

# Economic Survey

## October 2006

Economic Policy Division  
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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.

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# 1. State of the Economy

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# 1. State of the Economy

The emerging economic recovery registered in 2005 was further sustained in 2006, with signs of an improvement in the performance of the Maltese economy becoming increasingly evident from the available data for 2006. In particular, encouraging signs emerge from the rebound in real GDP growth, higher investment activity, the increase in employment levels and the improved performance registered by the electronics and other emerging manufacturing sectors as well as various service activities. Meanwhile, Government's fiscal consolidation process is proceeding on track, with a further decline in the structural deficit being registered. These positive results were achieved despite that the Maltese economy continued to be subject to external shocks, in particular further increases in international oil prices and severe competition from low-cost operators in a number of sectors.

Indeed, although economic growth has recovered, it is estimated that during 2006 the Maltese economy continued to operate below potential. Furthermore, domestic demand developments have remained a major contributor to economic growth. Although exports increased significantly, the deficit in the current account of the Balance of Payments has deteriorated further, mainly because of higher imports, as well as due to a decline in the surplus on the services account. The intensified international competition is increasingly leaving its mark on the domestic economy, in particular certain manufacturing sectors, which have been shedding labour, as well as on the tourism industry. Another challenge involves the increase in the inflation rate, which has been strongly determined by increasing energy prices.

During the first six months of 2006, real GDP advanced by 2.6 per cent. Real growth reflected higher consumption as well as investment. On the external side, higher imports of goods and services were registered, whilst the increase in nominal exports of goods and services was offset by higher prices related to the electronics manufacturing sector.

In the labour market, an increase in employment was registered between June 2005 and June 2006. This occurred in the full-time gainfully occupied population and more strongly in part-time employment. Private market services continued to be the main driver of job creation, whilst employment in private direct production decreased further, mainly due to job shedding in specific manufacturing sectors. The declining trend in the share of public sector employment continued, reflecting privatization initiatives, enterprise restructuring as well as Government's

policy in this area. Meanwhile, the unemployment rate under Part I of the Register stood at 4.5 per cent in June 2006, from 4.3 per cent a year earlier.

Turnover in the manufacturing industry recovered in the January-June 2006 period, being underpinned by a rise of 11.5 per cent in exports. This improvement results from higher export levels by the electronics sector. The increase in exports by emerging manufacturing sectors, such as the chemicals sector, is encouraging, particularly within the context of the restructuring taking place in the manufacturing industry, with certain sectors being negatively affected by the increasing international competition. Furthermore, a notable rise in capital outlays was recorded in the manufacturing industry. Meanwhile, employment income remained practically stable, reflecting the drop in employment in the industry.

The tourism industry continues to face various challenges, including increasing international competition. During the first eight months of 2006, tourist departures dropped by 3.7 per cent. Despite this performance, gross earnings from tourism remained stable during the January-June period. On the other hand, following the recovery registered in 2005, the cruise liner industry continued to register a positive performance with cruise passenger arrivals rising by 31.5 per cent during the January-August period.

The inflation rate (as measured by the Retail Prices Index) crept up to 3.4 per cent in September 2006. The increasing international oil prices have contributed significantly to the rise in the inflation rate, whilst other major contributors were increases in the food and housing sub-indices. The rise in the inflation rate is of concern as it impacts on the households' purchasing power as well as on the competitiveness of the Maltese economy. Furthermore, as a result of the increase in the HICP inflation rate, the reference value of the Maastricht price stability criterion was exceeded by 0.3 percentage points in August 2006.

During the first six months of the year, the deficit in the current account of the Balance of Payments widened further to 12.5 per cent of GDP. This occurred as the significant increase in exports of goods was offset by higher imports of goods, including industrial supplies, capital goods as well as consumer goods and a further rise in the fuel import bill. Furthermore, the positive balance in the services account deteriorated, mainly on account of lower receipts on transport services and higher expenditure by Maltese tourists abroad. On the other hand, improvements were registered in the income account as well as in current transfers. Financing in the form of net Foreign Direct Investment inflows and capital transfers were larger than the current account deficit. FDI as well as

the rise in reserve assets were influenced by proceeds from sale of Government shares.

Government continued to implement its fiscal consolidation programme during the course of 2006. This was reflected in a further contraction in the structural deficit to Lm72.9 million during the first nine months of 2006, from Lm85.4 million during the comparable 2005 period. This improvement resulted from higher tax revenue and lower capital expenditure, whilst recurrent expenditure increased by 3.1 per cent.

The positive results indicated by the available economic data for 2006 are encouraging. The results in public finance are also noteworthy as a sustainable fiscal position is necessary to ensure a stable macroeconomic framework. Nevertheless, further efforts are required to ensure that the recovery is sustained and that it is broad based in the economy. In particular, competitive challenges remain in specific economic sectors. In this context, the restructuring being undertaken needs to proceed to ensure that the shift to higher value-added activities continues. This should lead to the generation of further jobs and to improve export activity, thus also contributing to reduce the external imbalance. In addition, the competitiveness of the domestic economy needs to be strengthened. A return to lower inflation rates would contribute to achieve this aim.

## Local Scene

### Economic Growth

During the first six months of 2006, real GDP increased by 2.6 per cent. In nominal terms, GDP advanced by 6.8 per cent to Lm987.7 million. In real terms, domestic demand developments remained a major contributor to economic growth. Improvements were recorded within private and general Government final consumption expenditure and gross fixed capital formation. On the external side, the increase registered in imports of goods and services was compounded by a reduction in exports of goods and services resulting from fluctuations in prices related to the electronics sub-sector of the economy.

Consumers' expenditure advanced by Lm29.6 million or 4.8 per cent in nominal terms, whilst an increase of 2.3 per cent in real terms was recorded. General Government final consumption expenditure advanced by Lm11.6 million, or 5.5 per cent during the January-June 2006 period. In real terms, an increase of 3.0

per cent was recorded. A nominal increase of 7.4 per cent was recorded in gross fixed capital formation, leading to a real rate of growth of 3.8 per cent.

Exports of goods and services increased by 6.6 per cent in nominal terms to reach Lm698.0 million. In real terms, a decline of 2.0 per cent was registered in this component of expenditure. However, it is pertinent to note that the decline recorded in real exports was underpinned by upward movements in export prices, particularly within the electronics sub-sector. Imports of goods and services in nominal terms registered an increase of 11.6 per cent, to reach Lm839.5 million. In real terms, imports of goods and services advanced by 4.1 per cent.

## **Sectoral Contribution to Gross Value Added**

Gross value added (GVA) at basic prices increased by 5.3 per cent in nominal terms during the first six months of the year, such that it stood at Lm844.3 million. Sectors which registered a rise in GVA at basic prices include financial intermediation, other community, social and personal service activities, real estate, renting and business activities and transport, storage and communication. Such growth, together with minor increases in other sectors more than offset the reductions registered in the hotels and restaurants, agriculture, hunting and forestry and mining and quarrying sectors of the economy.

During the period under review the Gross National Income (GNI) improved by Lm73.8 million, or 8.1 per cent to Lm985.8 million. Such an increase was caused by a higher level of GDP at market prices that was coupled with a lower outflow of net property income. The compensation of employees advanced by Lm13.4 million or 3.0 per cent during the first two quarters of the year. Average weekly compensation per employee in nominal terms increased by 2.2 per cent to Lm127.53 in the period January-June 2006. On the other hand, real average weekly compensation per capita during the same period declined by 1.0 per cent to Lm116.73. An increase of Lm25.7 million or 7.1 per cent was recorded in gross operating surplus and mixed income which stood at Lm387.9 million in the period January-June 2006. Taxes on production and imports advanced to Lm155.2 million, an increase of Lm18.6 million or 13.6 per cent during the period under review, whilst subsidies declined by Lm4.7 million reaching Lm16.4 million.



## Labour Market

The performance of the labour market in Malta during the period under review is closely linked to economic performance, as the rebound experienced by the economy in 2005 and the first half of 2006 resulted in increased employment levels. At the end of June 2006, the full-time gainfully occupied population stood at 139,437, an increase of 621 or 0.4 per cent over June 2005. During the same period, the number of unemployed under Part I of the Register rose by 383 to 6,601. Consequently, the unemployment rate under Part I of the Register stood at 4.5 per cent, up from 4.3 per cent recorded during the same period of 2005. The increase in the gainfully occupied population and in the registered unemployed resulted in an overall increase of 752 in the labour supply to 146,498 at the end of June 2006. Meanwhile the number of persons in a part-time job as their main occupation rose by 1,752 to 24,386 at the end of period under review. Furthermore, the number of part-timers holding a full-time job increased by 1,230 to 18,791.

In line with trends noted in recent years, employment developments in Malta reveal the declining role of the public sector as provider of employment. In fact, during the twelve months to June 2006, public sector employment, inclusive of temporary employees declined by 2,342 to 43,199 in reflection of privatisation initiatives, enterprise restructuring as well as Government's policy of restricting employment in non-essential categories of the public sector.

Total private sector employment rose by 2,963 to 96,238 reflecting a rise in employment in the private market services category as the labour complement in private direct production experienced an overall decline. Employment in private market services stood at 63,204 at the end of June 2006, an increase of 3,606 over the comparable period of 2005. This increase strongly reflects the sale of shares that the Government held in Maltacom plc whilst increases were also recorded in other categories. Meanwhile, employment in private direct production declined by 424 to 32,639 at the end of June 2006. This decrease reflects mainly the drop recorded in manufacturing employment that was partly countered by the increased employment recorded in construction industry.

## Productive Activities

During the first half of 2006 turnover in the manufacturing industry registered an 8.2 per cent increase when compared to the level recorded a year earlier and almost returned to the levels recorded prior to 2005. This reflected an increase in exports of 11.5 per cent, mainly resulting from export levels recorded in the radio, TV and communication equipment sector. Higher exports were also recorded in the chemical and chemical products, food, beverages and

tobacco, furniture and other manufacturing and medical, precision and optical instruments sectors. However, lower export levels were mainly recorded in the electrical and machinery and apparatus, textiles and textile products, rubber and plastic products, publishing and printing, wearing apparel and clothes and leather and leather products sectors. Local sales registered a 3.1 per cent decline during the period under review, mainly reflecting increased competition from imports as well as the downsizing of enterprises and firms that moved out of productive activities and into the wholesale and retail services sector. However, modest increases in local sales were mainly recorded in the furniture and other manufacturing and fabricated metal products sectors. It is noteworthy that the furniture sub-sector recorded a recovery in local sales since 2005, following the decline resulting from the dismantling of protective levies on imported furniture products in October 2002. Capital outlays rose by 29.9 per cent in the January-June 2006 period, mainly reflecting investment made by the radio, TV and communication equipment sector. Employment income remained practically at the level recorded in the first six months of 2005, however, it is noteworthy that the restructuring process within the industry and the shift of certain firms from productive activities to wholesale and retail trade has led to a decline in employment levels in the manufacturing industry.

Average weekly sales per capita rose by 15.9 per cent and reached Lm1,035.82 and average weekly exports per capita rose by 19.4 per cent to Lm823.53. Furthermore, average weekly per capita compensation levels rose by 6.1 per cent and reached Lm124.66.

The agriculture and fisheries sector only contributes a small amount to Malta's GDP, however, it is nonetheless important due to its impact on other sectors such as tourism. It also has environmental and social ramifications. Assistance and incentive schemes have also been designed to aid this sector of the economy. In the first six months of this year, this sector's contribution towards total economy remained at 2.7 per cent of Gross Value Added.

Malta Shipyards Limited has been facing competition from a number of competitors, however, the year commenced positively due to the continuation of work from the previous year. Turnover for the present year has exceeded expectations. However, the biggest challenge is to execute work more efficiently and to improve margins in all areas. To this effect, Malta Shipyards Limited has been restructuring so as to increase its productivity and to move towards becoming a commercially viable company by 2008.

## Services Activities

Services constitute an important contributor to the local economy. While the largest contributor of the services category is the tourism industry, financial services activities and related activities are growing in importance. In the first eight months of 2006, tourist departures declined by 3.7 per cent over the corresponding 2005 period, reaching 767,836 visitors. Despite this, gross earnings from tourism during the January-June period remained stable at a level of Lm101.5 million over the same period last year, while per capita earnings increased by 2.8 per cent, to a level of Lm215.2. Similarly, earnings per night spent increased from Lm22.6 during the first six months of 2005 to Lm23.5 during the same period in 2006. Meanwhile, full-time employment in hotels and restaurants recorded a decline between June 2005 and June 2006. On the other hand, the positive performance achieved by the cruise liner industry continued to be consolidated through the first eight months of 2006, with cruise passenger arrivals reaching 233,265, an increase of 31.5 per cent over the same period of 2005.

The Malta Financial Services Authority is Malta's supervisor and regulator in the financial services sector. The role of the Malta Enterprise Corporation is to act as an assisting body providing financial aid and advisory services to both local and foreign companies that are established or want to undertake business in Malta. Malta Enterprise also has the role of attracting foreign direct investment.

## Prices and Incomes

Malta's inflation rate, as measured by percentage changes in the 12-month moving average for the Retail Price Index, reached 3.42 per cent in September 2006. The inflation rate followed an increasing trend in the last quarter of 2005, registered a marginal decline in the first few months of 2006 and returned on an upward trend since April 2006. During the period under review, high energy prices mainly determined the rate of inflation. The major contributors towards the inflation rate for September 2006 were the Transport and Communication, Water, Electricity, Gas and Fuels, Food and Housing sub-indices.

When considering the 12-month moving average of the Harmonized Index of Consumer Prices (HICP) as at August 2006, Malta's inflation rate stood at 3.1 per cent being 0.8 percentage points higher than the average for the EU 25 Member States. Between July 2005 and April 2006, Malta's HICP inflation rate was below or stood at the reference value of the Maastricht price stability criterion. In the following months, the inflation rate exceeded the reference

benchmark with the gap rising to 0.3 percentage points in July and August 2006, mainly underpinned by developments in energy prices.

The study of average wage levels in 2006, based on a sample of collective agreements of 182 companies employing a total workforce of 27,399 persons, shows that the average weekly wage rate increased by 3.7 per cent or Lm3.79. The highest wage rise in percentage terms was recorded in the Community and Business sub-sector which registered an increase of 7.5 per cent. Wage increases in other sectors were relatively lower, ranging from 2.0 per cent to 5.3 per cent. The largest share of employees (58.0 per cent) for all firms earned on average a weekly wage rate of over Lm96.25.

## Foreign Trade and Payments

The current account deficit of the Balance of Payments continued to increase in the first half of 2006 thereby following recent trends. This occurred albeit the fact that during the period exports increased. The deterioration was triggered by the fact that imports were notably higher. The increase in imports of goods included higher imports of industrial supplies, capital goods, and a further rise in imports of fuel. An increase in imports of consumer goods was also recorded.

The trends in the merchandise account apparent in the first half of 2006 continued in the following two months. The period under review was characterised by the recovery in exports of machinery and transport equipment. This sector increased exports by Lm66.5 million. In addition higher exports of chemicals (+Lm8.6 million) and food, beverages and tobacco (+Lm6.4 million) were registered in the first eight months of 2006. The emergence of the chemicals sector is notable and during the January-August period of 2006 constituted the second major export commodity. These positive developments compensated for the continuous decline in exports of clothing as well as the contractions recorded in the other categories.

Higher output and exports by the Maltese economy during this period led to a comparable increase in imports of industrial supplies. Imports of capital goods also registered an increase, reflecting the investment activity in the economy. The increase in imports of capital goods included one-off items worth Lm32 million, including imports of cranes and sea-vessels. Imports of industrial supplies and capital goods explain around three-fourths of the increase in imports registered in the first eight months of 2006. The fuel imports bill continued on its upward trend in the first eight months of 2006. In line with higher international

oil prices, the fuel imports bill increased by Lm15.7 million. An increase in imports of consumer goods, particularly durable goods, was also recorded.

During the period under review, trade activity with the EU and Asia registered a considerable increase. Furthermore an increase in imports from the American continent and from Oceania also occurred albeit the fact that the latter included one off items.

Balance of payments data for the first half of 2006 shows a deterioration of Lm12.3 million in the services balance, marked by lower receipts on transport services, a further increase in Maltese tourists expenditure abroad and an increase in net earnings from other services. Meanwhile, tourism earnings were stable. The income account improved by Lm10.9 million, primarily as a result of lower earnings registered by foreign-owned companies operating from Malta. Current transfers increased by Lm17.5 million, primarily as a result of higher net receipts by General Government. This reflects the receipts from EU funds.

A current account deficit of 12.5 per cent of GDP was registered in the first half of 2006. This was entirely financed by net foreign direct investment inflows and capital transfers, amounting to an aggregate 18.4 per cent of GDP. During the period under consideration, FDI inflows were influenced by the sale of Government shares in Maltacom plc. Net outflows in the portfolio investment account were more than offset by net inflows in the other investment account. Meanwhile, a net outflow in the net errors and omissions account was registered.

A net inflow in the capital and financial account, inclusive of errors and omissions, equivalent to 14.0 per cent of GDP, was recorded in the January-June period of 2006. This exceeded the current account deficit recorded during the same period. As a result, reserve assets increased further by 1.6 per cent of GDP, being underpinned by the privatization proceeds from the sale of shares in Maltacom plc.

Indicative estimates show that the stock of foreign exchange reserves in 2005 remained high as confirmed by reserve adequacy ratios. The stock of foreign exchange reserves continued to exceed the monetary base and covered more than 6 months of imports.

## Financial Developments

The first nine months of 2006 were characterized by the ongoing implementation of Government's fiscal consolidation programme. In fact, the structural deficit declined from Lm85.4 million to Lm72.9 million. This decline was underpinned by higher tax revenue and lower capital expenditure which more than outweighed the increase in recurrent expenditure.

During the first nine months of 2006, Government recurrent revenue increased by Lm22.9 million to Lm629.9 million. Total Government expenditure increased by Lm10.4 million to reach Lm702.7 million. This expansion was attributable to higher recurrent expenditure and interest on public debt which more than offset reductions in capital outlays. Recurrent expenditure increased by Lm16.7 million to Lm560.1 million. Over 60 per cent of this increase relates to higher payments in Programmes and Initiatives. Capital expenditure decreased by Lm13.4 million to Lm79.7 million while interest on public debt increased by Lm7.1 million to Lm62.9 million. The structural balance was financed through the proceeds from the sale of Government's stake in Maltacom plc such that the public sector borrowing requirement for the first nine months of 2006 was negligible.

Broad money (M3) continued to expand during the first eight months of 2006. The acceleration in monetary growth was mainly attributable to acceleration in both domestic credit and net foreign assets, which more than offset the more rapid growth of the other counterparts of M3.

During the first few months of 2006, as a result of a narrowing in the interest rate differential in favour of the Maltese lira caused by rising Euro interest rates, the Central Bank of Malta tightened its monetary policy stance. In fact, the Central Bank of Malta raised the central intervention rate by 25 basis points to 3.50 per cent in May 2006.

## International Scene

After registering a slowdown in world GDP growth in the year 2005, despite the impact of higher oil prices, natural disasters and the ongoing tightening of monetary policies, the economy is projected to continue to grow by around 4.6 per cent in 2006. Following the better-than-expected outcome from the US and China in the beginning of 2006, the Interim Forecast published by the European Commission has revised upwards World GDP growth to 5.5 per cent, an increase of 0.9 percentage points. Whereas this growth momentum is expected to be sustained in much of Asia, in the US, economic activity is expected to moderate

due to the earlier monetary tightening, higher oil prices as well as the slowdown in the housing market impacting on domestic demand.

Even though oil prices rose, both the Euro area and the EU performed well above potential, with real GDP accelerating in the first and second quarters, thus reflecting an increase in the resilience of the European economies and a greater ability to rely on domestic demand. The expansion in the Euro area was mainly the result of higher domestic demand along with investment in equipment and construction, which is foreseen to increase. However, one notes the boost in investment activity in Germany, in light of the expected increase of the VAT rate in 2007. The gradual recovery of consumer confidence since the summer of 2005 and an improved labour market situation have stimulated the expansion of private consumption. Overall, economic growth in the Euro area is expected to improve by more than expected and according to the Interim Forecast reach 2.5 per cent compared to the 2.1 per cent in the Spring Forecast.

Both the USA and China are expected to register a marginal fall in GDP in 2006 compared to 2005. As forecasted by the European Commission in its Spring forecast, China's GDP is forecasted to fall slightly by 0.4 percentage points whilst the US is expected to grow by 3.2 per cent compared to 3.5 per cent registered in 2005.

### World GDP, Volume

annual percentage change

Table 1.1

	2003	2004	2005	2006*
<b>World</b>	3.9	5.1	4.6	4.6
Industrialised Countries	2.0	3.3	2.7	2.9
EU 25	1.2	2.4	1.6	2.3
Euro Area	0.7	2.0	1.3	2.1
Germany	-0.2	1.6	0.9	1.7
France	0.8	2.3	1.4	1.9
Italy	—	1.1	—	1.3
United Kingdom	2.5	3.1	1.8	2.4
United States	2.7	4.2	3.5	3.2
Japan	1.8	2.3	2.7	2.8
Canada	2.0	2.9	2.9	3.2
Others	6.2	7.3	6.9	6.7
Russia	7.3	7.2	6.4	6.1
China	10.0	10.1	9.9	9.5

\*Projections

Source: European Commission

### Inflation: Harmonised Index of Consumer Prices\*

percentage change on preceeding year

Table 1.2

	2003	2004	2005	2006**
EU 25	1.9	2.1	2.2	2.1
Euro Area	2.1	2.1	2.2	2.2
Germany	1.0	1.8	1.9	1.7
France	2.2	2.3	1.9	1.9
Italy	2.8	2.3	2.2	2.2
United Kingdom	1.4	1.3	2.1	2.0
United States	2.3	2.7	3.4	2.9
Japan	-0.3	—	-0.3	0.7

\*National index if not available

\*\*Projections

Source: European Commission

### Unemployment Rate\*

per cent of labour force

Table 1.3

	2003	2004	2005	2006**
EU 25	9.0	9.1	8.7	8.5
Euro Area	8.7	8.9	8.6	8.4
Germany	9.0	9.5	9.5	9.4
France	9.5	9.6	9.5	9.4
Italy	8.4	8.0	7.7	7.7
United Kingdom	4.9	4.7	4.7	5.0
USA	6.0	5.5	5.1	4.8
Japan	5.3	4.7	4.4	4.3

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

\*\*Projections

Source: European Commission



**Current Account Balance**  
per cent of GDP

Table 1.4

	2003	2004	2005	2006*
EU 25	0.1	—	-0.3	-0.9
Euro Area	0.4	0.5	0.1	-0.5
Germany	2.1	3.7	3.9	3.3
France	0.2	-0.7	-1.2	-1.7
Italy	-0.9	-0.5	-1.1	-1.5
United Kingdom	-1.4	-2.0	-2.6	-3.3
USA	-4.6	-5.6	-6.3	-7.0
Japan	3.5	4.0	3.6	3.6

\*Projections

Source: European Commission

**Exports of Goods, Volume**  
percentage change on preceeding year

Table 1.5

	2003	2004	2005	2006*
EU 25	1.7	6.9	4.7	5.9
Euro Area	1.1	6.5	3.8	5.4
Germany	2.4	9.3	6.3	6.6
France	-1.7	3.1	3.2	5.1
Italy	-2.4	3.0	0.3	3.5
United Kingdom	1.2	4.6	5.6	5.9
USA	1.8	8.4	6.9	9.2
Japan	9.0	13.9	6.9	10.0

\*Projections

Source: European Commission

### Imports of Goods, Volume

percentage change on preceeding year

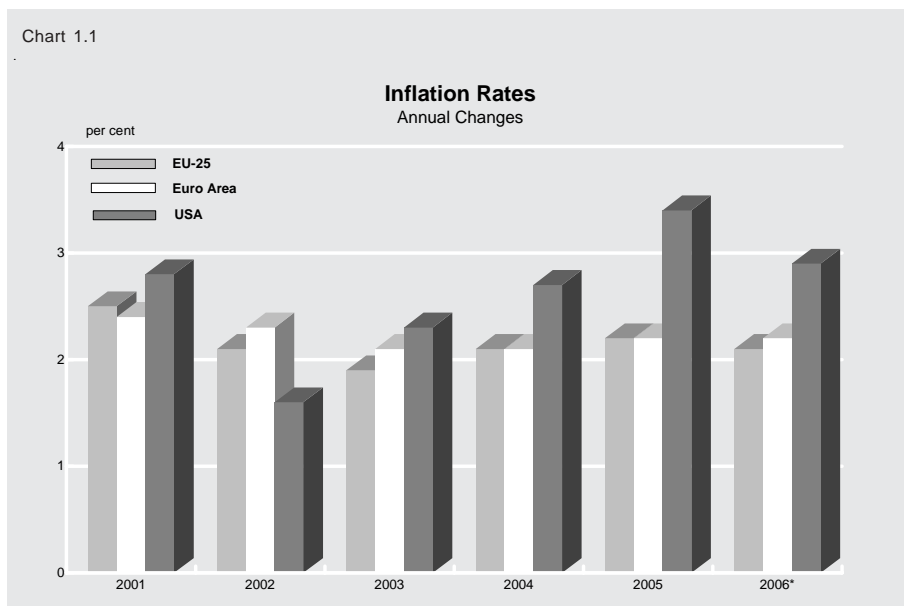
Table 1.6

	2003	2004	2005	2006*
EU 25	3.2	7.3	5.2	6.2
Euro Area	3.0	6.7	4.8	6.0
Germany	5.1	7.0	5.3	7.7
France	0.7	6.9	6.6	6.0
Italy	0.8	2.5	1.4	3.4
United Kingdom	1.8	6.7	5.3	5.2
USA	4.6	10.7	6.4	8.1
Japan	3.9	8.5	6.2	8.1

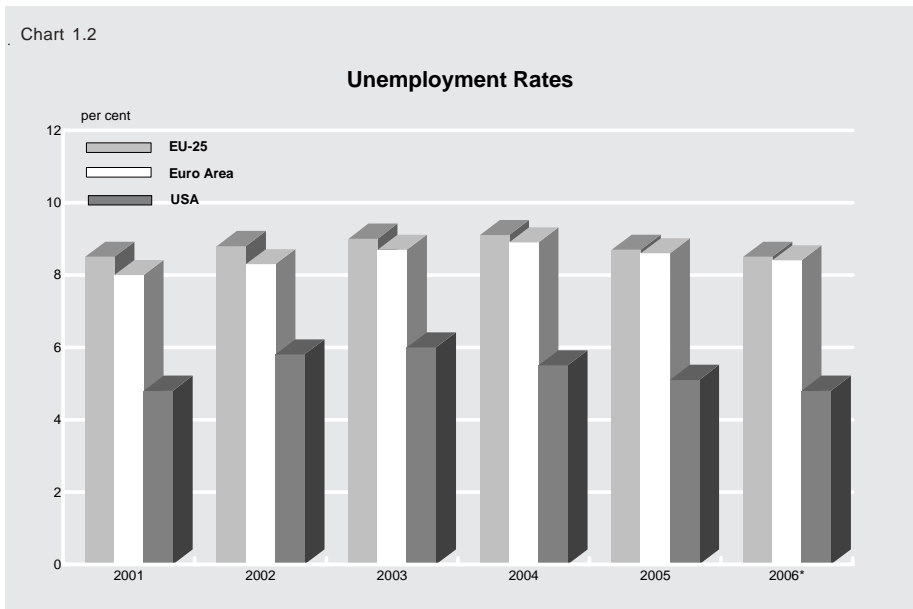
\*Projections

Source: European Commission

Chart 1.1



\*Projections



\*Projections

On the other hand, Japan has achieved a sustained rate of growth as the economy has largely overcome its post-bubble problems. Real GDP is projected to increase slightly to 2.8 per cent in 2006 as compared to 2.7 per cent in 2005. Such economic expansion has been achieved as a result of strong domestic demand underpinned by rising corporate profits and a reversal of the declining trend in employment and wages.

Relevant macroeconomic indicators as represented in the European Commission Spring Forecast of 2006 are displayed in Tables 1.1 to 1.6 and Charts 1.1 and 1.2.

## Outlook for Industrialised Economies

Growth in industrialised countries is expected to gain momentum, given that growth in Japan, the EU 25 and the Euro area has improved.

The economic recovery for the European economies now appears more broad-based, with domestic demand gaining momentum. Headline inflation in the Euro area, mainly as a result of higher energy prices, was 2.2 percent in 2005. HICP inflation for the year as a whole has remained above 2 per cent in the Euro area and the EU, as a result of the higher energy prices driven by the continued

sharp increase in oil prices. As regards the EU 25 and the Euro area's current accounts, following the surpluses recorded in 2004, in the EU a deficit of 0.3 per cent of GDP in 2005 was recorded whilst a surplus of 0.1 per cent of GDP was registered for the Euro area. As a result of higher oil prices larger deficits are expected in 2006, reaching a negative of 0.9 per cent of GDP for the EU 25 and a negative 0.5 per cent of GDP for the Euro area. In line with the upward revisions made to projected growth for 2006, labour markets have shown a marked improvement in the period under review. Furthermore, improvements in labour productivity were recorded for the first half of 2006. Growth in exports for both the Euro area and the EU was lower than the rate of growth of imports for 2005 and 2006. For the EU 25 exports are expected to register an increase of 1.2 percentage points from last year's growth whereas imports are expected to increase by a further 1.0 percentage point. Consequently, exports from the Euro area are expected to increase by 5.4 per cent whilst imports in the Euro area are expected to increase by 6.0 per cent in 2006. The current accounts for both the EU 25 and the Euro area are expected to deteriorate in 2006.

In Germany, after an already robust first quarter, in the second quarter of 2006 the growth rate of real GDP reached its highest level in five years at 0.9 per cent. For the year as a whole, as projected by the Interim Forecast of the European Commission, real GDP growth is expected to average 2.2 per cent, a 0.5 percentage point increase than that expected in the European Commission's Spring forecast. In 2005 net exports were the main drivers of growth given a sharp deceleration in imports, whereas recently domestic demand picked up, particularly machinery and equipment investment, in anticipation of the planned increase in the standard VAT rate by 3.0 percentage points in January 2007. Inflation in Germany, mainly driven by energy prices and non-processed food prices, is expected to fall slightly in the third and fourth quarter, reaching 1.7 per cent in 2006. In addition, some enterprises may have already started to put up prices in anticipation of the planned increase in VAT. Unemployment is projected to start falling by the end of the year, favoured by low wage growth and strong export performance whereas imports are expected to increase by 7.7 per cent hence leading to a deterioration in the current account of 0.6 percentage points from the 2005 rate.

The expansion of economic activity in France continued in the first half of 2006, and in particular in the second quarter. Real GDP growth is projected to reach 2.3 per cent as revised in the Interim Forecast compared with 1.9 per cent as projected in the Spring Forecast. A lower unemployment rate and an increase in private consumption have been the main contributors to economic growth. Moreover, exports are on an upward trend as a result of the economic recovery in Europe, whereas imports are expected to increase by 6 per cent, a decline of

0.6 percentage points. Nevertheless, the current account deficit is still expected to widen from a negative of 1.2 per cent of GDP to a negative of 1.7 per cent as projected in the Commission's Spring Forecast. Wage moderation and the hindering of fully passing the commodity price increases on to final customers resulted in the inflation rate for 2006 being expected at 1.9 per cent.

The economic activity in Italy is likely to expand further in 2006 where economic growth, as reported in the Interim Forecast, is expected to be 1.7 per cent – an increase of 0.4 percentage points above the Spring Forecast – as a result of higher business confidence for both the manufacturing and services sector. Domestic demand is expected to be the main driver of real GDP growth driven by higher private consumption and higher gross fixed capital formation. Given also the stronger demand from the Euro area, exports are expected to increase by 3.5 per cent in 2006 compared to 0.3 per cent in the preceding year. However, the recovery in exports is not expected to be sufficient to keep up with the pace of expansion in the corresponding export markets, resulting in further losses in market share. Accompanying this is an increase in imports of 3.4 per cent leading to current account deficit of 1.5 per cent of GDP. The Spring Forecast for annual HICP inflation has been revised marginally upwards to 2.3 per cent in 2006 as a result of acceleration in industrial producer prices of final consumption goods mainly due to high oil prices. Labour productivity is expected to recover moderately, which should have a positive impact on the competitive position of the Italian economy. Unemployment is expected to remain stable for the year 2006.

UK real GDP growth has regained momentum and economic growth is expected to reach 2.7 per cent in 2006 which is an upward revision of 0.3 percentage points from the Spring Forecast. Robust consumer expenditure, an increase in retail sales volumes, business investment and trade volumes - even though the external sector is recorded as making a negative net contribution to economic growth - were the main contributors to growth. HICP inflation is projected at 2.3 per cent for 2006, 0.3 percentage points higher than the Spring Forecast. The persistently high oil prices and the foreseen increases in higher education costs may be the cause of higher inflation. Nevertheless, inflationary pressures from wage settlements have so far remained subdued, as a result of the softening of the labour market registered in the first half of the year. Unemployment is expected to increase by 0.3 percentage points between 2005 and 2006. Exports from the UK are expected to increase by 5.9 per cent whereas imports are expected to increase by 5.2 per cent. The current account deficit in 2006 is expected to reach 3.3 per cent of GDP.

Growth in the US has eased slightly, even though it is projected to remain high supported by solid productivity growth, favourable financial market conditions and rising house prices. Furthermore, the strong growth momentum has been supported by the activity generated in re-building following hurricane Katrina. The current account deficit is projected to widen to 7.0 per cent of GDP in 2006 mainly due to a sharply higher energy import bill. Inflation is expected to ease slightly to 2.9 per cent in contrast to the 3.4 per cent registered last year. Unemployment is expected to fall to an annual average of 4.8 per cent in 2006 as employment is expected to continue to grow moderately.

