by €225.4 million or 18.5 per cent when compared to the corresponding period in 2011, as imports increased by €1,057 million, outpacing the increase in exports of €831.6 million. Nonetheless, during the period under review export growth was greater than that of imports, with registered growth rates of 42.5 per cent and 33.3 per cent, respectively. These developments are shown in Table 7.1 and Chart 7.1.

Recently international trade data for Malta has become increasingly influenced by the developments in the trade of fuel and lubricants which mainly reflects offshore oil bunkering activities and trans-shipment of oil. Such trading may not be entirely related to economic activity generated in Malta and is thus not entirely included in balance of payments and national accounts data. In this context, trade developments in fuel and lubricants is analysed separately from other trade activities.

When excluding fuels from trade data, the visible trade gap during the first eight months of 2012 amounted to €763.7 million, or 21.9 per cent lower than that registered in 2011. Non-fuel imports decreased by €107.2 million reaching €2,280.1 million whilst non-fuel exports increased by €106.4 million. Net fuel imports of €679.5 million were registered during the first eight months of 2012, more than doubling from a level of €240.5 million in the corresponding period of 2011.

Foreign Trade

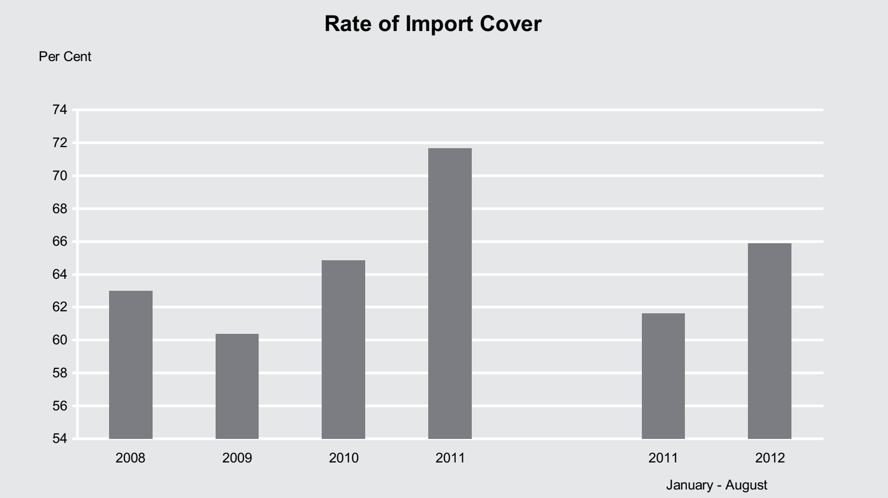
Table 7.1 — € million

	2008	**2009**	**2010**	**2011**	**2011** Jan-Aug	**2012** Jan-Aug
Imports (c.i.f.)	3,897.1	3,454.4	4,328.1	5,325.6	3,173.4	4,230.4
Total Exports (f.o.b.)	2,455.7	2,086.0	2,806.0	3,815.4	1,955.6	2,787.2
Trade Gap	-1,441.4	-1,368.4	-1,522.1	-1,510.2	-1,217.8	-1,443.2
of which:						
Exceptional Item (Exports)	-	-	-	56.4	14.4	41.7
Exceptional Item (Imports)	117.3	306.3	383.5	450.1	384.3	334.6

Source: National Statistics Office

Chart 7.1

Chart 7.2



If exceptional items exceeding a value of €5 million are excluded, the trade gap would have widened by €1,150.3 million. Imported exceptional items for the period under review consisted mainly of vessels and yachts (€216.5 million), which may be partially attributed to favourable tax incentives. These were followed by aircraft (€111 million) and gas turbine parts (€7.1 million).

On the other hand, exported exceptional items amounted to just €41.7 million and only consisted in trade related to aircraft. Furthermore, as depicted in Chart 7.2, the rate of import cover increased from 61.6 per cent in January-August 2011 to 65.9 per cent during January–August 2012.

Exports

Exports amounted to €2,787.2 million during the period between January and August 2012, increasing by 42.5 per cent from €1,955.6 million registered in the corresponding period of the previous year. Exports of fuel account for 45.6 per cent of total exports. Moreover exports of fuel have more than doubled when compared to the same period a year earlier. It is important to note that higher exports of fuel and lubricants account for almost 90 per cent of the rise in total exports. Oil bunkering and trans-shipment activities were mostly responsible for such developments.

A breakdown of Commodity Exports is shown in Table 7.2. Machinery and transport equipment exports increased by €46.4 million. However this includes the export of exceptional items related to aircraft. Exports of miscellaneous manufactured articles increased by €19.5 million, or 7.5 per cent over the period under review. Concurrently, exports of chemicals increased by €39.7 million or 23.9 per cent. Food, beverages and tobacco together with other manufactures provided remained practically unchanged.

Export shares are illustrated in Chart 7.3. Fuel became the largest export category for the period under review overtaking machinery and transport equipment with a share of 45.6 per cent of total exports. The latter decreased its share within total exports from 39.9 per cent to 29.7 per cent of total exports. Miscellaneous manufactured articles remained the third largest category, with a 10 per cent share of total exports. These were followed by chemicals, other manufactures and food, beverages and tobacco which consisted of 7.4 per cent, 4.5 per cent and 2.8 per cent of total exports, respectively.

Commodity Breakdown of Exports

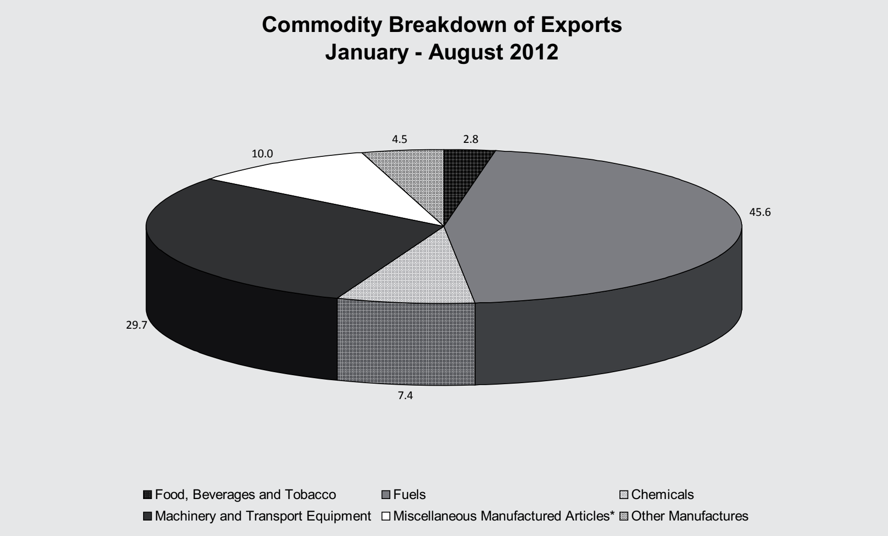
Table 7.2 € million

	2008	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
Food, Beverages and Tobacco	161.4	69.6	135.7	129.9	78.1	77.7
Fuels	411.8	446.8	718.9	1,621.7	545.6	1,270.8
Chemicals	224.3	205.1	273.8	258.7	165.8	205.5
Machinery and Transport Equipment	1,173.6	939.1	1,177.2	1,237.8	781.2	827.6
Miscellaneous Manufactured Articles*	335.7	307.2	331.1	383.3	259.7	279.2
Other Manufactures	148.9	118.2	169.3	184.0	125.2	126.4
Total Exports	2,455.7	2,086.0	2,806.0	3,815.4	1,955.6	2,787.2

* This category includes; furniture and fixtures, travel goods and accessories, clothing and accessories, footwear, scientific instruments and optical equipment.

Source: National Statistics Office

Chart 7.3



Geographical Distribution – Exports

Distribution of exports by geographical area is represented in Table 7.3. During the first eight months of 2012, Malta's largest export partners were Europe and Asia, representing 36.5 and 21.5 per cent of Maltese exports, respectively.

Exports to Europe stood at €1,018.7 million during the first eight months of 2012, increasing by €175.7 million over a year earlier, with the largest export destination being the Euro Area. Exports to the Euro area increased by €19.1 million over the period under review and accounted for a 22.4 per cent share

Total Exports by Main Geographical Areas

Table 7.3 — € million

	2008	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
Europe	993.8	855.4	1,195.9	1,575.5	843.0	1,018.7
EU	954.0	819.3	1,145.8	1,298.4	794.8	785.3
Italy	114.6	105.2	157.5	171.1	106.1	99.5
Germany	270.4	222.0	281.6	326.2	211.7	238.7
France	237.3	187.4	238.6	244.9	145.3	176.6
UK	165.3	99.1	128.1	146.9	108.7	76.0
Netherlands	21.4	20.4	21.8	26.0	18.0	31.9
Spain	17.0	17.9	20.8	35.1	20.5	39.0
Others	128.0	167.3	297.3	348.1	184.5	123.7
Euro Area	722.2	656.5	906.7	1,033.4	606.3	625.4
Other European Countries	39.8	36.1	50.1	277.1	48.1	233.4
Africa	132.4	137.2	182.7	234.3	51.5	449.3
Libya	60.6	83.9	85.3	47.7	12.0	147.1
Others	71.8	53.3	97.4	186.6	39.4	302.3
America	209.5	185.3	228.8	226.7	143.9	177.7
USA	183.0	152.3	196.1	169.0	108.4	136.3
Others	26.6	33.0	32.7	57.7	35.5	41.4
Oceania	4.8	4.5	11.1	5.2	2.5	3.2
Asia	713.9	528.1	686.5	1,092.1	504.2	598.5
Japan	157.9	58.2	104.2	98.0	48.6	29.5
Singapore	275.0	204.2	229.4	206.3	141.5	148.9
China	24.6	27.0	61.2	71.5	46.1	33.8
Hong Kong	134.3	105.7	162.2	286.1	180.2	217.9
India	3.0	3.3	9.9	14.3	9.9	7.2
Korea	39.1	26.5	36.3	18.7	12.2	6.1
Others	80.1	103.4	83.4	397.1	65.7	155.2
Ships & Aircraft	401.2	375.6	501.1	681.5	410.5	539.8
Total Exports	2,455.7	2,086.0	2,806.0	3,815.4	1,955.6	2,787.2
Exports to the EU as % of Total	38.9	39.3	40.8	34.0	40.6	28.2

Source: National Statistics Office

of total exports. More specifically, the largest export partners within the Euro Area were Germany and France. Nonetheless, it is important to note that exports to Other European Countries, Netherlands and Spain also increased by €185.2 million, €13.9 million and €18.5 million, respectively. Meanwhile, exports to the UK decreased by €32.7 million while exports to Other countries within the EU decreased by €60.8 million.

Significant increases were registered in exports destined for Africa, with an increase of €397.8 million, mainly towards Libya (€135.1 million).

It is also important to note that exports to Asia increased by €94.3 million over the period partly reflecting increased exports to Hong Kong and Singapore. Exports destined to the American continent, primarily the USA, also increased by €33.8 million.

Malta also exported €539.8 million directly towards ships and aircraft during the period under review, which amounts to an increase of €129.3 million when compared to the corresponding period in 2011. Exports to ships and aircraft accounted for 19.4 per cent of total exports.

Imports

Imports grew by 33.3 per cent or €1,057 million during the first eight months of 2012, when compared to the corresponding period in 2012 to reach €4,230.4 million. Table 7.4 provides details of imports by broad economic category. Increased imports reflected higher fuel imports, which increased by 148.1 per cent over the period, resulting in a contribution of 36.7 percentage points towards total import growth. Bunkering activities and goods in transit account for such developments.

Non-fuel imports registered a decline of €107.2 million reflecting lower imports of industrial supplies and capital goods. Imports of capital goods were €15.8 million lower than the comparable period of 2011. The decline in imports of capital goods was however more pronounced when one considers that this includes exceptional items, including vessels and yachts, aircraft and gas turbine parts, which exceed the value of €5 million each.

Industrial supplies imports decreased by €88.7 million during the first eight months of 2012, to reach €960.2 million over the corresponding period a year earlier. The primary sector was the only category within industrial supplies

Imports by Broad Economic Category

Table 7.4 € million

	2008	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
Consumer Goods						
Food and Beverages	362.1	367.4	377.4	401.2	264.1	273.3
Durable Goods	380.9	320.6	337.5	337.5	219.8	206.1
Others	229.8	202.7	218.8	237.2	159.8	165.6
Total	**972.8**	**890.7**	**933.7**	**975.9**	**643.7**	**645.0**
Industrial Supplies						
Primary	95.0	54.7	59.4	51.3	34.5	64.9
Semi-finished	1,352.8	1,017.0	1,236.9	1,327.8	924.5	828.6
Finished	96.4	120.4	164.5	127.9	89.9	66.7
Total	**1,544.2**	**1,192.1**	**1,460.8**	**1,507.0**	**1,048.9**	**960.2**
Capital and Others						
Capital Goods	609.3	691.6	837.6	873.7	670.4	654.6
Fuel	744.3	657.1	1,055.6	1,933.8	786.1	1,950.3
Non-specified and Gold	26.5	22.9	40.4	35.2	24.3	20.3
Total	**1,380.1**	**1,371.6**	**1,933.6**	**2,842.7**	**1,480.8**	**2,625.2**
Total Imports	**3,897.1**	**3,454.4**	**4,328.1**	**5,325.6**	**3,173.4**	**4,230.4**

Source: National Statistics Office

to contribute positively towards total import growth whilst semi-finished and finished industrial supplies imports declined. These developments are in line with the slowdown in global demand in light of persistent global uncertainty.

Consumer goods imports remained almost unchanged from the first eight months of 2011 to reach €645.0 million during the corresponding period of 2012. Higher imports of food and beverage and other goods imports offset lower imports of durable goods. The composition of consumer imports is illustrated in Chart 7.4 while a breakdown of imports by broad economic category is provided in Chart 7.5. These developments are consistent with the trends evident since the onset of the recession in 2009. Nevertheless the first eight months of 2012 point to a further decline. Imports of non-durable consumer goods have been more resilient.

Geographical Distribution – Imports

A detailed geographical distribution of imports is shown in Table 7.5. It is worth noting that the trade patterns analysed include the impact of the substantial increase in imports of fuel used for bunkering and transhipment

Chart 7.4

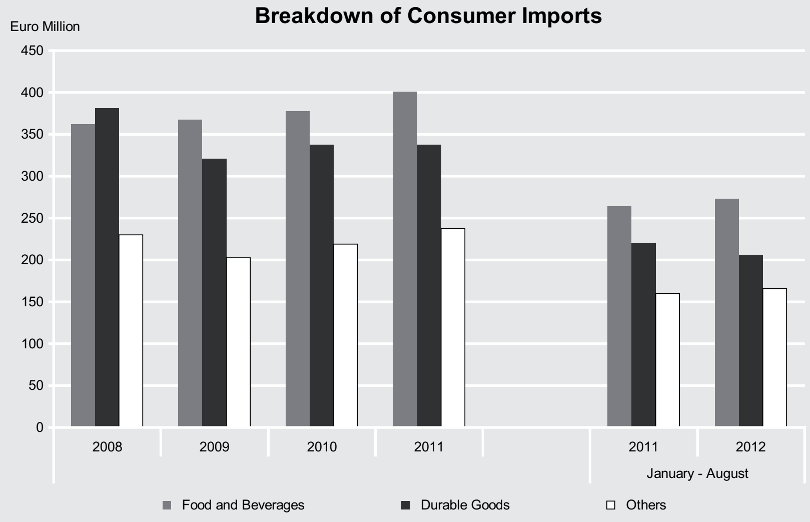
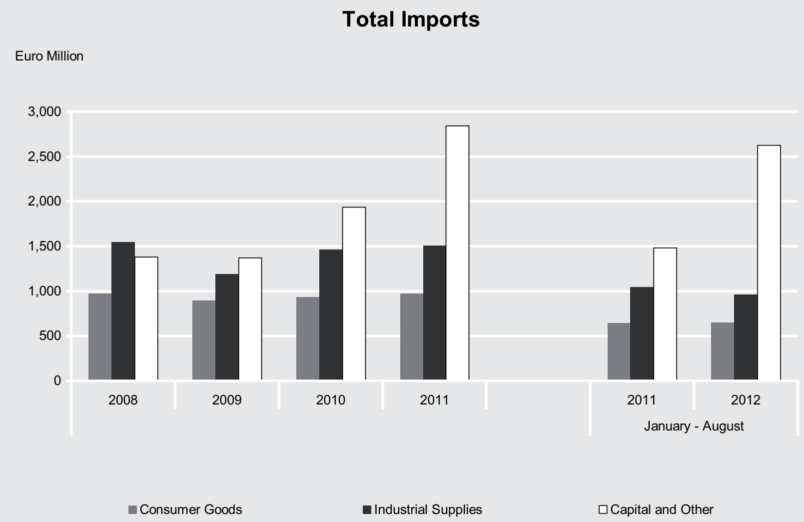


Chart 7.5



Total Imports by Main Geographical Areas

Table 7.5 € million

	2008	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
Europe	3,024.2	2,681.9	3,205.9	4,213.3	2,392.8	3,363.1
EU	2,755.7	2,405.0	2,714.4	3,343.6	2,014.5	2,670.3
Italy	1,027.4	843.2	1,065.7	1,442.6	824.3	1,349.9
Germany	267.6	272.4	295.2	311.4	216.1	194.5
France	381.4	338.9	338.5	374.9	267.2	234.0
UK	457.5	378.0	358.1	360.9	263.5	254.7
Netherlands	147.4	177.5	172.3	132.1	94.9	128.0
Spain	143.0	119.7	108.8	165.4	114.0	165.4
Others	331.3	275.3	375.9	556.3	234.6	343.9
Euro Area	2,161.0	1,917.4	2,194.5	2,653.1	1,634.0	2,226.4
Other European Countries	268.5	276.9	491.4	869.7	378.3	692.8
Africa	128.5	72.4	151.5	35.8	27.4	80.1
Libya	101.0	42.9	52.4	10.9	10.4	45.8
Others	27.5	29.5	99.1	24.9	17.1	34.3
America	132.9	229.5	276.9	353.5	247.2	205.9
USA	86.8	124.7	92.8	225.3	146.6	88.7
Others	46.1	104.8	184.2	128.2	100.6	117.2
Oceania	13.0	10.7	80.1	20.4	17.5	31.8
Asia	597.8	457.7	611.7	641.9	427.9	537.8
Japan	57.8	40.1	53.8	37.5	25.9	24.9
Singapore	200.8	106.6	127.5	100.5	77.9	57.4
China	106.9	117.0	117.9	149.7	104.7	114.4
Hong Kong	11.4	12.7	12.1	16.1	9.9	14.8
India	31.4	32.5	100.7	78.7	58.0	50.5
Korea	55.6	47.1	82.2	58.8	39.2	60.5
Others	133.9	101.7	117.6	200.5	112.3	215.3
Ships & Aircraft	0.8	2.3	1.9	60.7	60.6	11.6
Total Imports	3,897.1	3,454.4	4,328.1	5,325.6	3,173.4	4,230.4
Imports from the EU as % of Total	70.7	69.6	62.7	62.8	63.5	63.1

Source: National Statistics Office

purposes. Imports from within the EU increased by €655.8 million, whilst a further increase in imports from European countries outside the EU totalling €314.5 million was also recorded. It is to be noted that imports from the EU represent around 63.1 per cent of total imports to the Maltese economy. The rest is primarily divided between imports from European countries outside the EU (16.4 per cent), Asia (12.7 per cent) and imports from the American continent (4.9 per cent).