Recent indicators suggest that the Japanese economy should continue to expand steadily in the coming quarters. As a result, the unemployment rate in Japan is projected to fall by 0.1 percentage points to 4.3 per cent. This should contribute towards a definitive end to deflation, with the underlying inflation rate approaching 0.7 per cent in 2006. The strength of exports, mainly to the rest of Asia, should help offset the expected acceleration in imports hence supporting GDP growth. Japan's current account surplus is forecasted to remain stable in 2006 at 3.6 per cent. Overall, Japanese GDP growth is forecasted to reach 2.8 per cent in 2006.

Russia and China, although expected to enjoy high growth rates, are both expected to experience a moderate slow down. Russia's growth rate is expected to decline slightly from 6.4 per cent to 6.1 per cent in 2006 whilst GDP growth in China is projected to reach 9.5 per cent in 2006, down from 9.9 per cent recorded a year earlier.

## Commodity Markets

Oil prices have been volatile in the beginning of 2006, and since mid-April, the Brent crude spot price has been fluctuating between \$68 to \$75 per barrel. Such trends in oil prices reflect a number of developments such as the geopolitical concern about supply security against the backdrop of the growing political unrest in Nigeria, the continuing inability of Iraq to bring its oil exports back to pre-war levels and the risk of cuts in oil supplies related to the situation in Iran. There are also concerns that oil-producing countries are not investing enough in exploration and extraction activities. However, over August, oil prices have registered a considerable decline by around 20 per cent over the previous two months. Nevertheless, as reported in the IMF World Economic Outlook, futures markets suggest that oil prices would remain in the \$70-\$75 range in 2006-07, with short-term fluctuations driven by political developments.

Global oil consumption increased by 0.5 million barrels per day (0.6 per cent) in the first half of 2006 relative to the same period in 2005. Consumption in the United States fell somewhat over this period, in part owing to one-off factors, but still was higher than expected, with gasoline consumption recovering strongly in the second quarter of 2006. Oil consumption growth remained high in China and in the Middle East, while it fell slightly in Europe and Japan.

The IMF non-fuel commodity index rose by 19 per cent in dollar terms between January and July 2006, reaching its highest level in real terms since 1990. Metal prices increased by 60-70 per cent over a six week period through early May, then dropped by 25 per cent by end of June mainly reflecting the strength of copper, zinc, and nickel. Metal prices are expected to fall further in the second half of 2006, but are still projected to show a 25 per cent increase in 2006 relative to 2005. While demand remains strong, supply concerns have also contributed to high and volatile prices including deteriorating ore quality, production disruptions and labour disputes. The food price index rose by 11 per cent in the first 6 months of 2006 mainly due to unfavourable weather conditions in early 2006 accompanied by a high demand.

In the first half of 2006, semiconductor demand was stronger than anticipated, mainly in the consumer electronic product sectors. The Semiconductor Industry Association has revised its forecast for growth in worldwide semiconductor sales upwards, to 10 per cent in 2006, and expects sales growth to continue at around this pace in 2007 before slowing down in early 2008. Total worldwide sales revenues approximately registered a 9 percent year-on-year increase, particularly in the Americas and the Asia-Pacific regions. This reflected surging volume growth underpinned by a rise in prices and the number of units sold.

## **Future Economic Prospects**

The forecast for global growth of the IMF World Economic Outlook has been marked up to around 5 per cent in 2006 and around 4 per cent in 2007, both 0.25 percentage points higher than that recorded in the April 2006 World Economic Outlook.

The most notable risks refer to inflationary pressures that could intensify and require a tightening of monetary policy. Furthermore, oil prices could increase further and activity in the U.S. housing market could dampen more rapidly than expected, stimulating a more abrupt slowdown of the US economy.

## Projections

Table 1.7

	2005	2006*	2007*
Real GDP (% change)			
EU 25	1.6	2.3	2.2
United States	3.5	3.2	2.7
Japan	2.7	2.8	2.4
Inflation (% change)			
EU 25	2.2	2.1	2.2
United States	3.4	2.9	1.6
Japan	-0.3	0.7	1.0
Unemployment Rate (% of labour force)			
EU 25	8.7	8.5	8.2
United States	5.1	4.8	5.1
Japan	4.4	4.3	4.3

\*Projections

Source: European Commission

As portrayed in Table 1.7, the European Commission Spring Economic Forecast projects growth in the EU 25 to accelerate this year, but to decline again slightly in 2007 reaching 2.2 per cent, 0.1 percentage points below that forecasted for 2006. Consequently, the unemployment rate is expected to decline to 8.5 per cent in 2006 down from 8.7 per cent in the previous year and to decline further to 8.2 per cent in 2007. As a result of weak domestic price pressures, inflation is expected to fall to 2.1 per cent this year and reach 2.2 per cent in 2007.

Real GDP growth in the United States is expected to slow down to 2.7 per cent in 2007 down from 3.2 per cent forecasted for 2006. Growth in consumer spending is projected to be more subdued, hence resulting in a lower inflation rate of 1.6 per cent next year down from 2.9 per cent expected this year. Moreover, the unemployment rate in 2007 is expected to reach again the 2005 rate of 5.1 percent up from 4.8 percent this year.

Despite the planned fiscal consolidation, Japan's economy is projected to grow at a rate of 2.4 per cent in 2007, with the large carryover from the final quarter of 2005 boosting the growth rate in 2006 close to 3 per cent. Notwithstanding improving labour market conditions unemployment in Japan is forecasted to remain at the same level of this year while the inflation rate is expected at 1.0



per cent next year. Unit labour costs are expected to continue falling through 2006, limiting the extent of the pick-up in inflation.



## 2. Economic Growth

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## 2. Economic Growth

The improvement in GDP growth registered during 2005 was sustained further during the first six months of 2006. Indeed, the Maltese economy expanded in nominal terms by 6.8 per cent and by 2.6 per cent in real terms during this period. All components of GDP increased in real terms apart from exports of goods and services which registered a decline during the period under review. This was conditioned by price developments in export prices which primarily concerned the electronics sub-sector of the economy.

In line with recent Economic Surveys, national accounts data presented in this Chapter are based on the European System of Accounts (ESA95) methodology. This internationally compatible accounting framework provides for a systematic and detailed description of the total economy and its components while facilitating an analytical comparison with other economies. It is pertinent to note that data in this publication, is not directly comparable to data published in previous Economic Surveys, in view of the fact that a change in methodology has taken place. Financial Intermediation Services Indirectly Measured (FISIM) is now being allocated to user sectors/industries, and is not anymore recorded entirely as intermediate consumption, but can also be final consumption and exports.

### Box 2.1

#### **GDP Flash Estimate for January-September 2006**

Estimates for GDP and its expenditure components, at current and constant prices for the first nine months of 2006 have been compiled by NSO. Such estimates are based on data for the first six months of 2006, estimates from the domestic and external sectors for part of the third quarter and statistical imputations. It is pertinent to point out that the methodology used for the derivation of flash estimates for the first nine months of the year are not comparable to that used in the normal production of GDP data.

These estimates indicate that GDP growth stood at 2.6 per cent at constant prices, and 6.1 per cent at current market prices during the January-September 2006 period. Underpinning this estimated GDP growth rate are increases in private consumption coupled with growth in gross fixed capital formation. On the other hand, these estimates indicate that for the first nine months of the year, net exports are contributing negatively to overall GDP growth. This occurred since although exports and imports are estimated to have both increased in value and volume terms, the overall growth in imports was substantially higher than the growth in exports.

The National Statistics Office (NSO) estimates Gross Domestic Product at current market prices from the production side, involving the aggregation of the output of various productive sectors net of the cost of intermediate inputs. The production side estimate is reconciled with estimates of expenditures on output produced.

## National Expenditure

During the first six months of 2006, nominal GDP at market prices advanced by 6.8 per cent to reach Lm987.7 million. In real terms, GDP increased by 2.6 per cent, to Lm858.9 million. Real GDP per capita increased to Lm2,113.3 from Lm2,075.0 recorded for the January-June 2005 period. Table 2.1 provides data on GDP by category of expenditure at current and constant market prices, whilst the relevant percentage changes are presented in Table 2.2. Chart 2.1 illustrates real GDP per capita covering the period 2002 to June 2006.

	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
<b>At Current Market Prices</b>					
Private Final Consumption Expenditure <sup>(1)</sup>	1,191.7	1,234.2	1,301.1	622.0	651.6
General Government Final					
Consumption Expenditure	398.3	416.1	425.4	211.5	223.1
Gross Fixed Capital Formation	365.9	372.5	406.5	195.7	210.1
Changes in Inventories	-33.8	-46.4	5.8	-5.5	41.4
Acquisitions less Disposals of Valuables	1.5	-2.2	-1.7	-0.8	3.0
Exports of Goods and Services	1,461.3	1,467.9	1,406.7	654.8	698.0
Total Final Expenditure	3,384.9	3,442.1	3,543.8	1,677.7	1,827.2
Less Imports of Goods and Services	1,526.0	1,580.9	1,602.7	752.3	839.5
Gross Domestic Product	1,858.8	1,861.3	1,941.1	925.2	987.7
<b>At Constant 2000 Prices</b>					
Private Final Consumption Expenditure <sup>(1)</sup>	1,133.7	1,146.2	1,178.6	566.7	579.5
General Government Final					
Consumption Expenditure	350.8	355.8	357.9	179.1	184.4
Gross Fixed Capital Formation	338.1	340.9	366.3	176.3	183.0
Changes in Inventories	-31.4	-42.0	5.3	-5.0	36.6
Acquisitions less Disposals of Valuables	1.4	-2.0	-1.5	-0.8	2.7
Exports of Goods and Services	1,576.1	1,640.8	1,539.3	734.4	720.0
Total Final Expenditure	3,368.7	3,439.7	3,445.9	1,650.7	1,706.2
Less Imports of Goods and Services	1,665.3	1,736.2	1,704.9	814.0	847.2
Gross Domestic Product	1,703.5	1,703.5	1,741.0	836.8	858.9

<sup>(1)</sup>Includes NPISH final consumption expenditure

Source: National Statistics Office

**GDP by Category of Expenditure**  
Percentage Changes

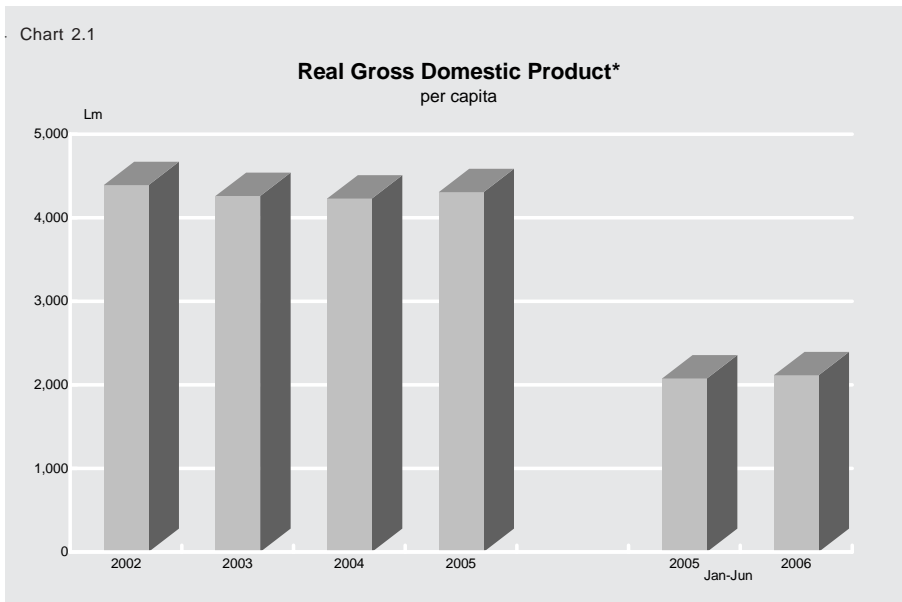
Table 2.2

	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
<b>At Current Market Prices</b>					
Private Final Consumption Expenditure <sup>(1)</sup>	3.9	3.6	5.4	5.5	4.8
General Government Final					
Consumption Expenditure	5.3	4.5	2.2	0.7	5.5
Gross Fixed Capital Formation	29.7	1.8	9.1	8.7	7.4
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-3.6	0.5	-4.2	-6.8	6.6
Total Final Expenditure	1.9	1.7	3.0	1.5	8.9
Less Imports of Goods and Services	2.5	3.6	1.4	0.1	11.6
Gross Domestic Product	1.5	0.1	4.3	2.6	6.8
<b>At Constant 2000 Prices</b>					
Private Final Consumption Expenditure <sup>(1)</sup>	3.3	1.1	2.8	2.8	2.3
General Government Final					
Consumption Expenditure	3.0	1.4	0.6	-0.2	3.0
Gross Fixed Capital Formation	29.0	0.8	7.5	7.0	3.8
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-2.4	4.1	-6.2	-6.1	-2.0
Total Final Expenditure	1.7	2.1	0.2	0.0	3.4
Less Imports of Goods and Services	6.2	4.3	-1.8	-1.3	4.1
Gross Domestic Product	-2.4	—	2.2	1.3	2.6

<sup>(1)</sup>Includes NPISH final consumption expenditure

Source: National Statistics Office

Domestic demand conditions remained a major contributor to economic growth in recent years. Following the subdued performance in 2003 and 2004, a positive rate of growth in real GDP of 2.2 per cent was registered for 2005. Indeed, developments in the first six months of 2006 show that the Maltese economy has managed to sustain the economic recovery experienced in 2005. In fact, during the first quarter of 2006 real GDP increased by 3.1 per cent, whilst an increase of 2.2 per cent was recorded for the second quarter of the year.



\*Based on total population

## Private Final Consumption Expenditure

This category of expenditure comprises household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption expenditure. The latter is made up of expenditure by non-profit institutions such as universities, charities and trade unions. During the first six months of 2006, private final consumption expenditure advanced by 4.8 per cent in nominal terms and by 2.3 per cent in real terms, reflecting the increase in average consumer prices registered during the period under study. The increase registered in nominal consumption during the first six months of 2006 was lower than that recorded for the same period in 2005. The share of this component to GDP fell from 67.2 per cent to 66.0 per cent.

The increase recorded in private consumers' expenditure was broadly based among most of the components included in this category of expenditure. In particular, significant increases in nominal terms were registered in expenditure outlays on health, housing, water, electricity, gas and other fuels and on miscellaneous goods and services. Minor decreases in expenditure were recorded in few categories, mainly in the clothing and footwear category.

Private consumers' expenditure also includes expenditure by Maltese tourists abroad, and during the first six months of 2006 an increase of 6.2 per cent was



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

Table 2.3

	2003	2004	2005	2005 Jan/June	2006 Jan/June
<b>Per Capita (Lm)</b>					
GNI*	4,636	4,577	4,727	2,262	2,425
Private Final Consumption Expenditure*	2,980	3,065	3,218	1,542	1,603
Expenditure by Tourists	243.4	230.3	224.1	209.3	215.2
<b>Per Capita (% change)</b>					
GNI*	—	-1.3	3.3	2.5	7.2
Private Final Consumption Expenditure*	3.3	2.8	5.0	4.8	3.9
Expenditure by Tourists	4.6	-5.4	-2.7	-0.9	2.8

\*Based on total population

Source: National Statistics Office

recorded in this category. On the other hand, expenditure by tourists in Malta maintained practically the same levels. Since this category of expenditure is included in exports of goods and services, spending by tourists in Malta is deducted from the computation of private final consumption expenditure, so as to avoid the problem of double counting in the computation of the GDP.

Table 2.3 provides information in per capita terms on Gross National Income (GNI), private final consumption expenditure and expenditure by tourists in nominal terms. Improvements of 3.9 per cent and of 7.2 per cent were recorded during the first six months of 2006 in private consumption expenditure per head and GNI per capita respectively. Furthermore, tourist expenditure per capita increased by 2.8 per cent.

## General Government Final Consumption Expenditure

During the first six months of 2006, final consumption expenditure by general Government increased by 5.5 per cent in nominal terms, to Lm223.1 million. In real terms, this component of expenditure advanced by 3.0 per cent. In nominal terms, increases were recorded in all categories that comprise this item of expenditure. In particular, the increase in expenditure related to health and social protection is notable.

It is important to highlight that, for GDP purposes, general Government final consumption expenditure excludes outlays which finance transfer payments, such as National Insurance benefits, subsidies and grants. This is due to the fact that such items of expenditure do not reflect the production of goods and services, but merely the redistribution of funds between different sectors of the economy.

## Gross Capital Formation

In line with ESA 95 methodology, this component of expenditure comprises gross fixed capital expenditure, changes in inventories and the acquisitions less disposals of valuables. Gross fixed capital formation, the main item within gross capital formation, registered an increase of 7.4 per cent in nominal terms during the first six months of 2006. In real terms, this reflects an increase of 3.8 per cent. Growth rates for gross fixed capital formation have fluctuated significantly over the recent years, primarily due to significant one-off exceptional transactions which materialized during particular years. Changes in inventories and the acquisitions less disposal of assets, mainly cover the change in value of inventories over the period under review and goods which are not used in the production process and which are generally held as a store of value. During the January-June 2006 period, inventory changes stood at Lm41.4 million in nominal terms.

Data on gross fixed capital formation at current market prices and constant market prices are presented in Table 2.4. The ratio of investment to GDP

	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
<b>At Current Market Prices</b>					
Gross Fixed Capital Formation (Lm million)	365.9	372.5	406.5	195.7	210.1
% change	29.7	1.8	9.1	8.7	7.4
GDP (Lm million)	1,858.8	1,861.3	1,941.1	925.2	987.7
(GFCF/GDP) %	19.7	20.0	20.9	21.2	21.3
<b>At Constant 2000 Prices</b>					
Gross Fixed Capital Formation (Lm million)	338.1	340.9	366.3	176.3	183.0
% change	29.0	0.8	7.5	7.0	3.8
GDP (Lm million)	1,703.5	1,703.5	1,741.0	836.8	858.9
(GFCF/GDP) %	19.8	20.0	21.0	21.1	21.3

Source: National Statistics Office

practically maintained the same rate as in the previous January-June comparable period, amounting to 21.3 per cent of GDP in real terms.

Gross fixed capital formation is further subdivided into three main categories: metal products and machinery, transport equipment category, construction category and other products category. Marginal increases were recorded in the construction component whilst significant increases were recorded in the two other components of gross fixed capital formation. The latter includes the importation of sea-vessels and cranes during the period under review. A further subdivision of gross fixed capital formation shows that investment undertaken by the private sector during the January-June period, increased by 11.4 per cent in nominal terms. On the other hand, a decrease of 5.2 per cent was recorded in investment undertaken by Government. In 2005, Government capital expenditure included substantial outlays on road projects financed by the Fifth Italian Protocol.

## Foreign Demand and Supply

The external sector is of paramount importance to the performance of a small open economy like Malta. In recent years, the Maltese economy has been subjected to a number of negative supply shocks mainly in the form of significant fluctuations in the price of oil, increasing international competitive pressure faced by a number of industries as well as volatility in market conditions of a major export category.

Following the decline recorded in exports of goods and services in 2005, during the January-June 2006 period an increase of 6.6 per cent in nominal terms was registered. Exports of goods and services in nominal terms reached Lm698.0 million. The increase recorded in exports of goods and services primarily results from increases recorded in exports of goods which more than offset the decline recorded in exports of services. The positive performance in the exports of goods reflects the recovery in the semiconductors industry, higher exports of food and the positive performance of the chemicals industry. On the other hand, exports of services registered declines in receipts of transport related services and other services, whilst tourism earnings remained relatively stable. Developments in export performance reflect price dynamics in the sector.

Nominal imports of goods and services registered an increase of 11.6 per cent during the January-June 2006 period to reach Lm839.5 million. In real terms, imports of goods and services increased by 4.1 per cent. The nominal increase in imports of goods and services was underpinned by increases in imports of

goods which more than offset the marginal fall in imports of services. Increases were recorded in imports of industrial supplies, capital goods and consumer goods reflecting increased export activity, growth in investment as well as in private consumption expenditure. Furthermore, the increase in the fuel import bill also contributed to the overall increase in imports of goods. The marginal fall recorded in imports of services reflects lower payments on other services which more than offset higher payments by Maltese tourists abroad. Payments on transportation services remained practically unchanged.

The increase recorded in imports of goods and services for the January-June 2006 period more than offset the improvements registered in exports of goods and services in nominal terms, thus contributing towards a further increase in the current account deficit, reaching Lm123.4 million, for the January-June 2006 period.

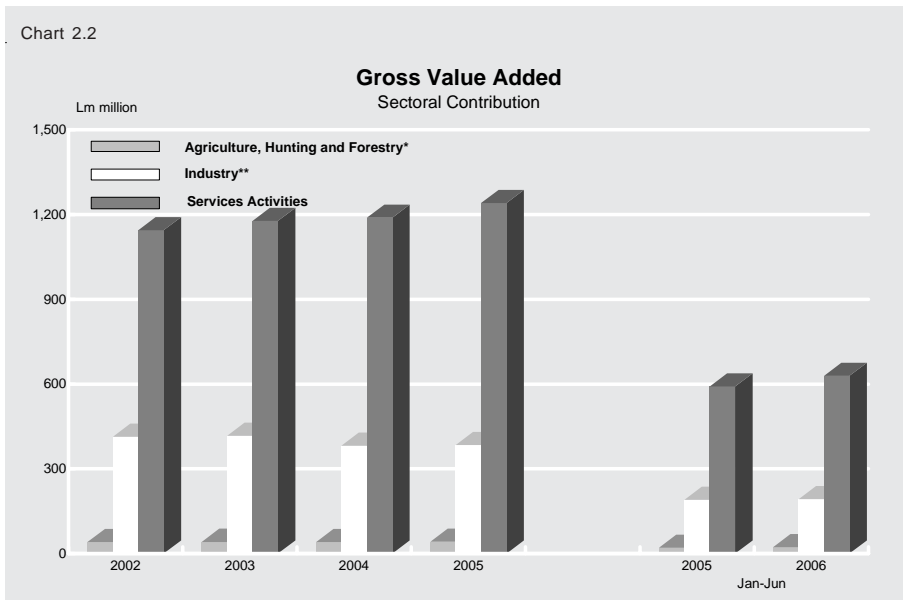
## **Sectoral Contribution to Gross Value Added**

Gross Value Added (GVA) is defined as the value generated by units that are engaged in a production activity and is equal to the excess of output over intermediate consumption. Intermediate consumption consists of the value of the goods and services consumed as inputs in the production process, excluding the consumption of fixed assets. Given that output is valued at basic prices, gross value added does not include taxes less subsidies on products, while intermediate consumption is measured at purchaser's prices.

In the first six months of the year, GVA at basic prices increased by 5.3 per cent to Lm844.3 million. Economic growth as measured by GVA at basic prices was mainly attributable to financial intermediation and other community, social and personal service activities. The growth registered in these sectors, as well as increases in other sectors offset declines registered in agriculture, hunting and forestry, mining and quarrying and hotels and restaurants.

Chart 2.2 outlines the sectoral contribution of agriculture, hunting and forestry, industry and services activities to GVA at basic prices. In recent years the Maltese economy has become more service oriented.

The share of agriculture, hunting and forestry, which also includes fishing stood at 2.7 per cent, marginally higher than that recorded in recent years. This improvement is due to the higher value added registered in the fishing sector. Meanwhile a redistribution of sectoral contribution occurred between industry



\*Includes fishing and operation of fish hatcheries and fish farms

\*\*Includes energy and construction

and service activities. In the period under review, the share of industry which comprises mining and quarrying, manufacturing, electricity, gas and water supply and construction, stood at 22.8 per cent, reflecting a decrease of 0.9 percentage points compared to the first two quarters of 2005. The services sector generated 74.5 per cent of the entire GVA at basic prices in the six months up to June 2006, an increase of 0.8 percentage points over the comparable period in 2005. This is in line with the general trend of the past few years.

Table 2.5 exhibits the sectoral contribution to GVA at basic prices for the 2003 to June 2006 period. In the period January-June 2006, GVA at basic prices in agriculture, hunting and forestry, fishing and operation of fish hatcheries and fish farms increased by Lm2.1 million, to Lm22.7 million. Such a rise was underpinned by a considerable improvement registered in the fishing sector, where GVA more than doubled in the first half of 2006. It is pertinent to note that a significant increase in exports of tuna was registered this year. GVA at basic prices in the industry category increased by Lm2.5 million or 1.3 percent thereby reaching Lm192.7 million in the period under review. This improvement prevailed in all segments of industry, except for the mining and quarrying sector where a marginal drop in GVA was recorded.

## Sectoral Contribution to Gross Value Added

(at basic prices)

Table 2.5

Lm million

	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
Agriculture, Hunting and Forestry	36.9	36.2	37.6	18.8	18.7
Fishing	4.6	4.3	4.0	1.8	4.0
Mining and Quarrying	5.2	5.4	5.8	3.1	3.0
Manufacturing	314.0	281.6	286.0	138.6	139.9
Electricity, Gas and Water Supply	24.9	20.4	11.0	8.3	8.8
Construction	72.6	74.4	80.9	40.2	41.0
Wholesale and Retail Trade <sup>(1)</sup>	206.3	206.7	216.3	103.6	105.5
Hotels and Restaurants	109.2	107.0	98.5	39.1	37.3
Transport, Storage and Communication	156.0	161.1	169.9	78.5	81.6
Financial Intermediation	81.8	65.0	82.9	38.3	50.1
Real Estate, Renting and Business Activities	209.0	217.4	221.0	109.1	112.6
Public Administration and Defence <sup>(2)</sup>	126.3	129.5	130.6	65.0	67.8
Education	112.8	118.0	122.5	60.4	62.3
Health and Social Work	94.9	102.4	105.9	52.9	55.5
Other Community, Social and Personal Service Activities <sup>(3)</sup>	80.5	81.7	93.2	44.5	56.2
<b>Gross Value Added</b>	<b>1,635.3</b>	<b>1,611.1</b>	<b>1,666.0</b>	<b>802.1</b>	<b>844.3</b>

<sup>(1)</sup>Includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods

<sup>(2)</sup>Includes Compulsory Social Security

<sup>(3)</sup>Includes Private Households with Employed Persons

Source: National Statistics Office

In the first six months of 2006, gross value added generated in the services sector of the economy experienced a significant improvement. In fact, the GVA at basic prices in the services sector stood at Lm628.9 million, an increase of Lm37.5 million or 6.3 per cent over the comparable period in 2005. All sectors classified under the services category registered an improvement, except for the hotels and restaurants sector. The main increases were registered in the financial intermediation and other community, social and personal service activities sector. Moreover, the real estate, renting and business activities and transport, storage and communication sectors also exhibited considerable improvements.

During the period under review, GVA at basic prices in agriculture, hunting and forestry decreased marginally to Lm18.7 million. This decrease reflects a rise of Lm0.7 million in output that was more than offset by an increase of Lm0.8

million in intermediate consumption. The share of agriculture, hunting and forestry in total GVA stood at 2.2 per cent, slightly lower than the share prevailing in the January-June period in 2005.

In the first two quarters of 2006, a marginal increase in GVA at basic prices of Lm1.3 million was registered in manufacturing. Underlying such a change is the fact that output increased by a higher amount than intermediate consumption. In fact, output increased by Lm43.3 million whereas intermediate consumption increased by a lower Lm42.0 million. A considerable proportion of the increase in output and intermediate consumption pertain to the pick-up registered in the semi-conductors sub-sector. When taking a sub-sectoral focus, the results are diverse. The major improvements in GVA at basic prices occurred in the manufacture of chemicals and chemical products (Lm3.7 million), manufacture of radio, television and communication equipment and apparatus (Lm3.5 million), and manufacture of furniture (Lm0.5 million). On the other hand, declines were registered in the manufacture of food products and beverages (Lm0.8 million), manufacture of textiles (Lm0.9 million), tanning and dressing of leather (Lm0.5 million), manufacture of rubber and plastic products (Lm0.5 million), manufacture of machinery and equipment (Lm0.4 million), manufacture of electrical machinery and equipment (Lm1.4 million) and manufacture of medical equipment and optical instruments (Lm1.3 million). Consequently, during the first six months of 2006, the share of the manufacturing sector in total GVA stood at 16.6 per cent, a decrease of 0.7 percentage points.

An increase of Lm0.5 million was recorded in GVA at basic prices in the electricity, gas and water sector. Both output and intermediate consumption registered considerable increases in the first six months of 2006, namely Lm22.3 million and Lm21.8 million respectively. This was largely attributed to the continued increase in the international price of fuel. From a sub-sectoral perspective, in the electricity, gas, steam and water supply sub-sectors an increase of Lm0.3 million was registered, whilst an increase of Lm0.2 million occurred in the collection, purification and distribution of water sub-sectors. In the period being analysed, the share of the electricity, gas and water sector in total GVA at basic prices remained constant at around 1 per cent.

In the period January-June 2006, GVA at basic prices in the construction sector increased by Lm0.8 million, to Lm41.0 million. This rise corresponds to an increase of 2.0 per cent. Underlying this result in value added is an increase in output of Lm3.2 million which was partly offset by an increase of Lm2.5 million in intermediate consumption. The GVA generated in the construction sector

amounts to 4.9 per cent of total GVA, a marginally lower share than that recorded in the corresponding January-June period.

In the wholesale and retail trade sector (including repair of motor vehicles, motorcycles and personal and household goods) GVA at basic prices stood at Lm105.5 million in the first two quarters of 2006, representing an increase of Lm1.9 million or a 1.8 per cent rise. During the period under review, output increased by Lm4.2 million, whilst intermediate consumption increased by a lesser amount of Lm2.4 million. On a sub-sectoral level there was an increase in GVA at basic prices of Lm1.3 million in the wholesale trade and commission trade services (excluding motor vehicles and motor cycles) sub-sector and an increase of Lm0.5 million in the sub-sector encompassing the sale, maintenance and repair of motor vehicles and motor cycles (including the retail sale of automotive fuel). Despite this improvement, the overall share of the sector in total GVA at basic prices declined from 12.9 per cent to 12.5 per cent.

In the services sector a decline in GVA at basic prices occurred in the hotels and restaurants sector where value added declined by Lm1.8 million and stood at Lm37.3 million for the period under review. This decline is equivalent to a 4.6 per cent decrease on the comparable period in 2005. These developments, which reflect the overall performance of the tourism industry, were underpinned by an increase in intermediate consumption of Lm2.2 million which was only partially compensated by a Lm0.3 million rise in output. Consequently, the share of the sector in total GVA at basic prices declined by 0.5 percentage points and stood at 4.4 per cent.

The GVA at basic prices in the transport, storage and communication sector registered an increase of Lm3.1 million, or 3.9 per cent in the period January-June 2006. This improvement resulted from an increase in output (Lm8.5 million) which was higher than that recorded in intermediate consumption (Lm5.4 million). Notwithstanding the outlined gains, the share of the sector in total GVA at basic prices remained practically at the same level recorded in the previous period at 9.7 per cent. From a sub-sectoral perspective, one notes that the increase is segmented over all sub-sectors, with the major gains being registered in air transport services (Lm0.7 million), support and auxiliary transport services (including travel agency services) (Lm1.2 million) and postage and telecommunications services (Lm0.9 million).

The advance of Lm11.8 million in GVA in the financial intermediation sector accounted for around 28 per cent of the increase in total GVA. Indeed, this sector expanded by a significant 30.8 per cent during the first two quarters of



2006, to reach Lm50.1 million. The main contributor to this increase was higher profitability in the banking sub-sector. The major increases occurred in financial intermediation services (except insurance and pension funds services) sub-sector (Lm9.1 million), and the services auxiliary to financial intermediation sub-sector (Lm2.7 million). Following these developments, the share of value added generated by the financial intermediation sector out of total GVA at basic prices, increased by 1.1 percentage points such that the sector's overall contribution amounted to 5.9 per cent. Output in this sector increased by Lm16.1 million, whilst intermediate consumption was Lm4.3 million higher.

Output in the real estate, renting and business activities sector increased by Lm6.2 million, whilst intermediate consumption increased by Lm2.7 million, leading to an increase in GVA at basic prices of Lm3.5 million over the first six months of 2006. Sectoral growth was underpinned by the real estate services sub-sector (Lm1.4 million), other business services sub-sector (Lm2.2 million) and the computer and related services sub-sector (Lm0.3 million). On the other hand a marginal reduction of Lm0.3 million was recorded in the renting services of machinery and equipment sub-sector. The overall share of real estate, renting and business activities in total GVA at basic prices has declined by 0.3 per cent to 13.3 per cent during the first two quarters of 2006.

The public administration and defence (including compulsory social security) sector has recorded a rise of Lm2.8 million in GVA at basic prices which is equivalent to an increase of 4.3 per cent during January-June 2006. The improvement in the sector was brought about by a rise in intermediate consumption of Lm8.4 million whilst output increased by a higher Lm11.2 million. At 8.0 per cent, the contribution of this sector towards total GVA at basic prices remained practically unaltered.

In the educational sector the GVA at basic prices improved by 3.1 per cent to Lm62.3 million in the first six months of 2006. This improvement was due to higher sectoral output of Lm1.6 million and lower intermediate consumption of Lm0.3 million. The share of education in total GVA at basic prices has remained practically unchanged at 7.4 per cent.

The value added generated by the health and social work sector has increased by Lm2.6 million during the period under review, signaling a 4.9 per cent increase. Thus gross sector value added amounted to Lm55.5 million during the January-June 2006 period. The sectoral share in total GVA at basic prices remained unaltered during the period at 6.6 per cent. The improvement in sectoral GVA

at basic prices is explained by an output increase of Lm9.1 million which offset the expansion in intermediate consumption of Lm6.5 million.