Imports from the Euro Area increased by 36.3 per cent during the January-August 2012 period, primarily driven by the significant increase experienced in imports from Italy. An increase in imports of €51.4 million from Spain and

€109.3 million from other countries within the EU were also noteworthy.

Imports from Asia registered an increase of 25.7 per cent during the period under review towards the region, amounting to a 12.7 per cent share in total imports. It is noteworthy that China has become one of our major trading partners in Asia. Together with higher Chinese goods imports, increased imports from Hong Kong, Korea and other Asian countries more than offset lower imports from Japan and Singapore.

Meanwhile, imports from the American continent decreased by 16.7 per cent during the first nine months of 2012. This mainly reflected movements of imports from the USA, which decreased by 39.5 per cent, being partially offset by increased imports of 16.5 per cent to other American countries. Furthermore, imports from Oceania and Africa, specifically Libya, increased during the January-August 2012 period, by €14.3 million and €52.7 million respectively.

During the Survey period, a decrease of €49 million in imports from ships and aircraft was also registered, to reach € 11.6 million.

Geographical Distribution – Trade Balance

Latest data confirms the trends experienced since 2008. The trade imbalance with Europe has evolved inversely with the trade surplus with non-European countries (including ships and aircraft). Cyclical patterns can also be discerned with a declining trade deficit with Europe in the recession of 2009 offset by a decline in the trade surplus with non-European Countries. However, since 2010 there has been significant increase in the trade deficit with European countries counter to a significant increase in the trade surplus with non-European countries.

Looking at Malta's major trading partners more recent developments over the first eight months of 2012 indicate that Malta's trade deficit with Italy increased by €532.2 million over the past eight months to €1,250.4 million. Trade deficits with the UK, Netherlands, Spain and other EU have also increased over the period. Nevertheless, contrary to the general trends observed in Europe, Malta's trade balance with Germany has shifted from a trade deficit of €4.4 million registered during the first eight months of 2011 to a trade surplus of €44.2 million in the same period of 2012.

On the other hand the trade surplus with Libya increased by €99.7 million, from €1.6 million during the first eight months of 2011 to €101.3 million during the

Trade Balances with Various Countries

Table 7.6 € million

	2008	2009	2010	2011	2011 Jan-Aug	2012 Jan-Aug
EU	-1,801.7	-1,585.7	-1,568.6	-2,045.2	-1,219.7	-1,885.0
Italy	-912.8	-738.0	-908.2	-1,271.5	-718.2	-1,250.4
Germany	2.8	-50.4	-13.6	14.8	-4.4	44.2
France	-144.1	-151.5	-99.9	-130.0	-121.9	-57.4
UK	-292.2	-278.9	-230.0	-214.0	-154.8	-178.7
Netherlands	-126.0	-157.1	-150.5	-106.1	-76.9	-96.1
Spain	-126.0	-101.8	-88.0	-130.3	-93.5	-126.4
Other EU	-203.3	-108.0	-78.6	-208.2	-50.1	-220.2
Other Countries						
Libya	-40.4	41.0	32.9	36.8	1.6	101.3
USA	96.2	27.6	103.3	-56.3	-38.2	47.6
Japan	100.1	18.1	50.4	60.5	22.7	4.6
Singapore	74.2	97.6	101.9	105.8	63.6	91.5
China	-82.3	-90.0	-56.7	-78.2	-58.6	-80.6
Hong Kong	122.9	93.0	150.1	270.0	170.3	203.1

Source: National Statistics Office

corresponding period in 2012.

The trade deficit with the USA in 2011 has turned into a trade surplus of €47.6 million. The trade surpluses with Hong Kong and Singapore increased by €32.8 and €27.9, nonetheless being partially offset by the deterioration in the trade balances with Japan and China, which worsened by €18.1 million and €22 million, respectively. These developments are shown in Table 7.6.

Balance of Payments

The Current Account

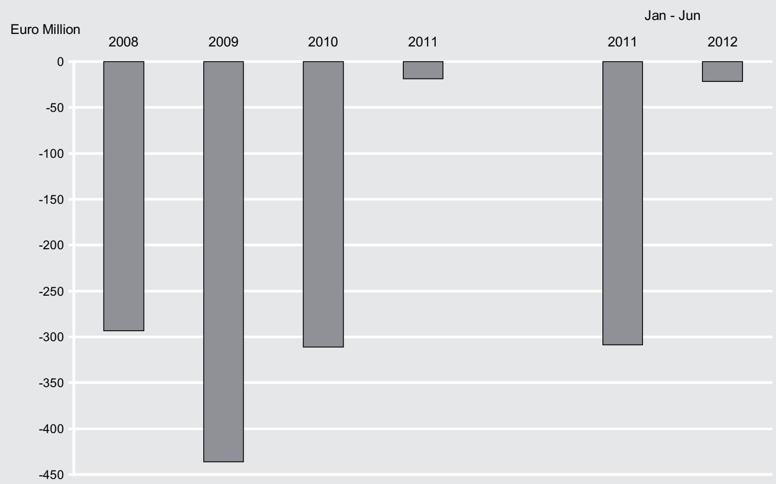
The Maltese economy suffered from persistent current account deficits in its most recent history. Nonetheless, the current account balance is subject to a certain degree of volatility due to its dependence on various economic factors. Following the 2009 recession and the volatility within the global economy, the account has experienced an overall correction in recent years. This correction is not unique to Malta as noted by the October 2012 World Economic Outlook of the IMF where global trends suggest a correction in the current account balance of many deficit countries which however was only partially offset by a lower current account balance in surplus countries. This is consistent with a rise in global savings amid a persistently uncertain international economic environment. This development is particularly pronounced in the Euro Area with large adjustments in deficit countries and only marginal adjustments in the surplus economies.

Historical data shows that the current account deteriorated significantly from a deficit of 3 per cent of GDP registered in 2003 to a deficit of around 10 per cent of GDP in 2006. A reduction in the current account deficit was recorded in the following year, which however increased again until 2009. Nevertheless, the current account deficit subsequently declined from 7.4 per cent of GDP in 2009 to 0.3 per cent of GDP in 2011 partly attributable to the heightened uncertainty in the global economy. These developments are illustrated in Chart 7.6, starting from 2008.

These developments were the result of two opposing influences which shape the movements within the current account: the goods account and the services account. The goods account, which tends to contribute negatively towards the current account balance, has in recent history improved whilst the services account increased its positive contribution. Indeed, over the last sixteen years the deficit in the goods and services account has been gradually eroded to reach a surplus of 5.6 per cent of GDP by 2011. Indeed the cyclical variation observed in the current account is primarily the result of the dynamics in the

Chart 7.6

Current Account Balance



income account which tends to mask the structural improvements in the goods and services account over the last sixteen years.

The improvement in the current account deficit continued into the first half of 2012, since the deficit decreased by €287.2 million to 0.7 per cent of GDP from 9.7 per cent of GDP recorded during the corresponding period of 2011. This improvement was mainly driven by a reduction in the goods account deficit, which decreased to 12.6 per cent of GDP when compared to the 19 per cent deficit recorded during the corresponding period in 2011. A moderate improvement of 2.6 percentage points was also recorded in the income account deficit which reached a level of 8 per cent of GDP and contributed further to the reduction in the current account deficit. The services account surplus remained fairly stable at 19.5 per cent of GDP over the first half of 2012.

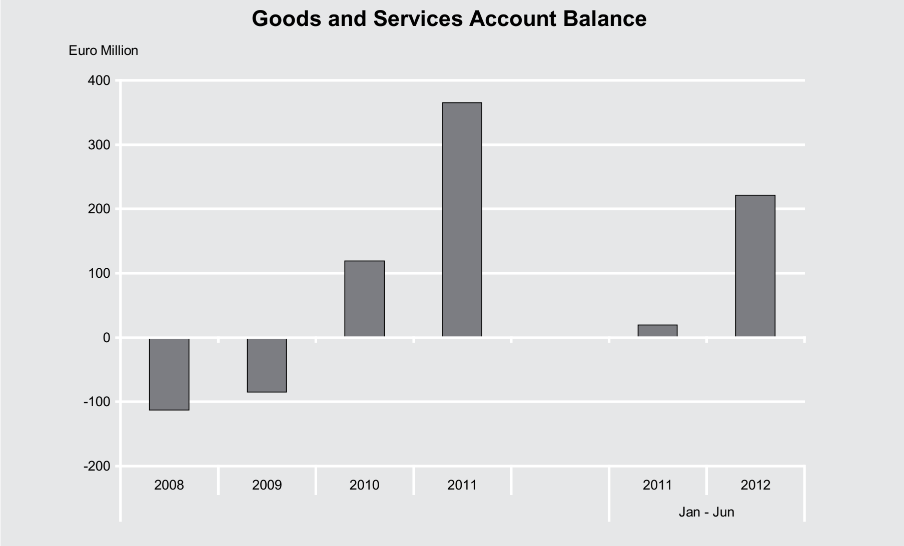
It is also noteworthy that the Maltese financial sector is composed of a number of non-core domestic and international banks, which mostly operate with non-residents. These operations affect fund flows in the financial account, particularly in the other investment section, with corresponding effects in the income account. However, the impact of such transactions on the real economy is marginal compared to the scale of the transactions involved. Their impact on the goods and services balance within the current account would also be marginal. The balance sheet transactions in the financial account of the balance of payments would generally be neutralised in the accounts within the financial account.

The Goods and Services Account

The goods and services balance has continued to contribute positively to the current account balance since 2010. The goods and services surplus continued to improve significantly during the first six months of 2012 to reach €221.3 million, from €19.8 million during the first two quarters of 2011. Imports of goods and services increased by €21.5 million during the first six months of 2012 to reach €3,211 million. Exports of goods and services also continued to recover as these increased by €223 million from €3,209.3 million during the first half of 2011 to €3,432.3 million during the corresponding period of 2012. Chart 7.7 illustrates the goods and services balance.

The goods account deficit narrowed by €193.6 million during the first six months of 2012, from €603.1 million or 19 per cent of GDP during the corresponding months in 2011 to €409.5 million or 12.6 per cent of GDP. It is worth noting that the improvement in the goods balance was mainly driven by higher goods

Chart 7.7



exports, which increased by €141.6 million. General Merchandise net imports also decreased by €93.9 million. Table 7.7 illustrates the developments in the goods, services and income account.

The services balance surplus increased slightly by €8 million to reach €630.8 million during the first two quarters of 2012, as the increase in services receipts of €81.4 million more than offset the increase in services payments of €73.4 million. Thus, the ratio to GDP remained stable at around 19.5 per cent of GDP during the first six months of 2012.

The services account has gone through some radical changes in the last few years particularly with the emergence of service industries such as remote gaming, information and communications, financial services, insurance and business services including legal and auditing services. Indeed, there was a significant increase in exports by many of these emerging industries. Increases in payments for services were also notable. Indeed for a number of these industries the growth in exports was matched by a growth in imports of services. However a few exceptions stand out. The remote gaming industry, which is part of the personal, culture and recreation sector, now accounts for a net export of almost 25 per cent of GDP. Since 2008, the net balance in this category has exceeded by far the net receipts from tourism. During the last four years the net receipts from financial services have also persisted and now have reached 3 per cent of GDP.

Balance of Payments

Goods, Services and Income Account (Net)

Table 7.7 € million

	2008	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
GOODS						
General Merchandise Transactions	-1,635.4	-1,432.4	-1,643.2	-1,748.1	-990.6	-896.7
Nonmonetary Gold	-22.797	-18.7	-30.7	-24.4	-13.6	-11.4
Others	424.5	367.6	552.6	760.5	401.1	498.6
Total Goods	-1,233.7	-1,083.5	-1,121.3	-1,012.0	-603.1	-409.5
SERVICES						
Transportation	122.0	109.6	-33.2	-79.3	-16.2	-47.9
Travel	519.7	432.8	580.4	671.063	245.7	259.3
Other Services	479.3	456.2	693.4	785.4	393.4	419.4
Total Services	1,121.1	998.7	1,240.5	1,377.1	622.8	630.8
Total Goods and Services	-112.6	-84.8	119.2	365.1	19.8	221.3
INCOME						
Compensation of employees	3.9	7.5	-2.5	-1.6	-0.9	-1.6
Investment Income	-178.2	-401.6	-453.9	-407.3	-335.5	-257.8
Total Income	-174.3	-394.1	-456.4	-408.9	-336.4	-259.4
Total Goods, Services and Income	-286.8	-478.9	-337.2	-43.9	-316.6	-38.1

Source: National Statistics Office

Net travel receipts from abroad increased by €13.6 million over the first six months of 2011 to reach €259.3 million during the first half of 2012. This mainly stemmed from increased tourism earnings of €16.3 million, which outmatched the increase in expenditure by Maltese tourists abroad of €2.7 million. Detailed developments in tourism are outlined in Chapter 5 of the Economic Survey.

Meanwhile, net transportation payments made abroad increased by €31.7 million to €47.9 million during the first two quarters of 2012, continuing with the trend that has been ongoing since 2010. This mainly reflected an increase in transportation payments made abroad which more than outpaced the increase in transportation receipts from abroad.

An increase of €26 million was recorded in net receipts for other services to register €419.4 million during the first six months of 2012. Personal, cultural and recreational services recorded the largest growth during the period, translating a contribution of 7.2 percentage points towards total services growth. This occurred as net receipts increased by €45 million, largely due to increased receipts. This was mainly related to developments in remote gaming activities.

Net receipts have grown by around 15 per cent of GDP since 2007 to reach almost 25 per cent of GDP.

Financial services contributed 6.2 percentage points towards total services growth, posting a €38.4 million increase in net receipts from abroad during the first two quarters of 2012. This was mainly due to increased receipts and lower payments.

Royalties and license fees also contributed positively towards total services growth by 0.5 percentage points as net payments made abroad decreased by €3.1 million. Government services net payments made abroad decreased by €0.5 million, providing a positive contribution to total services growth of 0.1 percentage point.

On the other hand, communications services registered no significant changes, while all the remaining services account categories contributed negatively. Other business services shaved off 7.5 percentage points from total net services export growth, registering an increase in net outflows of €46.9 million. This primarily reflected lower receipts from abroad whilst payments made abroad increased slightly. Merchanting services recorded a decrease of €24 million in net receipts. Miscellaneous business, professional and technical services registered an increase of €29.5 million in net payments while operational leasing services recorded an increase in net receipts of €6.6 million. It is to be noted that legal, accounting, management, consulting and public relations services, advertising and marketing services and other business services, provided the bulk of the increase in net payments made abroad under miscellaneous business services.

Insurance services net payments made abroad increased by €13.4 million, thus contributing negatively by 2.1 percentage points towards total services growth. Meanwhile, computer and information services net receipts from abroad decreased by €0.5 million.

Income and Current Account Transfers

Net income paid abroad decreased from €336.4 million or 10.6 per cent of GDP in first two quarters of 2011 to €259.4 million or 8 per cent of GDP during the corresponding period in 2012. During the first half of 2012, income received from abroad increased by €182.7 million whilst income paid abroad increased by €105.7 million.

Investment income was the main driver behind these developments, as the increase in direct investment income outflows was more than outpaced by the increase in inflows registered in portfolio investment income and the decrease in other investment income net outflows.

The separate subsections of the current account are depicted in Table 7.8. Earnings of foreign-owned companies operating in/from Malta are included in the income account and represent an outflow of funds from the current account of the balance of payments. Hence, an increase in the earnings of foreign-owned companies will be reflected in a higher current account deficit. Nonetheless, the portion of these earnings that are re-invested in the Maltese economy are recorded as an inflow of funds in the financial account as foreign direct investment, thereby helping to finance the current account deficit and thus partly neutralising the negative impact on the current account.

Net direct investment income outflows increased by €110.5 to reach €619 million during the first six months of 2012, primary reflecting the increased earnings of foreign-owned companies registered in Malta. This increase confirms the upward trend noted since 1995, reaching its highest level of €603.9 million or 18.7 per cent of GDP over the first two quarters of 2012. This represents aggregate economy-wide profit made by foreign-owned firms and is partly explained by the increasing presence of foreign-owned firms in Malta. Meanwhile, dividends and distributed branch profits also increased from €520.4 million to €699.4 million. Nevertheless, the dividend pay out exceeded the profits registered for the period under review with the difference financed from past earnings reserves.