The other community, social and personal service activities sector registered a significant expansion in value added increasing by Lm11.7 million to Lm56.2 million in the first two quarters of 2006 when compared with the same period of 2005. As a result the sector's share in total GVA at basic prices increased markedly by 1.2 percentage points to reach 6.7 per cent. During the period under review, in this sector, output increased by Lm32.2 million whereas intermediate consumption rose by Lm20.5 million. Analysing from a sub-sectoral dimension, it emerges that the significant improvement in this sector was almost entirely caused by the recreational, cultural and sporting activities sub-sector which expanded by Lm11.7 million, largely due to the fact that continued positive results were registered by international internet betting companies operating from Malta.

## Gross National Income

Gross National Income (GNI) is calculated by augmenting Gross Domestic Product at market prices by net compensation received from the rest of the world, subsidies less taxes from/to rest of the European Union and net property income from the rest of the world. Thus GNI represents the total primary income receivable by resident institutional units.

During the period under review, the GNI at market prices increased by Lm73.8 million, or 8.1 per cent, to Lm985.8 million. This increase was mainly caused by a higher level of GDP at market prices that was coupled with a lower outflow of net property income. Table 2.6 provides information on the components of GNI at market prices during the 2003-2006 period.

The compensation of employees advanced by Lm13.4 million or 3.0 per cent during the first six months of 2006, reflecting a combination of both higher average nominal incomes as well as an increase in the gainfully occupied population. Chart 2.3 illustrates the developments in compensation of employees and GDP at market prices over the period covering 2002 to 2006. During the period under review the contribution of employee compensation to GDP at market prices declined by 1.7 percentage points to 46.7 per cent.

The increase in employee compensation prevailed in all sectors of the economy except for agriculture, hunting and forestry, manufacturing and electricity, gas

## Gross National Income

Table 2.6

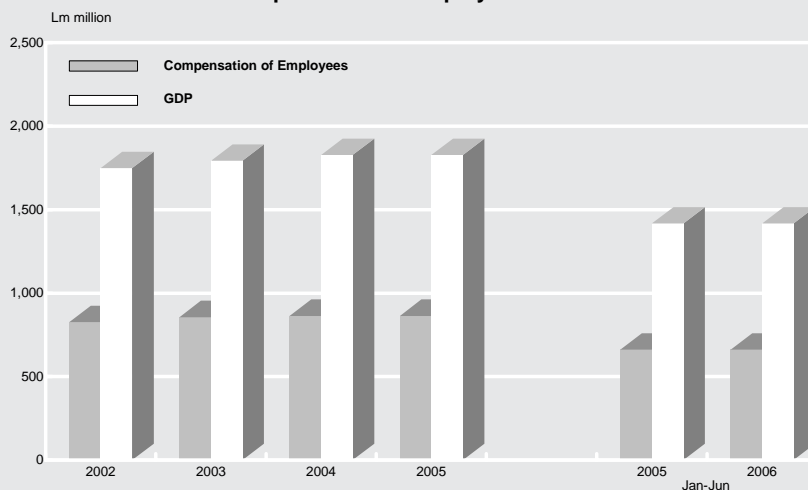
Lm million

	2003	2004	2005	2005 Jan/Jun	2006 Jan/Jun
Compensation of employees	873.7	881.8	899.8	447.6	461.0
Gross operating surplus and mixed income	783.2	737.1	775.8	362.2	387.9
Taxes on production and imports	242.9	279.2	305.4	136.6	155.2
Less Subsidies	41.0	36.9	39.9	21.1	16.4
<b>Gross Domestic Product at current market prices</b>	<b>1,858.8</b>	<b>1,861.2</b>	<b>1,941.1</b>	<b>925.2</b>	<b>987.7</b>
Net compensation of employees from the rest of the world	5.7	6.0	4.8	2.5	3.9
Subsidies less Taxes on products from/to the rest of the EU	—	-4.7	-7.9	-3.5	-3.0
Net property income from the rest of the world	-10.6	-19.6	-26.7	-12.3	-2.8
<b>Gross National Income at current market prices</b>	<b>1,853.9</b>	<b>1,843.0</b>	<b>1,911.4</b>	<b>912.0</b>	<b>985.8</b>

Source: National Statistics Office

Chart 2.3

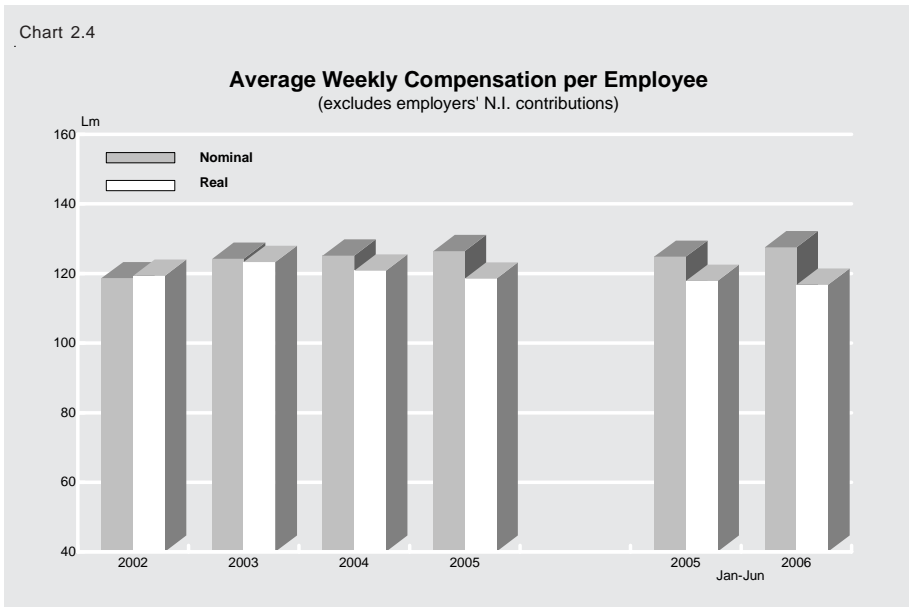
### Compensation of Employees and GDP



and water supply reflecting lower employment levels. On the other hand, the major increases occurred in the services sector primarily in financial intermediation sector (Lm2.7 million), education (Lm2.0 million) and health and social work (Lm1.9 million).

Chart 2.4 and Table 2.7 illustrate developments in the compensation of employees and total employment through an analysis of average weekly compensation per employee. Data on compensation of employees includes the earnings of both full-time and part-time employees. As a full-time equivalents measure of the number of employees is not available, this analysis is based on Labour Force Survey data which covers both full-time and part-time employees.

Developments during the period under review followed the trend recorded over recent years with average weekly compensation per employee registering relatively low nominal increases and declining in real terms. During the first six months of 2006, the average weekly compensation per employee increased by 2.2 per cent to Lm127.53, in nominal terms. In real terms average weekly compensation during the first two quarters of 2006, declined by 1.0 per cent to Lm116.73. The real average weekly compensation was obtained by deflating the nominal figures by the Retail Prices Index using the base year December 2002=100.



### Average Weekly Compensation per Employee\*

Table 2.7

	Nominal		Real	
	Value Lm	Change %	Value Lm	Change %
<b>2003</b>	124.19	4.7	123.26	3.3
<b>2004</b>	125.13	0.8	120.83	-2.0
<b>2005</b>	126.43	1.0	118.53	-1.9
<b>2005 (Jan/Jun)</b>	124.82	—	117.85	-2.9
<b>2006 (Jan/Jun)</b>	127.53	2.2	116.73	-1.0

\*Excludes employers' National Insurance contributions

Source: National Statistics Office

The gross operating surplus and mixed income stood at Lm387.9 million in the January-June 2006 period. This represents an increase of Lm25.7 million or 7.1 per cent over the comparable period in the previous year. At a sectoral level, the major increases were registered in other community, social and personal service activities, financial intermediation and fishing sector. The major decline occurred in the hotels and restaurants sector.

Taxes on production and imports increased by Lm18.6 million or 13.6 per cent during the period under analysis to reach Lm155.2 million. Underlying such increases were higher receipts from VAT. Subsidies declined by Lm4.7 million during the first six months of 2006 thereby reaching Lm16.4 million.

Net property income from the rest of the world measures the difference between income receivable by Maltese owners in respect of financial assets held abroad and income receivable by foreign residents in respect of Maltese financial assets. In the first two quarters of 2006 net property income from the rest of the world improved by Lm9.5 million, yet it is pertinent to point out that the amount remained negative implying a net outflow of income. Such improvement reflects the fact that receipts from abroad increased at a higher pace than payments abroad in the investment income account in the Balance of Payments, thereby resulting in a net gain. The net compensation of employees from the rest of the world, defined as the difference between total remuneration earned abroad by Maltese nationals less total remuneration earned locally by foreign nationals, increased

by Lm1.4 million. Taxes paid to the rest of the EU decreased marginally by Lm0.5 million.

## International Comparison

Like many small island economies, Malta has a relatively high degree of openness. Such openness renders the island's economic growth inherently dependent on movements occurring in the international environment, especially in the economies of major trading partners. This section summarises the latest trends prevailing in such countries. Table 2.8 shows the growth rates of real GDP for

<b>Gross Domestic Product</b>				
at constant market prices				
Table 2.8	% change			
	2003	2004	2005	2006*
Austria	1.4	2.4	1.9	2.5
Belgium	0.9	2.6	1.2	2.3
Cyprus	1.9	3.9	3.8	3.8
Czech Republic	3.2	4.7	6.0	5.3
Denmark	0.7	1.9	3.1	3.2
Estonia	6.7	7.8	9.8	8.9
Finland	2.4	3.6	2.1	3.6
France	0.8	2.3	1.4	1.9
Germany	-0.2	1.6	0.9	1.7
Greece	4.8	4.7	3.6	3.5
Hungary	3.4	4.6	4.1	4.6
Ireland	4.4	4.5	4.7	4.9
Italy	—	1.1	—	1.3
Latvia	7.2	8.5	10.2	8.5
Lithuania	10.5	7.0	7.5	6.5
Luxembourg	2.0	4.2	4.2	4.4
Netherlands	-0.1	1.7	1.1	2.6
Poland	3.8	5.3	3.2	4.5
Portugal	-1.1	1.1	0.3	0.9
Slovakia	4.5	5.5	6.0	6.1
Slovenia	2.7	4.2	3.9	4.3
Spain	3.0	3.1	3.4	3.1
Sweden	1.7	3.7	2.7	3.4
United Kingdom	2.5	3.1	1.8	2.4
EU 25	1.2	2.4	1.6	2.3
Euro Area	0.7	2.0	1.3	2.1
Malta	-2.4	—	2.2	2.6

\*Forecast. For Malta, this figure relates to January - June

Source: European Commission  
National Statistics Office

**GDP by Category of Expenditure**  
at constant market prices

Table 2.9 % change

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	2003	2004	2005	2006*
<b>EU 25</b>				
Private Consumption	1.5	2.0	1.5	1.9
Government Consumption	2.2	1.4	1.6	2.1
Gross Fixed Capital Formation	0.9	3.0	2.9	4.4
Exports of Goods and Services	1.7	6.9	4.7	5.9
Imports of Goods and Services	3.2	7.3	5.2	6.2
Gross Domestic Product	1.2	2.4	1.6	2.3

\*Forecast

Source: European Commission

the EU 25 Member States for the four years to 2006, whilst Table 2.9 illustrates the composition of economic growth in real terms for the EU 25 countries. The data is based on the European Commission's Spring 2006 forecasts.

Following a growth rate of 1.6 per cent recorded for 2005, the economic performance of the European economy is expected to gather pace in 2006 and reach 2.3 per cent. Furthermore, the recently published interim forecast - September 2006 - shows that European economies have performed markedly better than expected so far in 2006. For the year as a whole, GDP growth has been revised upwards by 0.4 percentage points from 2.1 per cent to 2.5 per cent in the Euro Area and from 2.3 per cent to 2.7 per cent in the EU 25. This improvement reflects an increase in resilience of the European economies, boosted by its greater ability to rely on domestic demand. Nevertheless a number of potential risks may dent this upturn in performance, including risks of further oil price hikes, the risk of a slowdown in world economic growth and the persistence of global imbalances.

Growth in the EU is expected to be triggered by an expansion of domestic demand, especially investment which is expected to grow by 4.4 per cent during 2006, the highest rate in the past four years. Improved profitability in the business sector on the one hand, and slow growth in households' disposable income on the other, appear to be the main factors behind the differences in the performance of investment and consumption. Nevertheless, the recorded higher consumer confidence should help to increase momentum in private consumption. In fact the growth rate in both private and public consumption is expected to pick up in 2006. During the current year private consumption is expected to grow by 1.9

per cent whilst Government consumption is expected to grow at around 2.1 per cent. The net trade contribution is expected to be negative as exports are expected to grow by 5.9 per cent whilst imports are expected to advance at a higher pace of 6.2 per cent.



## 3. Employment

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### 3. Employment

The developments in the Maltese labour market over the twelve months to June 2006 reflect the state of flux of the domestic economy, whereby the economic expansion experienced during the same period contributed to the increase in employment levels. At the same time, during the period under review the restructuring process advanced further particularly as specific sectors of the economy are increasingly exposed to the reality of the global marketplace. At the same time, trends noted in previous years regarding the shift away from direct production activities towards market services as well as the expansion of part-time employment as a primary occupation were consolidated during the period under study.

The full-time gainfully occupied population stood at 139,437 at the end of June 2006, an increase of 621 or 0.4 per cent over June 2005. Additionally, the number of persons registering for employment under Part I of the Register rose by 383 to 6,601 by the end of June 2006. As a result, the unemployment rate under Part I of the Register rose marginally by 0.2 percentage points to 4.5 per cent. The increase in the gainfully occupied population and in the number of registered unemployed resulted in an increase in the labour supply of 752 or 0.5 per cent to 146,498. At the same time, the number of persons in a part-time job as their primary occupation stood at 24,386 thereby implying an increase of 1,752 over June 2005.

A deeper analysis of labour market developments reveals the declining role of the public sector as provider of employment, reflecting Government's policy in this area. As shown in Table 3.1, employment in the private sector, inclusive of temporary employment, increased by 2,963 or 3.2 per cent to 96,238 relative to June 2005. In line with trends noted in the past, this development reflects a drop of 424 in private direct production that was more than countered by the increase of 3,606 recorded in the private market services category. Consequently, the share of the private sector in the gainfully occupied population stood at 69.0 per cent, a rise of 1.8 percentage points over June 2005. Meanwhile, employment in the public sector, inclusive of temporary employment stood at 43,199 down from 45,541 recorded at the end of June 2005. As a result, at the end of June 2006, the share of the public sector in the gainfully occupied population stood at 31.0 per cent, down from 32.8 per cent recorded during the previous comparable period. The decline in public sector employment mainly reflects Government's policy to restrict employment in non-essential categories as well as the sale of shares that Government held in Maltacom plc, which in June 2006 employed close to 1,500 employees.

## Labour Market Performance

Table 3.1

	2002	2003	2004	2005	2006
	Jun	Jun	Jun	Jun	Jun
Labour Supply	145,010	145,607	145,732	145,746	146,498
Males	104,041	103,876	103,755	103,185	102,985
Females	40,969	41,731	41,977	42,561	43,513
Gainfully Occupied	137,889	138,369	137,790	138,816	139,437
Males	98,111	97,996	97,321	97,681	97,473
Females	39,778	40,373	40,469	41,135	41,964
Total Private Sector	90,105	90,904	90,837	93,275	96,238
Private Direct Production	35,137	34,275	33,206	33,063	32,639
Private Market Services	54,170	55,909	56,974	59,598	63,204
Temporary Employment	798	720	657	614	395
Total Public Sector	47,784	47,465	46,953	45,541	43,199
Public Sector	47,497	47,166	46,679	45,288	43,070
Temporary Employment	287	299	274	253	129
Registered Unemployed*	7,121	7,238	7,942	6,930	7,061
Males	5,930	5,880	6,434	5,504	5,512
Females	1,191	1,358	1,508	1,426	1,549
% of Labour Supply	4.9	5.0	5.4	4.8	4.8
of which unemployment					
under Part I (%)	4.5	4.5	5.0	4.3	4.5
Self-Employed**	15,577	15,668	15,953	16,336	16,428
Males	13,577	13,609	13,812	14,095	14,079
Females	2,000	2,059	2,141	2,241	2,349
% of Gainfully Occupied	11.3	11.3	11.6	11.8	11.8
Memorandum:					
Total Direct Production***	46,386	45,236	43,034	42,618	42,305
Total Market Services***	90,418	92,114	93,825	95,331	96,608
Total Private Sector Share	65.3%	65.7%	65.9%	67.2%	69.0%
Total Public Sector Share	34.7%	34.3%	34.1%	32.8%	31.0%
Part-time Employment as					
Primary Job	17,812	18,688	20,736	22,634	24,386

\*Includes both Parts I and II of the registered unemployed

\*\*Included in the Private Sector

\*\*\*Excluding temporary employees

Source: Employment and Training Corporation

### Box 3.1

#### **The Labour Force Survey**

The Labour Force Survey (LFS) is a household survey carried out by the National Statistics Office in accordance with the methodologies of the European Union's statistical agency, Eurostat, and of the International Labour Organisation. The LFS provides detailed information regarding the labour market, in addition to other relevant statistics on indicators such as educational levels, salary conditions, hours worked, and activity rates. However, the LFS is not directly comparable to statistics emanating from the Employment and Training Corporation (ETC) mainly due to differences in definitions and methodologies of the two datasets. Moreover, one must express caution in interpreting LFS results over time as absolute changes in employment of 1,800 or less may be the result of sampling error.

#### **Salient Labour Market Developments**

The latest LFS statistics show that for the period ranging from April to June 2006 the number of people employed amounted to 151,953, an increase of 1,222 over the comparable period in 2005. As a result, the employment rate stood at 54.3 per cent, down from 54.5 per cent recorded in April-June 2005. These developments were underpinned by an increase in male employment of 1,275 while the number of females in employment decreased by 53. Consequently, the male employment rate stood 73.9 per cent, an increase of 0.3 percentage points over twelve months earlier. Meanwhile, the female employment rate stood at 34.5 per cent, a decrease of 0.3 percentage points from the rate recorded in April-June 2005.

At the end of the period April-June 2006, the number of unemployed persons stood at 12,726, a decrease of 115 persons or 0.9 per cent from the figure recorded in April-June 2005. The share of males in total unemployment stood at 56.9 per cent, while females accounted for 43.1 per cent. Meanwhile, the unemployment rate stood at 7.7 per cent, down from 7.9 per cent recorded in April-June 2005. This development reflects a drop in the male unemployment rate by 0.6 percentage points to 6.5 per cent whilst the female unemployment rate rose by 0.9 percentage points to 10.3 per cent.

The highest annual salary related to legislators, senior officials and managers at the end of the period April-June 2006 averaged Lm8,533, whilst the lowest paid occupations were elementary occupations at an average of Lm4,178 per year. The average gross annual salary stood at Lm5,360 during April-June 2006, reflecting an increase of 2.1 per cent over April-June 2005. Since the highest paid category earns only about twice the salary of the lowest paid category, this is indicative of the degree of salary compression in the Maltese labour market.

#### **Human Capital and the Labour Market**

Education may be considered as a form of investment in human capital as it augments an employee's productivity and is also closely associated with a high level of income per capita. A more educated labour force is more mobile and adaptable, can learn new tasks and skills more easily, can use a wider range of technologies, and is more creative in thinking about how to improve the management of work. These attributes not only make a more highly skilled worker more productive than a less skilled one, but also enable employers to adjust better to changes necessitated by competition.

### Box 3.1 continued

In the area of human capital, Malta has in recent years recorded considerable improvements. Such improvements reflect to an extent public investment in education over the years. As shown in the Table, the participation in education and training for people aged between 25 to 64 years at the end of December 2005 stood at 5.3 per cent, an increase of 1.4 percentage points over the previous year. The increased participation was recorded amongst employed and unemployed as well as inactive persons. In particular, the participation rate in education and training of the employed and unemployed stood at 6.9 per cent and 10.2 per cent, up from 5.3 per cent and 6.7 per cent recorded during April-June 2005.

Linking occupational requirements to educational output is yet another important challenge. The Table provides information regarding the percentage of persons aged between 25 and 64 that participate in education or training by level of educational attainment. A low level of education comprises persons with no school or primary education, while the medium level incorporates persons having achieved post secondary general education. The share of people with medium education in December 2005 stood at 8.1 per cent, 1.6 percentage points below the rate recorded during the comparable period the previous year. Meanwhile, the share of people attaining a low level of education stood at 2.4 per cent, up from 1.6 per cent in December 2004. Yet, significant improvements were recorded in the share of people attaining a high education level. In December 2005, they accounted for 21.3 per cent of the people aged between 25 and 64, an increase of 9.1 percentage points over December 2004.

Another indicator of participation in education is the percentage of 20 to 24 year olds who have achieved at least an upper secondary level of education, which is equivalent to a medium level of education. In this regard, it is noteworthy that during 2005 the participation rate stood at 56.2 per cent, up from 49.1 per cent recorded in 2004. This increase is attributable to improved participation rates for both males and females, as the increase over the previous comparable period amounted to 8.2 and 6.0 percentage points, respectively. Early school leavers are defined as persons aged between 18 and 24 years, who have achieved lower secondary education or less. The percentage of early school leavers dropped by 4.5 percentage points from 42.6 per cent in 2004 to 38.1 per cent in 2005. It is notable that, the percentage of male early school leavers dropped by 4.0 percentage points while for females the improvement amounted to a decline of 5.3 percentage points.

The above statistics indicate that Malta has achieved an improvement in the human capital aspect of the labour force and population at large. However, further effort is required in order to converge to the EU average levels.

Box 3.1 continued

<b>Selected Education and Training Indicators</b>			
	per cent		
	2003	2004	2005
<b>Participation in Education and Training (25-64)</b>			
<b>by Labour Status (as at December)</b>			
Employment	5.8	5.3	6.9
Unemployment	4.7 <sup>u</sup>	6.7 <sup>u</sup>	10.2 <sup>u</sup>
Inactive	2.0 <sup>u</sup>	1.9 <sup>u</sup>	2.7
Total	4.2	3.9	5.3
<b>Participation in Education and Training (25-64) by</b>			
<b>Level of Education Attainment (as at December)</b>			
Low	2.2	1.6	2.4
Medium	8.9	9.7	8.1
High	16.6	12.2	21.3
Total	4.2	3.9	5.3
<b>Percentage of 20-24 years old having achieved at</b>			
<b>least Upper Secondary</b>			
Males	42.0	47.0	55.2
Females	49.9	51.3	57.3
Total	45.8	49.1	56.2
<b>Early School Leavers</b>			
Males	51.7	45.2	41.2
Females	48.2	39.9	34.6
Total	50.0	42.6	38.1

<sup>u</sup> - Under-represented

Source: National Statistics Office

The data presented in this Chapter are based on the distribution of the administrative records of the Employment and Training Corporation (ETC) of the gainfully occupied population according to the standard NACE classification of economic activities. During 2006 the ETC, in line with its policy for the revision of provisional data 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.

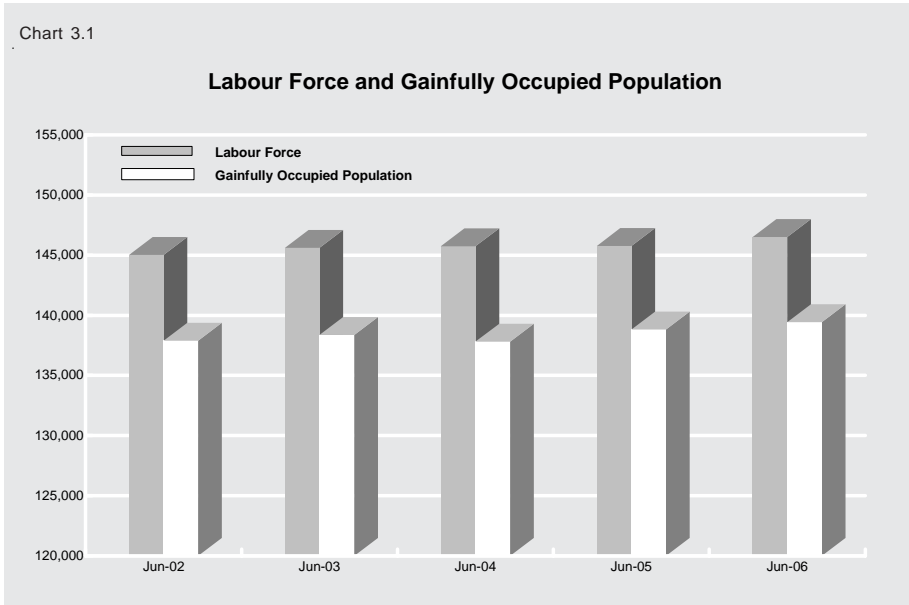
It is important to note that the data on registered unemployment is composed of both Part I and Part II of the Register. Part I of the Register includes those people who are eligible for work and registering with the ETC as unemployed, while Part II incorporates other categories of persons searching for work but not eligible to register under Part I. Such categories include those who were

dismissed from work due to disciplinary action or who left employment at their free will, those who refused work and training opportunities, those who failed to submit the necessary documents required for registration under Part I and those who were struck off after an inspection by the Law Enforcement Personnel. Thus unemployment under Part I of the Register provides a better indicator for analysing developments in the domestic labour market.

## Labour Market Developments

This section provides an overview of the main labour market developments that occurred during the period covering June 2002 to June 2006. As shown in Chart 3.1, the labour supply rose by 1,488 or 1.0 per cent between June 2002 and June 2006, reaching a level of 146,498 at the end of June 2006. During this period, the labour supply registered an upward trend, though the rate of expansion varied from year-to-year in reflection of developments in both the gainfully occupied population and the number of registered unemployed.

When analysed on a gender basis, the increase in the labour supply recorded over the recent years was driven by a higher number of females, as the number of males in the labour market recorded a decline. In fact the male component in the labour force declined by 1,056 or 1.0 per cent between June 2002 and June 2006, as drops were recorded in every year. The number of females in the labour force stood at 43,513 in June 2006 thus reflecting an increase of 2,544 or





6.2 per cent over June 2002. Hence, the share of males in the labour force declined by 1.4 percentage points to 70.3 per cent. Conversely, the share of females in the labour force rose from 28.3 to 29.7 per cent at the end of June 2006.

At the end of the period under review, the gainfully occupied population stood at 139,437 reflecting an increase of 1,548 or 1.1 per cent over June 2002. The gainfully occupied population recorded increases on a consistent basis during the period under review, except for a drop of 579 recorded in the twelve months to June 2004. The number of males in the gainfully occupied population declined by 638 or 0.7 per cent during the period under review, thus reaching 97,473 at the end of June 2006. In contrast, the number of females in the gainfully occupied population stood at 41,964 at the end of June 2006 representing an increase of 2,186 or 5.5 per cent over June 2002.

In reflection of these developments, the number of unemployed persons under Part I of the Register in the four years to June 2006 rose marginally by 83. The number of unemployed persons under Part I of the Register rose by 60 and 677 during the year to June 2003 and June 2004, respectively. Following the sharp decline of 1,037, the number of unemployed persons under Part I of the Register in the year to June 2005, an increase of 383 recorded between June 2005 and June 2006. Hence the unemployment rate under Part I stood at 4.5 per cent at the end of June 2006, unchanged from the rate recorded four years earlier.

## Private Sector Employment

Private sector employment, inclusive of temporary employment, registered increases over the period ranging from June 2002 to June 2006, except for a decline of 67 recorded during the twelve months to June 2004. During the four-year period to June 2006, private employment increased by 6,133 or 6.8 per cent, reaching 96,238 at the end of June 2006. This increase was entirely driven by higher employment in private market services as employment in private direct production recorded consistent declines throughout the period under review.

Employment in private direct production stood at 32,639, a decrease of 2,498 or 7.1 per cent over June 2002. As stated above, employment in direct production was on a downward trend as declines of 862 and 1,069 were recorded in the twelve months to June 2003 and June 2004, respectively. During 2005 and 2006, the pace of decline somewhat slowed down as decreases of 143 and 424 were recorded during these two years. These developments reflect mainly private

sector restructuring especially in specific sectors of the manufacturing industry. As a result, the share of private direct production in total employment declined from 25.5 per cent in June 2002 to 23.4 per cent in June 2006.

However, the decline in private direct production was more than offset by the strong expansion recorded in private market services over the period under review. Private market services stood at 63,204 at the end of June 2006, representing an increase of 9,034 or 16.7 per cent over the period June 2002 to June 2006. The developments in this category were strongly influenced by the increasing contribution of services activities as well as the privatisation of state-owned entities. Consequently the share of private market services in the gainfully occupied population rose by 6.0 percentage points to 45.3 per cent at the end of June 2006.

The number of temporary employed in the private sector was on a downward trend over the period June 2002 to June 2006. At the end of June 2006, temporary employment in the private sector stood at 395, a decline of 403 over June 2002.

During the period under review, the number of self-employed persons followed an upward trend. At the end of June 2006, the number of self-employed persons stood at 16,428 reflecting an increase of 851 over June 2002. The share of self-employment in the gainfully occupied population in June 2006 stood at 11.8 per cent, an increase of 0.5 percentage points over June 2002. The rise in self-employed persons was underpinned by increases in both male and female components.

The number of male self-employed stood at 14,079 at the end of June 2006, an increase of 502 when compared to June 2002. In the meantime, the number of female self-employed stood at 2,349 thus representing an increase of 349 over June 2002. Consequently, the share of female self-employed in total self-employed stood at 14.3 per cent at the end of June 2006, up from 12.8 per cent recorded June 2002. Despite this rise, the share of females in total self-employed persons remains relatively low when compared to the share of females in the gainfully occupied population, probably reflecting the influence of cultural traits and traditional role-playing.

## **Public Sector Employment**

During the period under review, public sector employment followed a downward trend. As shown in Table 3.2, at the end of June 2006 total employment in the public sector, inclusive of temporary employment stood at 43,199 thus

### Public Sector Employment

Table 3.2

	2002 Jun	2003 Jun	2004 Jun	2005 Jun	2006 Jun
Government Departments	31,805	31,846	31,735	31,106	30,658
Companies with public sector majority shareholding	7,900	7,244	6,403	5,500	3,591
Independent Statutory Bodies	7,792	8,076	8,541	8,682	8,821
Temporary Employees	287	299	274	253	129
Total	47,784	47,465	46,953	45,541	43,199

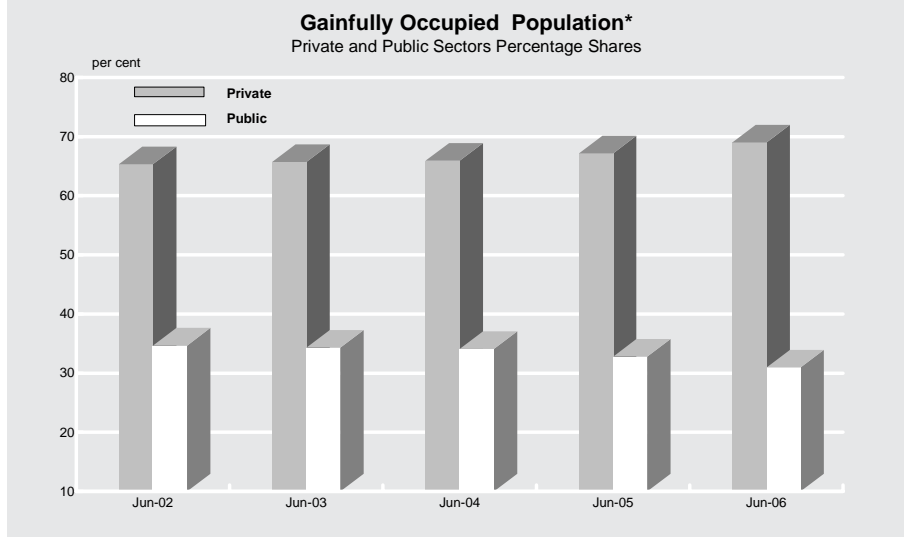
Source: Employment and Training Corporation

representing a decrease of 4,585 over the same period in 2002. This development reflects privatisation initiatives, the restructuring of public sector entities as well as Government's policy to restrict employment into non-essential categories in Government Departments. Over the four-year period, employment in companies with public sector shareholding dropped by 4,309. Moreover, employment in Government Departments declined by 1,147 while employment in Independent Statutory Bodies increased by 1,029 over the period June 2002 – June 2006. Hence, as shown in Chart 3.2, the share of total public sector employment in the gainfully occupied population stood at 31.0 per cent at the end of June 2006, 3.7 percentage points below the rate recorded four years earlier.

During the twelve months to June 2006, public sector employment declined by 2,342 or 5.1 per cent over the previous comparable period. Employment in companies with public sector majority shareholding declined by 1,909 to 3,591 at the end of June 2006. This development mainly reflects the sale of shares Government held in Maltacom plc, the sale of Air Supplies and Catering Co. Ltd, and the closing down of Sea Malta Co. Ltd. Meanwhile Malta Desalination Services Ltd was transferred to the Independent Statutory Body category. As a result, the share of companies with public sector majority shareholding in total public sector employment declined from 12.1 per cent in June 2005 to 8.3 per cent at the end of June 2006.

At the end of June 2006, employment with the Independent Statutory Bodies stood at 8,821, an increase of 139 over the same period last year. These changes are mainly attributed to the reclassification of Malta Desalination Services Ltd. from the companies with public sector majority shareholding category as well as other minor increases in the employment levels of other entities. Consequently,

Chart 3.2



\*Including temporary employees

the share of Independent Statutory Bodies in public sector employment rose by 1.3 percentage points to 20.4 per cent.

Employment in Government Departments stood at 30,658 at the end of June 2006, a decrease of 448 over the same period of 2005. As highlighted earlier, this development reflects Government's policy to restrict employment into non-essential categories of the public sector. As a result of the developments described in this section, the share of employment in Government Departments in total public sector employment rose by 2.7 percentage points to 71.0 per cent. Temporary employment in the public sector stood at 129 at the end of June 2006, as it dropped almost by half when compared to the level of 253 recorded a year earlier. Consequently the share of temporary employment in total public sector employment declined from 0.6 per cent at the end of June 2005 to 0.3 per cent at the end of the period under review.

## Sectoral Employment

At the end of the period under consideration, the direct production category exclusive of temporary employees, accounted for 30.3 per cent of the gainfully occupied population, down from 30.7 per cent recorded twelve months earlier. On the other hand, the share of market services exclusive of temporary

employees, stood at 69.3 per cent of the gainfully occupied population, up from 68.7 per cent in June 2005. The following analysis provides a detailed overview of the employment performance of clusters of economic activities in both direct productive and market services categories.

## Direct Production

An overview of the main developments in direct production for the period ranging from June 2002 to June 2006 is shown in Table 3.3. Total employment in direct production stood at 42,305 in June 2006, representing a decline of 313 or 0.7 per cent over June 2005. The private sector accounts for the vast majority of jobs in total direct production, with a share of 77.2 per cent while the public sector accounted for 22.8 per cent of employment. The overall decline in total direct production employment is mainly attributable to manufacturing while lower employment levels were also reported by the electricity, gas and water and agriculture, hunting and forestry sub-sectors. This decline was partially mitigated by the rise recorded in construction and to a lesser extent, in fishing activity.

**Employment in Direct Production\***

Table 3.3

	2002	2003	2004	2005	2006
	Jun	Jun	Jun	Jun	Jun
Agriculture, Hunting and Forestry	2,823	2,825	3,073	3,107	3,044
Private	1,656	1,670	1,683	1,658	1,636
Public	1,167	1,155	1,390	1,449	1,408
Fishing	364	402	412	436	462
Private	364	402	412	436	462
Public	0	0	0	0	0
Mining and Quarrying	496	497	506	510	509
Private	496	497	506	510	509
Public	0	0	0	0	0
Manufacturing	27,991	27,130	24,954	24,635	23,696
Private	25,177	24,383	23,131	22,852	21,944
Public	2,814	2,747	1,823	1,783	1,752
Electricity, Gas and Water	3,135	3,060	3,558	3,406	3,259
Private	2	1	1	1	5
Public	3,133	3,059	3,557	3,405	3,254
Construction	11,577	11,322	10,531	10,524	11,335
Private	7,442	7,322	7,473	7,606	8,083
Public	4,135	4,000	3,058	2,918	3,252
<b>Total Employment in Direct Production</b>	<b>46,386</b>	<b>45,236</b>	<b>43,034</b>	<b>42,618</b>	<b>42,305</b>
Private	35,137	34,275	33,206	33,063	32,639
Public	11,249	10,961	9,828	9,555	9,666

\* Excluding temporary employees

Source: Employment and Training Corporation

The developments in the level of employment in direct production activities over the June 2002-June 2006 period are illustrated in Chart 3.3.

At the end of June 2006, employment in the agriculture, hunting and forestry category stood at 3,044, a decrease of 2.0 per cent compared to June 2005. The contributors to this decline were both the public and the private sectors. In fact, the private sector recorded a drop of 22 employees, while the public sector recorded a decline of 41 employees. Employment in fishing stood at 462 at the end of June 2006, a 6.0 per cent increase over the comparable period of the previous year. The labour complement in mining and quarrying stood at 509, relatively unchanged from the previous year. The share of these categories in total direct production were practically unchanged from those recorded in the same month in the previous year, at 7.2 per cent for agriculture, hunting and forestry, 1.1 per cent for fishing and 1.2 per cent for mining and quarrying.

Employment in the manufacturing sector stood at 23,696, representing a decline of 939 when compared to June 2005. The private sector accounted for a decline of 908 jobs, while the public sector complement decreased by 31. The manufacturing sector has recorded continuous drops in employment levels throughout the period under review, as depicted in Chart 3.4. The share of manufacturing in total employment in direct production in June 2006 stood at 56.0 per cent, 1.8 percentage points below the level recorded during the previous year.

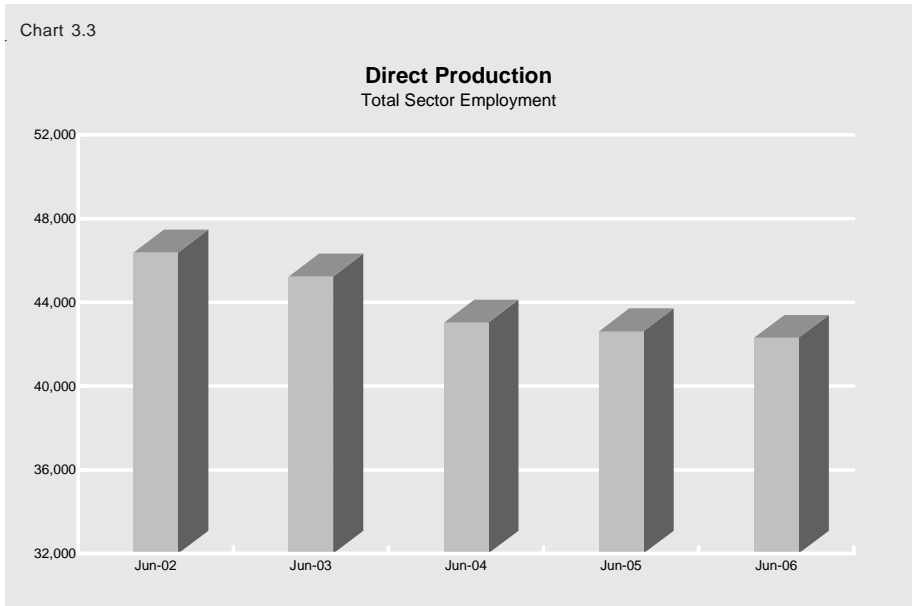
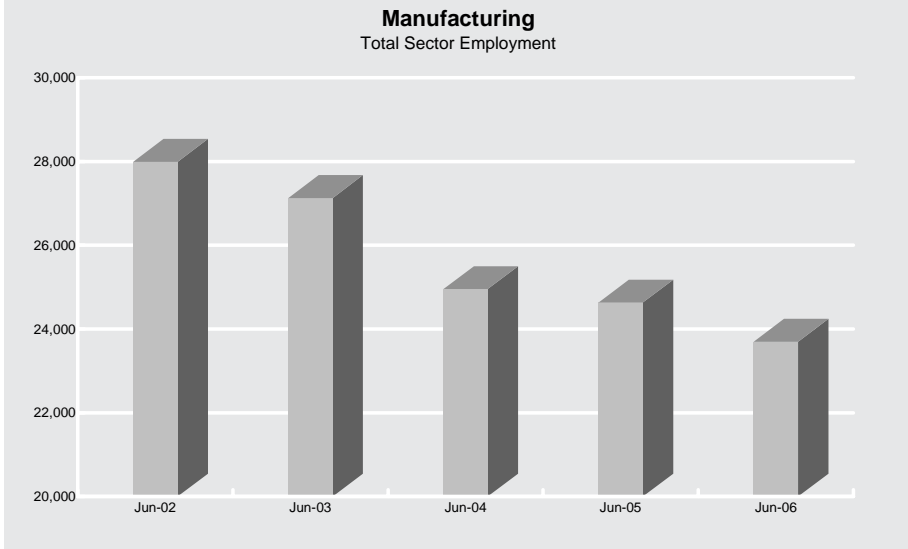


Chart 3.4



**Changes in Manufacturing Employment\***

Table 3.4

	2003-02	2004-03	2005-04	2006-05
	Jun	Jun	Jun	Jun
Total Change	-861	-2,176	-319	-939
Private	-794	-1,252	-279	-908
Public	-67	-924	-40	-31
Total Sectoral Increases	364	127	124	478
Private	299	127	124	470
Public	65	0	0	8
Total Sectoral Decreases	1,225	2,303	443	1,417
Private	1,093	1,379	403	1,378
Public	132	924	40	39

\* Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

### Manufacturing Employment\*

Table 3.5

	2002	2003	2004	2005	2006
	Jun	Jun	Jun	Jun	Jun
Mfg of Food Products, Beverages and Tobacco	3,914	3,979	3,978	3,919	3,836
Private	3,914	3,979	3,978	3,919	3,836
Public	0	0	0	0	0
Mfg of Textiles and Textile Products	4,111	3,352	2,707	2,648	1,723
Private	4,111	3,352	2,707	2,648	1,723
Public	0	0	0	0	0
Mfg of Leather and Leather Products	756	606	473	379	217
Private	756	606	473	379	217
Public	0	0	0	0	0
Mfg of Wood and Wood Products	241	174	184	202	191
Private	174	174	184	202	191
Public	67	0	0	0	0
Mfg of Pulp, Paper and Paper Products; Publishing and Printing	1,819	1,903	1,930	1,895	1,885
Private	1,768	1,787	1,817	1,799	1,828
Public	51	116	113	96	57
Mfg of Coke, Refined Petroleum Products and Nuclear Fuel	19	15	4	1	3
Private	19	15	4	1	3
Public	0	0	0	0	0
Mfg of Chemicals, Chemical Products and Man-Made Fibres	621	739	558	552	586
Private	621	739	558	552	586
Public	0	0	0	0	0
Mfg of Rubber and Plastic Products	1,887	1,828	1,755	1,744	1,647
Private	1,887	1,828	1,755	1,744	1,647
Public	0	0	0	0	0
Mfg of Other Non-Metallic Mineral Products	1,277	1,258	1,223	1,202	1,256
Private	1,277	1,258	1,223	1,202	1,256
Public	0	0	0	0	0
Mfg of Basic Metals and Fabricated Metal Products	1,310	1,305	1,283	1,284	1,298
Private	1,302	1,297	1,280	1,284	1,298
Public	8	8	3	0	0
Mfg of Machinery and Equipment n.e.c	434	410	463	528	524
Private	434	410	463	528	524
Public	0	0	0	0	0
Mfg of Electrical and Optical Equipment	5,373	5,386	5,288	5,179	5,516
Private	5,373	5,386	5,288	5,179	5,516
Public	0	0	0	0	0
Mfg of Transport Equipment	3,043	3,062	2,180	2,137	2,130
Private	355	439	473	450	435
Public	2,688	2,623	1,707	1,687	1,695
Manufacturing n.e.c.	3,186	3,113	2,928	2,965	2,884
Private	3,186	3,113	2,928	2,965	2,884
Public	0	0	0	0	0
<b>Total Manufacturing Employment</b>	<b>27,991</b>	<b>27,130</b>	<b>24,954</b>	<b>24,635</b>	<b>23,696</b>

\* Excluding temporary employees

Source: Employment and Training Corporation



As shown in Table 3.4, total sectoral increases in manufacturing employment during the twelve months to June 2006 amounted to 478. This constitutes an improvement relative to the performance over the June 2002 to June 2005 period. These increases were mainly attributable to the private sector. However, the total sectoral decreases more than countered total sectoral increases, as total job losses amounted to 1,417. Job losses in textiles and textiles products amounted to 925, while leather and leather products, rubber and plastic products, manufacturing of food products, beverages and tobacco and manufacturing n.e.c. categories also recorded lower employment levels. On the other hand, job increases were primarily recorded in electrical and optical equipment, whilst improvements were also recorded in the manufacture of chemicals, chemical products and man-made fibres and the manufacture of other non-metallic mineral products. Employment trends in the manufacturing industry are increasingly sensitive to cyclical developments in the particular product markets as well as competitive price pressures from emerging economies. Table 3.5 presents the developments in employment in the manufacturing industry over the period June 2002-June 2006.

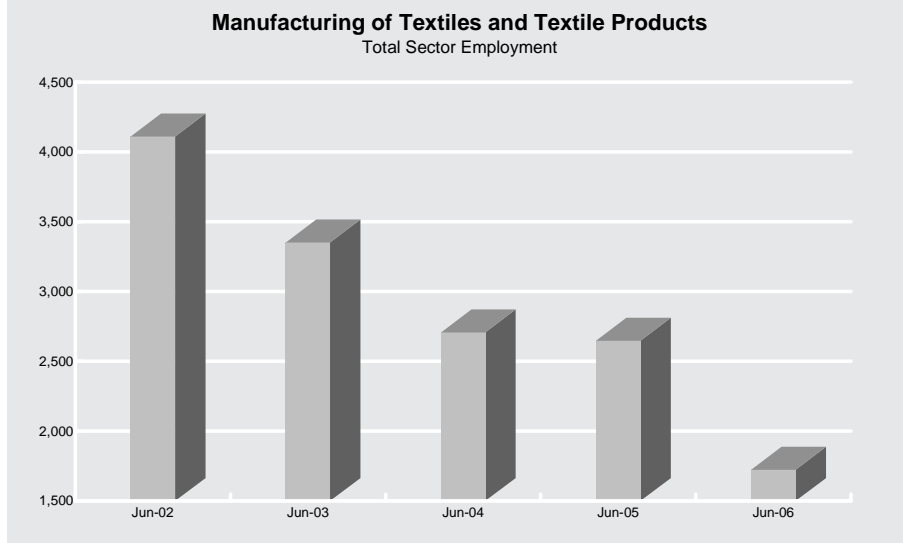
### **Manufacture of Food Products, Beverages and Tobacco**

Aggregate employment in the food products, beverages and the tobacco sectors stood at 3,836, representing a decline of 2.1 per cent when compared to June 2005. The decreases were recorded in both the manufacture of food products and beverages and the manufacture of tobacco products. At the end of the period under review, the share of the food, beverages and tobacco sector stood at 16.2 per cent of total manufacturing employment, as compared to 15.9 per cent recorded in June 2005.

### **Manufacturing of Textile and Textile Products**

Employment in textile and textile products as at June 2006 stood at 1,723, a decline of 925 or 34.9 per cent over the previous twelve months. The decline was reported in both the manufacture of textiles and the manufacture of wearing apparel (including dressing and dyeing of fur) sub-sectors and mainly reflects the closing down of a major operator. The downward trend depicted in Chart 3.5, is the result of the increasing price competition from low-cost operators. At the end of June 2006, the share of manufacture of the textile and textile products category in total manufacturing stood at 7.3 per cent, a drop of 3.4 percentage points when compared to June 2005.

Chart 3.5



### Manufacture of Leather and Leather Products

At the end of June 2006, employment in the manufacturing of leather and leather products stood at 217, a drop of 162 or 42.7 per cent from the previous comparable period, reflecting the closing down of a main operator. The declining trend reported for this sector is also being influenced by increasing price competition. By the end of the period under review, the share of the manufacture of leather and leather products sector in total manufacturing stood at 0.9 per cent, down from 1.5 per cent in June 2005.

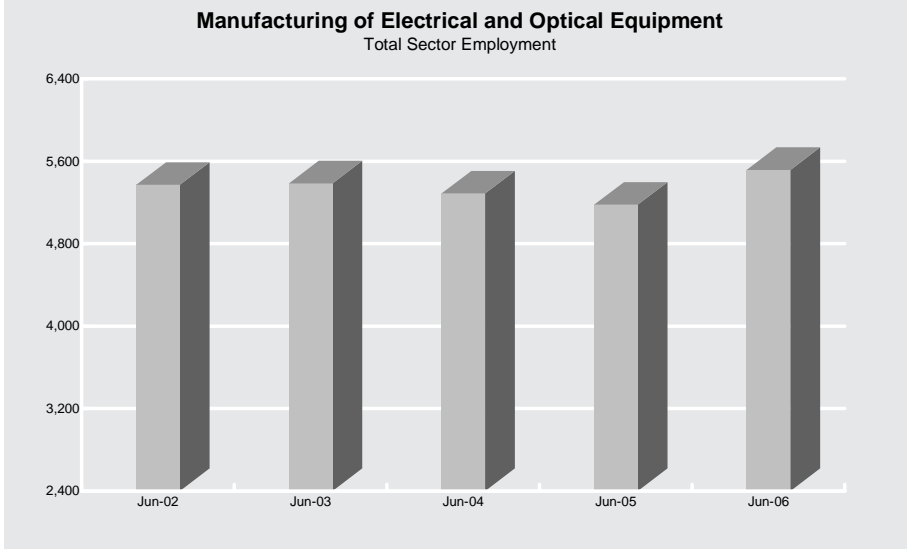
### Manufacture of Pulp and Paper Products

Employment in the manufacture of pulp and paper products stood at 1,885 at the end of June 2006, marginally down from June 2005. On a sub-sectoral level, the decrease reflects the drop in the manufacture of pulp, paper and paper products that was partly mitigated by the rise recorded in the publishing, printing and reproduction of recorded media sub-sector. At the end of June 2006, employment in the manufacture of pulp and paper products sector accounted for 8.0 per cent of the total manufacturing employment, up by 0.3 percentage points when compared to the same month of 2005.

### Manufacture of Rubber and Plastic Products

At the end of June 2006, employment in the manufacture of rubber and plastic products stood at 1,647, down from 1,744 in June 2005. The decrease mainly

Chart 3.6



reflects lower employment complement by two main operators in the sector and confirms the gradual downward trend recorded in recent years. By the end of the period under review, the share of rubber and plastic products in total manufacturing stood at 7.0 per cent, relatively unchanged from June 2005.

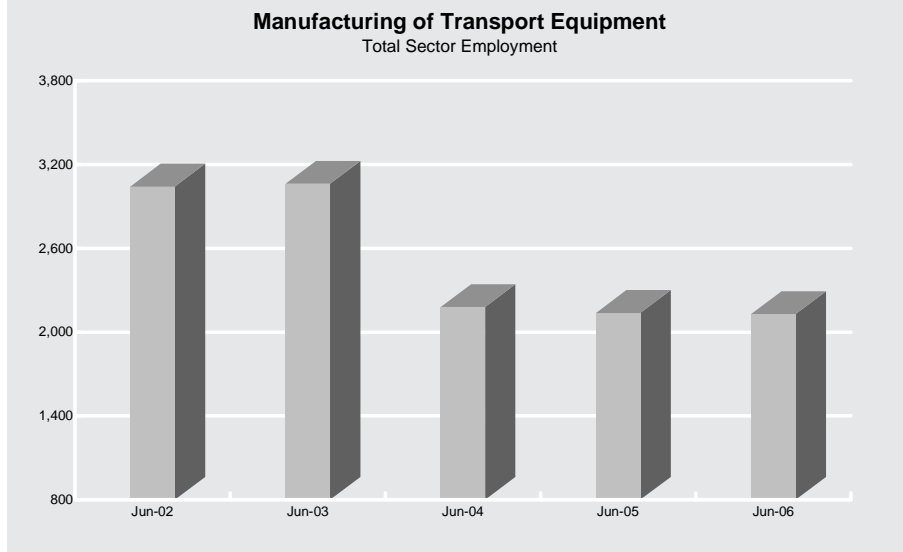
### Manufacture of Electrical and Optical Equipment

Employment in the manufacture of electrical and optical equipment stood at 5,516 at the end of June 2006, up from 5,179 recorded in the same month last year. This increase mainly reflects an expansion in the manufacture of radio, television and communication equipment and apparatus and the manufacture of electrical machinery and apparatus n.e.c. sub-sectors whilst declines were reported principally in the manufacture of medical, precision and optical instruments, watches and clocks sub-sector. Chart 3.6 shows the main developments in the sector over the period June 2002 to June 2006. At the end of June 2006, the share of manufacture of electrical and optical equipment in total manufacturing employment stood at 23.3 per cent, up by 2.3 percentage points when compared to June 2005.

### Manufacture of Transport Equipment

The manufacture of transport equipment sector employed 2,130 people at the end of June 2006, a marginal decrease when compared to June 2005. Chart 3.7 shows that following the large drop recorded in June 2004, due to the restructuring

Chart 3.7



of the shipyards, employment levels within the manufacture of transport equipment sector were relatively stable. At the end of June 2006, the share of manufacture of transport equipment in total manufacturing stood at 9.0 per cent, an increase of 0.3 percentage points compared June 2005.

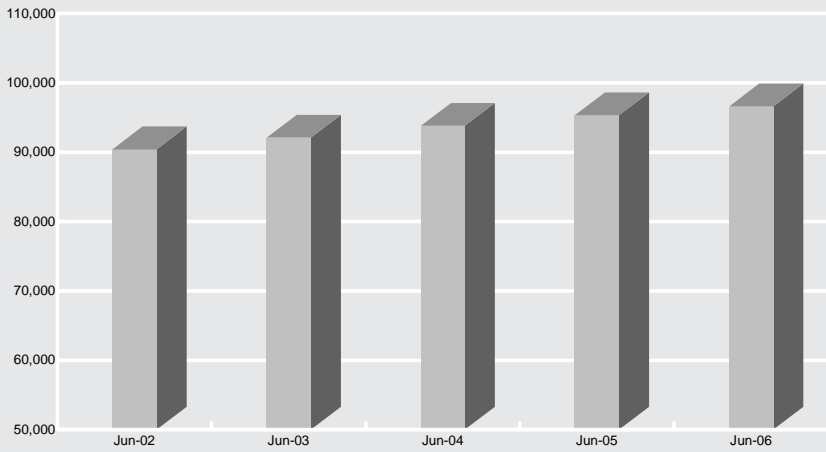
## Market Services

In line with the trends noted in previous years, market services activities remained the main source of employment creation in the Maltese economy. As shown in Table 3.6 and 3.7, during the twelve months to June 2006 employment in this category recorded an increase of 1,277 to 96,608. The increase in employment in the market services category was underpinned by an expansion in the private sector as the public sector recorded an overall decline. These developments were heavily influenced by the sale of shares Government held in Maltacom plc which employed close to 1,500 persons, the sale of Air Supplies and Catering Co. Ltd, and the closing down of Sea Malta Co. Ltd. In fact, total employment in the private sector increased by 3,606 persons. Conversely, the public sector reduced its workforce by 2,329. Chart 3.8 depicts the trend in employment in the market services category.

Total sectoral gains in the market services activities reached 3,726 during the twelve months to June 2006 from 3,206 a year earlier, and were driven by the private sector. Meanwhile, total sectoral job losses amounted to 2,449, up from 1,700 in June 2005 and were driven mainly by the public sector. The most

Chart 3.8

**Market Services**  
Total Sector Employment



**Changes in Employment in Market Services\***

Table 3.6

	2003-02 Jun	2004-03 Jun	2005-04 Jun	2006-05 Jun
Total Change	1,696	1,711	1,506	1,277
Private	1,739	1,065	2,624	3,606
Public	-43	646	-1,118	-2,329
Total Sectoral Increases	2,454	2,127	3,206	3,726
Private	1,828	1,201	2,928	3,629
Public	626	926	278	97
Total Sectoral Decreases	758	416	1,700	2,449
Private	89	136	304	23
Public	669	280	1,396	2,426

\*Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

significant gains in employment in the market services category were recorded in real estate, renting and business activities category, wholesale and retail and financial intermediation. On the contrary, job losses originated primarily from public administration and defence, transport, storage and communications, and the other community, social and personal services activities category.

### Employment in Market Services\*

Table 3.7

	2002	2003	2004	2005	2006
	Jun	Jun	Jun	Jun	Jun
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	20,089	20,445	20,833	21,442	21,558
Private	19,938	20,298	20,695	21,324	21,533
Public	151	147	138	118	25
Hotels and Restaurants	8,832	8,769	8,674	9,166	9,107
Private	8,484	8,415	8,329	8,887	8,867
Public	348	354	345	279	240
Transport, Storage and Communications	11,526	11,095	11,003	11,202	11,053
Private	5,474	5,684	5,754	6,562	8,056
Public	6,052	5,411	5,249	4,640	2,997
Financial Intermediation	5,057	5,088	5,074	5,078	5,188
Private	4,602	4,611	4,587	4,580	4,685
Public	455	477	487	498	503
Real Estate, Renting and Business Activities	8,222	8,778	9,623	10,120	11,569
Private	7,533	8,113	8,456	9,006	10,426
Public	689	665	1,167	1,114	1,143
Public Administration and Defence (including Compulsory Social Security)	10,518	10,716	10,841	10,850	10,647
Private	7	8	2	3	2
Public	10,511	10,708	10,839	10,847	10,645
Education	10,997	11,312	11,619	12,042	12,173
Private	2,445	2,611	2,720	2,884	2,962
Public	8,552	8,701	8,899	9,158	9,211
Health and Social Work	9,052	9,414	9,543	9,158	9,176
Private	1,229	1,351	1,395	1,389	1,397
Public	7,823	8,063	8,148	7,769	7,779
Other Community, Social and Personal Service Activities**	5,888	6,280	6,160	6,109	5,975
Private	4,221	4,601	4,581	4,799	5,114
Public	1,667	1,679	1,579	1,310	861
Extra-Territorial Organisations and Bodies	237	217	455	164	162
Private	237	217	455	164	162
Public	0	0	0	0	0
<b>Total Employment in Market Services</b>	<b>90,418</b>	<b>92,114</b>	<b>93,825</b>	<b>95,331</b>	<b>96,608</b>

\* Excluding temporary employees

\*\*Includes Private Households with Employed Persons

Source: Employment and Training Corporation

## Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)

During the twelve months to June 2006, the wholesale and retail trades sector increased its labour complement by 116 or 0.5 per cent, to 21,558. Chart 3.9 shows that employment in this sector was on an upward trend in recent years. Increases were mainly recorded in the sale, maintenance and repair of motor vehicles and motorcycles (including retail sale of automotive fuel) and the wholesale and commission trade (except of motor vehicles and motorcycles) sub-sectors that exceeded the decrease recorded in the retail trade (except of motor vehicles and motorcycles, but including repair of personal and household goods) sub-sector. Moreover, the increase was mainly due to increases in the private sector, that more than exceeded the decline in labour complement in the public sector. In fact, private employment in this category increased by 209 to 21,533, whilst public sector employment dropped to 25 from 118 recorded in June 2005. The decline reported in the public sector complement reflects the privatisation of Air Supplies and Catering Co. Ltd. The share of the wholesale and retail sector in total market services employment amounted to 22.3 per cent in June 2006, a marginal decrease over the rate of 22.5 per cent recorded the same month in the previous year.

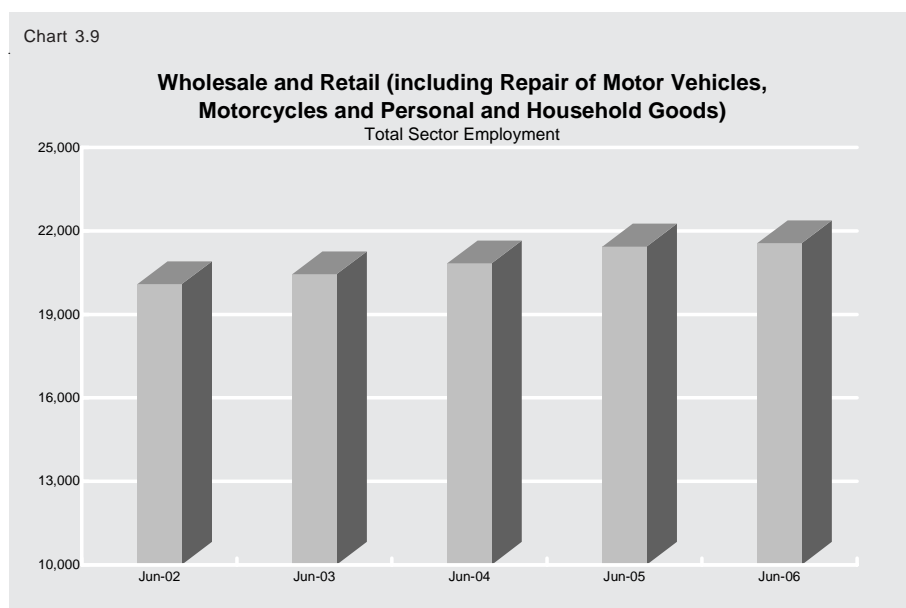


Chart 3.10



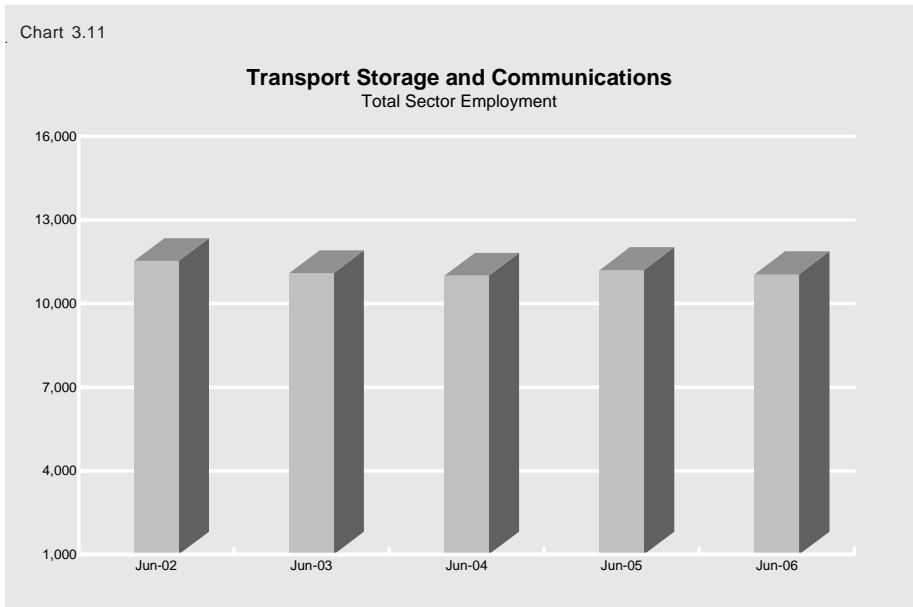
## Hotels and Restaurants

Chart 3.10 illustrates employment levels in hotels and restaurants between June 2002 to June 2006. The number of people employed in this category as at the end of the period under review amounted to 9,107, a decrease of 0.6 per cent or 59 workers. This decrease is attributable to both the private and public sector complements of the sector. Developments in this sector were influenced by the overall performance of the tourism industry. Meanwhile during the period under review, two five star hotels started their operations as the sector continued to renew itself in the face of increasing competitive pressures. As a share of total employment in market services, the hotels and restaurants sector accounted for 9.4 per cent at the end of June 2006, marginally down from 9.6 per cent recorded during the same period of the previous year.

## Transport, Storage and Communications

At the end of June 2006, the employment level in the transport, storage and communications sector stood at 11,053, a decrease of 1.3 per cent over June 2005. This decrease is mainly attributable to the water transport and the air transport sub-sectors while increases were recorded in the land transport and supporting and auxiliary transport activities sub-sectors. Employment in the private sector rose by 1,494 while the public sector complement declined by 1,643. The drop reported in the public sector is attributable to the privatisation of Maltacom plc and the subsequent reclassification of employees from the





public to the private sector as well as the closing down of Sea Malta Co Ltd. Chart 3.11 depicts employment levels in the transport, storage and communications sector for the period ranging from June 2002 to June 2006. The share of this sector in total market services employment is of 11.4 per cent, 0.4 percentage points below the share recorded in June 2005.

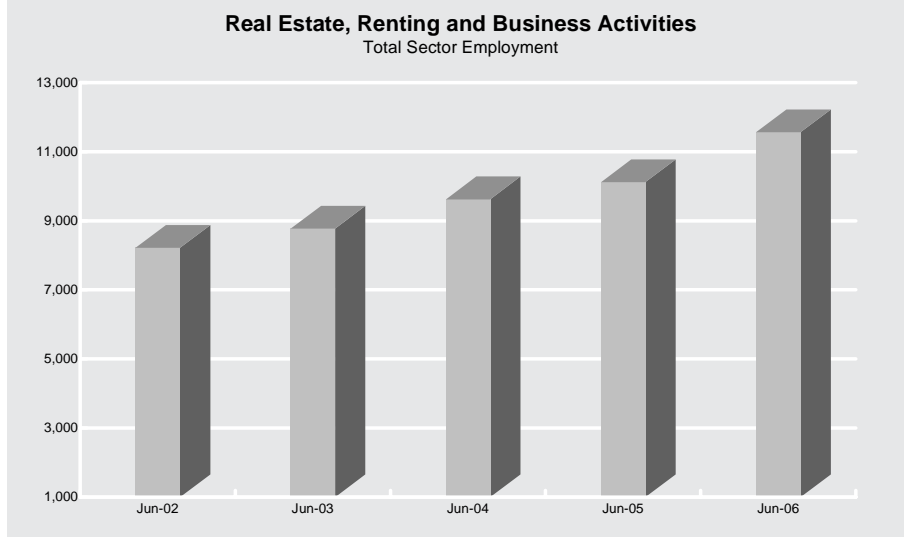
### Financial Intermediation

Employment in the financial intermediation sector stood at 5,188 at the end of June 2006, showing an increase of 2.2 per cent or 110 over the same period of the previous year. This increase is mainly due to an increase in the private sector. On a sub-sectoral basis, the increase was mainly attributable to financial intermediation (except insurance and pension funding) and insurance and pension funding (except compulsory social security) sub-sectors while increases were also recorded in the activities auxiliary to financial intermediation sub-sector. At the end of June 2006, the share of financial intermediation in total market services employment amounted to 5.4 per cent, marginally up from that recorded in June 2005.

### Real Estate, Renting and Business Activities

Aggregate employment in the real estate, renting and business sectors stood at 11,569 at the end of June 2006, an increase of 1,449 or 14.3 per cent over June 2005. This increase is mainly attributable to the private sector, whilst the public

Chart 3.12



sector reported a marginal increase in its labour complement. On a sub-sectoral basis, the growth in employment was mainly underpinned by the increase recorded in the other business activities category while other improvements were recorded in computer and related activities and real estate activities sub-sectors. Chart 3.12 shows the upward trend in the number of persons employed in the real estate, renting and business sector. This sector constitutes 12.0 per cent of total market services employment, an increase of 1.4 percentage points over June 2005.

## Unemployment

The analysis in this section focuses on the registered unemployed statistics under Part I of the Register. The number of registered unemployed stood at 6,601 at the end of June 2006, an increase of 383 over the previous comparable period. Consequently the unemployment rate stood at 4.5 per cent, up from 4.3 per cent recorded during the same month of 2005.