The reinvestment ratio remained negative, increasing from 4 per cent to 16 per cent in the first six months of 2012, moving away from its historical average of a positive inflow of 35.6 per cent recorded since 1995. Reinvested earnings are a direct investment in the Maltese economy and are usually recognised as a source of finance for the current account deficit.

During the first six months of 2012, portfolio investment income inflows increased by €152.3 million over the corresponding period in 2011 to reach €502.4 million. This mainly reflected higher income on debt mainly registered on bond and note holdings by banks, which increased from 9.8 per cent of GDP to 14 1 per cent of GDP during the period under review.

Other investment income outflows decreased by €36 million to €141.2 million during the first six months of 2012. This was underpinned by movements

Balance of Payments

Current Account

Table 7.8 € million

	2008	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
GOODS AND SERVICES						
Exports of Goods and Services	5,463.8	4,904.6	6,067.6	6,617.8	3,209.3	3,432.3
Imports of Goods and Services	-5,576.4	-4,989.4	-5,948.4	-6,252.7	-3,189.5	-3,211.0
Goods and Services Account	-112.6	-84.8	119.2	365.1	19.8	221.3
INCOME						
Income Received	2,210.7	1,649.6	1,604.5	1,634.1	763.2	945.9
Income Paid	-2,385.0	-2,043.7	-2,060.9	-2,043.0	-1,099.6	-1,205.3
Income Account	-174.3	-394.1	-456.4	-408.9	-336.4	-259.4
CURRENT TRANSFERS (Net)						
General Government Transfers	12.5	46.1	28.0	35.9	12.2	21.9
Private Transfers	-18.9	-3.5	-1.7	-10.6	-4.2	-5.2
Total Net Current Transfers	-6.5	42.7	26.3	25.3	8.0	16.7
Balance on Current Account	-293.3	-436.2	-310.9	-18.6	-308.6	-21.4

Source: National Statistics Office

registered in income flows for the banking sector, which recorded a decrease of other investment income outflows from 5.2 per cent of GDP to 4.1 per cent of GDP over the period.

Current transfers net inflows increased from 0.3 per cent of GDP to 0.5 per cent of GDP in the first half of 2012. Higher Government transfers mainly contributed to this increase as Government net receipts from abroad increased by €9.7 million to €21.9 million. On the other hand, net private transfers made abroad increased by €1 million. It should be noted that timing differences between the payment of tax due and payment of tax refunds affect the levels of Government transfers. This is in addition to profitability, dividend policy and tax policy, which all have a bearing on transfer flows.

The Capital and Financial Account

Transactions made between domestic and foreign residents that involve a change of ownership of an asset are accounted for in the capital and financial account of the balance of payments. Within this account, foreign acquisition of a domestic asset is considered as an inflow of funds while a domestic acquisition of a foreign asset is considered as an outflow of funds.

Through accounting convention, the balance of payments which is made up of the current account and the capital and financial account, including changes in reserve assets and net errors and omissions, balances with the current account. An analysis of the capital and financial flows and the composition of such flows in Malta are presented below. For this analysis, the financial account is taken to exclude net errors and omissions as well as reserve assets. Thus, if the current account deficit is more than adequately financed by a net inflow of funds under the remaining accounts (usually equal to an increase in net liabilities or a fall in net assets), the result would be an increase in reserve assets.

The capital account balance stood at a net inflow of €20.4 million during the first two quarters of 2012, registering a decrease of €6.4 million when compared to the corresponding period of the previous year.

As shown in Table 7.9, the capital account stood at 0.6 per cent of GDP compared to 0.8 per cent of GDP recorded a year earlier. The decrease in the positive balance was mainly affected by general Government transfers and forgiveness of debt provided by a foreign economic agent to a firm registered in Malta. Lower receipts of Government transfers from abroad of €22.1 million contributed to this decline in the capital account surplus. This may be attributed to lower funds being received under the various EU Programmes.

An outflow of foreign direct investment (FDI) of 7.3 per cent of GDP occurred during the first half of 2011. This was partly due to the use of past earnings reserves to the tune of €99.4 million to finance the payment of dividends. It is important to note that this only occurred four times during the January–June period since 1995, as usually reinvested earning reserves are ploughed back into the Maltese economy. This was accompanied by a reduction of €24.3 million in the stock of equity capital, and an outflow of other capital of €101.2 million. Only in 2001 and 2002 were similar developments recorded in FDI inflows.

Net portfolio investment outflows of €593.4 million were recorded during the first six months of 2012, representing an increase in outflows of €421.4 million from the same period of the previous year. This mainly stemmed from banks increasing their holdings of bonds and notes supported further by purchases of bonds by monetary authorities albeit at a lower level compared to the same period last year. These operations resulted in net portfolio debt outflows of 17.9 per cent of GDP during the first two quarters of 2012 when compared to outflows of 5.7 per cent of GDP recorded during the same period of the pervious year.

Current, Capital and Financial Flows*

(per cent of GDP)

Table 7.9

	2008	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
Current Account	-5.0%	-7.4%	-5.0%	-0.3%	-9.7%	-0.7%
Capital Account	0.4%	1.7%	1.7%	1.0%	0.8%	0.6%
Financial Account excl. Reserves	1.9%	0.4%	-2.1%	-1.7%	2.1%	-6.5%
Net Foreign Direct Investment	5.9%	8.3%	11.1%	4.7%	2.1%	-7.3%
Net Portfolio Investment Equity Flows	-1.0%	-0.5%	-0.3%	0.0%	0.2%	-0.4%
Net Portfolio Debt Flows	7.3%	-32.5%	-51.2%	-47.8%	-5.7%	-17.9%
Net Financial Derivatives	-5.9%	-2.0%	0.4%	0.4%	1.0%	2.1%
Net Other Investment Flows	-4.4%	27.1%	37.9%	41.0%	4.5%	17.0%
Reserve Assets	1.9%	-0.0%	-0.4%	0.8%	1.1%	-4.5%
Net Errors and Omissions	0.9%	5.4%	5.7%	0.2%	5.7%	11.0%

* A positive sign represents a decrease in assets or an increase in liabilities.
A negative sign represents an increase in assets or a decrease in liabilities.

Source: National Statistics Office

It is to be noted that banks decreased their rate of purchase of money market instruments during the first six months of 2012. These movements mainly reflected transactions of internationally-oriented banks.

Financial derivatives recorded net inflows of €68.7million during the first six months of 2012 when compared to €30.5 million registered during the same period of the previous year. This was mainly underpinned by bank operations, which were complemented by operations carried out by the private sector and monetary authorities. Net financial derivatives reached 2.1 per cent of GDP during January-June 2012 when compared to 1 per cent of GDP recorded during the first six months of 2011.

Other investment net inflows of €549.7 million were recorded during the first six months of 2012, increasing by €408.3 million over the corresponding period of 2011. Transactions under other investments assets and liabilities pertaining to Government loans relate to the debt rerouting in view of the European Financial Stability Facility (EFSF) operations. Other investment liabilities are typically made up of cash and deposits held by foreigners in domestic banks and financial institutions. They also include banks and financial institutions' borrowing from foreigners. During the first six months of 2012, liabilities held increased by €1,000.2 million as compared to an increase in liability holdings of €2,345.4 million in 2011. Both monetary authorities and banks increased their currency and deposit liabilities, however most of the increase was accounted for by monetary authorities. At €120.2 million the increase in currency and deposits with domestic banks contrasts with the increase of €1,646.8 million observed in the previous year.

Other investment assets are mainly made up of lending to foreigners. Partly due to the subdued growth in cash and deposits held by foreigners with domestic banks, lending to foreigners primarily by banks increased by €428.8 million compared to an increase in lending of €1,632.0 million a year earlier. Currency and deposits held with foreign banks remained practically unchanged. Moreover, it is to be noted that the increase in deposits held by foreigners in Maltese banks increased by €0.1 billion, which contrasts with the increased lending made abroad by Maltese banks of around €0.4 billion.

It is important to note that the activities of foreign-owned banks registered in Malta have a dominant impact on financial flows within the other investment category, with holdings of loans and currency and deposits being particularly important. Other investment financial flows tend to mirror developments in portfolio investment financial flows as the two categories represent the sources and uses of funds of foreign-owned banks registered in Malta.

Net errors and omissions stood at a positive €356.5million or 11 per cent of GDP during the first two quarters of 2012. This is a substantial increase when compared to the same period in 2011, which recorded net errors and omissions of €179.5 million. A current account deficit of €21.4 million together with a financial account deficit of €211.2 million were only partially offset by a capital account surplus of €20.4 million. Such developments together with positive net errors and omissions of 11 per cent of GDP meant that reserve assets increased by €144.4 million or 4.5 per cent of GDP. This followed a decrease in reserve assets recorded during the corresponding period of 2011 equal to 1.1 per cent of GDP.

8. Financial Developments

8. Financial Developments

When compared to January-September 2011, the shortfall between recurrent revenue and total expenditure of central general Government over the same period in 2012 increased to €282.2 million. The worsening in the balance was mainly the result of higher recurrent expenditure, although capital expenditure and interest on public debt also contributed positively to the increase in total expenditure. These increases were not completely offset by increases in tax revenues. During the period under review, the public sector borrowing requirement increased from €390.9 million to €597.9 million mainly on account of the developments in the sinking fund contribution and direct loan repayments. Moreover, the deterioration in the structural balance also contributed towards the increase in the public sector borrowing requirement[1].

During the first eight months of this year, the contribution of Maltese Monetary Institutions (MFIs) to the stock of broad money (M3) of the Euro Area increased by 5.2 per cent to reach €10,181.9 million as at the end of August 2012. The increase registered during this period was mainly the result of an increase in net claims on non-residents of the Euro Area which more than offset the negative contribution stemming from an increase in the other counterparts component, as well as a decline registered in the credit counterpart. As the crisis in financial markets continued to unfold, leading to additional tensions in financial markets within the Euro Area, the European Central Bank (ECB) continued to sustain financial intermediation and to provide monetary easing through liquidity-providing, longer-term refinancing operations. Moreover, the Governing Council of the ECB increased the availability of collateral, and reduced the reserve ratio. Additionally, in a bid to address the renewed tensions in a number of Euro Area financial markets, the ECB's Governing Council also conducted changes in the main refinancing rate, and approved specific national eligibility criteria and risk control measures for the temporary acceptance in a number of countries of additional credit claims as collateral in Eurosystem credit operations.

Since mid-2011, as the Euro debt crisis intensified, the Euro registered declines with respect to the major currencies under analysis. This is in contrast with the first two years of the financial crisis, where the Euro currency retained a degree of strength against the major currencies, especially the US Dollar. In recent months, the Euro has partly regained some of the aforementioned decline. Nevertheless, at the end of September 2012, the Euro was around 4 per cent lower from the level prevailing a year earlier in terms of the US Dollar. During the first nine months of 2012, the largest decline in the Euro was registered in respect of the UK Sterling. As at September 2012, the Euro had depreciated by around 8 per cent from the level prevailing in the comparable month in 2011. The trend decline in the Euro during the period 2011-2012 occurred also in respect of the Japanese Yen. As at end of September 2012, the Euro was trading at a level that was 3 per cent lower than that prevailing a year earlier.

Public Finance

Unless otherwise stated, the analysis in this section is based on Government finance data as classified in the statement of the Consolidated Fund, which data is defined on a cash basis rather than on an accruals system. Consequently, this data should be interpreted with caution since developments in Government's net financial position may not fully reflect spending and revenue flows defined along accruals concepts. Table 8.1 presents Government's fiscal position during

Government Revenue and Expenditure

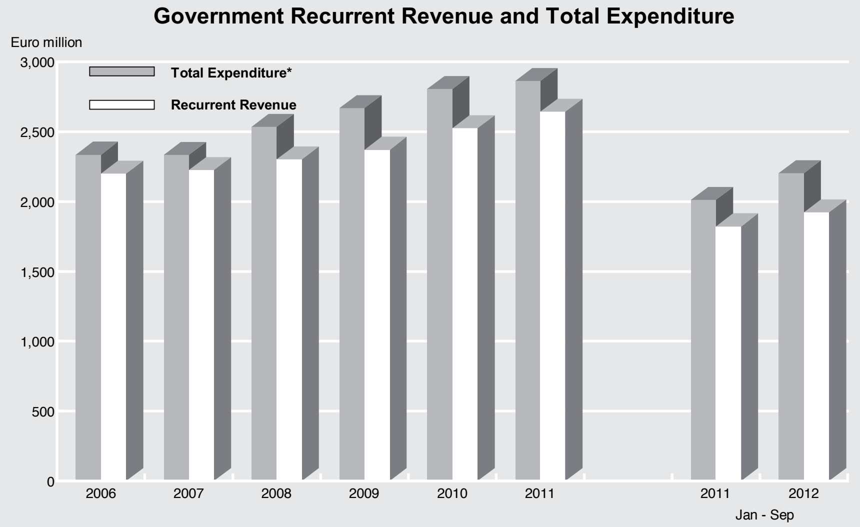
(January-September)

Table 8.1 € million

	2009	2010	2011	2012
Recurrent Revenue	1,553.6	1,686.8	1,822.1	1,921.4
Tax Revenue	1,415.0	1,499.0	1,608.7	1,686.0
Direct Tax Revenue	857.9	899.9	918.4	1,007.9
Indirect Tax Revenue	557.1	599.1	690.3	678.1
Non-Tax Revenue	138.7	187.9	213.4	235.5
Total Expenditure	1,887.5	1,986.6	2,010.6	2,203.6
Recurrent Expenditure	1,559.9	1,635.1	1,667.7	1,792.2
Interest on Public Debt	158.6	141.9	159.5	168.0
Capital Expenditure	169.0	209.6	183.4	243.4
Productive	58.4	50.0	36.7	70.2
Infrastructure	70.6	127.5	110.1	141.4
Social	39.9	32.1	36.6	31.8
Structural Balance	-333.9	-299.8	-188.4	-282.2
Financed by:				
Sinking Funds of Converted Loans	0.0	0.0	9.6	28.4
Sinking Fund Contribution and Direct Loan Repayments	-259.6	-164.3	-135.0	-355.1
Equity Acquisition	-0.5	0.0	0.0	11.0
Loan Facility Agreement with Hellenic Republic	0.0	-19.8	-25.1	0.0
Loan Facility Agreement with Air Malta plc	0.0	0.0	-52.0	0.0
Public Sector Borrowing Requirement	-594.1	-483.9	-390.9	-597.9
Local Loans	355.8	478.9	401.6	510.6

Source: The Treasury, Ministry of Finance, the Economy and Investment

Chart 8.1



*excluding contributions to Sinking Fund, Direct Loan Repayments and Equity Acquisition

the January-September 2009-2012 period, whilst Chart 8.1 illustrates trends in total expenditure as well as recurrent revenue.

Revenue

During the period January-September 2012, recurrent revenue increased by €99.3 million, mainly as a result of higher taxation revenue, although income from non-tax revenue also registered a significant increase. Developments in the components of Government revenue for the periods January-September 2009-2012 are presented in Appendix Table 8.1.

During the first three quarters of 2012, the share of Government revenue from taxes remained relatively stable at around 88 per cent of the total recurrent revenue. Revenue from taxes increased by €77.3 million during the period January-September 2012, reaching €1,686.0 million. This increase was mainly characterised by an increase in direct tax revenue of €89.4 million which was partially offset by a decrease in indirect tax revenue of €12.2 million. The increase in direct tax revenue was driven by both an increase in revenue from income tax receipts as well as in social security contributions, although growth in the latter was lower. Meanwhile, the decline in proceeds from indirect taxation reflected lower receipts from customs and excise duties, which were, however, partially offset by an increase in Value Added Tax (VAT) receipts. Income from licences, taxes and fines also contributed to marginally offset the decrease in indirect tax revenue. In the first three quarters of 2012, revenue from direct and indirect taxes amounted to €1,007.9 million and €678.1 million, respectively.

When compared to the same period in 2011, revenue from income tax receipts during the first nine months of 2012 increased by €76.7 million to reach €595.1 million. This was mainly attributable to the pick-up in the domestic economy, in particular developments in the business environment, which contributed to higher provisional tax receipts in reflection of the higher profits earned in 2010.

During the first nine months of 2012, social security contributions increased by €12.7 million to €412.7 million, mainly reflecting developments registered in the local labour market. In addition, the pension reform initiatives legislated in 2006, which resulted in higher contribution rates, lower number of retirees, as well as pecuniary incentives to reduce tax arrears, also underpin these positive developments.

During the period under review, receipts from customs and excise duties decreased by €29.8 million to €117.8 million. The decline was mainly due to lower revenue from excise duty on petroleum which decreased by €37.1 million. This was partially offset by higher proceeds from excise duty on tobacco, cigarettes and mobile telephony services.

When compared to the corresponding period in 2011, revenue from licenses, taxes and fines increased by €1.2 million in the period January to September 2012, reaching €171.9 million. This increase largely reflects increases in receipts from the annual circulation license fee and oil rental licences, as well as higher income from gaming taxes and duty on documents. These increases more than offset a decline in revenue from the motor vehicle registration tax of €3.9 million.

Receipts from VAT during the January to September 2012 period amounted to €388.3 million, thus increasing by €16.4 million when compared to the January to September 2011 period. These developments reflect higher expenditure by foreign tourists in Malta during the period under review, as well as revenue from a scheme which provided for the waiving off of fines and penalties accruing in relation to VAT due.

When compared to the corresponding period in 2011, non-tax revenue increased by €22.0 million, reaching €235.5 million during the first three quarters of 2012.

Increases were recorded in almost all of the components of non-tax revenue, with the most significant increases being registered in miscellaneous receipts and grants. These increases more than offset lower Central Bank profits and fees of office.