On a gender basis, the increase in unemployment was almost evenly split amongst males and females. The number of males registering for employment increased by 194 to 5,154, whilst the number of females registering for employment in June 2006 edged up by 189 to 1,447. The share of males in total unemployment stood at 78.1 per cent, as compared to 79.8 per cent recorded in June 2005.

Conversely, the share of females increased by 1.7 percentage points to 21.9 per cent at the end of the period under review.

When analysed on a per duration basis, an increase was recorded in the share of persons registering for employment for a period under 9 weeks and between 9 to 48 weeks. This increase was partly mitigated by a decrease in the share of persons registering for employment for over 48 weeks. In fact, as shown in Table 3.8, the share of people registering for less than 9 weeks stood at 16.9 per cent, an increase of 0.6 percentage points over the same comparable period. The share of persons registering for employment for a duration period between 9 to 48 weeks stood at 41.4 per cent, an increase of 4.0 percentage points over June 2005. On the other hand, the share of persons registering for over 48 weeks stood at 41.8 per cent, down from 46.3 per cent recorded in June 2005.

Table 3.9 shows the age structure of the persons registering for work. During the twelve months to June 2006, an increase was recorded in the share of youth unemployment in total unemployment, where youth unemployment is defined as the group of persons aged between 16 and 24. On the other hand, declines were recorded in the shares of other categories. At the end of June 2006, the share of persons aged 16 to 24 in total unemployment stood at 26.7 per cent, an increase of 1.9 percentage points over June 2005. However, the share of persons aged 25 to 49 years in total unemployment stood at 56.1 per cent, a drop of 1.2 percentage points over the previous comparable period. Meanwhile, the share of persons aged over 49 years declined by 0.7 percentage points, from 17.9 per cent recorded at the end of June 2005 to 17.2 per cent in June 2006.

**Registered Unemployed\***  
by duration of registration

Table 3.8

	Registered Unemployed	under 9 weeks %	9 - 48 weeks %	over 48 weeks %
<b>2001</b>	6,753	19.1	35.4	45.5
<b>2002</b>	6,774	15.8	37.3	46.9
<b>2003</b>	7,494	20.8	41.2	38.0
<b>2004</b>	7,390	16.8	38.6	44.6
<b>2005</b>	6,696	21.6	37.0	41.4
<b>2005 (Jun)</b>	6,218	16.3	37.4	46.3
<b>2006 (Jun)</b>	6,601	16.9	41.4	41.8

\*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 %
<b>2001</b>	6,753	29.2	55.4	15.4
<b>2002</b>	6,774	28.3	56.2	15.5
<b>2003</b>	7,494	28.4	55.1	16.5
<b>2004</b>	7,390	26.3	56.4	17.3
<b>2005</b>	6,696	28.2	55.1	16.7
<b>2005 (Jun)</b>	6,218	24.8	57.3	17.9
<b>2006 (Jun)</b>	6,601	26.7	56.1	17.2

\*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

**Registered Unemployed Classified by Occupation\***  
at June 2006

Table 3.10

	Registered Unemployed			Percentage Share		
	Males	Females	Total	Males	Females	Total
<b>Non-Manual</b>						
Clerical & related workers	416	484	900	8.1	33.4	13.6
Supervisory	32	7	39	0.6	0.5	0.6
Technological & professional	705	191	896	13.7	13.2	13.6
Miscellaneous non-manual	274	205	479	5.3	14.2	7.3
<b>Total Non-Manual</b>	<b>1,427</b>	<b>887</b>	<b>2,314</b>	<b>27.7</b>	<b>61.3</b>	<b>35.1</b>
<b>Manual</b>						
Agriculture	202	1	203	3.9	0.1	3.1
Construction	534	0	534	10.4	0.0	8.1
Textiles	5	10	15	0.1	0.7	0.2
Printing	11	0	11	0.2	0.0	0.2
Metal working	248	0	248	4.8	0.0	3.8
Catering	221	39	260	4.3	2.7	3.9
Other services	435	107	542	8.4	7.4	8.2
Labouring	236	73	309	4.6	5.0	4.7
Miscellaneous	1,552	250	1,802	30.1	17.3	27.3
<b>Total Manual</b>	<b>3,444</b>	<b>480</b>	<b>3,924</b>	<b>66.8</b>	<b>33.2</b>	<b>59.4</b>
Disabled persons	283	80	363	5.5	5.5	5.5
<b>Total</b>	<b>5,154</b>	<b>1,447</b>	<b>6,601</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Table 3.10 shows the registered unemployed classified by occupation as at end of June 2006. The increase in unemployment recorded during the period under review, was driven by an increase amongst persons registering for non-manual unemployment as the manual category recorded an absolute decrease. At the end of the June 2006, the number of persons seeking non-manual employment stood at 2,314, an increase of 357 over the previous comparable period. This development is mainly attributable to increases recorded in the technological and professional and clerical and related workers categories, whilst a decrease was recorded in the miscellaneous non-manual category. The share of persons seeking non-manual employment in total unemployment stood at 35.1 per cent, up from 31.5 per cent in June 2005. The number of males seeking non-manual employment increased by 234 to 1,427 hence accounting for 61.7 per cent of the persons seeking non-manual employment. Meanwhile, the number of females seeking non-manual employment rose by 123 to 887 as the share of females in the number of persons seeking non-manual employment stood at 38.3 per cent.

The number of persons seeking manual employment stood at 3,924 at the end of June 2006, a decrease of 15 from the same month of the previous year. This decrease was mainly recorded in the labouring, catering and miscellaneous categories. These decreases were partly countered by increases recorded in the other service workers, construction, and agriculture categories. The share of persons seeking manual employment in total employment stood at 59.4 per cent, down from 63.3 per cent in June 2005. The share of males in the persons seeking manual employment stood at 87.8 per cent, while the share of females recorded at the end of June 2006 stood at 12.2 per cent.

In June 2006, the number of disabled persons registering under Part I of the Register rose by 41 to 363, of which 283 were males, whilst 80 were females. Hence, the share of disabled persons in total unemployment stood at 5.5 per cent, up by 0.3 percentage points from the rate in the same month of the previous year.

## Part-time Activity

Total part-time employment at the end of June 2006 stood at 43,177, an increase of 2,982 or 7.4 per cent over the comparable period of 2005. Since June 2002, total part-time employment increased by 10,874 or 33.7 per cent reflecting increases in both part-timers holding a full time job and part-time as a primary job. As shown in Table 3.11, part-timers holding a full-time job increased by 4,300 since June 2002, while part-time as a primary job increased by 6,574.

## Part-Time Employment

Table 3.11

	2002	2003	2004	2005	2006
	Jun	Jun	Jun	Jun	Jun
Part-Timers holding a full-time job	14,491	15,162	16,314	17,561	18,791
Males	11,366	11,628	12,262	13,041	13,801
Females	3,125	3,534	4,052	4,520	4,990
Part-Timers as a primary job	17,812	18,688	20,736	22,634	24,386
Males	6,843	7,142	8,036	8,882	9,684
Females	10,969	11,546	12,700	13,752	14,702
Total Part-Time Employment	32,303	33,850	37,050	40,195	43,177
Males	18,209	18,770	20,298	21,923	23,485
Females	14,094	15,080	16,752	18,272	19,692
Part-Timers as a primary job as % of total gainfully occupied					
Males	7.0	7.3	8.3	9.1	9.9
Females	27.6	28.6	31.4	33.4	35.0
Total	12.9	13.5	15.0	16.3	17.5

Source: Employment and Training Corporation

These developments reflect the creation of job openings on a part-time status and the flexibility of the labour supply in matching labour demand.

During the twelve months to June 2006, the number of part-timers holding a full-time job increased by 1,230 or 7.0 per cent to 18,791. Of these part-timers, 13,801 persons or 73.4 per cent of the total were males, thus representing a decline from 74.3 per cent recorded in June 2005. During the period under review, the number of female part-timers holding a full-time job stood at 4,990 thus representing an increase of 470 or 10.4 per cent over June 2005.

The number of persons holding a part-time job as their primary job stood at 24,386, of which 9,684 were males, while 14,702 were females. The number of persons holding a part-time job as their main occupation increased by 7.7 per cent over the same period of last year. Meanwhile, the number of males and females holding a part-time job as their main occupation increased by 9.0 per cent and 6.9 per cent respectively. Females continue to represent the major category of persons holding a part-time job as their primary occupation, with a share of 60.3 per cent, suggesting that part-time work offers females the chance of a better balance between working life and family responsibilities. At the end

of June 2006, the share of persons holding a part-time job as their main occupation stood at 17.5 per cent of the gainfully occupied population, up from 16.3 per cent in the same month of last year.





## 4. Productive Activities

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## 4. Productive Activities

Over the recent years, the local manufacturing industry has been facing a number of challenges. The large number of locally-owned small and medium-sized enterprises (SMEs) within the industry has been exposed to international competitive pressures following the removal of protectionist levies prior to European Union (EU) membership. For this reason, the local-oriented sectors in the industry have been undergoing a restructuring process to enable them to withstand emerging competitive pressures. Furthermore, the relatively large foreign-owned export-oriented subsidiaries are continuously facing challenges from international market forces, including competition arising from emerging countries, fluctuations in foreign demand, movements in semiconductor prices in international markets and the economic performance of Malta's main trading partners, which affect demand for local production. In addition, both local- and export-oriented firms have been incurring higher costs due to increasing international oil prices.

During the January-June 2006 period, the world economy maintained the positive performance registered during 2005. In particular, Malta's main trading partners registered a positive economic performance in the period under review. During the first six months of 2006 the domestic manufacturing sector recovered from the negative performance recorded a year ago, with sales almost reaching their pre-2005 levels. The recovery was underpinned by an increase in exports of 11.5 per cent. This recovery reflects the restructuring process carried out in the manufacturing industry particularly by a major international company in the semiconductor sector. Higher exports were also recorded in a number of emerging industries such as in the pharmaceuticals sub-sector. In addition, certain established sectors such as the food, beverages and tobacco, furniture and other manufacturing and medical, precision and optical instruments sector also registered an improved export performance. On the other hand, exports by the traditional manufacturing sectors, in particular textiles and textile products and leather and leather products registered a notable decline mainly reflecting the recent closure of operators in these sectors. Other sectors which registered a downturn in export levels were the wearing apparel and clothes, publishing and printing, rubber and plastic products and electrical machinery and apparatus sectors.

It is noteworthy that the general trend decline in local sales has continued in 2006, mainly underpinned by increased competition from imports as well as the downsizing of enterprises and firms that have moved out of productive activities

and into the wholesale and retail services sector. In contrast, modest increases in local sales were mainly registered in the furniture and other manufacturing and fabricated metal products sectors. It is noteworthy that during the two years following the subdued local turnover levels reflecting the dismantling of protective levies on imported furniture products in October 2002, the furniture and other manufacturing sector registered a recovery in local sales levels as from the first half of 2005. This recovery was sustained in the period under review.

Capital outlays rose by 29.9 per cent in the first half of 2006, mainly reflecting investment undertaken by the radio, TV and communication equipment sector. This indicates that restructuring efforts continued throughout 2006. Restructuring in the manufacturing sector is also evident from the downsizing in a number of industries and the migration to services which is leading to a decline in manufacturing employment. Nevertheless, as the manufacturing industry moves towards higher value-added sectors, income per capita increases. This is confirmed by the trend increase in earnings per capita between 2003 and 2006, which in the January-June 2006 period rose by 6.1 per cent.

Despite its modest contribution to domestic economic activity, the agriculture and fisheries sector has important linkages with other economic sectors such as tourism apart from having a social and environmental impact. During the first six months of this year, the wholesale value of fruit and vegetables sold through organised markets increased marginally by 2.8 per cent when compared to the same period last year. On the other hand, the volume and value of fish landings registered a decrease of 10.1 and 5.9 per cent respectively from the corresponding figures of last year. Exports and value of tuna during the first eight months of 2006 registered a large increase when compared to the same period in 2005.

The Maltese shipyard sector has been increasingly affected by low cost competitors in the Black Sea, Croatia and Turkey. Nonetheless, positive developments were recorded in the beginning of this year with the continuation of work on a major contract commenced in the last quarter of 2005. Issues of safety and environmental protection continue to be addressed while employment levels during the first six months of 2006 remained practically unchanged over the same period in the previous year.

This Chapter first provides a review on the performance of the local manufacturing industry during the first half of the 2006. Data provided by the National Statistics Office (NSO) and analysed in this Chapter are based on the

results of a monthly survey conducted amongst a representative sample of manufacturing firms. Hence they are not directly comparable to those found in other Chapters of this Economic Survey.

Furthermore, in 2004 the NSO conducted a re-classification exercise that took into consideration the fact that a number of enterprises among different sectors shifted their main reported activity while others stopped carrying out manufacturing-related activities and started operating in the services industry.

As from May 2004, the NSO started using the Intrastat Supplementary Declaration to collect data on trade of goods between the EU Member States, instead of the Customs Declaration. Since the Supplementary Declaration is a source document for trade statistics, total exports can no longer be broken down into domestic exports and re-exports. Thus, export figures since 2004 found in this Chapter may include elements of re-exports.

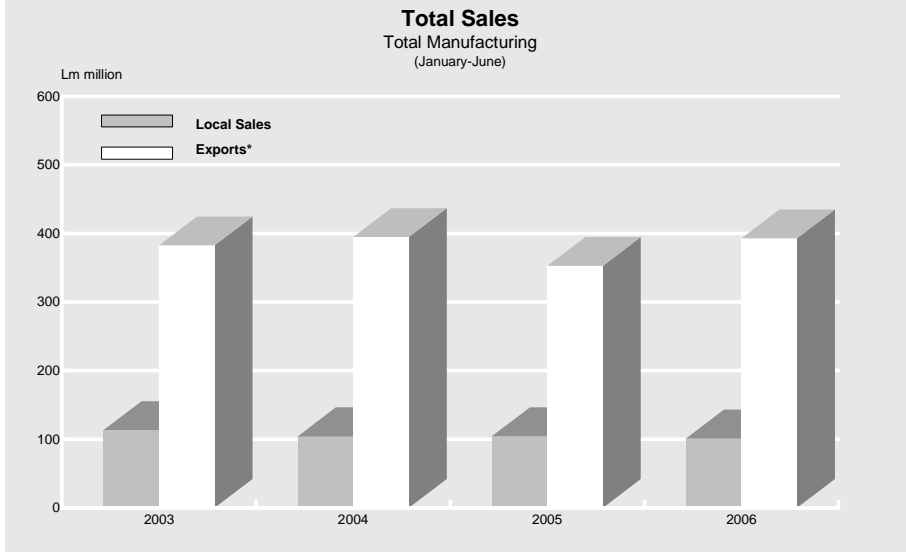
This Chapter then reviews the activity in the agriculture and fisheries sector and concludes with an analysis of developments in the shipyards.

## **Domestic Manufacturing Performance**

During the first six months of 2006, total turnover for the manufacturing industry registered an increase of 8.2 per cent when compared to the same period last year, thus reaching Lm494.7 million and reversing the downturn registered last year. This performance was mainly underpinned by an 11.5 per cent increase in exports, which stood at Lm393.3 million. Notable increases in export levels were mainly registered in the radio, TV and communication equipment and chemicals and chemical products sectors, and to a lesser extent in the food, beverages and tobacco, furniture and other manufacturing and medical, precision and optical instruments sectors. It is noteworthy that the food, beverages and tobacco sector, which is traditionally a domestic-oriented sector, is exploiting new opportunities abroad. On the other hand, the main downturns in export levels were recorded in the textiles and textile products, electrical machinery and apparatus, publishing and printing, wearing apparel and clothes, rubber and plastic products and leather and leather products sectors.

Local sales for the total manufacturing industry fell by 3.1 per cent during the period under review and stood at Lm101.4 million, mainly reflecting an increased demand for imported food, beverages and tobacco products. However, it is noteworthy that modest increases in local sales were mainly registered in the

Chart 4.1



\*As from 2004, data on exports may include re-exports

furniture and other manufacturing sectors, fabricated metal products, other non-metallic mineral products and chemicals and chemical products.

Chart 4.1 presents developments in exports and local sales. Between 2003 and 2006, the share of local sales in total manufacturing turnover fell by 2.4 percentage points, to 20.5 per cent, while the share of exports in total turnover increased to 79.5 per cent. This is evidence of a manufacturing industry which is becoming more export-oriented.

Earnings from employment in the manufacturing industry for the period under review slid slightly below the level recorded in the comparable period last year, reflecting a decline in employment levels, and stood at Lm59.5 million, as illustrated in Chart 4.2. As shown in Chart 4.3, capital outlays recorded an increase of 29.9 per cent during the first half of 2006, and reached Lm31.5 million.

Chart 4.4 presents the trend followed by average weekly sales per employee, which rose by 15.9 per cent and stood at Lm1,035.82, mainly underpinned by the performance of the radio, TV and communication equipment sector during the first six months of 2006. Chart 4.5 illustrates average weekly per capita

Chart 4.2

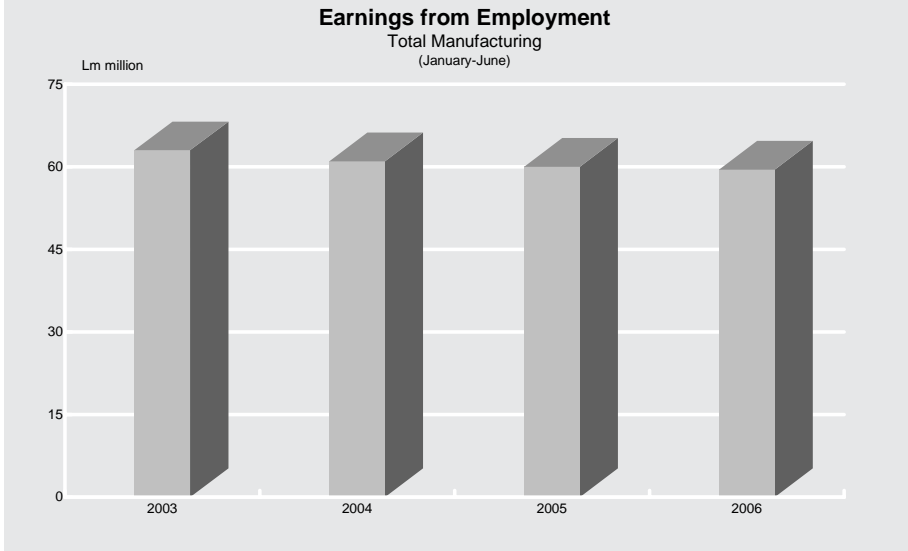


Chart 4.3

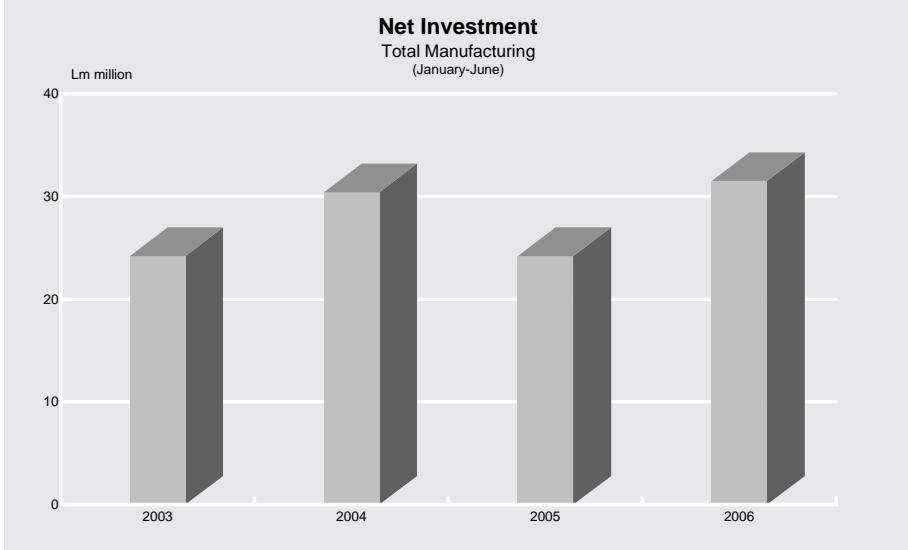
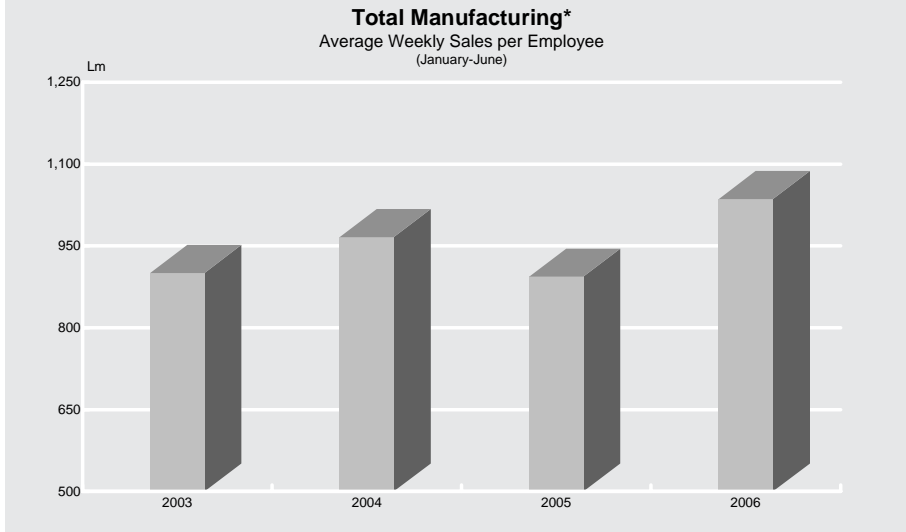
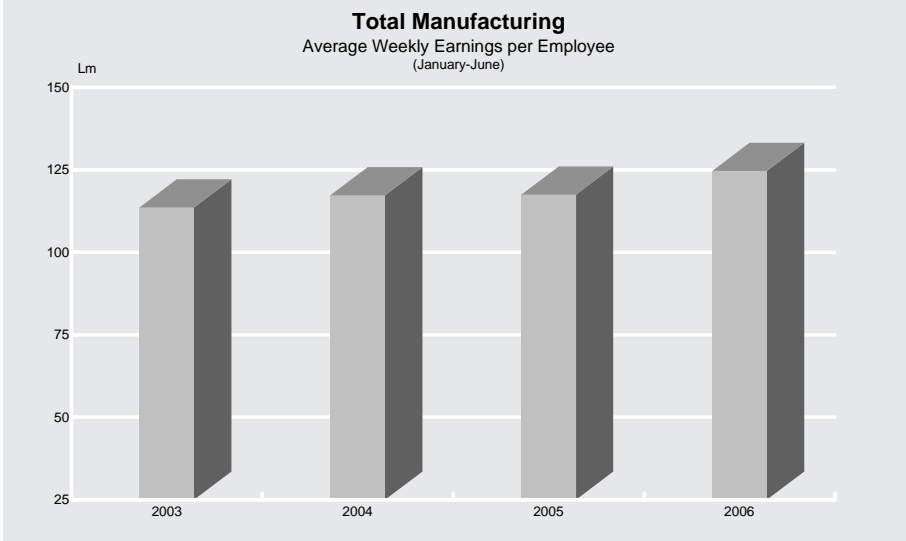


Chart 4.4



\*As from 2004, data on exports may include re-exports

Chart 4.5

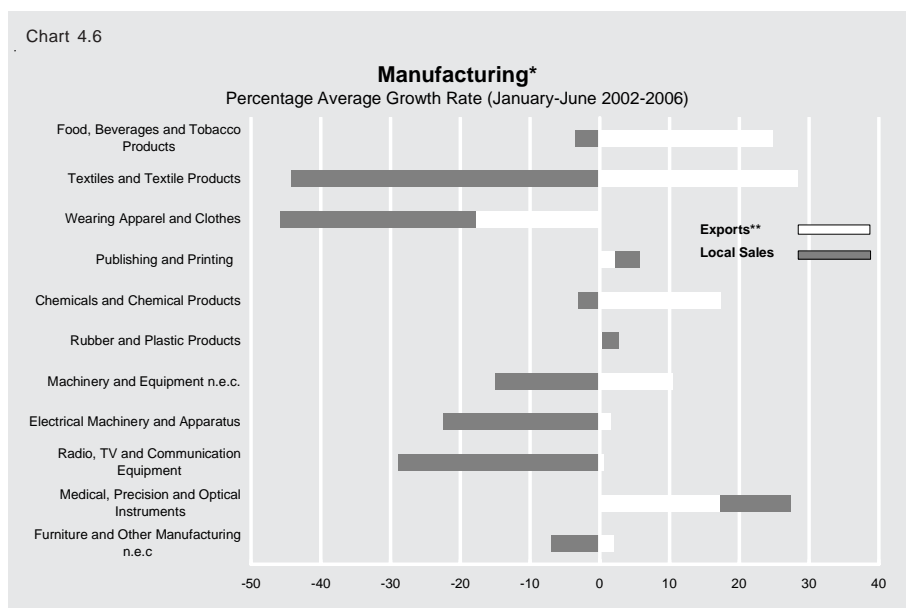




compensation levels, which continued on an upward trend, increasing by 6.1 per cent to Lm124.66, reflecting a decrease in employment levels in the period under review that more than outweighed the decline in remuneration in the industry.

Chart 4.6 presents the average rates of change in exports and local sales recorded in eleven major sectors within the manufacturing industry during the January-June 2002-2006 period. Positive growth rates in exports were registered in all sectors depicted in the Chart, except for the wearing apparel and clothes sector. The textiles and textile products and the food, beverages and tobacco products sectors registered the largest positive growth rates. However, the result for the textiles and textile products sector reflects the significant increases registered in 2004 and 2005. On the other hand, positive growth rates in local sales were only recorded in the medical, precision and optical instruments, publishing and printing and rubber and plastic products sectors.

Manufacturing activity in the main sectors within the industry is analysed in the following section. Appendix Table 4.1 provides statistical data on the industrial performance at a sectoral level.



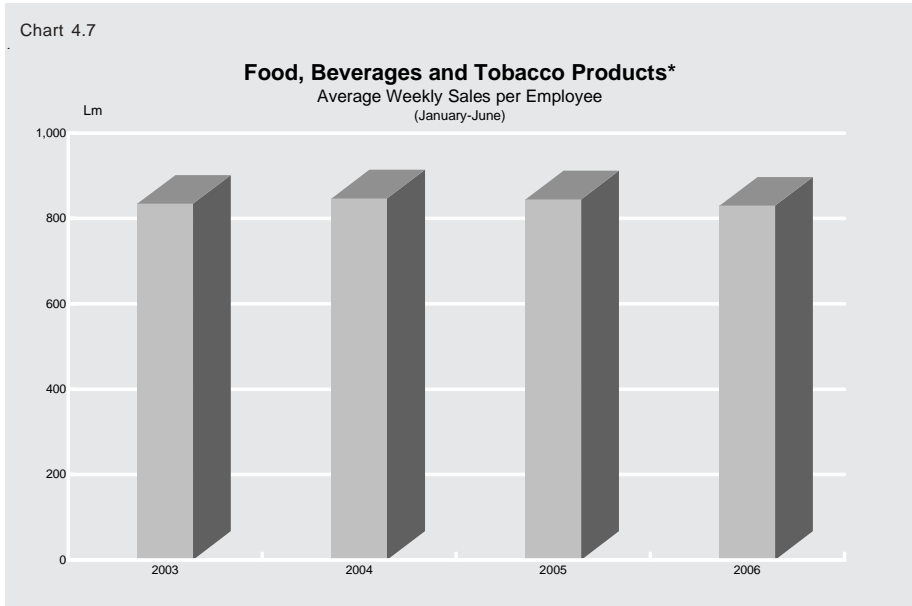
\*Data reflect re-classification of enterprises according to their main manufacturing activity

\*\*As from 2004, data on exports may include re-exports

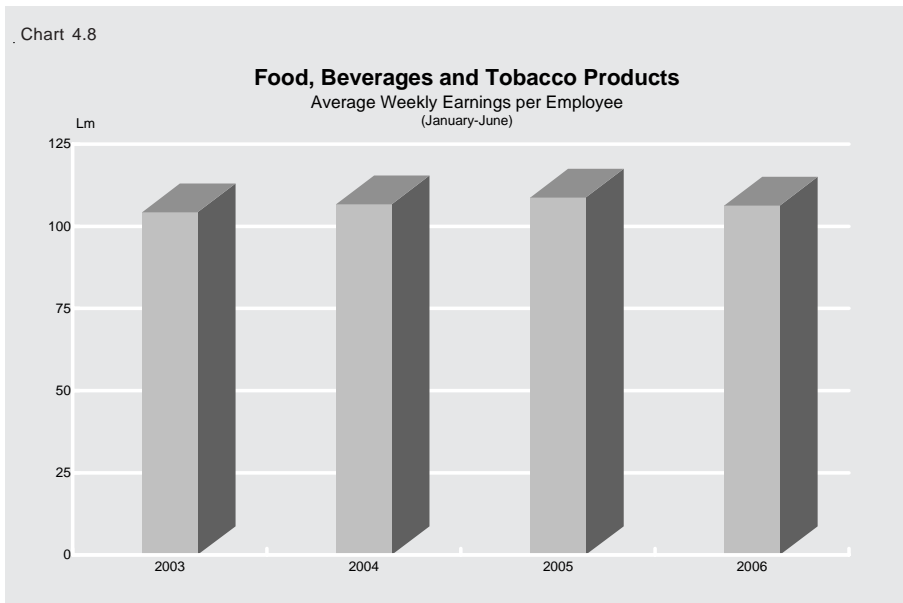
# Food, Beverages and Tobacco Products

The food, beverages and tobacco sector remained the largest local-oriented sector in the manufacturing industry. The sector’s share in total manufacturing turnover reached 13.5 per cent, being the second largest sector contributing most to total industrial turnover, after the radio, TV and communication equipment sector. However, the gap between the contributions of these two sectors is significant. The food, beverages and tobacco products sector directed around 80 per cent of its turnover to the local market during the period under review. The beverages and tobacco sub-sectors are largely locally-oriented, while the food sub-sector exported over 32 per cent of its output when compared to 28.2 per cent exported in the same period last year.

The sector registered a 2.7 per cent decrease in total turnover in the first six months of 2006 when compared to the same period a year earlier and stood at Lm66.6 million. This performance was underpinned by a 7.1 per cent decline in local sales. The decline in domestic oriented turnover reflected a decline in the production of beverage products, partly resulting from the effects of the removal of levies on imported agro-industrial products. A decline was also registered in the tobacco sub-sector’s output mainly reflecting the change in economic activity within the industry from the production to the wholesale activity of tobacco products. On the other hand, local sales of food products registered a marginal increase in the period under review.



\*As from 2004, data on exports may include re-exports



During the period under review, exports of food products underpinned the 20.2 per cent increase in output directed to the foreign market. This performance reflects the successful restructuring process undertaken by certain firms in the food sub-sector to direct production towards the export market, in light of the removal of levies on imported agro-industrial products in 2004.

Net investment in the food, beverages and tobacco products sector declined by Lm0.6 million during the period under review and stood at Lm2.1 million. As depicted in Chart 4.7, average weekly sales per employee decreased by Lm14.70 to reach Lm829.75 in the January-June 2006 period, reflecting a decrease in sales that outweighed the decrease in employment levels. Furthermore, per capita compensation levels, presented in Chart 4.8 fell by Lm2.44 to Lm106.32.

## Textiles and Textile Products

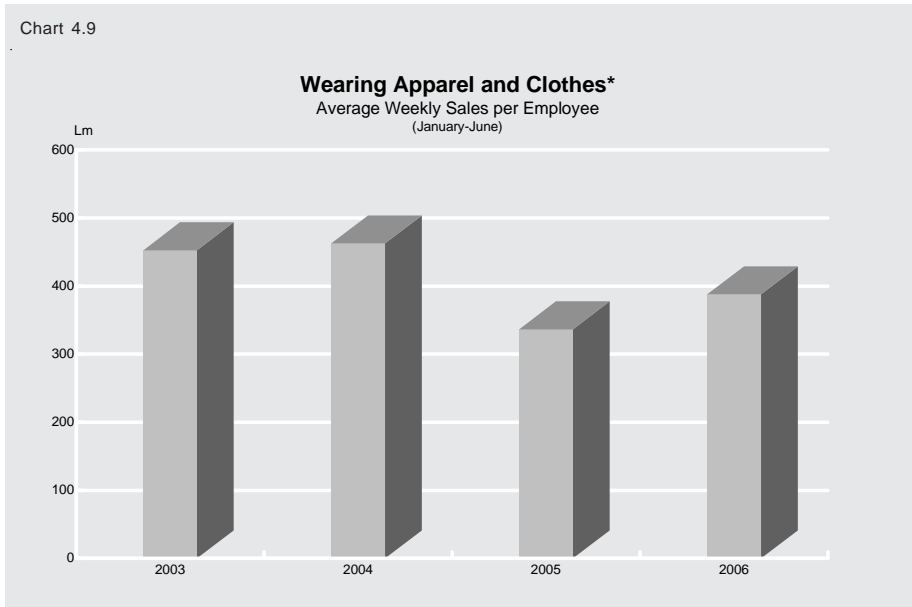
During the first six months of 2006, the closure of major export-oriented firms within the textiles and textile products sector contributed to the significant downturn in this sector's performance. Consequently, total turnover in the sector registered a decline of 39.0 per cent, to Lm9.9 million, mainly underpinned by a decline in exports of the same magnitude. At Lm 0.3 million, local sales remained at the same level recorded during the comparable period last year. Despite the difficulties faced by this sector investment levels rose by Lm1.0 million during

the period under review and reached Lm2.2 million, following capital outlays by a particular export-oriented firm in the sector.