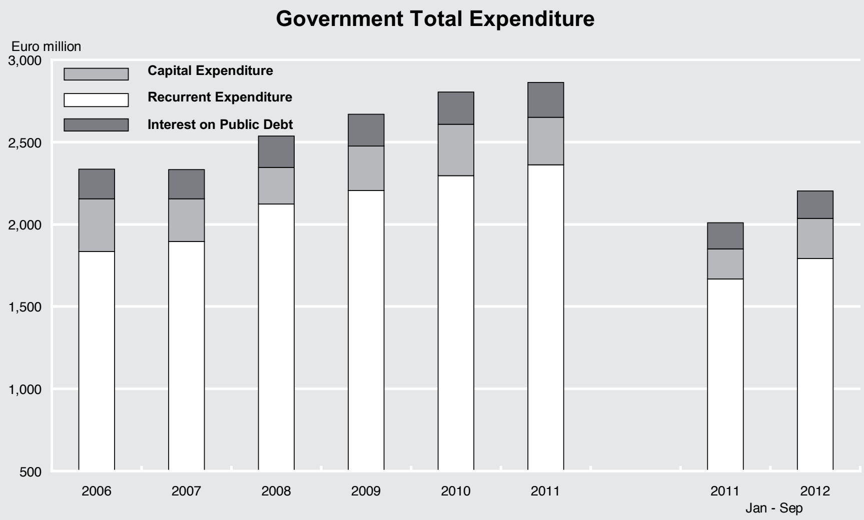
When compared to the first three quarters of 2011, revenue from miscellaneous receipts increased by €20.8 million to reach €53.9 million. These developments reflect lower revenue from the sale of non-financial assets, miscellaneous receipts, and from the sale of government lands, which were more than offset by the increase of €39.1 million in revenue accruing from the concession fee payable in respect of the exclusive license to operate National Lottery games in Malta for the coming decade. Revenue from grants increased by €4.5 million during the period under review, reflecting higher Cohesion Funds under the EU 2007-2013 Financial Framework. Meanwhile, the transfer of profits of the Central Bank of Malta (CBM) reached €42.0 million for the January-September 2012 period, a decrease of €6.0 million when compared to the same period in 2011. Revenue from fees of office declined by €4.0 million and stood at €23.9 million as a result of lower revenue from television license fees, lower eco-contribution revenue and a decline in fees for right of use. During the nine months to September 2012, revenue from reimbursements increased by €4.4 million to reach €19.8 million when compared to the corresponding period in 2011. Revenue from rents remained relatively stable during the period under review and totalled €18.6 million.

Expenditure

During January-September 2012, total Government expenditure, consisting of recurrent expenditure, capital expenditure and interest on public debt, increased by €193.1 million over the same period in 2011, to €2,203.6 million. This increase was mainly the result of higher recurrent expenditure, although capital expenditure and interest on public debt also contributed positively towards the registered increase in total Government expenditure.

Recurrent expenditure made up over 80 per cent of total expenditure. During the first three quarters of 2012, an increase of €124.6 million in recurrent expenditure was registered over the corresponding period of the previous year. Higher outlays towards social security benefits, the Ministry of Finance, the Economy and Investment (MFEI), and the Ministry of Health, Elderly and Community Care (MHEC) accounted for around 3/4ths of the increase in recurrent expenditure. Meanwhile, during January-September 2012, capital expenditure amounted to nearly 12 per cent of total expenditure. Capital expenditure increased by €59.9 million to reach €243.4 million. During the

Chart 8.2



same comparative period, interest on public debt registered an increase of €8.5 million, reaching €168.0 million. The recent trends in Government expenditure are portrayed in Chart 8.2.

Recurrent Expenditure

Recurrent expenditure comprises four categories, namely Personal Emoluments, Operational and Maintenance Expenditure, Contributions to Government Entities, and Programmes and Initiatives. During the first three quarters of 2012, at 62.8 per cent, Programmes and Initiatives constituted the largest share of total recurrent expenditure. Personal Emoluments, accounted for 23.4 per cent of total recurrent expenditure whilst Contributions to Government Entities and Operational and Maintenance Expenditure accounted for 8.7 per cent and 5.1 per cent, respectively.

Programmes and Initiatives comprises expenditure and social transfer payments made in respect of programmes run by Government, as well as subsidies, payments and grants for the provision of services to citizens and to charitable and private institutions but excludes operational costs of Government departments. During the first three quarters under review, Programmes and Initiatives increased by €97.3 million to €1,126.1 million. Higher expenditure outlays were mainly recorded in respect of social security benefits and higher outlays by the MFEI, and by the MHEC.

During January-September 2012, Personal Emoluments increased by €13.6 million when compared to the corresponding period in the previous year, to reach €419.5 million, mainly reflecting higher expenditure by the MHEC, and the Education Department. Personal Emoluments includes all salaries and wages paid to elected officials and civil servants, as well as any bonuses and supplements paid to employees in excess of standard remunerations including any allowances and overtime payments.

Contributions to Government Entities, which accounts for funding to Government entities including Parastatals, Corporations and Authorities, reached €155.2 million during the period under review, thus representing an increase of €4.8 million when compared to the same period a year earlier. Developments in this category mainly reflected a higher allocation to entities classified under the MFEI and the Office of the Prime Minister. These were in part offset by a lower allocation to entities in the Ministry of Education, Employment and the Family, in particular due to a lower allocation towards the University of Malta.

During the first three quarters of 2012, Operational and Maintenance expenditure increased by €8.8 million over the same period in 2011, reaching €91.5 million. This category of expenditure includes payments for utilities, contractual services, materials and supplies, transport and rent. Higher expenditure in this category was mainly attributable to higher expenditure by the MHEC and by the Education Department. The latter reflects higher outlays on transport costs.

Appendix Table 8.2 presents the developments in Government's recurrent expenditure on a cost centre basis for the period January-September 2012. It is important to consider that the nomenclature of Ministries as well as the cost centres referred to in this Chapter reflect the classification presented in Parliament for appropriation for 2012, thus reflecting the change in Ministerial Portfolios in January 2012. A direct comparison with data for previous periods is therefore not always possible.

Around 31 per cent of Government's total recurrent expenditure consists of retirement pensions, children's allowances, social assistance, as well as other benefits. These expenditures are highly influenced by the developments in compensation of employees, inflation, as well as demographic changes. During the first three quarters of 2012, welfare payments increased by €35.9 million to reach €561.2 million, mainly due to higher contributory benefits as the increase in non-contributory benefits was more subdued. The increase in contributory benefits of €27.5 million mainly reflects increases in outlays towards retirement pensions including the increase in pensions due to COLA. Meanwhile, the increase in non-contributory benefits was mainly due to higher outlays towards children's allowances and social assistance, each increasing by €3.8 million and €2.7 million, respectively. Expenditure by the Department of Social Security relating to the State contribution in terms of the Social Security Act 1987 (Cap. 318), which also features as revenue, increased by €5.7 million to €131.9 million during the first three quarters of 2012.

During the period under review, recurrent expenditure by the MFEI amounted to €115.3 million, an increase of €35.0 million when compared to January-September 2011. Higher outlays were recorded mainly in respect of EU own resources and expenditure incurred by the Drainage Directorate. Moreover, higher outlays by the Ministry also reflect financial assistance to Enemalta, through which Government assumed responsibility for Enemalta's social and environmental commitments. These higher outlays ensured Enemalta was in a position to maintain stable tariffs despite increases in the international price of oil.

Expenditure outlays incurred by the MHEC stood at €249.4 million, an increase of €26.9 million when compared to the same three quarters of the previous year. Higher expenditure was the result of increased expenditure with respect to Programmes and Initiatives under Government Health Procurement Services, which relates to medicines and surgical materials. In fact, these outlays registered an increase of €11.6 million over the period under review, reaching €62.4 million during the January-September 2012 period.

During the first three quarters of 2012, the allocation in respect of Local Councils amounted to €34.6 million, an increase of €8.7 million when compared to the corresponding expenditure recorded a year earlier.

Recurrent expenditure by the Education Department during the January-September 2012 period amounted to €110.4 million, an increase of €6.9 million when compared to the corresponding period of 2011. This increase was mainly attributable to higher salaries and wages, as well as higher transport costs.

The increases in recurrent expenditure outlined above were marginally offset by decreases in expenditure by the Ministry for Infrastructure, Transport and Communication (MITC) and the Ministry for Resources and Rural Affairs (MRRA).

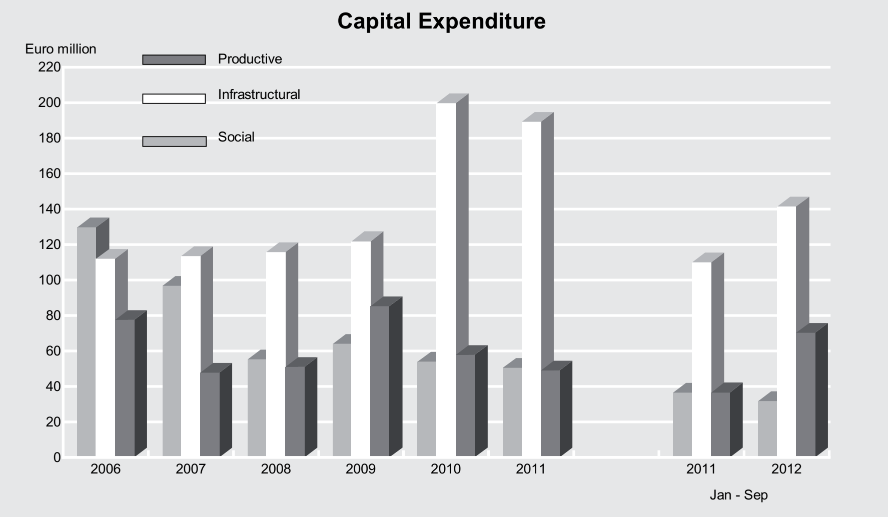
Capital Expenditure

Central Government capital expenditure is made up of three categories, namely productive investment, infrastructural investment and capital outlays on social development.

Total capital expenditure increased by €59.9 million during January-September 2012 over the same period in 2011, to €243.4 million. Higher expenditure during this period was due to higher productive and higher infrastructural spending. These more than offset the marginally lower expenditure registered in social capital expenditure. During January-September 2012, infrastructural investment amounted to 58.1 per cent of total capital expenditure, registering a marginal decline when compared to the last year's share of 60.0 per cent. The share of productive investment and social investment to total capital outlays were 28.8 per cent and 13.1 per cent respectively, whereas a year earlier each category had a share of 20.0 per cent. Appendix Table 8.3 displays a breakdown of Government's capital expenditure programme for the January-September 2009-2012 period. Chart 8.3 presents developments in capital expenditure over recent years.

Productive investment expenditure increased by €33.5 million during the first nine months of 2012 when compared to the same period in 2011, to reach €70.2 million. This increase was mainly attributed to the €20.0 million equity acquisition in the national Maltese airline. An increased contribution

Chart 8.3



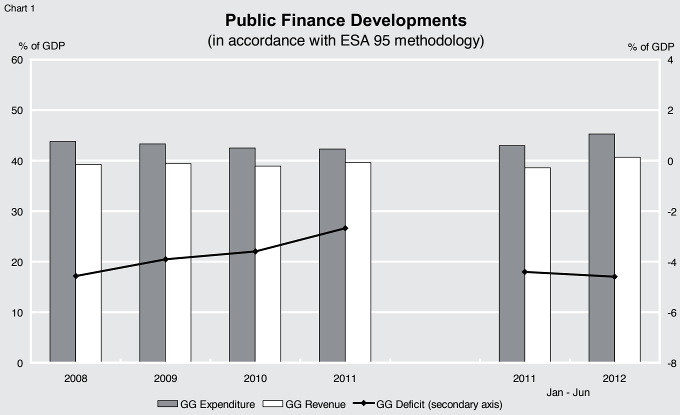
Box 8.1

General Government Budgetary Developments

The Quarterly Accounts of General Government published by the National Statistics Office (NSO) depict the Government's fiscal position using the European System of Accounts 1995 (ESA95) methodology. Under this system, mandatory for all EU Member States, adjustments are carried out to the cash balances of the Consolidated Fund transactions to include all government accounts, exclude all financial transactions, and include accrual adjustments. Moreover, data pertaining to Extra-Budgetary Units (EBUs) and local councils are also included. It is therefore significant to note that the data presented below is not comparable to that classified in the statement of the Consolidated Fund as provided in other sections of this Chapter. Nevertheless, conformity to the use of ESA95 methodology in line with the procedure defined in Article 104 of the Maastricht Treaty, allows for the international comparability of data for reporting purposes. The following analysis relates to general Government budgetary developments during the January-June 2012 period.

As depicted in Chart 1 below, during the first half of 2012 the deficit-to-GDP ratio stood at 4.6 per cent of GDP, deteriorating by 0.2 percentage points over the corresponding period in 2011 as the rise in the expenditure ratio more than outweighed the increase in revenue-to-GDP ratio.

Chart 1



The revenue-to-GDP ratio for the January-June 2012 period increased from 38.6 per cent in 2011 to 40.7 per cent. The increase of 2.1 percentage points was mainly underpinned by higher ratios to GDP of current taxes on income and wealth, taxes on production and imports, and market output.

Box 8.1 continued

When compared to the first two quarters of 2011, the expenditure-to-GDP ratio for the same period in 2012 increased by 2.3 percentage points to 45.3 per cent of GDP, mainly on account of higher ratios to GDP of intermediate consumption and capital transfers payable. The significant increase in the ratio of intermediate consumption is mainly underpinned by higher outlays towards medicines and surgical materials, whereas the higher ratio of capital transfers payable is mainly due to the equity injection in the national airline as part of the ongoing restructuring process. Meanwhile, higher ratios were also recorded for current transfers payable, social benefits and social transfers in kind, and property income payable. These were in part offset by a lower ratio of gross capital formation.

to the Treasury Clearance Fund and higher outlays towards the development of industry were also recorded during the same period. Indeed, the increase in these outlays more than offset lower expenditure towards EU funding for agriculture, which declined by €1.9 million.

During the first three quarters of 2012, infrastructural investment registered an increase of €31.3 million, reaching €141.4 million when compared to the January-September 2011 period. This increase was largely attributable to the 'Other' category, which increased by €13.6 million, mainly reflecting higher outlays towards the integrated flood relief project and online public services. Higher outlays on infrastructural investment were also registered in relation to road construction and improvement, waste and sewerage treatment, and the ICT core services agreement. Meanwhile, lower outlays were recorded in relation to the Freeport and towards an integrated health information system.

Social investment amounted to €31.8 million in the first three quarters of 2012, decreasing by €4.9 million when compared to the corresponding period in the previous year. This was mainly attributable to lower expenditure by Wasteserve Malta Ltd. and lower outlays under the External Borders Fund. Nevertheless, these declines were in part offset by higher social capital expenditure in Gozo totalling €2.9 million.

International Comparison

The following is an analysis of the fiscal position of the EU Member States between 2008 and 2011. Table 8.2 presents the Government budgetary position as a percentage of GDP, while Table 8.3 presents the general Government

General Government Net Lending (+) or Borrowing (-)

as a percentage of GDP

Table 8.2 per cent

	2008	2009	2010	2011
Austria	-0.9	-4.1	-4.5	-2.5
Belgium	-1.0	-5.5	-3.8	-3.7
Bulgaria	1.7	-4.3	-3.1	-2.0
Cyprus	0.9	-6.1	-5.3	-6.3
Czech Republic	-2.2	-5.8	-4.8	-3.3
Denmark	3.2	-2.7	-2.5	-1.8
Estonia	-2.9	-2.0	0.2	1.1
Finland	4.4	-2.5	-2.5	-0.6
France	-3.3	-7.5	-7.1	-5.2
Germany	-0.1	-3.1	-4.1	-0.8
Greece	-9.8	-15.6	-10.7	-9.4
Hungary	-3.7	-4.6	-4.4	4.3
Ireland	-7.4	-13.9	-30.9	-13.4
Italy	-2.7	-5.4	-4.5	-3.9
Latvia	-4.2	-9.8	-8.1	-3.4
Lithuania	-3.3	-9.4	-7.2	-5.5
Luxembourg	3.2	-0.8	-0.8	-0.3
Netherlands	0.5	-5.6	-5.1	-4.5
Poland	-3.7	-7.4	-7.9	-5.0
Portugal	-3.6	-10.2	-9.8	-4.4
Romania	-5.7	-9.0	-6.8	-5.5
Slovakia	-2.1	-8.0	-7.7	-4.9
Slovenia	-1.9	-6.0	-5.7	-6.4
Spain	-4.5	-11.2	-9.7	-9.4
Sweden	2.2	-0.7	0.3	0.4
United Kingdom*	-5.1	-11.5	-10.2	-7.8
EU 27	-2.4	-6.9	-6.5	-4.4
Euro Area	-2.1	-6.3	-6.2	-4.1
United States	-6.7	-13.3	-11.2	-10.1
Japan	-4.1	-10.4	-9.4	-9.8
Malta	-4.6	-3.9	-3.6	-2.7

* Data pertains to UK financial year (1 April to 31 March)

Source: Eurostat, IMF World Economic Outlook

debt position, also as a percentage of GDP, for the EU Member States. Data presented in this section is based on the ESA95 system of national accounts, and is therefore not directly comparable with data presented in previous sections of this Chapter. It is pertinent to note that data for EU Member States, including data for Malta, reflect the Government deficit and debt data based on figures reported in the first 2012 notification by EU Member States for the years 2008-2011, for the application of the excessive deficit procedure (EDP) in accordance

General Government Gross Debt

as a percentage of GDP

Table 8.3 per cent

	2008	2009	2010	2011
Austria	63.8	69.2	72.0	72.4
Belgium	89.2	95.7	95.5	97.8
Bulgaria	13.7	14.6	16.2	16.3
Cyprus	48.9	58.5	61.3	71.1
Czech Republic	28.7	34.2	37.8	40.8
Denmark	33.4	40.6	42.9	46.6
Estonia	4.5	7.2	6.7	6.1
Finland	33.9	43.5	48.6	49.0
France	68.2	79.2	82.3	86.0
Germany	66.8	74.5	82.5	80.5
Greece	112.9	129.7	148.3	170.6
Hungary	73.0	79.8	81.8	81.4
Ireland	44.5	64.9	92.2	106.4
Italy	106.1	116.4	119.2	120.7
Latvia	19.8	36.7	44.5	42.2
Lithuania	15.5	29.3	37.9	38.5
Luxembourg	14.4	15.3	19.2	18.3
Netherlands	58.5	60.8	63.1	65.5
Poland	47.1	50.9	54.8	56.4
Portugal	71.7	83.2	93.5	108.1
Romania	13.4	23.6	30.5	33.4
Slovakia	27.9	35.6	41.0	43.3
Slovenia	22.0	35.0	38.6	46.9
Spain	40.2	53.9	61.5	69.3
Sweden	38.8	42.6	39.5	38.4
United Kingdom*	52.3	67.8	79.4	85.0
EU 27	62.2	74.6	80.0	82.5
Euro Area	70.2	80.0	85.4	87.3
United States	76.1	89.7	98.6	102.9
Japan	191.8	210.2	215.3	229.6
Malta	62.0	67.6	68.3	70.9

* Data pertains to UK financial year (1 April to 31 March)

Source: Eurostat, IMF World Economic Outlook

with Council Regulation (EC) No. 479/2009, amended by Council Regulation No. 679/2010. Data for the United States and for Japan is reproduced from the International Monetary Fund World Economic Outlook of October 2012.

The slow economic recovery that commenced in 2010 and that impinged positively on the fiscal position of the EU economies was sustained in 2011.

Indeed, in the Euro Area (EA17) the Government deficit-to-GDP ratio decreased from 6.2 per cent in 2010 to 4.1 per cent in 2011, and in the EU27 the ratio declined from 6.5 per cent to 4.4 per cent. In 2011, 25 Member States recorded an improvement in their Government balance relative to GDP when compared with 2010. The most pronounced improvement in the budget balance was recorded in Ireland, which registered a 17.5 percentage point decrease in the Government deficit-to-GDP ratio, to 13.4 per cent of GDP. It is to be noted, however, that the 2010 balance of the Irish Government reflected the latter's intervention to stabilise financial markets. A notable adjustment of 5.4 percentage points of GDP was registered by Portugal which, along with Ireland and Greece is currently undergoing a programme of fiscal and economic adjustment. The reduction of 1.3 percentage points of GDP in Greece was less notable than the adjustment recorded a year earlier.

Among the largest economies, a notable fiscal consolidation effort of 3.3 percentage points of GDP was undertaken by Germany amidst a stronger economic recovery compared to the rest of the EU. The fiscal adjustment of 1.9 and 2.4 percentage points of GDP respectively in France and the UK was in line with the EU average adjustment. At 0.6 percentage points of GDP, Italy's fiscal effort was less pronounced although in terms of deficit figures Italy's starting position in 2010 was stronger than that of France and especially the UK.

Meanwhile, Hungary, Estonia, and Sweden registered a budget surplus, the latter two having also registered a surplus in the previous year. Cyprus and Slovenia were the only two countries registering a marginal deterioration in their Government deficit-to-GDP ratio of 1.0 and 0.7 percentage points respectively. Nonetheless, a total of 17 Member States had budget deficits in excess of 3.0 per cent of GDP, although only one had a deficit-to-GDP ratio in excess of 10 per cent.

No new Council decisions on the existence of an excessive deficit were taken in the first months of 2012. As a result of these fiscal developments there are currently 21 Member States that are considered to have an excessive deficit as defined in accordance with Article 126(6) of the Treaty on the functioning of the European Union (ex Article 104(6) of the Treaty establishing the European Community) and specified in the Stability and Growth Pact (SGP) legislation.

Meanwhile, notwithstanding the decline in the Government deficit of both the EA17 and the EU27 compared to 2010, the Government debt rose in both zones. Indeed, in the EA17 the Government debt-to-GDP ratio increased from 85.4 per cent at the end of 2010 to 87.3 per cent at the end of 2011, and in the

EU27 the ratio rose from 80.0 per cent to 82.5 per cent. Indeed, it is interesting to note that although 25 EU Member States managed to improve their budget deficit, only six of these managed to actually reduce the debt-to-GDP ratio. Most of these are countries which either have a very low debt-to-GDP ratio (Latvia, Sweden, Luxembourg and Estonia) often below 45 per cent of GDP, or enjoyed a strong economic growth during the period under review (Germany and Poland). Moreover, 14 Member States registered Government debt ratios higher than 60.0 per cent of GDP in 2011 with Greece, Italy, Portugal and Ireland reporting debt-to-GDP levels in excess of 100 per cent of GDP, with Belgium following close behind.

None of the Programme Countries referred to earlier managed to reduce their debt-to-GDP ratio. Even in the case of Portugal and Ireland the debt-to-GDP ratio rose in excess of 14 percentage points of GDP whilst in the case of Greece an increase of 22.3 percentage points of GDP was recorded. The debt-to-GDP ratio also increased notably in Cyprus, Slovenia, Spain and the UK. Nevertheless, several Member States still reported low ratios of Government debt-to-GDP at the end of 2011, in particular Estonia, Bulgaria and Luxembourg, which registered debt ratios below 20.0 per cent of GDP.

In 2011, the United States (US) reported a Government fiscal deficit-to-GDP ratio of 10.1 per cent, representing a 1.1 percentage point improvement from that reported in 2010. The gross debt-to-GDP ratio increased further from 98.6 per cent in 2010 to reach 102.9 per cent in 2011. Meanwhile, in Japan, the Government deficit-to-GDP ratio in 2011 increased to 9.8 per cent of GDP when compared to 9.4 per cent recorded in 2010. Furthermore, Japan's debt-to-GDP ratio increased to 229.6 per cent in 2011 when compared to 215.3 per cent in 2010. In this context, with respect to deficit and debt ratios to GDP, it is noted that both the EU27 and the EA17 compare favourably to the US and Japan.

Monetary Developments

In the period January-August 2012, the contribution of Maltese monetary financial institutions (MFIs) to the stock of Euro Area Broad Money (M3) increased. This was the result of an increase in net claims on non-residents of the Euro Area and higher credit to Maltese residents which more than offset the negative contribution from an increase in other counterparts as well as a marginal decline in credit to Euro Area residents. Credit conditions remain relatively tight especially for the private sector whilst the preference for liquid cash and short-term deposits continues.

Contribution of Resident MFIs to Euro Area Monetary Aggregates

The contribution of Maltese resident MFIs to total monetary aggregates of the Euro Area registered an increase of 5.2 per cent, reaching €10,181.9 million during the first eight months of 2012 when compared to €9,676.3 million registered in December 2011. This increase was underpinned primarily by an increase in overnight deposits. In addition, deposits with agreed maturity of up to two years and up to three months also contributed positively albeit very mildly. Table 8.4 portrays the developments in the main monetary indicators. The developments clearly show the continued preference towards short-term liquid money balances in the form of cash and short-term maturity deposits.

Narrow money (M1) reached €5,879.8 million during the first eight months of 2012, increasing by 8.4 per cent when compared to €5,425.6 million registered in December 2011. This was mainly the result of a 9.4 per cent increase in overnight deposits during the same corresponding period which reached €5,160.1 in August 2012. Overnight deposits increased throughout the first eight months of 2012 mirroring the developments in deposits from both residents of Malta as well as deposits from Euro Area residents albeit due to their share, the former represented the main contributors to the developments in total overnight deposits.

During the same period, currency issued increased by 1.3 per cent reaching €719.7 million in August 2012, however its positive contribution to M1 was low due to its small share. The overall increase in currency issued was underpinned by an increase registered in the second quarter as well as a smaller increase in the subsequent two months, which more than offset the decline registered in the first quarter.

During the period January-August 2012, deposits redeemable at notice up to three months increased by 12.4 per cent when compared to December 2011, reaching €140.6 million. This development reflected the dynamics in deposits from residents of Malta as the marginal decline in deposits from other Euro Area residents was negligible due to their very small share.

Deposits with an agreed maturity of up to two years also registered an increase of 1.0 per cent during the same period, reaching €3,958.8 million in August 2012. During the first quarter of 2012, deposits with an agreed maturity of up to two years declined marginally following lower deposits from Euro Area residents which more than offset an increase in deposits from Maltese residents. Deposits with agreed maturity of up to two years continued to decline in the second quarter of 2012, however, this time the decline was led by lower deposits

Contribution of Resident MFIs to Euro Area Monetary Aggregates[1]

Table 8.4 € million

	2011 (Dec)	2012 (Mar)	2012 (Jun)	2012* (Aug)	Aug-12 - Dec-11 % Change
Narrow Money (M1)	5,425.6	5,581.6	5,778.4	5,879.8	8.4
Currency issued[2]	710.6	701.9	717.4	719.7	1.3
Overnight deposits[3]	4,715.0	4,879.7	5,061.0	5,160.1	9.4
Intermediate Money (M2)	9,472.0	9,618.9	9,804.3	9,979.2	5.4
Narrow Money (M1)	5,425.6	5,581.6	5,778.4	5,879.8	8.4
Deposits redeemable at notice up to 3 months[3]	125.1	126.6	146.3	140.6	12.4
Deposits with agreed maturity up to 2 years[3]	3,921.3	3,910.7	3,879.6	3,958.8	1.0
Broad Money (M3)	9,676.3	9,832.6	10,013.9	10,181.9	5.2
Intermediate Money (M2)	9,472.0	9,618.9	9,804.3	9,979.2	5.4
Repurchase agreements	0.0	0.0	0.0	0.0	0.0
Debt securities issued up to 2 years initial maturity[4]	204.3	213.7	209.6	202.7	-0.8

* Provisional

[1] Figures show the contribution of Maltese monetary financial institutions (MFIs) to the Euro Area totals, and include deposit liabilities to both residents of Malta and other Euro Area residents.

[2] Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes and coins held by the MFI sector.

[3] Deposits with MFIs exclude interbank deposits and deposits held by central government.

[4] 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. Net amounts may be negative.

Source: Central Bank of Malta

from Maltese residents which more than offset the increase in deposits from Euro Area residents. Conversely, in the subsequent two months, deposits with up to two years agreed maturity increased due to higher deposits from both Maltese and Euro Area residents.

As depicted in Table 8.5, total resident deposits increased by 4.6 per cent during the first eight months of 2012 when compared to the final month of last year reaching €8,796.9 million. This increase was dominated by the positive contribution from overnight deposits which increased by 8.5 per cent during the period under review and which more than offset a 0.4 per cent decline in deposits from residents of Malta with agreed maturity of up to two years. Deposits redeemable at notice up to three months increased by 13.1 per cent during the period under review, nevertheless their positive contribution was low due to their small share in total resident deposits.

Resident Deposits

Table 8.5 € million

	2009 (Dec)	2010 (Dec)	2011 (Dec)	2012* (Aug)	Aug-12 - Dec-11 % Change
Overnight Deposits[1]	3,633.6	4,225.1	4,590.9	4,980.0	8.5
Deposits redeemable at notice up to 3 months	111.6	123.5	122.5	138.5	13.1
Deposits with agreed maturity up to 2 years	4,057.2	3,848.1	3,693.1	3,678.4	-0.4
Total resident deposits	7,802.4	8,196.8	8,406.5	8,796.9	4.6

* Provisional

[1] Overnight deposits are deposits withdrawable on demand and exclude interbank deposits and deposits held by central Government.

Source: Central Bank of Malta

Contribution of Resident MFIs to Counterparts to Euro Area Monetary Aggregates

Table 8.6 displays the developments in the contribution of resident MFIs to counterparts to Euro Area monetary aggregates since the end of 2011. During the first eight months of 2012, Maltese MFIs' contribution to the Euro Area broad money stock (M3) increased, led by higher net claims on non-residents of the Euro Area which more than offset the negative contributory effect from an increase in other counterparts as well as a mild decline in the credit counterpart.

In the period January-August 2012, the credit counterpart of broad money reached €16,005.5 million, declining marginally by 0.4 per cent when compared to December 2011. This decline was mainly the result of lower credit to non-Maltese residents of the Euro Area. In fact, this decline offset increases registered in credit to residents of Malta. During the first eight months of 2012, credit to residents of Malta increased marginally by 2.6 per cent, reaching €11,182.4 million when compared to December 2011. Whilst lending to general Government and the private sector underpinned domestic credit developments, lending to the former rose at a rate of 7.2 per cent compared to the marginal increase of 1.3 per cent in credit to the private sector. Credit to other Euro Area residents declined by 6.7 per cent, reaching €4,823.1 million during the same comparative period.

Table 8.7, which displays the loans to Maltese residents excluding general Government, delves further into the 1.3 per cent increase in private sector

Contribution of Resident MFIs to Counterparts to Euro Area Monetary Aggregates

Table 8.6 € million

	2011 (Dec)	2012 (Mar)	2012 (Jun)	2012* (Aug)	Aug-12 - Dec-11 % Change
Broad Money (M3)[1]	9,676.3	9,832.5	10,013.9	10,181.9	5.2
Credit Counterpart[2]	16,074.3	15,911.7	15,604.6	16,005.5	-0.4
Credit to residents of Malta	10,903.9	11,016.8	11,097.3	11,182.4	2.6
Credit to general Government	2,353.4	2,426.7	2,450.4	2,523.2	7.2
Credit to other residents	8,550.5	8,590.1	8,646.9	8,659.2	1.3
Credit to other Euro Area residents	5,170.4	4,894.9	4,507.3	4,823.1	-6.7
Net claims on non-residents of the Euro Area	7,840.0	8,838.4	10,819.5	10,125.7	29.2
Other counterparts (net)[3]	14,238.0	14,917.6	16,410.2	15,949.3	12.0

* Provisional

[1] This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the Euro Area aggregate.

[2] Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

[3] Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

Source: Central Bank of Malta

Credit to Other Residents[1]

Loans by Economic Activity

Table 8.7 € million

	2009 (Dec)	2010 (Dec)	2011 (Dec)	2012* (Aug)	Aug-12 - Dec-11 % Change
Total Credit	7,792.4	8,188.1	8,550.5	8,659.2	1.3
Total Loans[2]	7,571.8	8,076.1	8,440.6	8,544.0	1.2
Electricity, gas & water supply	432.1	502.0	539.8	540.1	0.1
Transport, storage & communication	480.0	511.8	526.5	510.9	-3.0
Manufacturing	296.4	283.5	280.8	309.3	10.2
Construction	732.8	1,113.8	1,092.7	1,047.9	-4.1
Hotels & restaurants	485.8	446.3	459.8	460.8	0.2
Wholesale & retail traide; repairs	767.2	825.2	847.9	841.4	-0.8
Real estate, renting & business activities	1,033.2	392.2	396.6	389.2	-1.8
Households & individuals	3,138.8	3,354.8	3,589.8	3,704.1	3.2
Other[3]	205.5	646.5	706.7	740.1	4.7

* Provisional

[1] 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.

[2] Data up to Dec 2009 is compiled in accordance with NACE Rev1.1, whereas data for August 2010 is compiled in accordance with NACE Rev2

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

Source: Central Bank of Malta

credit during the first eight months of 2012 when compared to December of last year. This increase was mainly the result of further increases in loans to households and individuals which increased by 3.2 per cent in the first eight months of 2012 when compared to the same period a year earlier. Positive developments relate also to the increase in credit to manufacturing and to the 'other' category which increased by 10.2 per cent and 4.7 per cent, respectively during the same comparative period. Loans to 'hotels and restaurants' and to the 'electricity, gas and water supply' remained stable, increasing only marginally by 0.2 per cent and 0.1 per cent, respectively. Declines in loans were recorded in the 'construction', 'transport, storage and communication', 'real estate, renting and business activities', and the 'wholesale, retail trade and repairs' sectors which declined by 4.1 per cent, 3.0 per cent, 1.8 per cent, and 0.8 per cent, respectively. It is to be noted that a long-term comparison of trends is not possible due to a change in NACE classification since 2008 and which is particularly evident in the services sector.

An increase in foreign capital from outside the Euro Area also supported the growth in M3. Net claims representing the external counterpart of M3 increased substantially by 29.2 per cent during the first eight months of 2012 when compared to December 2011, which reached €10,125.7 million. This increase was the result of increases throughout the first two quarters of the year and which offset the decline recorded in the subsequent two months to August of this year. The increase in net claims on non-residents of the Euro Area offset the increase in the other counterparts net balance which increased by 12.0 per cent during the period January-August 2012 over December 2011, reaching €15,949.3 million. These developments followed the same dynamic in net claims, registering the highest increase during the second quarter of the year before declining in the subsequent two months. The increase in the other counterparts' component reflects a more rapid increase in resident credit institutions' liabilities to other Euro Area banks with respect to their claims on them while the other counterparts' component mainly reflects interbank transactions across the Euro Area and contributes negatively to M3.

The Money Market

Following the onset of the global financial crisis which commenced in the summer of 2007, the ECB has taken unprecedented action over the past five years to restore economic and financial stability. As the crisis was in its initial stages, the ECB provided liquidity to the banking sector and subsequently, as the turmoil in financial markets intensified, the ECB reduced interest rates to historically low levels. The latter was complemented by a number of non-standard monetary policy measures which supported the transmission mechanism of monetary policy. As the crisis unfolded, the ECB continued to play an important role in sustaining financial intermediation within the Euro Area while safeguarding the refinancing needs of solvent banks and helping restore confidence in financial markets.

Following the marginal increases in the main refinancing rate conducted by the ECB in mid-2011, the weak economic data and the heightened tensions in financial markets in the latter part of the year, triggered the ECB to neutralize the two interest rate hikes conducted in April and July 2011. Thus, by December 2011 the main refinancing rate was re-adjusted downwards to 1.0 per cent, such that the refinancing rate as at end 2011 stood at the level that prevailed in the first quarter of 2011.

Moreover, in the December 2011 meeting, the Governing Council of the ECB opted to adopt further non-standard measures, including: the conduct of two longer-term refinancing operations with a maturity of approximately three years, increasing the availability of collateral and reducing the reserve ratio from 2.0 per cent to 1.0 per cent. Subsequently, in February 2012 the ECB approved specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations in a number of countries. This was done in a bid to address the renewed tensions in a number of Euro Area financial markets.