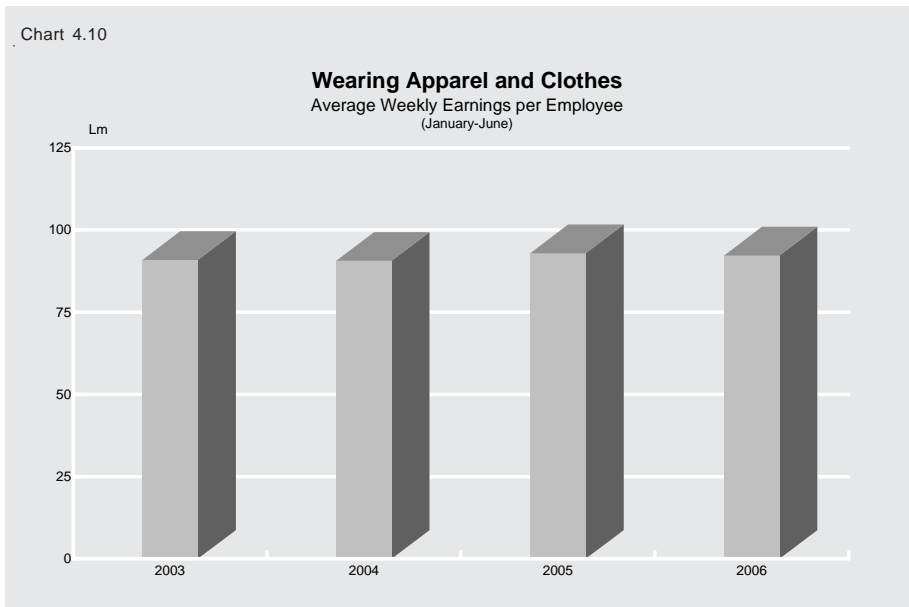
Average weekly sales per employee for the sector recorded a 45.4 per cent increase and reached Lm825.51, while average weekly exports per capita rose by 43.9 per cent and stood at Lm803.80 during the first half of 2006. Average weekly per capita compensation levels rose by 22.9 per cent to Lm129.00. This reflects the decline in employment levels that outweighed the decline recorded in sales and compensation levels.

### Wearing Apparel and Clothes

During the period under review, turnover in the wearing apparel and clothes sector declined by 6.8 per cent to Lm12.4 million. This decrease reflects increased international competition particularly from manufacturers in low-cost locations. Domestic exports made up 91.7 per cent of total turnover, and stood at Lm11.4 million. The sector still remains largely export-oriented, although a decline of 5.1 per cent in the export levels was registered during the period under review. Furthermore, local sales fell from Lm1.3 million to Lm1.0 million, being affected by the shift in the economic activity of certain firms within the sector from production to wholesale services of wearing apparel and clothes.



\*As from 2004, data on exports may include re-exports



Average weekly sales per employee rose by 15.3 per cent to Lm387.83 and average weekly exports per employee improved by 17.3 per cent to Lm355.78. However, since both total sales and exports have declined in the period under review, these increases are due to a lower employment level in the sector. Average weekly earnings per employee declined marginally from the level recorded in the first six months of 2005 and stood at Lm92.29, being Lm32.37 less than the average for the total manufacturing industry. Average weekly sales and earnings per capita for the sector are illustrated in Charts 4.9 and 4.10 respectively.

## Publishing and Printing

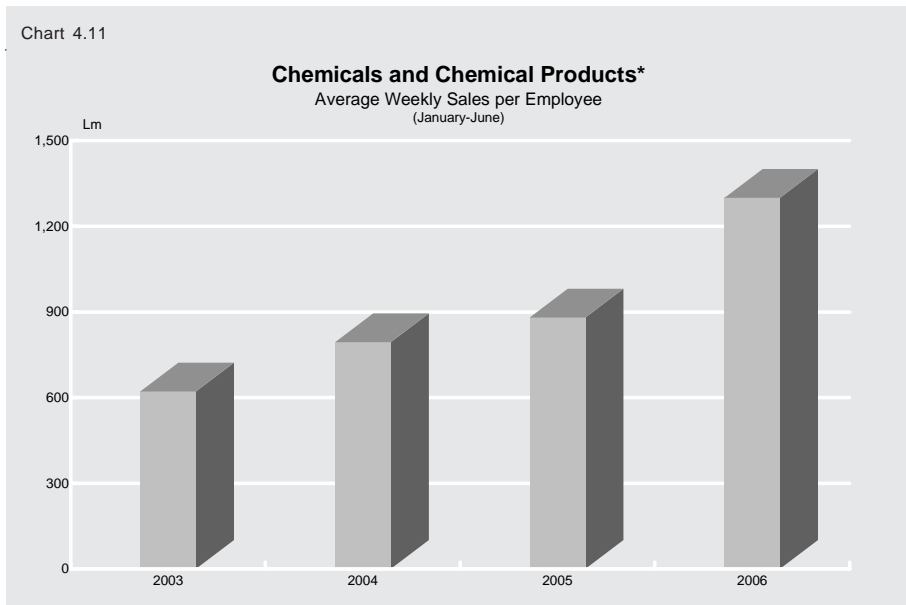
During the first half of 2006, the publishing and printing sector directed 60.8 per cent of its production towards the export market. Turnover in the sector declined by 16.0 per cent and stood at Lm22.4 million. This was underpinned by a 24.0 per cent drop in exports, which were recorded at Lm13.6 million. Local sales remained stable at the level recorded in the same period last year and stood at Lm8.8 million. Net investment declined significantly, from Lm2.1 million to Lm0.8 million.

During the January-June 2006 period, a 14.0 per cent decline in the average weekly sales per capita was recorded, reaching Lm554.20. Furthermore,

average weekly exports per employee declined by 22.2 per cent and stood at Lm336.87. These results reflect the decreases in total turnover and exports which outweighed the decline in employment levels. Despite these developments, average weekly earnings per capita increased by 14.0 per cent to Lm152.20 which is Lm27.54 higher than the average for the total manufacturing industry.

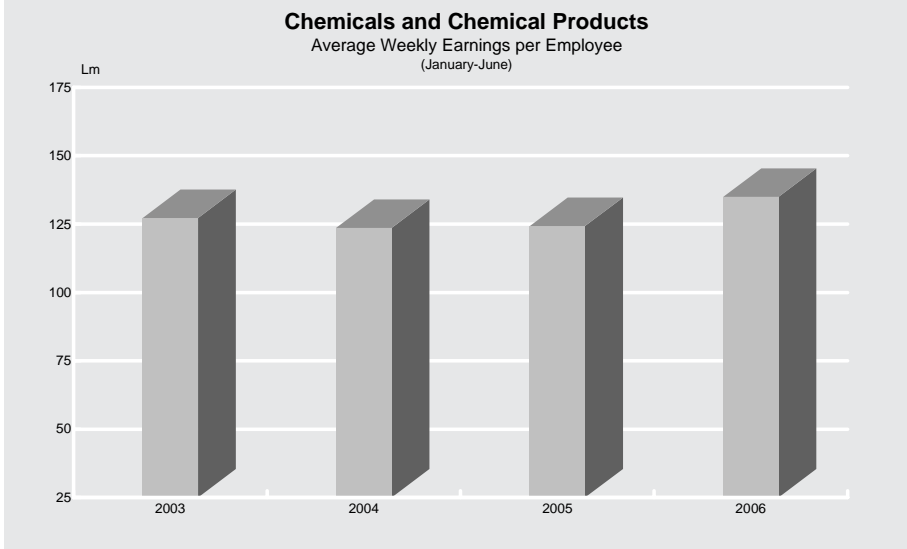
## Chemicals and Chemical Products

Over 87 per cent of the chemicals and chemical products sector’s output was exported during the period under review. The chemicals and chemical products sector represents one of the emerging sectors in the manufacturing industry. The sector comprises export-oriented enterprises which are engaged in the production of pharmaceuticals and toiletries and local-oriented firms that produce products such as paints, detergents and insecticides. The sector’s turnover increased significantly during the first six months of 2006, from Lm18.5 million to Lm29.5 million, being mainly underpinned by a rise of Lm10.8 million in exports of pharmaceutical products, which reached Lm25.8 million. Local sales also registered a modest increase during the period under review and stood at Lm3.7 million. Capital outlays declined by Lm0.9 million to reach Lm3.0 million. Developments registered in the sector during recent years indicate that the sector is becoming increasingly oriented towards the pharmaceutical export-market.



\*As from 2004, data on exports may include re-exports

Chart 4.12



Average weekly sales per employee recorded a marked improvement of 47.6 per cent following the developments registered in sectoral turnover, and reached Lm1,299.91 during the period under review, being Lm264.09 higher than the average recorded for the manufacturing industry. Developments in average weekly sales per capita are presented in Chart 4.11. Furthermore, average weekly exports per capita rose by 59.9 per cent to Lm1,137.08. Chart 4.12 presents average per capita weekly compensation levels which rose by 8.6 per cent to Lm134.91, thus exceeding the average for the total industry by Lm10.25.

## Rubber and Plastic Products

The rubber and plastic products sector directed nearly 79 per cent of its turnover towards foreign markets during the period under review. Total turnover declined marginally and stood at Lm19.9 million, reflecting a 2.8 per cent decline in exports which reached Lm15.7 million. On the other hand, local sales remained practically at the level recorded in the same period last year and stood at Lm4.2 million. Capital outlays returned to the level registered in the January-June 2004 period and stood at Lm0.5 million.

Average weekly sales per employee increased by 11.1 per cent and reached Lm475.21. Average weekly exports per employee rose by 10.0 per cent and stood at Lm374.24. These developments reflected a decline in employment

levels that outweighed the decline in total turnover and export levels. Furthermore, average weekly earnings per employee increased by 4.0 per cent to Lm122.68.

## **Electrical Machinery and Apparatus**

The electrical machinery and apparatus sector is largely export-oriented since nearly 98 per cent of its production is directed to foreign markets. Following the significant increase in 2005, the sector's turnover registered an 18.1 per cent decline during the period under review, and reached Lm20.8 million. This reflects a 19.3 per cent decline in exports which stood at Lm20.3 million. Domestic sales rose to Lm0.4 million from Lm0.2 million a year earlier. Net investment in this sector dropped by a significant margin.

Average weekly sales per capita decreased by 16.2 per cent to Lm741.34 while the average weekly exports per capita decreased by 17.4 per cent to Lm725.19. These drops reflect the deterioration in the sector's turnover that outweighed the lower employment levels registered in the period under review. Average weekly earnings per capita remained practically unchanged over the level recorded in the comparable period last year and stood at Lm129.44, which is slightly higher than the average weekly earnings registered for the whole manufacturing sector.

## **Radio, TV and Communication Equipment**

The radio, TV and communication equipment sector's share in total manufacturing turnover stood at nearly 48 per cent during the first six months of 2006, thus remaining the sector which contributes most towards output generated by the local manufacturing industry.

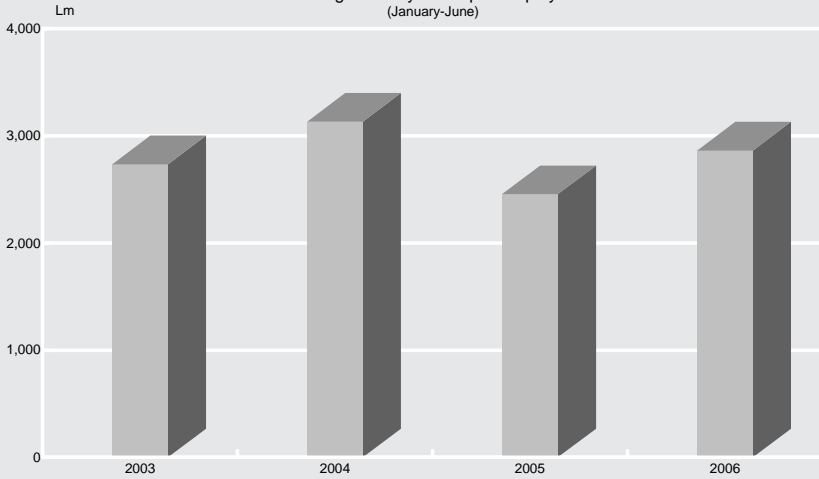
The main manufacturing activity in this sector consists of electronic components and other precision communication products. The sector's turnover mainly reflects the performance of a small number of relatively large foreign subsidiaries, which in turn are affected by international economic developments, in particular market conditions for electronic products.

During the period under review, the sector's turnover registered an increase of 21.9 per cent, reaching Lm235.4 million. This was underpinned by an increase of the same magnitude in exports, which stood at Lm235.0 million. This development in the sector reversed the significant decline in turnover registered in the first six months of 2005 and followed the restructuring process carried



Chart 4.13

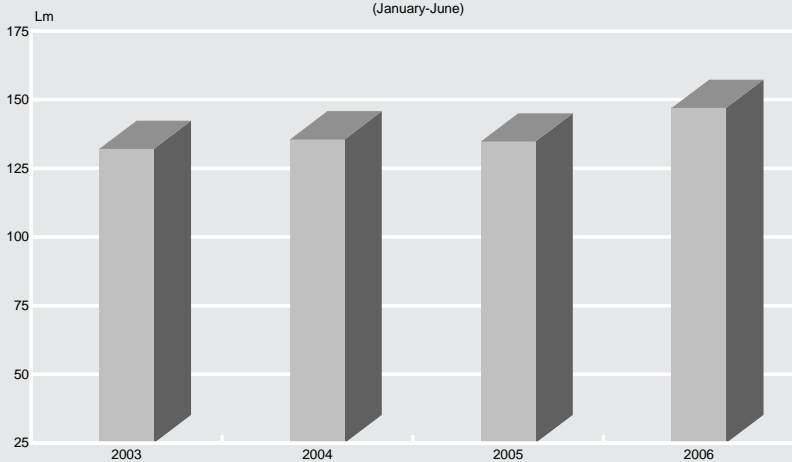
**Radio, TV and Communication Equipment\***  
Average Weekly Sales per Employee  
(January-June)



\*As from 2004, data on exports may include re-exports

Chart 4.14

**Radio, TV and Communication Equipment**  
Average Weekly Earnings per Employee  
(January-June)



out by a major export-oriented subsidiary in the sector. Local sales remained practically at the same level recorded in the January-June 2005 period and stood at Lm0.4 million. Investment levels more than doubled in the first half of 2006 and were recorded at Lm20.7 million, reflecting increased capital outlays by the main export-oriented firm in the sector.

Average weekly sales and average weekly exports per capita reflect the sector's positive performance during the period under review, where both indicators rose by 16.6 per cent and reached Lm2,863.73 and Lm2,859.34 respectively. Average weekly sales per employee for the sector, presented in Chart 4.13, as well as average weekly exports per capita are around three times the average for the industry. Furthermore, Chart 4.14 depicts the sector's average weekly per capita compensation levels, which rose by 9.0 per cent to Lm147.02, being Lm22.36 higher than the industry's average.

## **Medical, Precision and Optical Instruments**

The medical, precision and optical instruments sector is largely export-oriented with over 82 per cent of its turnover directed to foreign markets. During the January-June 2006 period, total turnover increased by 4.9 per cent and was recorded at Lm14.0 million. This reflects a 7.6 per cent increase in exports which stood at Lm11.5 million. On the other hand, local sales fell by 6.3 per cent to Lm2.5 million. Net investment maintained the relatively low level recorded in the first six months of last year and stood at Lm0.2 million.

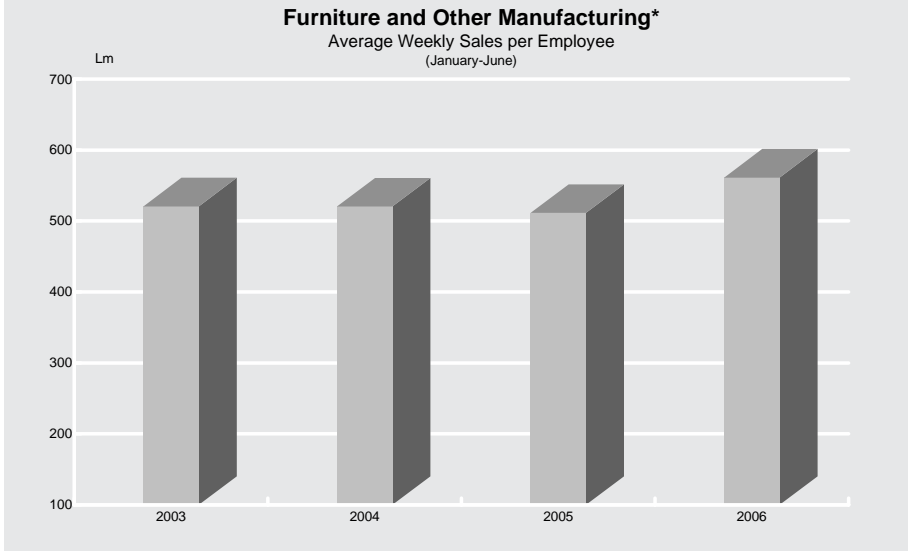
The increase in turnover and export levels outweighed the slight drop in the level of employment and as a result average weekly sales per employee and average weekly exports per capita rose by 5.2 per cent and 8.0 per cent respectively. Average weekly earnings per employee decreased marginally during the first half of 2006 and stood at Lm116.83.

## **Furniture and Other Manufacturing**

This sector comprises a cluster of primarily local-oriented manufacturers of furniture products, while a number of other firms are engaged in the manufacture of toys, games and jewellery items which are mainly directed towards the export market.

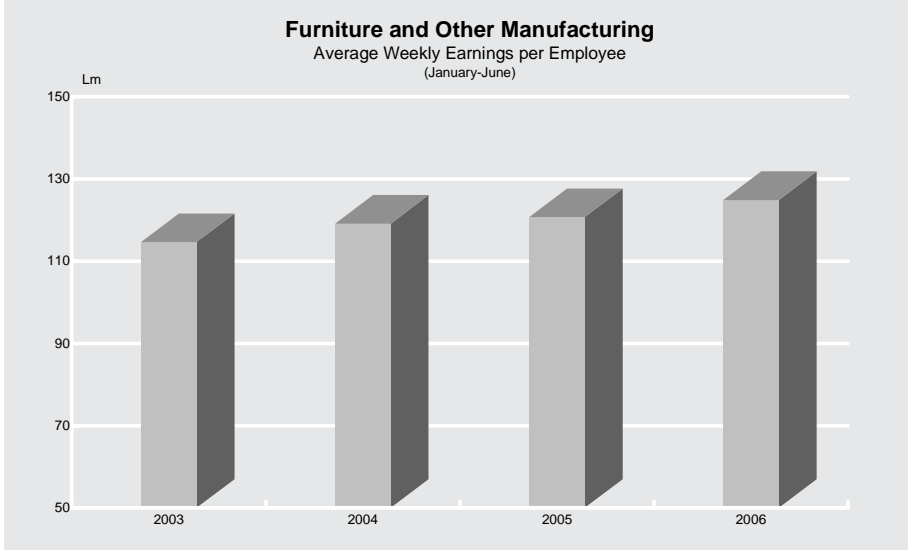
During the first half of 2006, sectoral turnover registered a 12.3 per cent increase and reached Lm24.2 million. This particularly reflects a 9.0 per cent increase in

Chart 4.15



\*As from 2004, data on exports may include re-exports

Chart 4.16



export levels being mainly underpinned by an increase in exports of products related to toys and games. Moreover, local sales in the sector rose by Lm1.3 million to Lm7.3 million, mainly reflecting increased turnover by the furniture sub-sector. It is noteworthy that during the period under review the furniture sub-sector has maintained the recovery registered in the first six months of 2005, thus reversing the lower local sales levels recorded in the two years following the dismantling of levies on imported furniture products in October 2002. The jewellery and related articles and games and toys sub-sectors also registered modest increases in local sales. Sectoral capital outlays declined by Lm0.8 million and stood at Lm1.5 million. It is noteworthy that capital outlays mainly reflect investment levels in the games and toys sub-sector. Over recent years, a major foreign-owned subsidiary in this sub-sector had conducted significant investment activity to accommodate its expanding production requirements. The decline in capital outlays during the first six months of 2006 reflects the fact that this project is nearing completion.

As shown in Chart 4.15, average weekly sales per capita increased by 9.7 per cent to Lm561.19 during the period under review. This reflects an increase in turnover that outweighed the increase in employment levels. Furthermore, average weekly exports per capita rose by 6.5 per cent and stood at Lm392.56. Chart 4.16 presents average weekly per capita compensation levels, which increased by 3.4 per cent to Lm124.84, which is in line with the average recorded for the total manufacturing industry.

## Agriculture and Fisheries

The agriculture and fisheries industry constitutes a minor part of the small island setting of the Maltese economy. In fact in the period January–June 2006 this sectors' contribution towards total economy remained rather low at 2.7 per cent of Gross Value Added. Over the last four years this sector has maintained a low but stable share in the Maltese economy. However, its importance transcends its contribution to the Maltese economy. Agriculture exhibits an integrated framework within the varied produce of its sector and the economy of marketing and distribution. Apart from providing for the welfare of the farming community, agriculture also serves in part to enhance the island's fragile rural landscape. Meanwhile, fishing has been practiced in Malta for a long time and has come to form part of the island's heritage and social fabric, becoming also a typical seascape in the main fishing villages which in itself is a tourist attraction.

## Agriculture

Maltese agriculture primarily comprises fruit and vegetable production, livestock and dairy production and the processing of such produce, such as meat and meat preparation, canning of fruit and vegetables, wines and beer, and animal feeds. The Maltese agricultural sector faces a number of structural challenges and natural constraints such as water irrigation scarcity, fragmented land ownership and the absence of scale economies. Agriculture still holds an important role in the economy even though the small scale of the industry may be detrimental to its performance.

In order to assist the Maltese agricultural sector adapt to new circumstances following the removal of import levies on agricultural and agro-food products in 2004, the Special Market Programme for Maltese Agriculture provides financial assistance and incentive schemes. In fact, total aid given by Government in agricultural support schemes for the first nine months of this year amounted to Lm3.6 million.

Table 4.1 presents data for the volume of beef, pork and broiler slaughtering in tonnes for the period January-June 2006 as compared to the same period of the previous year. Both beef and pork slaughtering decreased when compared to the same period of the previous year registering decreases of 3.9 and 4.1 per cent respectively. However, the most significant drop in slaughtering was attributed to broilers which amounted to 17.5 per cent less than 2005. Pork constituted the largest portion of the three meat products with a total share of 61.1 per cent.

<b>Slaughtering</b>						
Beef, Pork and Broilers						
Table 4.1	tonnes					
	Beef		Pork		Broilers	
	2005	2006	2005	2006	2005	2006
January	146	136	676	652	417	344
February	121	118	650	662	375	264
March	112	112	763	754	301	249
April	115	103	696	648	360	283
May	132	125	712	729	388	394
June	98	102	700	579	420	332
Total	724	696	4,197	4,024	2,261	1,866

*Source: National Statistics Office*

## Box 4.1

### Economic Accounts for Agriculture

The Economic Accounts for Agriculture published by the National Statistics Office (NSO) capture agricultural statistics based on methodologies according to the European Accounts for Agriculture and Forestry (EAA/EAF 97, rev. 1.1), as well as the revised methodology on Agriculture Labour Input Statistics. The following analysis is based on agriculture statistics covering private enterprises and is thus not comparable with data presented in other Chapters in this Economic Survey.

Agricultural factor income at current market prices decreased by 5.0 per cent and reached Lm25.8 million in 2005, as illustrated in Table 4.A. This decrease was mainly underpinned by lower total final production at producer prices. In fact, total final production at producer prices decreased by Lm0.9 million, representing a decrease of 1.8 per cent from the previous year. On the other hand subsidies on production rose by 8.9 per cent. Final consumption at basic prices decreased to Lm53.7 million, marking a decline of 0.8 per cent from 2004 to 2005. Adding to a lower factor income at current prices were a higher intermediate consumption level and lower subsidies. In fact, intermediate consumption in 2005 was 2.3 per cent higher than in 2004 while subsidies not directly linked with production decreased by 8.8 per cent over the same period. Net value added at basic prices as at December 2005 stood at Lm23.0 million, representing a fall of 4.5 per cent over 2004.

	Factor Income at Current Prices				Lm thousand
	2002	2003	2004	2005	
Total final production at producer prices	54,954	50,493	49,186	48,304	
add subsidies on production	799	4,051	4,950	5,392	
Total final production at basic prices	55,753	54,544	54,135	53,697	
less intermediate consumption	27,563	26,291	28,322	28,979	
Gross value added at basic prices	28,190	28,253	25,813	24,718	
less fixed capital consumption	1,795	1,756	1,743	1,729	
Net value added at basic prices	26,395	26,498	24,071	22,989	
add other subsidies not directly linked with production	429	268	3,086	2,813	
Factor income at current prices	26,824	26,766	27,157	25,802	

Source: National Statistics Office

Box 4.1 continued

Table 4.B presents the distribution of factor income at current prices. Nominal entrepreneurial income decreased by 5.5 per cent between 2004 and 2005. Over the same period, compensation levels of employees increased by 2.2 per cent. Interest levels as well as rents, maintained the same level from the previous year, standing at Lm0.4 million and Lm0.3 million respectively.

**Distribution of Factor Income at  
Current Prices**

Table 4.B

Lm thousand

	2002	2003	2004	2005
Factor Income	26,824	26,766	27,157	25,802
Entrepreneurial income (profits)	24,827	24,876	25,289	23,908
Compensation of employees (wages)	1,115	1,140	1,161	1,186
Interest	591	458	415	415
Rents	292	292	292	292

Source: National Statistics Office

During the first six months of 2006, 23.2 million kilograms of fruit and vegetables were sold. This marked a 14.7 per cent increase from the same period in the previous year and was reflected in a 10.4 per cent decline in average prices of fruits and vegetables. Despite lower prices, the wholesale value of fruits and vegetables sold through organised markets from January to June 2006 increased by 2.8 per cent to Lm4.07 million. This indicates that demand for fresh fruit and vegetables is price elastic.

Generally, an increase of 11.9 per cent in the price index for fresh fruit has been registered. This was accompanied with a consistent decrease in the volume of the product sold. A marked increase of around 7 per cent can be observed when comparing the fresh fruit volume index in January-June 2006 compared to the same period in 2005. This was due to a substantial increase in the volume of peaches. When compared to 2005, the price index for fresh vegetables has steadily decreased from January till June 2006 with the most marked decrease occurring in February. In fact, in February 2006 the price index for fresh vegetables was around 42 per cent less than the same month in the previous

### Fresh Fruit and Vegetables Indices

Table 4.2

2000=100

	Fresh Fruit Index		Fresh Vegetables Index	
	Price Index	Volume Index	Price Index	Volume Index
<b>2005</b>				
January	59.49	88.96	144.86	80.68
February	113.33	48.79	165.02	60.31
March	146.10	44.10	129.00	82.61
April	97.69	73.33	140.93	98.88
May	92.07	77.86	139.24	109.19
June	92.77	241.26	89.77	146.25
<b>2006</b>				
January	96.36	68.94	100.08	93.88
February	133.61	33.94	94.98	84.20
March	139.72	30.54	122.08	97.26
April	85.31	81.41	124.19	102.58
May	108.87	75.09	118.30	124.45
June	100.20	325.75	85.26	163.42

Source: National Statistics Office

### Imports of Major Agricultural Commodities

Table 4.3

Lm million

	2002	2003	2004	2005	2006	
					Jan/Aug	Jan/Aug
Live Animals	0.49	0.41	0.68	0.36	0.21	0.23
Meat and Edible Offals	9.03	10.50	14.30	14.56	9.56	10.76
Fish	10.20	7.08	6.56	5.49	3.57	4.22
Dairy Produce	11.88	12.33	13.59	13.02	8.61	8.38
Edible Fruits and Nuts	8.52	8.74	8.48	11.74	7.39	5.95
Cereals	9.91	10.17	6.46	9.36	6.88	5.34
Preparations of Meat, Fish	8.26	8.75	9.68	10.48	6.86	7.13
Sugar & Confectionery	5.50	5.39	6.93	6.30	3.14	3.14
Cereal Prep.	11.82	12.32	15.74	16.87	10.27	10.49
Veg. and Fruit Prep.	6.99	7.51	8.59	7.68	5.01	4.99
Misc. Edible Prep.	9.83	10.59	10.49	11.45	7.67	7.73
Beverages, Spirits, Vinegar	11.28	12.08	13.97	12.91	8.93	8.71
Feeds	7.29	6.80	7.56	8.05	5.32	4.81
<b>Total</b>	<b>111.00</b>	<b>112.67</b>	<b>123.03</b>	<b>128.27</b>	<b>83.40</b>	<b>81.88</b>

Source: National Statistics Office



year. Average prices for the January-June period of 2006 were almost 13 per cent lower than last year. As shown in Table 4.2, the volume of fresh vegetables has increased by around 15 per cent between January and June 2006 when compared to the same period in 2005. Due to the price elastic demand for vegetables, the volume of vegetables sold registered an increase of 0.4 per cent.

As shown in Table 4.3, major agricultural commodity imports for the January–August 2006 period stood at Lm81.88 million which was 1.8 per cent less than that registered in the same period in the previous year. The general decline in import value was due to decreases attributed to dairy produce, edible fruit and nuts, cereals, feeds, beverages, spirits and vinegar, vegetables and fruit preparations.

## Fisheries

Malta’s fishing industry is composed both of traditional fishing methods as well as fish farming and aquaculture techniques, the products of the latter serving mainly for exportation. Traditional fishing methods supply the local market with a variety of fish mainly dolphin-fish (*lampuki*), blue-fin tuna and swordfish. Despite being relatively small, the fishing industry still maintains a certain level of importance due to its social and environmental aspects.

<b>Fresh Fish Indices</b>		
Table 4.4	1995=100	
	Fresh Fish Index	
	Price Index	Volume Index
<b>2005</b>		
January	131.33	14.99
February	104.31	8.69
March	114.65	21.98
April	204.96	23.55
May	153.29	170.95
June	149.26	97.58
<b>2006</b>		
January	125.63	30.42
February	187.62	12.47
March	121.78	15.62
April	150.32	21.01
May	181.01	122.06
June	153.27	102.99

*Source: National Statistics Office*

**Exports of Fish**  
(January - August)

Table 4.5

	2005		2006	
	Qty (Kg)	Value Lm 000	Qty (Kg)	Value Lm 000
Sea-bream/Sea-bass	713,439	1,209	714,662	1,778
Tuna	696,743	3,231	1,641,088	8,505
Swordfish	28,422	117	2,465	17
<b>Total</b>	<b>1,438,604</b>	<b>4,557</b>	<b>2,358,215</b>	<b>10,300</b>

*Source: National Statistics Office*

Table 4.4 shows fresh fish indices for the first six months of 2005 and 2006. The volume of fresh fish has decreased by around 10 per cent when compared to the first six months of 2005. This is consistent with the 4.7 per cent increase in average prices observed during the same time frame in 2006 compared to 2005. Demand for fish appears to be relatively inelastic and lower volumes and high prices led to a lower value of fish sold on the market.

As can be seen in Table 4.5, the volume of fish exports during the first eight months of this year increased significantly by almost 64 per cent from 2005 to 2006. Meanwhile, a 126 per cent increase was recorded in the value of exported fish for the same period. Exportation of sea-bream/sea-bass remained practically unchanged in volume but an increase of 47 per cent was recorded in value terms, indicating a significant rise in average prices. The main contributor to the increase in export quantity and value of fish during the first eight months of 2006 is attributable to tuna. In fact, tuna export quantity and value rose by 135.5 and 163.2 per cent respectively when compared to the same period in 2005. This rise contrasts with the notable decline in swordfish exports. Tuna accounted for almost 70 per cent of total export quantity between January and August of this year, thus now exceeding the share of sea-bream/sea-bass. Its total value for the same period accounted to 83 per cent, thus reducing the share of sea-bream/sea-bass by a bigger margin than last year.

## The Shipyard Sector

Over the past years, the shipyard sector has experienced substantial competition from low cost shipyards. It has also been undergoing a restructuring process to

increase its productivity and transform itself from a beneficiary of state aid to a commercially viable company by 2008.

For Malta Shipyards Limited the year opened with the continuation of work on a major contract started in the last quarter of 2005, involving work to convert and enhance the capability of a seismic survey vehicle. In addition to this, the construction of an offshore power generation barge continued. Two major conversion projects also contributed to improve performance in the shipyards. Meanwhile, activities in the ship repair sector were reduced. The last quarter of 2006 again promises to be very busy with work underway on the first of the heavy lift barges.

Turnover for the first eight months of this year reached Lm15.9 million which is Lm6.7 million higher than budgeted. This was mainly due to the continuation of work on a major contract from the previous year. Nevertheless, losses over the same period amounted to Lm4.9 million, marginally exceeding projected losses by Lm0.6 million. Although there are positive indicators for turnover, however, challenges remain, particularly the achievement of the target efficiency gains in all areas so as to improve margins.

Safety and environmental protection improvements within the shipyards continued to be addressed. Quality management systems procedures have been enhanced continuing the process towards ISO accreditation.

As at the end of June 2006, employment at Malta Shipyards Limited stood at 1,760, practically at the same level as in the comparable period of 2005. Contributions by Government to Malta Shipyards for the first nine months of the year amounted to Lm4.5 million.