In July 2012, the main refinancing rate was adjusted downwards to 0.75 per cent, whilst in September 2012, the ECB decided on the modalities for undertaking outright monetary transactions in secondary markets for sovereign bonds in the Euro Area in attempt to address pressures in bond markets for particular Member States.

Following the onset of the global crisis, interbank rates have become a key indicator of the extent of risk aversion exhibited in credit markets. As the intensity of risk aversion in credit markets increases, banks become much less willing to lend to each other in the interbank market. Interbank rates declined sharply since the early months of 2009, moving in line with the rapid decline in the minimum bid rate of the ECB, which continued to decline up until May of 2009. The interbank rates maintained a downward trajectory till mid-2010 when both the overnight and the longer-term rates bottomed out. Thereafter, interbank rates exhibited a shift in their underlying trajectory and started increasing on a monthly basis. This was a clear signal that the intensity of risk aversion in the markets had witnessed a comeback. Overnight rates reached a second peak in June 2011 and have exhibited a downward trend since. Similarly, long term rates remained at rather elevated levels throughout the second part of 2011 but have declined steadily during the first nine months of 2012.

Euro Area interbank money market interest rates represent an alternative portfolio investment opportunity to the local Treasury Bills market. Thus, developments in the Euro Area interbank interest rates also have a bearing on Malta Treasury Bills. In the first nine months of 2012, the local Government issued €631.2 million worth of Treasury Bills on the primary market. This level is only marginally lower than the level of Treasury Bills that were issued during the same period in 2011. During the period under review, the yields in the primary and secondary markets for Malta Treasury Bills have been on a general upward trend following the decline in yields that was registered in the early part of 2012. As at September 2012, the yield on three-month bills in the primary market stood at 1.27 per cent whilst the yield on six-month bills stood at 1.36 per cent.

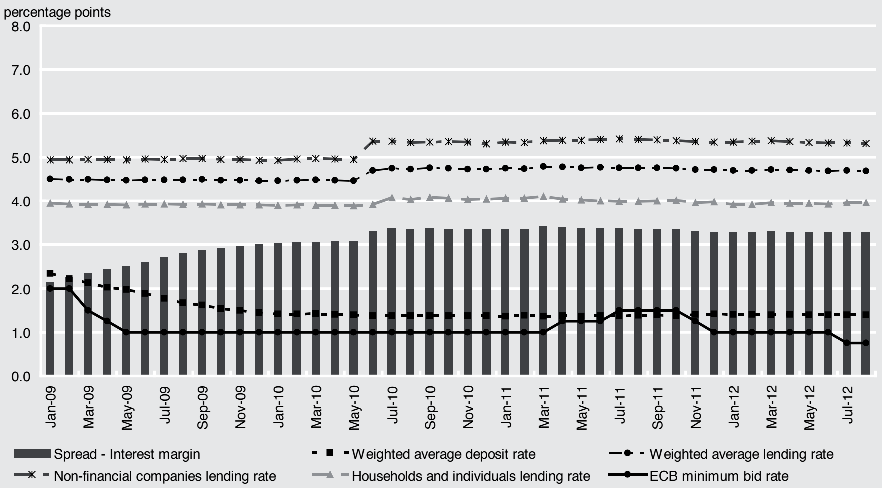
The turnover in the secondary market for Treasury Bills reached €5.4 million during the period January-August 2012, representing a decline of 72.8 per cent when compared to a turnover of €19.9 million recorded in the same comparable period in 2011.

Deposit and Lending Rates

Chart 8.4 outlines the developments in deposit and lending rates, in conjunction

Chart 8.4

Interest Rates and Margins



with the interest margin between their weighted averages, as well as the minimum bid rate of the ECB. Following the successive declines in the minimum bid rate executed by the ECB, the spread exhibited a steady increase in the first two quarters of 2009. Thereafter, the spread has remained rather stable. The trigger underpinning the increase in the spread, which was retained in the subsequent three years, was the fact that the average deposit rate declined notably following the declines in the ECB minimum bid rate, whilst the average lending rate remained largely unaltered. As at the end of August 2012, the spread stood at 3.3 per cent.

The Capital Market

During the first nine months of 2012, the Government issued €274.7 million worth of stocks on the primary market. Additionally, stocks worth €750.9 million were re-integrated into other issued stock. Moreover, two stocks with a combined worth of €349.3 million were redeemed.

The primary corporate bond market experienced a decrease in activity during the period under review when compared to the same period in the previous year. In fact, newly issued corporate bonds during the period January-September 2012 totalled €47.5 million. This equates to 21.4 per cent decline from the level registered in the same period in 2011. During the same mentioned period, three stocks amounting to €17.2 million were redeemed whilst a stock issue of €5.3 million was rolled-over. Furthermore, deductions equating to €3.7 million were registered in the first nine months of the year.

Trading activity in the secondary market for Government bonds was rather strong in the first nine months of 2012, with turnover levels increasing by 35.3 per cent to reach €463.6 million. The number of deals during the period under review also increased to 3,784 deals in the first nine months of the year. The latter reflects an 18.3 per cent increase over the level of deals prevailing in the same comparable period in the previous year. In the period January-August 2012, trading was mainly concentrated in the two issues: 5.3% MGS 2030 and 5.2% MGS 2031, each registering 464 deals respectively. The value transacted by the Central Bank of Malta in the local secondary Government bond market amounted to €353.9 million throughout the first nine months of 2012. The activities of Government stock in the secondary market are illustrated in Table 8.8.

A selection of secondary market indicators is outlined in Table 8.9. During the first nine months of 2012, turnover in the corporate bonds secondary market

Table 8.8

Government Stocks

Activity on the Secondary Market

	2012 Jan-Mar	**2012** Apr-Jun	**2012** Jul-Sep	**2012** Jan-Sep
Turnover in Government Stocks:				
Nominal Value (€ million)	129.7	211.5	97.4	438.5
Market Value (€ million)	136.6	224.9	102.1	463.6
Number of Transactions	1,437	1,211	1,136	3,784
Average Value per Transaction (€)*	90,226	174,626	85,740	115,890
Amount sold by CBM (€ million)**	9.9	88.6	57.4	155.9
Amount bought by CBM (€ million)**	70.1	93.3	34.6	198.0

* Based on Nominal Values

** Based on Market Values

Source: Central Bank of Malta

increased to €34.2 million, from €23.5 million recorded during the same comparable period in 2011. At the end of September 2012, the total listing of corporate bonds stood at 43, which is marginally lower than the level registered in September 2011.

In contrast, in the equities market, a decrease was registered in aggregate turnover. Turnover in equities declined to €23.3 million in the first nine months of 2012, compared to a level of €28.8 recorded in the same comparable period in 2011. During the period January-August 2012, the issues that registered the largest level of trading activity were the shares of Bank of Valletta and the shares of HSBC Bank Malta respectively.

The Malta Stock Exchange Share Index closed at 3,135.8 at the end of September 2012. This represents a marginal increase of 0.9 per cent over the same period in 2011. Market capitalisation in the equity market increased from €2,611.5 million in August 2011 to €2,655.5 million at the end of August 2012.

On a similar note, as at the end of September 2012, total market capitalisation also increased by €725.9 million from the level prevailing in the same month in

Selected Indicators of the Capital Market

Table 8.9

	2011 Jan-Sep	2012 Jan-Mar	2012 Apr-Jun	2012 Jul-Sep	2012 Jan-Sep
Corporate Bonds*					
Number of Listings**	46.0	44.0	43.0	43.0	43.0
Turnover (€ million)	23.5	10.8	11.8	11.5	34.2
Equities*					
Number of Issues Outstanding**	21.0	21.0	21.0	22.0	22.0
Turnover (€ million)	28.8	7.2	9.1	7.0	23.3
Total Listed Securities*					
Total Turnover (€ million)***	416.5	157.4	247.7	122.6	527.7
Market Capitalisation (€ million)**/***	8,046.9	8,207.0	8,384.7	8,772.8	8,772.8
MSE Ord. Share Index**	3,108.3	2,938.9	3,022.2	3,135.8	3,135.8

*Including the Alternative Companies listing

**As at end of period

***Including Malta Government Stocks and Treasury Bills

Source: Malta Stock Exchange

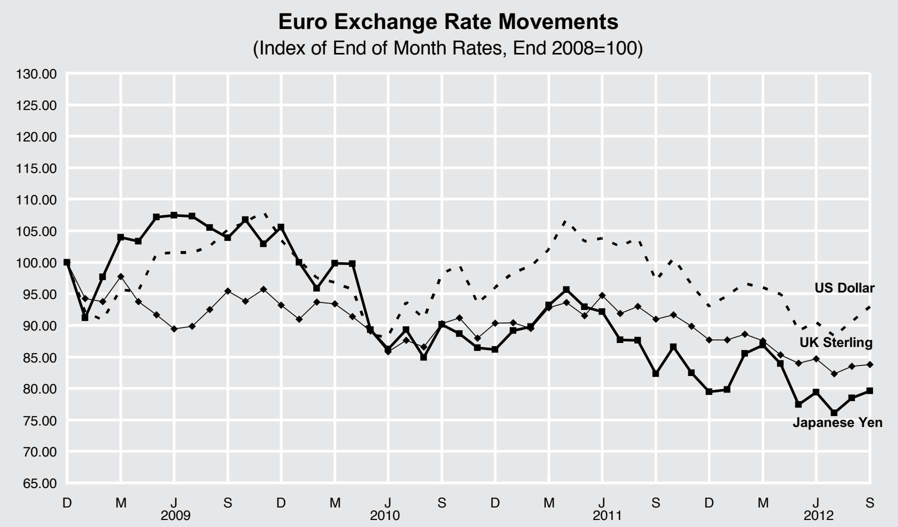
2011, to a level of €8,772.8 million. This increase is underpinned by increases in the market capitalisation of equities, corporate bonds, and government bonds, which more than offset the decline in the capitalisation of treasury bills.

Exchange Rate Developments

Movements in exchange rates have a direct impact on firms and consumers. From a policy maker's perspective, exchange rate developments have important implications on the overall price competitiveness of the country's exports. In view of the latter, the excessive volatility that has been exhibited in exchange rate markets following the onset of the international economic and financial crisis, is yet another challenge which economic operators had to endure. In this regard, uncertainty and speculation in respect of the prevailing public and private imbalances have had a pronounced impact on exchange rates movements and inherent volatility which has increased notably from the levels that economic operators used to observe prior to 2008.

Chart 8.5 outlines an indexed Euro exchange rate against the three major currencies, namely the UK Sterling, the US Dollar and the Japanese Yen since the end of 2008. Since mid-2011, as the Euro debt crisis intensified, the Euro registered declines with respect to the major currencies under analysis. This is in

Chart 8.5



contrast with the first two years of the financial crisis, where the Euro currency retained a degree of strength in respect of the major currencies, especially in respect of the US Dollar.

Whereas, up to May 2011 the Euro was trading at around US$ 1.49, by mid-2012 it depreciated notably to around US$ 1.24. This depreciation in the Euro currency experienced during the last year and a half is largely due to the increased anxiety in financial markets in respect to the risks associated with sovereign bonds and the weak economic activity of a number of Euro Area Member States. This is because a higher level of anxiety amongst market participants renders alternative assets – notably the US Dollar – relatively more attractive to investors. In recent months, the Euro has partly regained some ground. Nevertheless, at the end of September 2011, the Euro was around 4.0 per cent lower from the level prevailing a year earlier. From a longer term perspective, at the end of September, the Euro was largely trading with respect to the US Dollar currency at around the 10-year average mark.

During the period under review, the largest decline in the Euro’s strength was registered in respect of the UK Sterling. As at September 2012, the Euro had depreciated by around 8.0 per cent from the level prevailing in the same comparable month in 2011. In the initial stages of the financial crisis, in December 2008, the Euro traded nearly at par level with the Pound Sterling, reaching a high of GBP 0.95. Notwithstanding, as the financial crisis intensified, the Pound Sterling gradually started recovering with respect to the Euro such that by September 2012, the Euro stood at a level of GBP 0.79. Currently, the Euro is around 20.0 per cent cheaper in UK Sterling terms than the level prevailing in late 2008. The two currencies have nearly reverted back to the level that prevailed prior to the onset of the financial crisis. Thus, the deterioration in external competitiveness that European operators witnessed in the UK markets as the financial crisis intensified has largely been eliminated. Nevertheless, as at end of September 2009, the Euro was around 5.0 per cent stronger in respect of the UK Sterling relative to the 10-year average level.

The trend decline in the Euro during the period 2011-2012, occurred also in respect of the Japanese Yen. As at the end of September 2012, the Euro was trading at around JPY 100, thereby registering a 3.0 per cent decline from the level recorded a year earlier. In essence, the Euro registered strong gains in respect to the Japanese Yen, up to mid-2011, reaching a level of JPY 120 in April 2011. Such strong gains were however strongly reversed in the latter part of 2011, whilst during 2012 the Euro exchange rate was rather stable with respect to the Japanese Yen. From a longer term perspective, the Euro is currently trading notably below the 10-year average mark of JPY 133 in respect of the Japanese Yen.

Government Revenue

(January-September)

Appendix Table 8.1 € thousand

	2009	2010	2011	2012
Tax Revenue	1,414,958	1,498,970	1,608,700	1,685,952
Direct Tax Revenue	857,886	899,906	918,436	1,007,863
Income Tax	500,103	522,293	518,449	595,133
Social Security	357,784	377,613	399,987	412,731
Indirect Tax Revenue	557,072	599,064	690,264	678,089
Customs and Excise Duties	74,625	116,806	147,637	117,823
Licences, Taxes and Fines	176,793	165,639	170,747	171,946
Value Added Tax	305,654	316,619	371,880	388,320
Non-Tax Revenue	138,669	187,852	213,430	235,467
Fees of Office	34,603	26,680	27,832	23,859
Reimbursements	14,203	13,919	15,375	19,794
Rents	16,740	28,468	18,206	18,554
Dividends on Investments	8,891	10,307	10,699	13,251
Repayment of Government Loans and interest	16	201	1,168	570
Miscellaneous Receipts	8,257	24,358	33,095	53,907
Public Corporations	0	0	0	0
Central Bank of Malta	41,615	45,634	48,000	42,000
Grants	14,343	38,285	59,056	63,531
Recurrent Revenue	1,553,627	1,686,822	1,822,130	1,921,419
Extraordinary Receipts	0	0	9,622	28,425
Loans	355,793	478,902	401,610	510,582
Total Revenue	1,909,420	2,165,724	2,233,362	2,460,425

Source: The Treasury, Ministry of Finance, the Economy and Investment

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 € thousand

	2009	2010	2011	2012
Office of the President	1,383	1,537	1,689	1,629
House of Representatives	2,211	2,115	2,215	2,297
Office of the Ombudsman	328	328	328	550
National Audit Office	1,550	1,649	1,600	1,638
Office of the Prime Minister	14,559	17,628	20,337	22,417
Public Service Commission	248	293	289	307
Armed Forces of Malta	29,696	29,006	27,945	26,426
Tourism and Culture [Ministry for Tourism and Culture]	2,244	25,035	31,091	32,809
Local Government	16,054	25,879	25,891	34,630
Information	872	977	947	923
Government Printing Press	833	982	833	939
Electoral Office	4,862	1,313	3,997	4,142
Ministry of Foreign Affairs	15,651	15,534	16,032	17,454
Ministry for Gozo	39,048	39,896	40,509	41,185
Ministry for Infrastructure, Transport and Communication	65,884	39,167	30,133	27,964
Land and Public Registry Division	2,010	2,504	1,747	2,638
Ministry for Resources and [Infrastructure] Rural Affairs	68,366	66,211	60,905	59,160
Ministry of Education, [Culture, Youth and Sport] Employment and the Family	103,906	114,027	148,865	149,841
Education	94,050	98,730	103,482	110,351
Social Security	112,501	120,415	126,266	131,889
Social Security Benefits	502,001	533,731	525,245	561,164
Social Welfare Standards	612	572	634	626
Ministry of Health, the Elderly & Community Care [Health]	204,528	198,963	222,414	249,345
Elderly and Community Care	38,850	39,684	35,763	37,703
Industrial and Employment Relations	868	882	795	849
Ministry of Finance, the Economy and Investment	60,043	81,762	80,303	115,274
Treasury	2,779	2,369	3,606	3,772
Pensions	64,180	65,284	65,362	68,321
Inland Revenue	3,968	4,353	5,037	5,145
Customs	7,996	7,833	7,321	7,310
V.A.T.	4,566	5,047	4,174	4,190

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 continued				€ thousand
	2009	**2010**	**2011**	**2012**
Contracts	830	828	830	824
Economic Policy	753	734	709	742
Government Property Division	2,302	2,543	3,467	2,871
Commerce	1,554	1,062	1,144	1,124
Ministry for Justice and Home Affairs	10,863	11,365	14,357	12,826
Judicial	7,060	7,393	7,338	8,157
Police	31,431	33,047	32,447	33,094
Correctional Services	6,446	6,578	6,622	6,284
Civil Protection	2,923	2,930	2,721	3,030
Probation and Parole	-	-	-	403
[Libraries and Archives]	933	1,040	1,044	-
[Consumer and Competition]	1,382	1,197	1,229	-
[Ministry for Social Policy]	25,250	22,637	-	-
[Civil Aviation]	1,488	-	-	-
Recurrent Expenditure	1,559,862	1,635,060	1,667,663	1,792,243

Note: [ ] denotes change in name of cost centres

Source: The Treasury, Ministry of Finance, the Economy and Investment

Government Capital Expenditure

(January-September)

Appendix Table 8.3 € thousand

	2009	2010	2011	2012
Productive Investment	58,433	49,985	36,696	70,172
Malta Tourism Authority	24,791	-	-	-
Development of Industry	8,099	5,150	3,032	8,760
Gozo Ferries	3,425	1,791	-	-
Gozo	596	712	1,018	355
EU Agriculture Fund for Rural Development, EU Agriculture Guarantee Fund and EU Fisheries Fund	8,645	10,179	14,464	12,551
Film Industry	6,592	1,128	2,248	5,510
Contribution to Treasury Clearance Fund	-	24,755	11,000	18,034
Equity Acquisition - Air Malta plc	-	-	-	20,000
Other	6,284	6,271	4,934	4,962
Infrastructure	70,641	127,504	110,095	141,431
Acquisition of Property	3,828	8,279	7,529	9,613
Upgrading Works at main Touristic Areas	1,365	2,700	2,704	2,263
Roads	8,047	11,976	14,691	25,307
Integrated Health Information System	3,680	3,527	3,071	1,853
ICT	17,111	16,920	15,586	19,022
Gozo	1,781	1,986	4,298	3,692
Waste and Sewarage Treatment	18,202	33,811	4,855	8,381
Freeport	3,288	2,820	2,717	1,149
PC Leasing	1,878	4,770	3,952	5,828
Jeremie Financial Engineering	-	10,000	-	-
Other	11,461	30,714	50,693	64,323
Social	39,935	32,103	36,648	31,762
Health	3,714	3,234	4,921	5,410
Elderly and Community Care	1,171	579	446	1,414
Waste Management	10,584	5,662	5,953	1,719
Gozo	586	871	1,815	2,887
Housing	3,536	2,628	1,883	1,541
Education	7,395	6,920	7,675	7,907
External Borders Fund	8,785	7,539	9,872	6,883
Other	4,163	4,669	4,083	4,001
Total Capital Expenditure	169,009	209,592	183,439	243,364

Source: The Treasury, Ministry of Finance, the Economy and Investment

Footnote:

[1] The statistics for Public Finance contained in this Chapter go beyond the cutoff date.

Statistical Annex

Table I

Population

	2004	2005	2006	2007	2008	2009	2010	2011
Total Population (000's)	**402.7**	**405.0**	**406.7**	**409.1**	**411.6**	**414.7**	**415.2**	**416.1**
Males (000's)	199.6	200.8	202.1	203.3	204.9	206.6	206.6	207.2
Females (000's)	203.1	204.2	204.6	205.7	206.7	208.2	208.6	208.9
% Increase per annum	0.7	0.6	0.4	0.6	0.6	0.8	0.1	0.2
Natural Increase per annum	888	728	669	760	883	922	998	1,017
Crude Birth Rate (per 1000 mid-year population)	9.7	9.6	9.6	9.5	10.1	10.0	9.7	10.3
Crude Mortality Rate (per 1000 mid-year population)	7.5	7.8	7.9	7.6	7.9	7.8	7.3	7.9
Crude Marriage Rate (per 1000 mid-year population)	6.0	5.9	6.2	6.1	6.0	5.7	6.3	6.2
Infant Mortality Rate (per 1000 births)	5.9	6.0	3.6	6.5	8.2	5.3	5.5	6.3
Life Expectancy (at birth)	79.0	79.2	79.5	79.7	79.5	80.1	81.0	80.5
Males	77.0	77.2	77.1	77.5	77.1	77.9	78.9	78.4
Females	81.0	81.2	81.9	81.8	82.0	82.4	83.0	82.6
Life Expectancy (at age 65)	17.4	17.7	17.7	18.2	18.3	18.4	19.2	18.9
Males	15.9	16.1	16.0	16.5	16.8	16.6	17.9	17.2
Females	18.8	19.2	19.4	19.8	19.6	20.1	20.4	20.5

Source: National Statistics Office

Social Indicators

Table II

	2004	2005	2006	2007	2008	2009	2010	2011
GDP at current market prices per capita (€)	11,295	11,942	12,509	13,370	14,212	14,153	14,985	15,518
Quality of Life								
Motor Vehicle Licences per 1000 population	673.0	671.0	683.0	700.0	710.0	719.0	730.0	748.0
Internet Subscriptions per 1000 population	218.2	219.0	235.4	214.1	250.0	268.9	293.0	311.4
Mobile Phone Subscriptions per 1000 population	765.8	802.0	852.6	900.9	937.0	1,017.7	1,072.9	1,253.8
Fixed Telephone Lines per 1000 population	523.3	517.0	503.4	563.3	585.8	592.8	598.2	551.1
Education[1]								
Number of teachers (000)	8.5	8.4	8.8	8.8	8.5	9.5	10.0	10.96
Number of pupils/students (000)	90.4	88.8	86.3	83.2	82.4	83.1	84.0	82.5
of which:								
University students (All Courses)	7,955	9,530	8,922	9,556	9,238	9,724	10,004	10,376
Electricity								
Total Generated (000 MWh)*	2,216.1	2,263.1	2,260.7	2,296.0	2,275.0	2,167.0	2,113.0	2,169.0
Number of Consumers (000)*	236.0	241.0	243.0	246.0	254.1	265.7	277.9	309.0
Domestic Consumption (million kwh)*	623.7	669.5	657.6	645	670	443.3	571	593
Water								
Total annual production (million m^3)	32.8	31.3	30.5	31.0	31.0	30.0	28.7	29.8
Average daily consumption (000 m^3)	90	88	90	88	84	82	69	81
Social Security								
Total Payments (€ million)	718.4	749.4	796.6	835.5	927.2	1,027.7	1,096.4	1,106.7
Total Contributions (€ million)	441.9	455.6	471.5	480.3	510.1	526.1	552.1	585.6
Welfare Gap (€ million)	276.5	293.7	325.2	355.3	417.1	501.6	544.3	521.1

*Refer to Financial Year

(1) Education data has been revised

Source: National Statistics Office

Factor Incomes in Gross National Income

Table III — € million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun
Compensation of employees	2,103.0	2,129.2	2,188.8	2,345.9	2,463.5	2,649.6	2,726.4	2,785.0	2,882.2	1,381.3	1,436.8	1,481.7
Gross operating surplus and mixed income	1,909.5	1,816.0	1,988.9	2,062.8	2,290.2	2,477.4	2,364.9	2,656.9	2,753.6	1,275.6	1,354.3	1,349.8
Taxes on production and imports	581.7	671.8	740.8	781.1	826.7	857.2	830.1	859.5	928.3	375.3	415.9	442.5
Subsidies	95.6	86.0	101.2	109.4	112.1	125.1	64.0	66.8	64.9	29.9	33.4	36.3
Gross Domestic Product at market prices	**4,498.7**	**4,530.9**	**4,817.3**	**5,080.4**	**5,468.4**	**5,859.2**	**5,857.4**	**6,234.6**	**6,499.2**	**3,002.2**	**3,173.5**	**3,237.7**
Net Income from Abroad	-22.4	-55.9	-217.9	-191.2	-165.9	-197.1	-405.0	-459.9	-424.9	-179.0	-346.1	-148.1
Gross National Income at market prices	**4,476.3**	**4,475.0**	**4,599.3**	**4,889.2**	**5,302.5**	**5,662.1**	**5,452.4**	**5,774.6**	**6,074.3**	**2,823.2**	**2,827.4**	**3,089.7**
Sectoral Percentage Contribution to Gross Value Added (at basic prices)												
Agriculture, hunting and forestry [1]	2.5	2.5	2.4	2.4	2.1	1.5	1.8	1.8	1.7	1.6	1.7	1.6
Industry [2]	25.2	22.7	22.5	22.7	22.5	22.4	20.3	19.8	18.1	20.2	19.1	17.4
Services Activities	72.4	74.8	75.1	75.0	75.4	76.2	77.9	78.4	80.2	78.2	79.2	81.0

[1] Includes fishing and operation of fish hatcheries and fish farms

[2] Includes energy and construction

Source: National Statistics Office

Gross National Income and Expenditure

Table IV

€ million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun
GNI at current market prices	4,476.3	4,475.0	4,599.3	4,889.2	5,302.5	5,662.1	5,452.4	5,774.6	6,074.3	2,823.2	2,827.4	3,089.7
% annual increase of GNI	2.5	-0.0	2.8	6.3	8.5	6.8	-3.7	5.9	5.2	7.0	0.1	9.3
GDP at current market prices	4,498.7	4,530.9	4,817.2	5,080.4	5,468.4	5,859.2	5,857.4	6,234.6	6,499.2	3,002.2	3,173.5	3,237.7
% annual increase of GDP	3.7	0.7	6.3	5.5	7.6	7.1	-0.0	6.4	4.2	6.3	5.7	2.0
GDP at constant prices	4,101.1	4,073.0	4,222.3	4,355.6	4,554.5	4,736.0	4,623.7	4,780.7	4,873.7	2,284.8	2,352.9	2,349.4
Total Final Consumption Expenditure												
current market prices	3,779.0	3,951.8	4,095.2	4,307.2	4,419.2	4,899.9	4,975.3	5,077.4	5,315.6	2,449.7	2,618.5	2,644.7
constant prices	3,528.4	3,597.1	3,616.4	3,780.8	3,799.5	4,068.6	4,019.0	3,973.4	4,124.6	1,935.5	2,039.5	2,014.9
Ratio (%) of consumption to GDP at m.p.	84.0	87.2	85.0	84.8	80.8	83.6	84.9	81.4	81.8	81.6	82.5	81.7
General Government Final Consumption Expenditure												
current market prices	901.3	934.4	941.4	1,011.8	1,043.2	1,218.6	1,241.4	1,293.7	1,344.9	633.4	668.6	706.8
constant prices	791.3	795.7	766.8	836.3	841.0	944.0	929.8	938.1	968.3	460.6	482.6	500.6
Ratio (%) of Government consumption to GDP at m.p.	20.0	20.6	19.5	19.9	19.1	20.8	21.2	20.7	20.7	21.1	21.1	21.8
Private Final Consumption Expenditure[(1)]												
current market prices	2,877.8	3,017.4	3,153.9	3,295.3	3,376.0	3,681.3	3,733.9	3,783.7	3,970.6	1,816.3	1,949.8	1,937.9
constant prices	2,737.1	2,801.4	2,849.6	2,944.4	2,958.5	3,124.6	3,089.2	3,035.3	3,156.2	1,474.9	1,556.9	1,514.3
Ratio (%) of private consumption to GDP at m.p.	64.0	66.6	65.5	64.9	61.7	62.8	63.7	60.7	61.1	60.5	61.4	59.9
Gross Fixed Capital Formation												
current market prices	867.3	883.1	1,050.2	1,116.5	1,181.6	1,043.2	917.0	1,082.0	958.8	472.3	469.8	479.1
constant prices	802.4	809.3	967.5	966.0	974.8	782.4	652.9	737.9	630.0	340.4	296.7	292.9
Ratio (%) fixed investment to GDP at m.p.	19.3	19.5	21.8	22.0	21.6	17.8	15.7	17.4	14.8	15.7	14.8	14.8

[(1)]Including NPISH final consumption expenditure

Source: National Statistics Office

Labour

Table V

	2004	2005	2006	2007	2008	2009	2010	2011	2010 May	2011 May	2012 May
Labour Supply	**145,891**	**146,064**	**147,623**	**148,485**	**152,321**	**152,331**	**154,042**	**156,351**	**152,592**	**155,517**	**157,787**
Gainfully Occupied	**137,788**	**138,685**	**140,462**	**143,313**	**145,948**	**144,651**	**147,436**	**149,764**	**145,540**	**149,151**	**151,089**
Males	97,325	97,493	97,902	98,917	99,518	97,690	98,585	98,703	97,913	98,790	99,180
Females	40,463	41,192	42,560	44,396	46,430	46,961	48,851	51,061	47,627	50,361	51,909
Private Direct Production	**32,678**	**32,464**	**32,656**	**31,937**	**32,148**	**30,635**	**31,203**	**31,015**	**30,720**	**31,138**	**30,687**
of which:											
Construction	7,959	8,673	9,109	9,324	9,814	9,169	8,915	8,913	9,060	8,931	8,780
Manufacturing	22,173	21,194	20,947	19,940	19,666	18,795	19,638	19,528	19,004	19,654	19,390
Others	2,546	2,597	2,600	2,673	2,668	2,671	2,650	2,574	2,656	2,553	2,517
Private Market Services	**58,402**	**60,436**	**64,246**	**68,684**	**72,307**	**72,664**	**75,059**	**77,125**	**73,862**	**76,253**	**79,075**
of which:											
Wholesale and Retail (including Repair of Motor Vehicles, Motorcyles and Personal and Household Goods)	20,934	21,279	21,526	21,944	22,520	22,652	22,945	22,919	22,833	23,115	23,264
Accomodation and Food Services	8,562	8,978	9,055	9,744	9,932	9,312	9,406	9,455	9,529	9,304	9,351
Financial and Insurance Activities	4,837	4,932	5,176	5,485	5,698	5,702	5,983	6,202	5,790	6,114	6,197
Others	24,069	25,247	28,489	31,511	34,157	34,998	36,725	38,549	35,710	37,720	40,263
Public Sector	**45,747**	**44,970**	**42,827**	**41,993**	**40,782**	**40,710**	**40,624**	**40,992**	**40,331**	**41,079**	**40,713**
of which:											
Government Departments	31,564	30,969	30,532	30,426	30,171	30,019	29,967	30,440	29,808	30,495	30,237
Independent Statutory Bodies	8,699	8,686	8,917	9,054	8,096	8,481	8,435	8,582	8,379	8,501	8,669
Companies with Public Sector majority s/hldg	5,484	5,315	3,378	2,513	2,515	2,210	2,089	1,970	2,144	2,083	1,807
of which:											
Direct Production	10,419	9,971	9,666	9,317	7,954	7,314	6,793	6,536	6,985	6,519	6,349
Market Services	35,328	34,999	33,161	32,676	32,828	33,396	33,698	34,456	33,346	34,560	34,364
Temporary Employment	**961**	**815**	**733**	**699**	**711**	**642**	**683**	**632**	**627**	**681**	**614**
Registered Unemployed*	**8,103**	**7,379**	**7,161**	**6,172**	**6,818**	**7,680**	**6,606**	**6,587**	**7,052**	**6,366**	**6,698**
Males	6,511	5,715	5,544	4,684	5,004	5,986	5,216	5,154	5,583	5,081	5,237
Females	1,592	1,664	1,617	1,488	1,369	1,694	1,390	1,433	1,469	1,285	1,461
Per cent of Labour Supply	5.6%	5.1%	4.9%	4.2%	4.5%	5.0%	4.3%	4.2%	4.6%	4.1%	4.2%
of which unemployment under Part I (%)	5.1%	4.6%	4.4%	3.7%	3.8%	4.0%	3.9%	3.9%	4.2%	3.9%	3.8%
Self Employed	16,521	16,692	16,841	17,134	17,416	17,588	17,660	17,629	17,669	17,712	17,776

Note: Employment data has been revised

* Includes both Parts I and II of the registered unemployed

Source: Employment and Training Corporation

Table VI

Tourism

	2004	2005	2006	2007	2008	2009	2010	2011	2010 Jan-Aug	2011 Jan-Aug	2012 Jan-Aug
Tourist Arrivals/Departures[(1)](000's)	1,157.7	1,170.6	1,124.2	1,243.5	1,290.9	1,182.5	1,338.8	1,414.6	906.8	973.9	981.3
of which from:											
United Kingdom	453.0	482.6	431.3	482.4	454.4	398.5	415.1	439.3	277.6	292.9	289.4
Italy	102.6	92.4	112.5	113.7	144.5	161.7	219.7	201.8	159.6	144.7	143.3
Germany	135.2	138.2	125.8	130.0	150.8	127.4	126.2	134.5	79.8	84.9	88.0
Libya	12.8	10.7	9.2	9.3	9.4	14.3	15.9	6.2	10.9	4.5	10.4
Scandinavian Countries	68.9	72.6	73.7	87.3	85.5	66.8	92.9	93.4	61.1	63.8	68.4
Other	385.2	374.1	371.7	420.8	446.3	413.8	469.1	539.4	317.9	383.1	381.7
Cruise Passengers (000's)[(2)]	285.0	312.3	392.9	477.1	537.7	419.6	474.3	541.6	295.8	339.0	383.8
Gross Income (€ million)(3)	620.9	611.0	611.0	702.2	729.2	639.8	813.9	910.0	187.7[(4)]	231.04[(4)]	249.7[(4)]
as ratio (%) of exports of goods and services	17.9	17.1	17.1	13.9	13.5	13.0	13.1	12.3	12.14[3)]	13.8[(4)]	12.9[(4)]
Total Sector Employment in											
Hotels and Restaurants	8,808	9,236	9,272	9,815	10,006	9,379	9,474	9,455	9,529[(5)]	9,361[(5)]	9,351[(5)]
% of Gainfully Occupied	6.4	6.7	6.6	6.8	6.9	6.5	6.4	6.3	6.5[(5)]	6.3[(5)]	6.2[(5)]
Travel Abroad (000's)	220.2	224.9	257.2	279.7	301.3	301.7	294.1	308.3	149.1[(6)]	166.7[(6)]	171.0[(6)]
Estimated Expenditure (€ million)	205.1	216.3	216.3	172.7	209.5	207.0	233.5	238.9	38.2[(3)]	56.7[(3)]	56.1[(3)]
Days Stayed / Nights Spent[(1)] (000's)	11,175	11,085	10,661	11,017	11,262	9,949	11,148	11,691	7,677	7,989	8,463
% of which spent in :											
5 star	9.4	10.6	11.8	14.0	14.3	16.4	14.7	15.4	14.7	15.3	14.1
4 star	32.7	34.0	35.3	33.5	32.8	31.2	32.4	31.3	32.7	31.7	29.5
3 star	18.0	19.7	16.6	15.2	13.0	12.0	12.7	12.3	12.8	12.8	12.9
2 star	1.3	0.9	1.9	2.1	2.3	1.4	1.0	1.0	1.0	1.0	1.0
1 star	-	-	-	-	-	-	-	-	-	-	-
Unclassified	0.1	0.1	-	-	-	-	0.3	0.3	0.2	0.2	0.2
Guest Houses	0.7	0.8	0.5	0.5	1.0	0.6	0.8	0.6	0.8	0.6	0.8
Flats/Private Residences	29.7	26.9	27.2	28.3	29.2	31.4	31.3	32.2	30.6	31.3	33.1
Tourist Village/Aparthotels/Hostels/Holiday Complex/Camp Sites/Bed & Breakfast	8.1	7.0	6.7	6.4	7.3	7.0	6.9	6.9	7.2	7.0	8.4

(1) Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey.