## Sampled Manufacturing Firms<sup>(1)</sup>

(January-June)

Appendix Table 4.1

	2003	2004	2005	2006**
<b>MANUFACTURING TOTAL</b>				
Sales (Lm 000)	496,176	499,581	457,258	494,690
Wages (Lm 000)	62,578	60,637	60,075	59,537
Net Investment (Lm 000)	24,211	30,412	24,295	31,549
Exports (Lm 000)	382,699	395,126	352,645	393,303
Local Sales (Lm 000)	113,477	104,455	104,613	101,387
Avg. Weekly Sales/Employee (Lm)	900.58	966.24	894.03	1,035.82
Avg. Weekly Earnings/Employee (Lm)	113.58	117.28	117.46	124.66
Avg. Weekly Exports/Employee (Lm)	694.61	764.21	689.49	823.53
<b>FOOD AND BEVERAGES &amp; TOBACCO PRODUCTS</b>				
Sales (Lm 000)	71,642	71,849	68,414	66,598
Wages (Lm 000)	8,950	9,053	8,811	8,533
Net Investment (Lm 000)	4,082	2,827	2,727	2,119
Exports (Lm 000)	8,183	10,016	11,104	13,348
Local Sales (Lm 000)	63,459	61,833	57,310	53,249
Avg. Weekly Sales/Employee (Lm)	834.48	846.51	844.45	829.75
Avg. Weekly Earnings/Employee (Lm)	104.25	106.66	108.76	106.32
Avg. Weekly Exports /Employee (Lm)	95.32	118.01	137.06	166.31
<b>TEXTILES AND TEXTILE PRODUCTS</b>				
Sales (Lm 000)	7,932	13,159	16,280	9,927
Wages (Lm 000)	1,955	2,472	3,008	1,551
Net Investment (Lm 000)	304	1,037	1,226	2,219
Exports (Lm 000)	5,933	12,603	16,011	9,666
Local Sales (Lm 000)	1,999	556	269	261
Avg. Weekly Sales/Employee (Lm)	352.48	512.52	567.93	825.51
Avg. Weekly Earnings/Employee (Lm)	86.87	96.30	104.94	129.00
Avg. Weekly Exports/Employee (Lm)	263.67	490.86	558.54	803.80
<b>WEARING APPAREL AND CLOTHES</b>				
Sales (Lm 000)	27,437	20,354	13,304	12,398
Wages (Lm 000)	5,515	3,987	3,677	2,950
Net Investment (Lm 000)	232	45	28	9
Exports (Lm 000)	24,649	18,176	11,990	11,373
Local Sales (Lm 000)	2,788	2,177	1,313	1,024
Avg. Weekly Sales/Employee (Lm)	452.51	462.81	336.41	387.83
Avg. Weekly Earnings/Employee (Lm)	90.96	90.65	92.99	92.29
Avg. Weekly Exports/Employee (Lm)	406.53	413.30	303.20	355.78

**Sampled Manufacturing Firms\*<sup>(1)</sup>**  
(January-June)

Appendix Table 4.1

continued

	2003	2004	2005	2006**
<b>LEATHER AND LEATHER PRODUCTS</b>				
Sales (Lm 000)	6,035	4,149	3,080	1,836
Wages (Lm 000)	1,291	979	777	514
Net Investment (Lm 000)	78	38	7	—
Exports (Lm 000)	5,951	4,069	3,005	1,770
Local Sales (Lm 000)	84	80	74	66
Avg. Weekly Sales/Employee (Lm)	391.08	362.29	349.91	344.47
Avg. Weekly Earnings/Employee (Lm)	83.69	85.52	88.24	96.53
Avg. Weekly Exports/Employee (Lm)	385.66	355.27	341.47	332.10
<b>WOOD AND WOOD PRODUCTS</b>				
Sales (Lm 000)	241	155	231	150
Wages (Lm 000)	81	51	54	64
Net Investment (Lm 000)	—	—	—	—
Exports (Lm 000)	5	0	5	5
Local Sales (Lm 000)	236	155	226	145
Avg. Weekly Sales/Employee (Lm)	195.33	192.02	287.12	192.03
Avg. Weekly Earnings/Employee (Lm)	65.74	63.49	66.51	82.68
Avg. Weekly Exports/Employee (Lm)	4.06	0.00	6.62	6.14
<b>PAPER AND PAPER PRODUCTS</b>				
Sales (Lm 000)	3,650	3,585	3,252	3,241
Wages (Lm 000)	865	902	869	955
Net Investment (Lm 000)	—	401	68	3
Exports (Lm 000)	60	66	117	144
Local Sales (Lm 000)	3,590	3,518	3,135	3,097
Avg. Weekly Sales/Employee (Lm)	504.05	482.90	445.10	476.64
Avg. Weekly Earnings/Employee (Lm)	119.47	121.46	118.98	140.41
Avg. Weekly Exports/Employee (Lm)	8.32	8.95	16.01	21.18
<b>PUBLISHING AND PRINTING</b>				
Sales (Lm 000)	23,090	23,892	26,731	22,442
Wages (Lm 000)	5,473	6,109	5,537	6,163
Net Investment (Lm 000)	2,260	4,550	2,116	769
Exports (Lm 000)	14,626	15,684	17,957	13,642
Local Sales (Lm 000)	8,464	8,208	8,773	8,801
Avg. Weekly Sales/Employee (Lm)	544.34	562.03	644.78	554.20
Avg. Weekly Earnings/Employee (Lm)	129.02	143.72	133.56	152.20
Avg. Weekly Exports/Employee (Lm)	344.80	368.95	433.15	336.87

**Sampled Manufacturing Firms<sup>(1)</sup>**  
(January-June)

Appendix Table 4.1

continued

	2003	2004	2005	2006**
<b>CHEMICALS AND CHEMICAL PRODUCTS</b>				
Sales (Lm 000)	17,140	16,570	18,526	29,505
Wages (Lm 000)	3,503	2,577	2,614	3,062
Net Investment (Lm 000)	2,136	6,708	3,850	2,957
Exports (Lm 000)	13,283	12,407	14,961	25,810
Local Sales (Lm 000)	3,857	4,163	3,565	3,696
Avg. Weekly Sales/Employee (Lm)	622.21	794.15	880.78	1,299.91
Avg. Weekly Earnings/Employee (Lm)	127.16	123.52	124.25	134.91
Avg. Weekly Exports/Employee (Lm)	482.21	594.65	711.28	1,137.08
<b>RUBBER AND PLASTIC PRODUCTS</b>				
Sales (Lm 000)	20,130	19,866	20,289	19,936
Wages (Lm 000)	5,353	5,830	5,594	5,147
Net Investment (Lm 000)	1,446	594	805	549
Exports (Lm 000)	16,050	15,885	16,145	15,700
Local Sales (Lm 000)	4,079	3,980	4,144	4,236
Avg. Weekly Sales/Employee (Lm)	440.15	433.51	427.70	475.21
Avg. Weekly Earnings/Employee (Lm)	117.05	127.22	117.91	122.68
Avg. Weekly Exports/Employee (Lm)	350.95	346.65	340.34	374.24
<b>OTHER NON-METALLIC MINERAL PRODUCTS</b>				
Sales (Lm 000)	6,903	6,952	10,313	10,430
Wages (Lm 000)	1,556	1,583	1,687	1,887
Net Investment (Lm 000)	198	48	366	268
Exports (Lm 000)	910	966	1,018	922
Local Sales (Lm 000)	5,993	5,986	9,295	9,509
Avg. Weekly Sales/Employee (Lm)	383.66	391.50	542.24	544.69
Avg. Weekly Earnings/Employee (Lm)	86.50	89.12	88.68	98.52
Avg. Weekly Exports/Employee (Lm)	50.59	54.39	53.54	48.13
<b>FABRICATED METAL PRODUCTS</b>				
Sales (Lm 000)	8,733	6,535	8,995	8,560
Wages (Lm 000)	2,051	1,991	2,011	1,705
Net Investment (Lm 000)	242	91	529	90
Exports (Lm 000)	3,781	3,058	3,871	3,055
Local Sales (Lm 000)	4,952	3,477	5,123	5,505
Avg. Weekly Sales/Employee (Lm)	461.07	386.41	523.37	526.37
Avg. Weekly Earnings/Employee (Lm)	108.29	117.75	117.02	104.87
Avg. Weekly Exports/Employee (Lm)	199.64	180.81	225.25	187.88

## Sampled Manufacturing Firms\*(1)

(January-June)

Appendix Table 4.1

continued

	2003	2004	2005	2006**
<b>MACHINERY AND EQUIPMENT N.E.C.</b>				
Sales (Lm 000)	6,113	6,561	7,549	6,426
Wages (Lm 000)	1,085	1,215	1,300	1,263
Net Investment (Lm 000)	361	130	52	24
Exports (Lm 000)	4,597	5,089	5,609	5,663
Local Sales (Lm 000)	1,516	1,471	1,940	763
Avg. Weekly Sales/Employee (Lm)	648.58	601.53	642.32	650.44
Avg. Weekly Earnings/Employee (Lm)	115.09	111.39	110.61	127.88
Avg. Weekly Exports/Employee (Lm)	487.73	466.62	477.27	573.20
<b>ELECTRICAL MACHINERY AND APPARATUS</b>				
Sales (Lm 000)	19,213	18,678	25,356	20,769
Wages (Lm 000)	3,790	3,639	3,749	3,626
Net Investment (Lm 000)	987	889	905	96
Exports (Lm 000)	18,392	18,376	25,168	20,316
Local Sales (Lm 000)	821	302	188	452
Avg. Weekly Sales/Employee (Lm)	604.23	629.88	884.97	741.34
Avg. Weekly Earnings/Employee (Lm)	119.18	122.72	130.83	129.44
Avg. Weekly Exports/Employee (Lm)	578.41	619.68	878.40	725.19
<b>RADIO, TV AND COMMUNICATION EQUIPMENT</b>				
Sales (Lm 000)	236,936	245,525	193,080	235,396
Wages (Lm 000)	11,451	10,622	10,603	12,085
Net Investment (Lm 000)	8,759	9,603	8,908	20,698
Exports (Lm 000)	235,493	244,922	192,778	235,035
Local Sales (Lm 000)	1,443	603	302	361
Avg. Weekly Sales/Employee (Lm)	2,733.74	3,132.61	2,455.74	2,863.73
Avg. Weekly Earnings/Employee (Lm)	132.12	135.53	134.86	147.02
Avg. Weekly Exports/Employee (Lm)	2,717.09	3,124.92	2,451.89	2,859.34
<b>MEDICAL, PRECISION AND OPTICAL INSTRUMENTS</b>				
Sales (Lm 000)	9,702	12,912	13,339	13,986
Wages (Lm 000)	3,414	3,679	3,592	3,531
Net Investment (Lm 000)	221	944	261	233
Exports (Lm 000)	7,575	10,770	10,710	11,523
Local Sales (Lm 000)	2,127	2,142	2,630	2,463
Avg. Weekly Sales/Employee (Lm)	385.29	412.13	439.64	462.72
Avg. Weekly Earnings/Employee (Lm)	135.57	117.41	118.39	116.83
Avg. Weekly Exports/Employee (Lm)	300.83	343.77	352.97	381.24

**Sampled Manufacturing Firms<sup>(1)</sup>**  
(January-June)

Appendix Table 4.1

continued

	2003	2004	2005	2006**
<b>MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS</b>				
Sales (Lm 000)	356	316	304	265
Wages (Lm 000)	81	107	123	75
Net Investment (Lm 000)	—	—	24	—
Exports (Lm 000)	264	208	103	75
Local Sales (Lm 000)	92	108	201	191
Avg. Weekly Sales/Employee (Lm)	301.04	231.64	194.64	264.86
Avg. Weekly Earnings/Employee (Lm)	68.13	78.71	78.71	74.85
Avg. Weekly Exports/Employee (Lm)	223.51	152.70	65.91	74.48
<b>OTHER TRANSPORT EQUIPMENT<sup>(2)</sup></b>				
Sales (Lm 000)	7,242	7,050	6,647	8,598
Wages (Lm 000)	950	924	979	1,034
Net Investment (Lm 000)	593	34	90	14
Exports (Lm 000)	6,037	6,675	6,545	8,309
Local Sales (Lm 000)	1,205	375	102	289
Avg. Weekly Sales/Employee (Lm)	1,277.70	1,166.20	1,092.50	1,601.40
Avg. Weekly Earnings/Employee (Lm)	167.70	152.88	160.87	192.59
Avg. Weekly Exports/Employee (Lm)	1,065.14	1,104.23	1,075.78	1,547.55
<b>FURNITURE AND OTHER MANUFACTURING N.E.C.</b>				
Sales (Lm 000)	23,681	21,474	21,570	24,228
Wages (Lm 000)	5,214	4,915	5,091	5,390
Net Investment (Lm 000)	2,313	2,473	2,332	1,502
Exports (Lm 000)	16,906	16,154	15,548	16,948
Local Sales (Lm 000)	6,776	5,320	6,022	7,280
Avg. Weekly Sales/Employee (Lm)	520.47	520.27	511.48	561.19
Avg. Weekly Earnings/Employee (Lm)	114.60	119.09	120.72	124.84
Avg. Weekly Exports/Employee (Lm)	371.56	391.38	368.68	392.56

\* As from 2004, data on exports may include re-exports

\*\* Provisional

<sup>(1)</sup> As from 2004, data reflects re-classification of enterprises according to their main manufacturing activity

<sup>(2)</sup> Data for 2003 excludes Malta Shipbuilding Co. Ltd.

Source: National Statistics Office



## 5. Services Activities

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## 5. Services Activities

Over the years, the structure of the Maltese economy has gradually evolved to become more services oriented. Tourism is the leading services activity both in terms of employment and as a key foreign currency earner. However, the tourism industry is subject to several external influences. Terrorism, natural disasters, health scares, oil price rises, exchange rate fluctuations, economic and political uncertainties, and an ever-changing competitive scenario with the constant development of new destinations for the tourist, are external issues, which highly influence the local tourism industry. Faced with the challenges emerging from these international conditions, both Government and the private sector continued to invest in this sector, including efforts to diversify the tourist market to upgrade the domestic tourist market, as well as to offer a more price competitive package to the potential tourist. However, the tourism industry continues to face competitive issues.

During January-August 2006, tourist departures declined by 3.7 per cent over the corresponding 2005 period, to 767,836 visitors. Despite this performance, gross foreign exchange earnings from tourism remained stable, at a level of Lm101.5 million during the January-June period. Per capita earnings increased by 2.8 per cent during the first half of 2006, to a level of Lm215.2, whilst earnings per night spent increased from Lm22.6 during the first six months of 2005 to Lm23.5 during the same period in 2006. At 9,107 full-time employment in hotels and restaurants recorded a decline of 59 persons between June 2005 and June 2006. On the other hand, improvements were recorded in the number of cruise passengers arriving in Malta. In fact, the cruise liner business continued to increase, with the number of cruise passengers rising to 233,265, during the first eight months of 2006, an increase of 31.5 per cent over the same period of 2005.

The Malta Financial services Authority (MFSA) has been the single regulator for the local financial services sector, which incorporates all financial activity including banking, investment and insurance. The MFSA is also responsible for consumer education and protection in the financial services sector. Moreover, the MFSA manages the Registry of Companies and has also the responsibility of the Listing Authority. During this year it has issued new licenses and put into force new acts and amendments to the Listing Rules. It has also worked to bring Malta's financial sector more in line with EU legislation and also contributed to greater integration with international organizations.

Malta Enterprise is Government's agency focused on attracting inward direct investment and supporting enterprises in Malta. Its role is to act as a single point of contact for all enterprise support in Malta and to provide cohesion to Government policies and efforts relating to enterprise. During the first nine months of 2006, it has approved new and expansion projects (both from local and foreign investors), granted assistance through soft loans and liaised with potential investors in various countries targeting both manufacturing and services sectors. It is also coordinating a number of projects aimed at promoting innovation, technology transfers and providing more technological infrastructural support to businesses.

## Tourism

Tough international competition is leaving its mark on the performance of the Maltese tourism industry. In fact, the relatively modest increases registered in 2004 and 2005 were reversed as tourist departures declined by 3.7 per cent during the first eight months of 2006. Nights spent continued to follow the same declining trend during the first eight months of 2006. However, it is noteworthy that the average length of nights spent increased marginally in contrast to international trends where growth rates in tourist departures have tended to outpace nights spent. Gross foreign exchange earnings from tourism increased marginally by 0.3 per cent to Lm101.5 million during the first half of 2006, despite the decline in tourist departures registered over the same period.

Following the significant decline registered in 2004, the domestic cruise liner industry has continued to expand thus sustaining an increasingly important role in the local tourism industry. In fact, during the January-August 2006 period, cruise passenger arrivals increased by 55,891 to reach 233,265 as more cruise liner operators started using Malta as a home port. Full-time employment in hotels and restaurants registered a decline of 59 jobs in June 2006 over the previous comparable period. Table 5.1 presents selected tourism indicators.

Through the first eight months of 2006, the world tourism market continued to be characterised by an increasingly competitive environment, especially in the Mediterranean region, where developments directly affect activity in the domestic tourism industry. Tunisia, Morocco and other emerging destinations, such as Croatia, Montenegro and Bulgaria are offering attractive tourist packages aimed for high-spending tourists. These destinations have recently started to gain market share to the detriment of Malta as well as of other traditional Mediterranean and European destinations. Moreover, tourists continue to opt to travel more frequently for shorter durations, while long-haul travel still remains attractive.

### Main Tourism Indicators

Table 5.1

	2003	2004	2005	2005 Jan/Aug	2006 Jan/Aug
Tourist Departures*	1,118,234	1,157,684	1,170,626	797,636	767,836
Nights spent (000's)**	11,293	11,175	11,085	7,726	7,527
Cruise Passengers***	383,599	284,952	312,093	177,374	233,265
Total full-time employment in hotels and restaurants****	8,360	8,332	8,503	9,166 <sup>(1)</sup>	9,107 <sup>(1)</sup>

\*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

\*\*As from April 2004, data for sea nights taken from Inbound Tourism Survey

\*\*\*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.

<sup>(1)</sup>Data as at end of June

Source: National Statistics Office

Employment and Training Corporation

The simplification of, and even outright removal of frontier formalities also contributed to increasing attractiveness of vacations outside the country of residence since travelling to a vast range of foreign countries has become as simple as travelling within one's own borders. The open-skies policies adopted by most countries also had an impact on the way airlines operate services between markets and destinations. Whilst these present opportunities for the local tourism industry, the implied advantages are also being enjoyed by Malta's competing tourist destinations in Europe.

The recent hike in energy prices is another issue that is impacting upon the tourism industry. Despite the fact that airline fuel surcharges were increasingly widespread in the first months of 2006, airlines have refrained from passing on fuel energy prices to consumers. Aggressive competition has driven real-price reductions in air transport. In fact, low-cost airlines have become a major factor, impinging significantly on the performance of the tourism industries within European countries. In this context, new low-cost airlines will start to operate to Malta on a number of selected routes in the coming months. An overview of international tourism indicates that the increasing attractiveness of low-cost air travel often over-rides any concerns that tourists may have about external threats.

In the light of these challenges, efforts are being intensified by the Malta Tourism Authority (MTA) to ensure that Malta maintains a competitive position. During

the first eight months of 2006, the MTA intensified its activities to promote Malta as a tourism destination overseas. Following the restructuring of the MTA in 2004, which was implemented during 2005, the Authority in August 2006 has launched its Third Strategic Plan covering the period 2006-2009. The MTA has adopted a market segmentation approach whereby seven segments that broadly encompass all tourism activity on the Maltese Islands have been identified. These segments include leisure and tour operating, history and culture, meetings, incentives, conferences and exhibitions, sports tourism, including diving, English language learning, Gozo-based holidays, and other growth markets (cruise and stay, spa, and short-breaks). The restructuring exercise in MTA involved a review of the regions serviced by MTA offices. The MTA offices in the UK and Germany were retained given that these are the two main source markets to the Maltese Islands. In other regions, well-established representation agencies were appointed to undertake marketing and sales activities in order to underpin the marketing and sales drive of the seven identified segments. Another strategic measure by the MTA involves the commissioning of a common advertising campaign for all source markets, rather than the fragmented advertising campaigns in different source markets previously adopted by the MTA. Additionally, the MTA is in the process of launching a web portal for on-line booking.

As a consequence of the restructuring exercise undertaken, the MTA is in a position to allocate funds previously allocated to administration expenses towards the marketing of Malta and Gozo. Besides, the MTA is carrying out a comprehensive branding exercise. A brand platform for Malta has been developed and the brand core values of Heritage, Hospitality and Diversity have been identified. Accordingly, internal and external branding initiatives are being undertaken.

Moreover, in the first eight months of 2006, the Government has continued with its commitment to invest in Malta's historical heritage as well as to upgrade the tourism product. EU funds are also being used to finance such projects, as well as to finance training projects for employees in this industry. Another project that was initiated during this period is the Medina project, which is funded by the European Commission under the Eumediterranean Programme. This project involves collaboration between seven EU countries and seven Mediterranean partner countries. The Medina project groups cultural and tourism resources into five areas, mainly the Material Heritage, Performing Arts, Folk traditions, Food and Gastronomic culture, and Handicraft and Tourist Information. This project should help the countries forming part of this partnership to enhance the visitor's

knowledge of the vast cultural heritage in all the countries involved and thus boost the cultural tourism sector.

## Monthly Distribution

On a month-to-month basis, tourist departures during the first eight months of 2006, recorded increases only in February and April, when compared to the same months of 2005. The notable increase in April of 10.8 per cent is mainly attributable to the rather late Easter recess. In fact, the level registered in April 2006 is the highest level for this month during the 2003-2006 period. The timing of the Easter recess affected tourist departures in March, when a drop of 9.7 per cent was recorded. Moreover, significant declines were also registered in May and August when tourist departures declined by 8.7 per cent and 7.9 per cent respectively. August remained the peak month accounting for 21.4 per cent of total departures during the first eight months of the year, followed by

**Monthly Tourist Departures\***

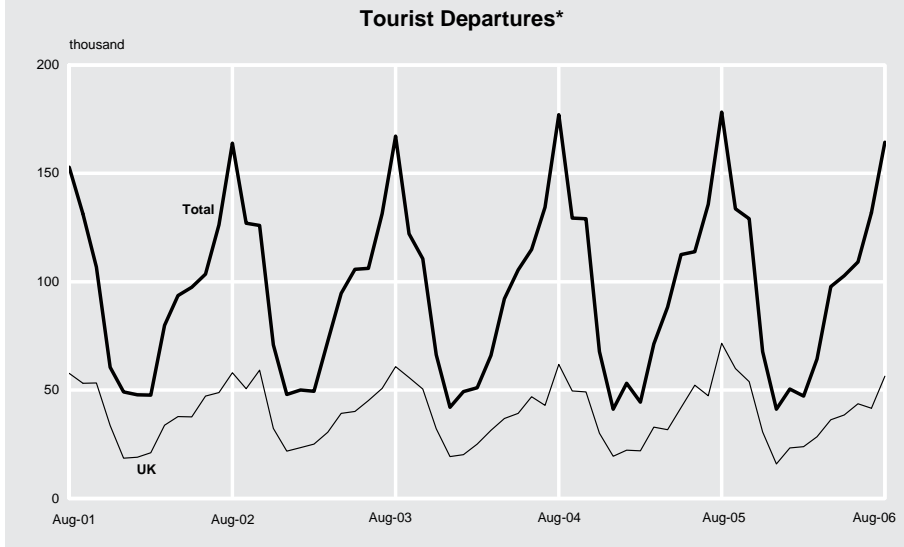
Table 5.2

	2003	2004	2005	2006
January	50,000	49,262	53,125	50,523
February	49,418	51,132	44,393	47,301
March	72,501	65,999	71,277	64,342
April	94,640	92,166	88,279	97,785
May	105,736	105,402	112,559	102,738
June	106,226	114,879	113,933	109,041
July	131,438	134,366	135,751	131,805
August	167,112	177,097	178,319	164,301
January/August	777,071	790,303	797,636	767,836
% change	2.2	1.7	0.9	-3.7
September	122,076	129,425	133,591	
October	110,589	129,027	129,334	
November	66,368	67,744	69,652	
December	42,130	41,185	40,413	
Total	1,118,234	1,157,684	1,170,626	
% change	-1.2	3.5	1.1	

\*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

Source: National Statistics Office

Chart 5.1



\*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 taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey.

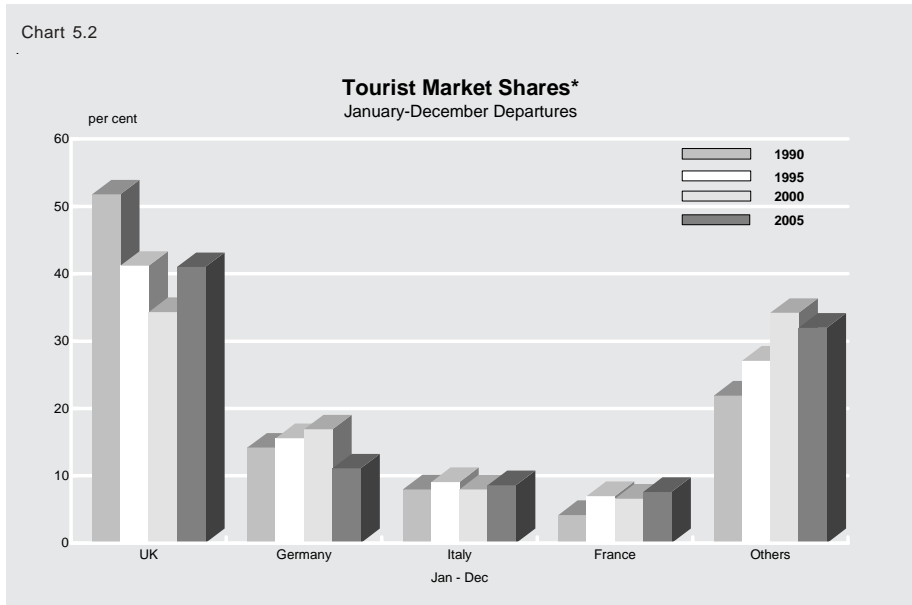
July, with a level of 131,805, or a share of 17.2 per cent. Data on the monthly distribution of tourist departures is shown in Table 5.2.

Tourist flows to Malta continued to exhibit strong seasonality patterns during the first eight months of 2006 as illustrated in Chart 5.1. As the year unfolded, tourist departures increased consistently up to the peak month of August, except for February. This highlights the prevailing seasonality in Malta's tourism trends, with a high concentration of tourists in the spring and summer months and a low concentration in the winter period. This seasonal concentration involves particular difficulties, including the effects on infrastructure, hotel occupancy, as well as on the labour market.

## Tourist Nationality

Although the UK remains the major market in the Maltese tourism sector, its share has generally declined over the years, while other markets registered an increasing market share. This is depicted in Chart 5.2, which illustrates the relative market shares of Malta's main source markets over the January-December 1990-2005 period. The relative share of the UK market has declined from 51.6 per cent in 1990 to 35.3 per cent in 2000 but edged up to 41.2 per cent by 2005. The German's market share remains the second most important market for tourism in Malta. This market had increased its share between 1990-





\*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 taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey.

2000 but then registered a drop in its market share to 11.8 per cent by 2005, which is below the 1990 ratio. The share of the Italian market fluctuated from 7.3 per cent in 1990, to 8.7 per cent in 1995 and a ratio of 7.9 per cent by 2005. The share of the French market increased to 7.1 per cent in 2005 compared to the 3.9 per cent in 1990. The share of the other markets category increased from 22.2 per cent in 1990 to 32.0 per cent in 2005. The latest available data for tourist departures covering the first eight months of 2006 indicates that the distribution of the market share amongst the main source markets remained relatively the same with the UK tourist flows to Malta accounting for 38.0 per cent, compared to 10.4 per cent from the German market, 11.1 per cent from the Italian market, 7.4 per cent from the French market, and 33.1 per cent from the other markets.

A detailed breakdown of tourist departures by nationality is presented in Table 5.3. During January-August 2006 a relatively high improvement was recorded in the Italian source market. In fact, arrivals from the Italian market increased by 12,905 or 17.9 per cent over the previous comparable period. Inflows from the Italian market are expected to continue to be positively affected by the commencement of a new service to Malta by an Italian low-fare airline as from June 2006. Other increases were registered by the Belgian market, which increased by 1,586, or 8.2 per cent over January-August 2005. Meanwhile,

### Tourist Departures by Nationality\*

Table 5.3

	2003	2004	2005	2005	2006
				Jan/Aug	Jan/Aug
United Kingdom	473,097	453,021	482,642	322,030	292,106
Germany	125,415	135,201	138,215	86,144	79,738
Italy	92,680	102,640	92,405	72,091	84,996
France	77,382	87,147	82,606	62,387	56,877
Netherlands	40,044	38,460	37,101	25,468	26,843
Scandinavia**	46,957	62,106	64,291	42,657	41,417
Libya	17,463	12,832	10,665	7,766	6,154
Belgium	26,399	31,437	28,730	19,237	20,823
Austria	24,596	24,078	26,394	18,037	17,013
Switzerland	22,010	22,874	20,274	13,047	13,011
USA	15,174	18,897	18,108	13,134	11,674
Others	157,017	168,991	169,195	115,638	117,184
<b>TOTAL</b>	<b>1,118,234</b>	<b>1,157,684</b>	<b>1,170,626</b>	<b>797,636</b>	<b>767,836</b>

\*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

\*\*Includes Denmark, Norway, Sweden

Source: National Statistics Office

arrivals from the Dutch market increased by 1,375 or 5.4 per cent, while tourists from the group of other countries increased by 1,546 or 1.3 per cent.

In contrast, the other source markets registered drops in tourist departures. Between January-August 2006, arrivals from the UK declined by 29,924 or 9.3 per cent over the previous comparable period. Similarly, in the first eight months of 2006, tourists from the German market declined by 6,406 or 7.4 per cent over the corresponding 2005 period. Another notable decline registered during the first eight months of 2006 was that from the French market, where tourists declined by 5,510, or 8.8 per cent. These developments may be attributable to the extremely low priced holidays to other destinations. The announcement of the availability of cheap airfares to major European cities augur well for tourist inflows from the major tourist source markets.

## Cruise Passengers

The cruise liner industry continued to expand during the January-August 2006 period as Malta is increasingly becoming more attractive as a port of call as well as a home port where cruises start and end. During the first eight months

of 2006 cruise passenger arrivals increased by 31.5 per cent, reaching 233,265. Since the concept of using Malta as a home port involves tourists flying to Malta from where they start and end their cruise, the concept provides increased value added to the economy that goes beyond the cruise liner industry. The new Cruise Liner Terminal will continue to boost Malta as an important cruise liner destination in the Mediterranean.

## Accommodation

Accommodation and occupancy rates constitute an important element in the overall analysis of the tourism industry. Table 5.4 provides data concerning Malta's accommodation capacity by category of establishments and beds. The changes in accommodation levels in the Table reflect the opening of new accommodation, closure of existing accommodation, as well as reclassifications.

By the end of July 2006, there were 115 hotels with a bed-stock capacity of 33,448. The total number of hotels declined by 2 although there was an increase in the bed-stock capacity of 352 beds when compared with December 2005 levels. The 5-Star, 3-Star and 2-Star accommodation categories all decreased by 1 unit each. While this decrease in the level of units led to a decrease in the bed-stock level within the 2-Star category, in the case of the 5-Star and 3-Star categories, there was an increase in the bed-stock level of 249 beds and 200

**Main Types of Tourist Accommodation**

Table 5.4

	2004 (Dec)		2005 (Dec)		2006 (Jul)	
	Establishments	Bed-Places	Establishments	Bed-Places	Establishments	Bed-Places
<b>Hotels</b>						
Five Star	13	4,798	14	5,526	13	5,775
Four Star	43	15,270	42	15,580	43	15,541
Three Star	45	10,359	49	11,198	48	11,398
Two Star	14	1,119	12	792	11	734
<b>Total</b>	<b>115</b>	<b>31,546</b>	<b>117</b>	<b>33,096</b>	<b>115</b>	<b>33,448</b>
<b>Other N.E.C.</b>						
Guesthouses	32	757	29	728	28	763
Holiday Complex	32	6,239	30	5,368	30	5,315
Hostels	5	442	6	684	6	684
<b>Other N.E.C. Total</b>	<b>69</b>	<b>7,438</b>	<b>65</b>	<b>6,780</b>	<b>64</b>	<b>6,762</b>

*Source: National Statistics Office*

beds respectively. The 4-Star accommodation category increased by 1 unit while the bed-stock level declined by 39 beds.

The number of guesthouses at the end of July 2006 declined by 1 to 28 units, while the bed-stock level increased by 35 beds to 763 beds, over December 2005. The number of holiday complexes remained stable at the December 2005 level, while the bed-stock level declined by 53 to 5,315. The number of hostels and their respective bed-stock level remained unchanged at the December 2005 level.

Table 5.5 provides data regarding monthly hotel occupancy rates for various types of accommodation. During the first seven months of 2006, all the categories reached their peak inflow in July. The 4-Star accommodation category recorded the highest level of occupancy of 84 per cent, closely followed by that of the 3-Star category of 82 per cent.

Another important indicator of the performance of the tourist industry is that related to the average length of nights spent by tourists. During January-August 2006, the average length of nights spent stood at 9.8, a marginal increase from the corresponding 2005 level of 9.7. This must be viewed in the context of a declining European average length of outbound-trips as tourists are opting for shorter but more frequent holiday trips.

**Monthly Accommodation Occupancy Rates - 2006\***

Table 5.5 per cent

	Hotels				Complexes Villages & Aparhotels Hostels & Guesthouses
	5 Star	4 Star	3 Star	2 Star	
January	25	36	33	9	22
February	37	47	33	12	27
March	38	50	37	19	29
April	55	62	45	23	36
May	57	66	41	22	43
June	67	74	48	21	53
July	70	84	82	30	68
Average	50	61	46	20	41

\*Occupancy levels are based on the Collective Accommodation Establishments Survey and the official bed-stock as supplied by the Malta Tourism Authority

Source: National Statistics Office

## Employment

Data for employment in hotels and restaurants is based on the distribution of the administrative records of the Employment and Training Corporation of the gainfully occupied population according to the standard NACE classification of economic activities.

Full-time employment in hotels and restaurants stood at 9,107 persons in June 2006, a decline of 59 jobs over the previous comparable period. This corresponds to 6.6 per cent of the gainfully occupied population. Private sector employment in hotels and restaurants amounted to 8,867 or 14.0 per cent of the persons employed in private market services.