(2) Excluding Maltese cruise passengers

(3) The data presented is based on the distribution of the administrative records of the ETC of the gainfully occupied population according to the standard NACE classification of economic activities.

The structure and period of statistical coverage used for this Economic Survey differs from that of previous Economic Surveys due to the adoption of the new NACE Rev 2 classification by the ETC in the compilation of labour market information.

(4) Data for January-June period

(5) Data as at end of May

(6) Data for January-July period

Source: National Statistics Office, Employment & Training Corporation

Foreign Trade

Table VII — € million

	2004	2005	2006	2007	2008	2009	2010	2011	2010 Jan-Aug	2011 Jan-Aug	2012 Jan-Aug
Imports and Exports											
Imports (c.i.f.)	3,328.9	3,117.2	3,537.1	3,603.9	3,897.1	3,454.4	4,328.1	5,325.6	2,772.1	3,173.4	4,230.4
Consumer goods	851.4	911.4	953.9	1,024.7	1,158.9	1,055.0	1,197.7	1,459.3	771.7	840.3	1,132.6
Industrial supplies	1,642.2	1,642.4	1,928.2	1,943.4	2,128.0	1,707.0	2,291.6	2,991.3	1,458.8	1,661.8	2,442.7
Capital goods and others	835.3	563.4	655.0	635.8	610.2	692.4	838.8	875.0	541.6	671.3	655.1
Total Exports (f.o.b.)	2,116.4	1,959.1	2,499.9	2,597.4	2,455.7	2,086.0	2,806.0	3,815.4	1,815.6	1,955.6	2,787.2
of which manufactures	2,061.9	1,900.1	2,419.3	2,481.7	2,350.6	2,064.1	2,726.1	3,742.0	1,777.8	1,921.7	2,764.4
Trade Gap	-1,212.5	-1,158.1	-1,037.2	-1,006.5	-1,441.4	-1,368.4	-1,522.1	-1,510.2	-956.5	-1,217.8	-1,443.2
as % of GDP at current market prices	-26.8%	-24.0%	-20.4%	-18.4%	-24.6%	-23.4%	-24.4%	-23.2%			
Selected Groupings											
EU											
Imports	2,497.3	2,266.0	2,471.6	2,591.6	2,755.7	2,405.0	2,714.4	3,343.6	1,728.6	2,014.5	2,670.3
Exports	1,021.5	1,004.7	1,154.9	1,108.8	954.0	819.3	1,145.8	1,298.4	766.7	794.8	785.3
United Kingdom											
Imports	367.4	335.9	344.5	499.6	457.5	378.0	358.1	360.9	263.1	263.5	254.7
Exports	242.3	216.2	213.2	222.1	165.3	99.1	128.1	146.9	88.9	108.7	76.0
Italy											
Imports	772.5	956.7	1,015.2	902.7	1,027.4	843.2	1,065.7	1,442.6	689.4	824.3	1,349.9
Exports	65.0	100.5	85.6	90.8	114.6	105.2	157.5	171.1	94.4	106.1	99.5
Germany											
Imports	391.9	280.1	263.2	290.5	267.6	272.4	295.2	311.4	201.2	216.1	194.5
Exports	228.4	236.3	283.0	306.8	270.4	222.0	281.6	326.2	191.9	211.7	238.7
France											
Imports	566.3	291.3	405.9	420.1	381.4	338.9	338.5	374.9	216.1	267.2	234.0
Exports	327.5	283.8	326.7	271.3	237.3	187.4	238.6	244.9	153.8	145.3	176.6
America											
Imports	197.7	189.7	218.2	241.4	132.9	229.5	276.9	353.5	230.2	247.2	205.9
Exports	351.0	301.7	298.8	279.7	209.5	185.3	228.8	226.7	153.3	143.9	177.7
Africa											
Imports	59.9	125.3	50.3	29.3	128.5	72.4	151.5	35.8	86.9	27.4	80.1
Exports	109.3	143.2	120.5	121.3	132.4	137.2	182.7	234.3	112.7	51.5	449.3
Asia											
Imports	457.9	417.6	635.0	597.2	597.8	457.7	611.7	641.9	390.6	427.9	537.8
Exports	544.4	460.9	631.4	719.9	713.9	528.1	686.5	1,092.1	421.5	504.2	598.5

* Based on Jan-Sep GDP and Trade data

Source: National Statistics Office

Balance of Payments

Table VIII — € million

	2004	2005	2006	2007	2008	2009	2010	2011	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun
Goods Balance[1]	-693.3	-904.4	-967.3	-923.8	-1,233.7	-1,083.5	-1,121.3	-1,012.0	-459.4	-603.1	-409.5
Imports (f.o.b.)	2,881.5	2,987.5	3,541.1	3,623.6	3,759.7	3,144.3	3,794.5	4,044.9	1,752.7	2,139.8	2,087.9
Exports (f.o.b.)	2,188.2	2,083.2	2,573.8	2,699.8	2,526.0	2,060.8	2,673.2	3,032.9	1,293.2	1,536.7	1,678.3
Services-Net	518.2	647.7	641.4	856.3	1,121.1	998.7	1,240.5	1,377.1	499.0	622.8	630.8
Transport-net	63.7	63.6	77.4	80.4	122.0	109.6	-33.2	-79.3	-1.8	-16.2	-47.9
Travel-net	415.8	394.7	354.1	529.5	519.7	432.8	580.4	671.1	201.7	245.7	259.3
Other Services-net	38.6	189.3	209.9	246.4	479.3	456.2	693.4	785.4	299.1	393.4	419.4
Income- Net	-45.1	-199.6	-171.7	-148.1	-174.3	-394.1	-456.4	-408.9	-174.1	-336.4	-259.4
Compensation of Employees-net	12.2	9.2	-2.9	3.5	3.9	7.5	-2.5	-1.6	-1.8	-0.9	-1.6
Investment Income-net	-57.2	-208.8	-168.8	-151.6	-178.2	-401.6	-453.9	-407.3	-172.3	-335.5	-257.8
Current Transfers-Net	-46.2	35.9	-6.4	-29.0	-6.5	42.7	26.3	25.3	-4.2	8.0	16.7
General Government-net	11.7	21.7	1.3	-3.7	12.5	46.1	28.0	35.9	0.6	12.2	21.9
Private-net	-57.9	14.2	-7.6	-25.3	-18.9	-3.5	-1.7	-10.6	-4.8	-4.2	-5.2
Current A/C-Net	-266.3	-420.4	-504.1	-244.6	-293.3	-436.2	-310.9	-18.6	-138.7	-308.6	-21.4
Goods Balance[1] as % of GDP at m.p.	-15.3%	-18.8%	-19.0%	-16.9%	-21.1%	-18.5%	-18.0%	-15.6%	-15.3%	-19.0%	-12.6%
Invisible Balance as % of GDP at m.p.	11.4%	13.4%	12.6%	15.7%	19.1%	17.0%	19.9%	21.2%	16.6%	19.6%	19.5%
Income a/c Balance as % of GDP at m.p.	-1.0%	-4.1%	-3.4%	-2.7%	-3.0%	-6.7%	-7.3%	-6.3%	-5.8%	-10.6%	-8.0%
Current a/c Balance as % of GDP at m.p.	-5.9%	-8.7%	-9.9%	-4.5%	-5.0%	-7.4%	-5.0%	-0.3%	-4.6%	-9.7%	-0.7%
Capital A/C-Net	66.8	155.7	152.7	68.6	24.5	99.1	107.3	63.2	107.3	26.9	20.4
Financial A/C-Net[2]	136.3	299.8	310.0	175.4	217.9	22.9	-152.4	-55.3	-152.4	102.2	-355.5
Direct Investment-net	312.9	560.1	1,441.5	582.0	342.8	488.0	693.9	306.9	693.9	66.7	-236.3
Portfolio Investment-net[3]	-1,682.4	-2,137.3	-1,980.4	366.0	368.6	-1,934.0	-3,210.5	-3,105.5	-3,210.5	-172.0	-593.4
Financial Derivatives-net[3]	-14.0	-18.4	24.9	123.3	-344.3	-118.9	27.8	24.3	27.8	30.5	68.9
Other Investment-net[3]	1,358.7	2,083.3	907.0	-569.3	-257.9	1,590.1	2,360.0	2,666.2	2,360.0	141.4	549.7
Reserve Assets[3]	161.1	-187.8	-83.0	-326.5	108.7	-2.4	-23.6	52.9	-23.6	35.6	-144.4

[1]For Balance of Payments purposes, both imports and exports are taken at f.o.b. thus the trade balance is different from that shown under Table VII

[2]The Financial Account-Net in this Table includes Reserve Assets but does not include Errors and Omissions.

[3]As from 1 January 2008, following Malta's entry into the euro area, a reclassification of the external reserves of the country has been carried out. Indeed, this meant that, as from this date, all cross-border claims that Malta has within the euro area as well as all claims that the country has in euro-denomination are no longer considered as being part of Malta's reserve assets. In addition, as happened in other euro area Member States, Malta has transferred a fraction of its external reserves to the European Central Bank (ECB) in exchange for a claim on the ECB; which, being an intra-Eurosystem asset, is also not considered as being part of the country's external reserves. As a result of this, the portfolio investment account, the financial derivatives account and the other investment account recorded significant changes in their net balances.

Note: The balance of payments is being compiled in accordance with the fifth edition of the IMF's Balance of Payments Manual (BPM5).

Source: National Statistics Office

Government Revenue and Expenditure

Table IX

€ million

	2004	2005	2006	2007	2008	2009	2010	2011	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	2012 Jan-Sep
Government Recurrent Revenue	1,893.8	2,088.1	2,200.6	2,224.5	2,302.1	2,370.8	2,525.4	2,643.8	1,553.6	1,686.8	1,822.1	1,921.4
Increase/(Decrease) % per annum	10.0	10.3	5.4	1.1	3.5	3.0	6.5	4.7	-2.0	8.6	8.0	5.4
of which:												
Tax Revenue	1,635.2	1,724.4	1,857.1	1,982.0	2,098.3	2,130.1	2,242.5	2,323.4	1,415.0	1,499.0	1,608.7	1,686.0
Direct Tax Revenue	933.6	972.0	1,069.0	1,143.7	1,246.0	1,265.5	1,353.3	1,361.7	857.9	899.9	918.4	1,007.9
Indirect Tax Revenue	701.6	752.4	788.1	838.3	852.3	864.6	889.2	961.7	557.1	599.1	690.3	678.1
Non-Tax Revenue	258.6	363.6	343.5	242.4	203.8	240.6	282.8	320.5	138.7	187.9	213.4	235.5
Total Government Expenditure	2,112.7	2,263.5	2,335.4	2,333.6	2,535.3	2,667.8	2,804.6	2,862.4	1,887.5	1,986.6	2,010.6	2,203.6
Increase/(Decrease) % per annum	7.4	7.1	3.2	-0.1	8.6	5.2	5.1	2.1	2.4	5.2	1.2	9.6
of which:												
Recurrent Expenditure	1,707.0	1,784.3	1,835.9	1,896.6	2,124.1	2,204.4	2,296.3	2,361.3	1,559.9	1,635.1	1,667.7	1,792.2
Capital Expenditure	243.7	305.1	319.2	257.9	222.1	271.3	311.5	288.7	169.0	209.6	183.4	243.4
% of Total Government Expenditure	11.5	13.5	13.7	11.1	8.8	10.2	11.1	10.1	9.0	10.6	9.1	11.0
Interest on Public Debt	162.1	174.2	180.2	179.1	189.0	192.0	196.8	212.5	158.6	141.9	159.5	168.0
Structural Deficit	-219.0	-175.4	-134.8	-109.1	-233.1	-297.0	-279.2	-218.6	-333.9	-299.7	-188.4	-282.2
Financed by:												
Extraordinary Receipts	20.7	59.6	201.8	14.9	33.3	2.8	0.0	9.6	0.0	0.0	9.6	28.4
Receipts from sale of shares	0.0	50.8	172.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sinking Funds of Converted Loans	20.7	8.9	29.0	14.9	33.3	2.8	0.0	9.6	0.0	0.0	9.6	28.4
Sinking Fund Contribution & Direct Loan Repayment	-62.7	-32.1	-26.7	-21.2	-111.4	-269.4	-207.4	-141.9	-259.6	-164.3	-135.0	-355.1
Equity Acquisition	0.0	0.0	0.0	0.0	-6.5	-0.5	-0.2	-6.0	-0.5	0.0	0.0	11.0
Loan Facility Agreement with the Hellenic Republic	0.0	0.0	0.0	0.0	0.0	0.0	-19.8	-30.8	0.0	-19.8	-25.1	0.0
Loan Facility Agreement with Air Malta plc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-52.0	0.0	0.0	-52.0	0.0
Public Sector Borrowing Requirement	-260.9	-147.9	40.3	-115.5	-317.7	-564.2	-506.6	-439.8	-594.1	-483.8	-390.9	-597.9
Loans	232.7	256.2	0.0	126.0	285.7	455.8	577.7	567.8	355.8	478.9	401.6	510.6

Source: National Statistics Office

Monetary Aggregates and Their Counterparts*

Table X a — € million

	2001	2002	2003	2004	2005	2006	2007
Broad Money (M3)	5,779.4	6,479.2	6,636.9	6,797.8	7,085.0	7,451.7	8,275.3
Intermediate Money (M2)	5,779.4	6,479.2	6,636.9	6,797.8	7,085.0	7,451.7	8,275.3
% Increase per annum		12.1	2.4	2.4	4.2	5.2	11.1
of which:							
Narrow Money (M1)	2,988.4	3,185.2	3,472.9	3,682.5	3,890.2	3,859.4	3,695.4
Currency in Circulation	975.8	1,017.5	1,072.4	1,132.1	1,162.2	1,112.9	610.2
% Increase/ (Decrease) per annum		4.3	5.4	5.6	2.7	-4.2	-45.2
Deposits withdrawals on demand	2,012.6	2,167.5	2,400.4	2,550.4	2,728.0	2,746.5	3,085.2
Deposits redeemable at notice up to 3 months	61.3	65.0	67.1	70.0	73.3	71.8	105.3
Deposits with agreed maturity up to 2 years	2,729.8	3,229.0	3,096.9	3,045.2	3,121.5	3,520.6	4,474.6
Domestic Credit	5,413.7	5,593.8	5,747.5	6,063.7	6,141.8	6,705.9	7,424.5
of which:							
Net Claims of Central Government	1,192.6	1,256.7	1,324.0	1,269.7	1,031.2	850.1	1,023.8
Claims on other residents	4,221.1	4,337.3	4,423.4	4,793.9	5,110.6	5,855.8	6,400.6
Net Foreign Assets	2,538.1	3,031.2	3,723.1	3,786.9	4,215.0	4,804.9	5,199.9
Increase/(Decrease) % per annum		19.4	22.8	1.7	11.3	14.0	8.2
of which:							
Central Bank of Malta	1,785.5	2,053.6	2,142.6	2,027.3	2,172.4	2,214.9	2,532.9
Other Monetary Financial Institutions	752.6	977.6	1,580.5	1,759.7	2,042.6	2,590.0	2,667.0
Other Counterparts to Broad Money	2,172.4	2,146.1	2,833.6	3,052.9	3,271.8	4,059.1	4,349.1

*In October 2003, the definitions of the main monetary aggregates and their counterparts were revised in accordance with ECB Regulation 2001/13. Thus, data prior to October 2003 are estimates based on this regulation.

Source: Central Bank of Malta

Contribution of Resident MFIs to Euro Area Monetary Aggregates and Counterparts[1]

Table X b — € million

	2008	2009	2010	2011	2012* Jan-Aug
Broad Money (M3)[2]	8,861.8	8,883.3	9,370.5	9,676.3	10,181.8
Intermediate Money (M2)	8,824.5	8,671.1	9,128.9	9,472.0	9,979.2
% Increase/ (Decrease)		-1.7	5.3	3.8	5.4
of which:					
Narrow Money (M1)	3,849.6	4,359.5	4,999.0	5,425.6	5,879.8
Currency issued[3]	669.2	639.8	674.4	710.6	719.7
% Increase/ (Decrease)		-4.4	5.4	5.4	1.3
Overnight deposits[4]	3,180.4	3,719.8	4,324.6	4,715.0	5,160.1
Deposits redeemable at notice up to 3 months[4]	114.3	111.7	124.3	125.1	140.6
Deposits with agreed maturity up to 2 years[4]	4,860.7	4,199.9	4,005.6	3,921.3	3,958.8
Credit Counterpart[5]	12,143.4	13,232.0	14,466.7	16,074.3	16,005.5
of which:					
Credit to residents of Malta	8,885.0	9,719.8	10,279.1	10,903.9	11,182.4
Credit to other Euro area residents	3,258.4	3,512.2	4,187.6	5,170.4	4,823.1
Net claims on non-residents of the Euro area	7,367.8	6,646.9	8,183.3	7,840.0	10,125.7
Other counterparts (net)[6]	10,649.4	10,995.6	13,279.4	14,238.0	15,949.3

* Provisional

[1] Figures show the contribution of Maltese monetary financial institutions (MFIs) to the euro area aggregates

[2] M3 comprises M2, repurchase agreements and debt securities with agreed maturity of up to 2 years. This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the

euro-area aggregate. As from December 2008 figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the euro area and holdings by non-residents of the

euro area.

[3] Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes

and coins held by the MFI sector.

[4] Deposits with MFIs exclude interbank deposits and deposits held by central government.

[5] Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

[6] Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

Source: Central Bank of Malta