## Foreign Exchange Earnings

Tourism earnings are one of the most important sources of foreign exchange generation for the local economy and thus contribute to the external payments position of the domestic economy. Accordingly, foreign exchange earnings provide an important indicator of the performance of the domestic tourism industry.

The source for gross tourism earnings are the TOURSTAT and the CRUISETAT Surveys, replacing data collected from foreign currency transactions reported to the Central Bank of Malta by the banking institutions and other authorised dealers. As a result, data has been revised backwards to 1995.

Data on foreign exchange earnings from tourism are provided in Table 5.6, while Chart 5.3 depicts tourism earnings per capita. Gross foreign exchange earnings reached Lm101.5 million during the first six months of 2006, a marginal increase from Lm101.2 million during the previous comparable period. Thus, the decline in tourist departures was not reflected in a drop in gross foreign exchange earnings, as the latter remained relatively unchanged. This development could partly reflect the fact that the Sterling appreciated during the period. Improvements were thus recorded in the per capita earnings and earnings per nights spent. Per capita earnings increased by 2.8 per cent for the period January-June 2006 over the comparable 2005 level. Similarly, earnings per nights spent increased from Lm22.6 in the first six months of 2005 to Lm23.5 in the corresponding 2006 period.

During the period January-June 2006, gross earnings from tourism accounted for 14.5 per cent of exports of goods and services. This compares with 15.5 per cent measured for the first six months of 2005. The ratio of foreign exchange

### Earnings from Tourism

Table 5.6

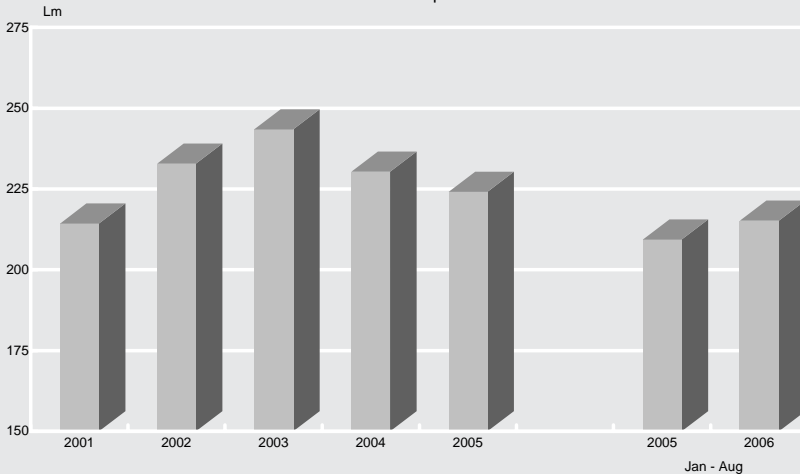
	Gross Earnings (Lm million)	Per Capita Earnings (Lm)	Earnings Per Nights Spent* (Lm)	Ratio to exports of goods and services (%)	Ratio to exports of manufactured goods (%)
<b>2003</b>	272.2	243.4	24.1	18.6	29.9
<b>2004</b>	266.6	230.3	23.9	18.2	29.9
<b>2005</b>	262.3	224.1	23.7	18.6	32.2
<b>2005 (Jan/Jun)</b>	101.2	209.3	22.6	15.5	19.4
<b>2006 (Jan/Jun)</b>	101.5	215.2	23.5	14.5	17.5

\*As from April 2004, data for sea nights taken from Inbound Tourism Survey

Source: National Statistics Office

Chart 5.3

### Tourist Earnings Per Capita



earnings from tourism to exports of manufactured goods declined from 19.4 per cent in the first half of 2005 to 17.5 in the corresponding 2006 period.

## Malta Financial Services Authority

Since 2002, the Malta Financial services Authority (MFSA) has been the single regulator for all the financial services in Malta. The financial services sector incorporates all financial activity including banking, investment and insurance. The MFSA is also responsible for consumer education and consumer protection in the financial services sector. Moreover, the MFSA manages the Registry of Companies and also has the responsibility of the Listing Authority.

During the first nine months of 2006 the legal framework governing the Maltese financial sector continued to be brought in line with EU legislation, contributing to a greater integration of the domestic financial system with that of the EU. Regulations related to the Prevention of Money Laundering were amended in March 2006. Persons who are subject to the provision of the Prevention of Money Laundering Act are now required to develop and establish new risk-based policies and procedures in relation to the acceptance of customers. These amendments also introduced enhanced due diligence measures for higher risk customers.

The Securitisation Act, which came into force in April 2006 provides companies with the opportunity of raising capital through the transfer of assets and risks to Special Purpose Vehicles (SPVs). The Securitisation Act also regulates the application of a number of laws, including the Companies Act and the Civil Code, in relation to securitisation.

In June 2006, the amendments to the Listing Rules which transpose the Takeover Bids Directive came into force. The new rules cater for the supervision of certain cross-border takeovers to operate on a shared responsibility basis.

The Insurance Intermediaries Act was enacted by Parliament and came into force on October 1 of this year. The Act, which repeals the Insurance Brokers and Other Intermediaries Act, consolidates all insurance intermediaries activities carried out in or from Malta and also introduces new provisions reflecting developments both in the domestic and international insurance market. It is now possible for the various intermediaries activities provided for under the Act to be carried out both by individuals or legal entities – as provided for in the EU

Mediation Directive. The new Act provides for consequential amendments to various other financial services laws.

During 2006, the MFSA signed a Memorandum of Understanding with International Organizations of Securities Commissions (IOSCO) to facilitate the exchange of information and provide for clearer channels of co-operation. This is a cross-border network seen as being an essential tool to strengthen the capital markets against financial fraud.

As at 30<sup>th</sup> September 2006, there were 18 Credit Institutions licensed under the Banking Act (1994) and 13 Financial Institution licensed under the Financial Institutions Act (1994). There were no new banking and financial institutions licenses issued during the first nine months of 2006.

During the first nine months of this year, the MFSA issued 8 new Investment Services (IS) licenses, increasing the total number of licenses to 93 as at the end of September 2006. The MFSA also issued 34 new Collective Investment Scheme (CIS) licenses including 14 professional investor funds and 19 locally based Undertakings for the Collective Investment of Transferable Securities (UCITS). The total number of CIS licensed as at the end of September 2006 stood at 184. During the first three quarters of 2006 two fund administrators recognitions have been issued.

During the period January-September 2006, the MFSA also licensed two new Insurance Managers, four General Insurance companies and two Life Insurance companies. The number of local and foreign insurers authorized to carry on business in Malta remained unchanged from the end of 2005 at 8 and 10 respectively. The total number of registered insurance brokers as at the end of September 2006 amounted to 73, of which 23 were companies while the remaining 50 were individual brokers. Additionally, 21 insurer agents consisting of 9 local and 12 foreign insurers were registered with the MFSA as at the end of September 2006.

During the first nine months of 2006, the Registry of Companies registered 2,024 new commercial partnerships, representing an 18 per cent increase over the corresponding 2005 period.



## Box 5.1

### **SmartCity Malta**

In March 2006, the Government and Tecom Investments of Dubai signed the Heads of Agreement that will lead to the setting up of SmartCity Malta. Currently discussions between the two parties are being finalised. The Government aims to locate the project at the present industrial estate in Ricasoli. The developers of the project are committed to provide, by the time of the project's completion, 5,600 jobs, 3,600 of which will be specialised positions in the ICT industry. Tecom will be investing an estimated Lm110 million, making this project the largest ever foreign investment initiative in the ICT sector ever to be undertaken in Malta. The first deliverables from this investment can be expected by 2008.

This investment is part of Government's efforts to create large-scale employment in the country coupled with significant new sources of foreign direct investment with the concomitant economic spin-offs. This program has been synergised over the past three years with the national effort to place Malta on the global ICT map as a leader in the region. The Government has also aimed to exploit this opportunity to regenerate its infrastructure as well as support the creation of jobs in the South of Malta.

The new Malta facility will be the first European outpost for Dubai Internet City and Dubai Media City and it is expected that global players will be able to focus their European operations and business through SmartCity Malta.

The new SmartCity Malta will include a new full-fledged ICT and Media Smart City on the models developed by the same organisation in Dubai. This project will also be accompanied by development of a hotel, a lodging area and other activities to help attract knowledge-based operations to the site. This is expected to create a cluster environment and also service tenants in the site in a cost-effective and efficient manner.

The company operating SmartCity Malta will also be promoting and participating in initiatives to assist the further development of ICT education in Malta. It will also work with the local councils of the towns neighbouring the SmartCity Malta to ensure that their residents will be among the first to benefit from this development. Specific projects with persons with disabilities and to help inmates of drug-rehabilitation programmes have also been agreed.

## **Malta Enterprise Corporation**

Malta Enterprise is Government's agency focused on attracting inward direct investment and supporting enterprises in Malta. Its role is to act as a single point of contact for all enterprise support in Malta and to provide cohesion to Government policies and efforts relating to enterprise. Malta Enterprise is dedicated to finding solutions to the particular business needs of both local and international companies and does so by delivering a range of tailor-made services which include professional pre-investment advice and support, start-up assistance as well as a range of post investment services and aftercare facilities. Malta Enterprise also offers a range of trade promotion services aimed at introducing

foreign companies to suitable manufacturers, service providers, suppliers and potential strategic partners in Malta.

During the first nine months of 2006, the Corporation approved 30 new projects and 34 expansion projects. Eighteen and thirteen of the new approved and expansion projects respectively originated from foreign investment. Italy and Germany were the two countries with the highest number of approvals for new and expansion projects. More than 50 per cent of the new foreign project approvals originated from within the EU while almost all new foreign expansion projects originated from EU countries. There were also two new and one expansion projects undertaken by joint ventures.

The majority of local investment on new projects is related to recycling while foreign capital investment for new projects is linked to the medical, pharmaceutical and biotechnological sectors, back office, call centers and internet related services sectors. Meanwhile, the majority of capital investment on expansion projects by both locally owned and foreign concerns is earmarked for the paper and printing sector and back office and other services sector.

During the first nine months of 2006, Malta Enterprise granted assistance through soft loans to seven different companies. In fact, a total of Lm1 million of soft loans were granted to fund investments by the software, back office, internet related and other services and recycling sectors, amongst others.

The expansionary trend in the Information and Communication Technology (ICT) continued and the first nine months of 2006 witnessed an increased interest from operators within this sector. Interest from the pharmaceutical industry remained buoyant. Potential companies are incentivised by the search for cost reduction and/or improved quality. The investment promotion strategy of Malta Enterprise sought to consolidate investment in the sectors of electrical and electronic engineering, mechanical and precision instruments, healthcare and pharmaceuticals, maritime and custom built structures, aviation maintenance and software development and ICT.

During the first nine months of 2006, Malta Enterprise has organised various meetings with potential investors coming from targeted industrial sectors such as ICT, call centre operations, pharmaceuticals, aviation companies, logistics (maritime and maintenance support), environmental technology and oil and gas groups. This reflects the shift in focus towards high value added manufacturing as well as the services industry. Malta Enterprise pursued investment promotions

in various countries. Moreover, the Corporation intends to develop and nurture linkages with multipliers such as Embassies, other institutions and key stakeholders in view of undertaking joint investment promotion activities.

Malta Enterprise embarked on various initiatives aiming to assist enterprise as well as encouraging innovative capacity. These incentives include the provision of training for small and medium sized enterprises, the review of the current incentives under the Business Promotion Act and initiatives towards trade promotion. Furthermore as announced in the Budget Speech for 2006 the Government is allocating Lm4 million in tax credits as incentives associated with research and development of new technology in Malta, Lm0.5 million in tax credits for companies that set up back office operations in Malta, and a further Lm0.5 million in tax credits for companies that set up eBusinesses in Malta.

The Corporation is also coordinating the MARIS project which aims to foster a favorable environment and increase the capacity for creation and diffusion of innovation. The Innovation Relay Center (IRC), which was hosted by Malta Enterprise since January 2005, assists Transnational Technology transfer. In particular, the IRC network has identified the need for more focused assistance in specific environmental matters. To this end, a project was launched referred to as METTTES or More Efficient Transnational Technology Transfers in the Environmental Sector. The Kordin Business Incubation Center aims to nurture, grow and launch technology oriented businesses by providing the physical space and technology infrastructure required by incubating businesses. Meanwhile, the Business Technology Network pursues the creation, development and growth of technology-based ventures throughout Malta and also assists local businesses in discovering technologies available locally that would be of benefit to their competitiveness.



## 6. Prices and Incomes

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## 6. Prices and Incomes

This Chapter analyses local inflationary trends during the twelve months to September 2006 and subsequently provides a comparison to inflation rates in the EU member States. The analysis of fluctuations in international prices is important given the high degree of openness of the domestic economy. This is followed by an in-depth analysis of the changes in domestic sectoral wages occurring between September 2005 and September 2006.

The 12-month inflation rate (as measured by the Retail Prices Index) in Malta reached 3.42 per cent in September 2006 as compared to 2.76 per cent in September 2005. The inflation rate has followed an increasing trend in the last quarter of 2005, declined marginally in the first few months of this year but has resumed on an upward trend since April 2006. These developments were heavily influenced by variations in energy prices.

The study of average weekly sectoral wage rates was analysed and compiled from the collective agreements of 182 companies employing a total workforce of 27,399 persons, where 13,043 were employed in direct production and the remaining 14,356 were engaged in the market services. The increase in the average wage resulted to be 3.7 per cent. This was above the Lm2.25 cost of living adjustment granted for 2006. The highest wage rise in percentage terms was recorded in the Community and Business sub-sector which registered an increase of 7.5 per cent. Wage increases in other sectors were relatively lower, ranging from 2.0 per cent to 5.3 per cent. The analysis also shows that the largest proportion of employees (58.0 per cent) earn an average weekly wage higher than Lm96.25.

### Inflation

Malta's official measure of inflation is obtained from percentage changes in the 12-month moving average for the Retail Prices Index (RPI). This index is derived from the monthly retail prices of a large and representative basket of goods and services as presented in the Household Budgetary Survey (HBS) carried out between March 2000 and March 2001 by the National Statistics Office (NSO). The NSO introduced the current RPI having December 2002 as a base year as from January 2003, but started compiling it since January 2002.

Box 6.1

**Harmonised Index of Consumer Prices (HICP)**

The Harmonised Index of Consumer Prices (HICP) published by the National Statistics Office measures consumer price movements and is compiled according to the rules specified in a series of European Union Regulations developed by Eurostat in conjunction with the EU Member States. This facilitates comparisons of inflation rates across the European Union.

The scope of the price index is determined by following National Accounts concepts of what constitutes household consumption.

The Table presents inflation rates as measured by the 12-month moving average HICP for the period January 2003 to September 2006. The HICP inflation rate started to rise since November 2005, from 2.2 per cent in the previous month. In 2006, the HICP inflation rate stabilised at 2.6 per cent between January and March, but subsequently resumed rising to 3.2 per cent by September 2006. The increase in the HICP inflation rate during the nine months to September 2006 was mainly underpinned by an increase in the housing, water, electricity, gas and other fuels and transport sub-indices.

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

	per cent			
	2003	2004	2005	2006
January	2.3	2.1	2.6	2.6
February	2.2	2.1	2.7	2.6
March	2.2	2.1	2.7	2.6
April	2.1	2.3	2.6	2.7
May	2.1	2.4	2.5	2.8
June	2.1	2.4	2.4	2.9
July	2.0	2.6	2.3	3.1
August	2.0	2.6	2.3	3.1
September	2.0	2.8	2.2	3.2
October	2.0	2.8	2.2	
November	1.9	2.8	2.4	
December	1.9	2.7	2.5	

Source: National Statistics Office



### 12-Month Moving Inflation Rate

Table 6.1

per cent

	2003	2004	2005	2006
January	1.79	1.57	2.74	2.99
February	1.58	1.70	2.77	2.92
March	1.46	1.75	2.83	2.92
April	1.36	1.86	2.83	3.00
May	1.26	1.95	2.92	3.05
June	1.25	2.03	2.94	3.11
July	1.20	2.23	2.77	3.30
August	1.14	2.41	2.74	3.38
September	1.10	2.57	2.76	3.42
October	1.05	2.63	2.89	
November	1.13	2.75	2.95	
December	1.30	2.79	3.01	

*Source: National Statistics Office*

The official inflation rates are obtained by comparing the average RPI in the 12-months leading to the month under review with the corresponding average in the previous 12-month period. Domestic inflation rates are presented in Table 6.1, while monthly RPI readings between January 2003 and September 2006 are presented in Table 6.2. Chart 6.1 depicts the trend of the domestic 12-month moving inflation rate for the period covering September 2001 to September 2006.

As highlighted in Chart 6.1, the inflation rate has been following a declining trend since April 2002, when it stood at a high of 3.65 per cent to reach a low of 1.05 per cent in October 2003. Subsequently, the inflation rate had then in general been on an upward path until it reached 3.01 per cent in December 2005, declining thereafter to 2.92 per cent in March 2006 and returning on an upward path in the following month to reach 3.42 per cent in September 2006.

A review of trends inherent in each sub-index of the RPI provides an understanding of the underlying inflationary movements. The average for the twelve months to September 2006 for the 2004-2006 periods for the sub-indices composing the RPI, grouped by commodities, are illustrated in Table 6.3. During the period under review, practically all the commodity groups composing the RPI have contributed towards the increase in the inflation rate. Marginal increases were registered in the Recreation and Culture sub-index and in the Clothing and Footwear sub-index. In particular, the inflation rate during the first six months of 2006 was heavily influenced by a rise in the average prices of water, electricity, gas and fuels as well as in the Transport and Communication sub-index. The

## Retail Prices Index

Table 6.2

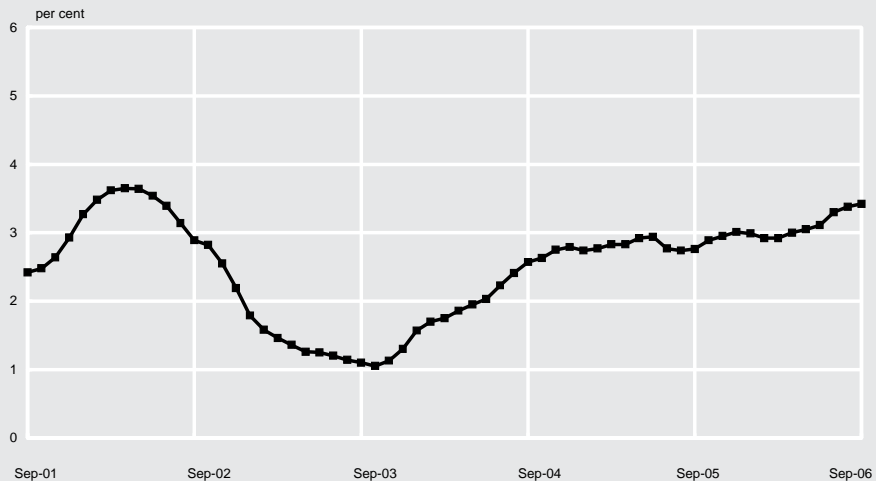
December 2002=100

	2003	2004	2005	2006
January	99.12	102.20	104.70	107.06
February	99.60	102.23	105.33	107.70
March	100.36	102.66	105.82	109.05
April	100.40	103.32	106.27	110.32
May	100.73	103.13	106.69	110.89
June	100.88	103.62	106.65	110.52
July	100.54	104.14	105.77	109.95
August	100.47	103.25	105.83	109.50
September	100.82	103.56	106.59	110.19
October	101.91	104.36	108.40	
November	101.75	104.96	109.01	
December	102.38	105.27	109.02	
Average Jan-Dec	100.75	103.56	106.67	

Source: National Statistics Office

Chart 6.1

### 12-Month Moving Inflation Rate



**Index by Commodity Group**  
(Average for 12 months to September)

Table 6.3

December 2002=100

Commodity Group	Weight	2004	2005	2006
Food	23.82	102.89	103.79	105.65
Beverages and Tobacco	6.11	109.80	113.70	116.45
Clothing and Footwear	8.24	90.96	89.24	89.52
Housing	7.57	104.71	110.13	115.20
Water, Electricity, Gas and Fuels	2.25	100.38	115.08	153.24
Transport and Communications	23.13	103.80	108.00	113.18
Recreation and Culture	8.84	100.03	101.26	101.29
Household Equipment & House Maintenance				
Costs	7.65	100.48	102.97	104.78
Personal Care and Health	6.22	106.67	110.72	114.34
Other Goods and Services	6.17	109.82	114.11	116.92

*Source: National Statistics Office*

Housing and Personal Care and Health sub-indices also registered increases which exceeded the overall inflation rate.

During the period under review, the Food sub-index, which carries the largest weighting within the RPI, rose by 1.79 per cent when compared to 0.87 per cent recorded in the same period last year. The contribution of this sub-index towards the 12-month moving inflation rate was 0.43 per cent during the period under review. The highest increase in average prices was recorded in October for fruit, while in March and September the main increases were recorded in the average prices of vegetables. These increases outweighed the marginal decreases recorded in November mainly underpinned by drops in the prices of fruits and vegetables and in December mainly attributable to lower average prices for fish. Other marginal declines occurred in May and June due to decreases in average prices of vegetables as well as in August 2006 due to lower average prices of fish and fruits.

The Beverages and Tobacco sub-index has followed an upward trend and increased by 2.42 per cent during the period under review. This increase was mainly due to a general increase in the average prices of non-alcoholic beverages.

The Clothing and Footwear sub-index experienced a 0.31 per cent increase, reversing the declining trend recorded during the previous two years. This mainly reflects developments in the clothing category as average prices in the footwear category registered a marginal drop. It is pertinent to note that this sub-index is

subject to high seasonal fluctuations. Thus, decreases in average prices were recorded in January, July and August due to seasonal sales while increases in average prices were recorded in practically all the remaining months, particularly in October, March and February.

The general upward trend in the Housing sub-index continued during the period under review, with a rise of 4.60 per cent and the contribution of this sub-index towards the 12-month moving inflation rate reached 0.35 per cent. The highest increases in average prices were primarily recorded in January and April in respect of construction works, maintenance and parts of household appliances.

A significant increase was recorded in the Water, Electricity, Gas and Fuel sub-index, which rose by 33.16 per cent and its contribution towards the 12-month moving inflation rate stood at 0.75 per cent. The highest increase, amounting to 26.9 per cent, was recorded in November, due to increases in the water and electricity charges, reflecting the increase in the fuel surcharge during the month which rose from 17 per cent to 55 per cent. Another substantial rise of 11.5 per cent was recorded in March due to a further increase in the surcharge reflecting further increases in international oil prices. On the other hand, average price decreases were mainly recorded in January, May and July attributable to drops in the water and electricity surcharge rates on electricity and water consumption.

Average prices for items falling within the Household Equipment and House Maintenance Costs sub-index increased by 1.76 per cent. During the period under review, a general increase in the prices of household appliances was recorded. However, decreases in average prices were mainly recorded for household textiles and carpets in February, August and September.

The Transport and Communication sub-index, continued to follow an upward trend rising by 4.8 per cent. With a contribution of 1.11 per cent, the sub-index had the largest contribution towards the 12-month moving inflation rate. Price fluctuations within the sub-index were mainly due to changes in the average prices of fuel and air transport services. Thus, the price of fuel underpinned the average price increases in the sub-index particularly in October and in May. While the increase in the sub-index for April was due to increases in average prices of air transport services. Conversely, in December and in March, lower average prices for fuel were responsible for a decline in average prices within the transport sub-index. The decrease in the sub-index in November and January were due to a decrease in the average prices of air transport services.

The Personal Care and Health sub-index maintained the upward trend registered in recent years, and increased by 3.27 per cent during the 12 months to September 2006. Main price increases were recorded in February, particularly reflecting higher average prices for medical services.

Only slight price fluctuations were recorded in the Recreation and Culture sub-sector affecting only marginally the RPI sub-index for September 2006. However, when considering monthly fluctuations over the twelve months to September 2006, price decreases were registered in January 2006, particularly due to lower average prices of cable TV installation and rental charges and sports equipment. Conversely, main price increases were recorded in April, underpinned by higher education expenses and higher average prices for sports equipment.

The Other Goods and Services sub-index registered a 2.46 per cent increase in average prices. Price increases were mainly registered in February, particularly due to higher average prices of jewellery, watches and clocks.

## International Comparison

Table 6.4 presents inflation rates for the EU Member States based on the 12-month moving average of the Harmonized Index of Consumer Prices (HICP) as at August 2006. The common methodology underpinning this index enables comparability between Member States.

The lowest inflation rates in August 2006 were registered in Finland (1.2 per cent), Poland (1.3 per cent) and Sweden (1.4 per cent). In contrast, the highest inflation rates were recorded in Latvia, Estonia and Slovakia at 7.0 per cent, 4.4 per cent and 4.1 per cent respectively. The average inflation rate in the EU 25 Member States reached 2.3 per cent, increasing marginally from the inflation rate recorded in 2005. Increases in the average cost of water and electricity and gas (5.5 per cent), transport (4.6 per cent) – both driven by sharp increases in oil prices – and restaurants and hotels (2.7 per cent) contributed to the rise in the inflation rate in the EU Member States during the last 12 months. These increases outweighed declines registered in average prices for communications (-2.5 per cent), clothing and footwear (-0.9 per cent) and recreation and culture (-0.3 per cent).

Malta's inflation rate rose to 3.1 per cent when compared to 2.5 per cent recorded last year, being 0.8 percentage points higher than the average for the EU 25

**European Union Inflation Rates**  
(Harmonised Index of Consumer Prices)

Table 6.4

per cent

	2003	2004	2005	2006 <sup>(1)</sup>
Austria*	1.3	2.0	2.1	1.9
Belgium	1.5	1.9	2.5	2.6
Cyprus	4.0	1.9	2.0	2.3
Czech Republic	-0.1	2.6	1.6	2.4
Denmark	2.0	0.9	1.7	2.0
Estonia	1.4	3.0	4.1	4.4
Finland	1.3	0.1	0.8	1.2
France	2.2	2.3	1.9	2.1
Germany	1.0	1.8	1.9	2.1
Greece	3.4	3.0	3.5	3.5
Hungary	4.7	6.8	3.5	3.0
Ireland	4.0	2.3	2.2	2.7
Italy	2.8	2.3	2.2	2.3
Latvia	2.9	6.2	6.9	7.0
Lithuania	-1.1	1.2	2.7	3.4
Luxembourg	2.5	3.2	3.8	3.8
Netherlands*	2.2	1.4	1.5	1.7
Poland	0.7	3.6	2.2	1.3
Portugal	3.3	2.5	2.1	2.6
Slovakia	8.5	7.5	2.8	4.1
Slovenia	5.7	3.7	2.5	2.7
Spain	3.1	3.1	3.4	3.9
Sweden	2.3	1.0	0.8	1.4
United Kingdom	1.4	1.3	2.1	2.2
EU 25*	1.9	2.1	2.2	2.3
Malta	1.9	2.7	2.5	3.1

\* Provisional for August 2006

<sup>(1)</sup> For 2006, figures relate to August

Source: Eurostat

National Statistics Office

Member States. Malta's HICP inflation rate was below or stood at the reference value of the Maastricht price stability criterion during the period from July 2005 to April 2006. In the subsequent months, the inflation rate exceeded the reference benchmark with the gap rising to 0.3 percentage points in July and August 2006, reflecting to a large extent the developments in energy prices.

## Sectoral Wages

This section reviews movements in sectoral average weekly wage rates recorded between September 2005 and September 2006. The analysis is based on a sample of collective agreements finalised and deposited with the Department of Industrial and Employment Relations up to September 2006. The sample under review consists of 182 firms employing 27,399 employees. Of these, 80 firms are engaged in direct production and employ 13,043, whilst the remaining 102 firms operate in the market services and have a workforce of 14,356. The study focuses on data for different job grades that are classified into four major employment categories namely labourer, skilled tradesman, clerical and managerial grades. Definite contracts of employment are not considered in this analysis. Additionally, 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. This implies that the employees' actual average weekly remuneration may be higher than that reported in this study. Furthermore, since the information in this Chapter is based on a sample of collective agreements and includes only the basic weekly wage, the results reported are not directly comparable to data based on the gainfully occupied population included in other Chapters of this Economic Survey.

It is also noteworthy that the study uses a sampling procedure that does not allow a direct comparison between tables exhibited hereunder and those published in previous versions of the Economic Survey. This is due to the methodology and sampling procedure adopted, mainly because of changes in the composition of the sample as well as the employment levels of the enterprises, which alter in turn the individual firm's respective weightings in each category. Besides, in the case of new collective agreements, reclassification of grades may occur. This may also lead to instances where new trainees are paid the entry level of any given wage scale, hence lowering the reported average remuneration level even if the compensation level of existing employees would have remained unchanged.

The collective agreements included in the sample are grouped according to their respective sub-sector of economic activity whereby the average of the minimum and maximum wage scales for each individual collective agreement is then calculated. This gives the sub-sectoral mean wage. The figures obtained are then increased by the cost of living adjustments, which stood at Lm1.75 and Lm 2.25 in 2005 and 2006 respectively. The cost-of-living adjustment for 2006 includes the anticipation by Lm0.50 of the COLA that would have been provided in 2007. This measure was implemented in view of the increase in the surcharge on water and electricity rates announced in October 2005.

Table 6.5 shows the sectoral average weekly wages as at September 2005. The all firm average weighted wage rate stood at Lm102.02. While for those employed in direct production the average wage stood at Lm92.25, the average wage for persons employed in market services stood at Lm110.76, thus implying a wage gap of Lm18.51. The highest average weekly wage rates were recorded in the Banking and Other Financial Institutions sub-sector (Lm142.19), the Transport sub-sector (Lm118.36), and the Tobacco sub-sector (Lm111.99). On the other hand the lowest paid sub-sectors were the Textiles, Footwear and Clothing sub-sector (Lm72.26) and the Machinery sub-sector (Lm77.66). The lowest weekly average wage rate in September 2005 amounted to Lm68.85 and was earned by the Labourer grade in the Textiles, Footwear and Clothing sub-sector. This was Lm13.22 or 23.8 per cent higher than the 2005 national

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	89.25	89.75	86.25	95.25	89.35
Food	91.26	94.05	93.92	101.10	92.91
Beverages	87.26	105.76	100.27	108.57	95.79
Tobacco	91.62	115.20	101.09	171.30	111.99
Textiles, Footwear and Clothing	68.85	89.59	80.03	84.81	72.26
Furniture	82.21	102.26	101.75	105.21	94.21
Paper & Printing	97.27	109.29	98.25	105.63	102.29
Chemicals	88.45	107.34	107.42	118.25	95.62
Non-Metallic Products	74.00	93.50	-	97.25	85.91
Metal Products	91.81	91.15	89.21	105.50	92.40
Machinery	73.20	80.29	78.57	88.56	77.66
Electrical Machinery	79.76	100.26	88.15	109.62	90.08
Transport Equipment	82.15	91.77	93.30	110.20	94.62
Miscellaneous	83.25	106.32	99.68	112.11	90.94
Electricity & Gas Services	89.41	103.35	101.62	114.87	97.94
Construction	78.87	100.52	103.06	-	86.22
Wholesale & Retail Trade	80.60	98.76	89.30	104.87	90.24
Banking & OFI	103.58	113.08	134.44	193.18	142.19
Insurance & Real Estate	104.18	-	110.48	-	107.33
Transport	103.78	118.31	104.41	191.25	118.36
Storage and Warehousing	98.30	108.85	105.52	125.12	104.46
Communications	97.87	109.53	92.10	130.05	101.88
Community & Business	81.47	105.02	88.76	110.40	96.99
Recreation Services	92.10	97.22	102.61	103.87	96.97
Hotels & Catering Ests	88.87	96.20	95.30	93.15	91.70
All Firms	85.73	103.13	108.44	124.52	102.02
Direct Production	83.73	101.48	95.48	110.47	92.25
Market Services	90.51	105.63	110.34	133.52	110.76

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



minimum wage which stood at Lm55.63. On the other hand the highest weekly average wage rates were earned by the Managerial grade in the Banking and OFI sub-sector (Lm193.18) and in the Transport sub-sector (Lm191.25).

Table 6.6 provides information on the average weekly wage rate for the various employment categories as at September 2006. It is noteworthy that both Table 6.5 and Table 6.6 are directly comparable since the same firms and the same employment weighting structures are used. Thus, the changes in the respective wage rates reflect the actual change in the nominal wage occurring during the twelve months to September 2006. The weighted average weekly wage for all

**Average Weekly Wages - September 2006**

Table 6.6	Lm				
	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	91.50	92.00	88.50	97.50	91.60
Food	94.07	96.66	96.91	104.37	95.78
Beverages	91.16	109.72	102.82	111.99	99.40
Tobacco	93.87	117.45	103.34	174.50	114.45
Textiles, Footwear and Clothing	71.61	93.79	83.47	88.10	75.21
Furniture	84.69	104.67	104.00	107.87	96.68
Paper & Printing	100.06	113.18	100.63	108.42	105.34
Chemicals	91.23	109.96	110.11	120.65	98.33
Non-Metallic Products	76.25	95.75	-	99.50	88.16
Metal Products	96.60	96.80	93.64	108.50	97.33
Machinery	75.45	82.65	81.26	90.94	80.00
Electrical Machinery	82.00	102.50	90.49	111.93	92.34
Transport Equipment	84.70	94.39	95.95	113.12	97.30
Miscellaneous	88.35	112.49	104.72	115.14	95.79
Electricity & Gas Services	91.66	105.60	103.87	117.12	100.19
Construction	81.12	102.77	105.31	-	88.47
Wholesale & Retail Trade	83.98	102.42	95.55	109.42	94.33
Banking & OFI	107.30	115.33	138.41	196.94	146.09
Insurance & Real Estate	106.43	-	112.73	-	109.58
Transport	106.19	120.61	106.79	193.53	120.73
Storage and Warehousing	101.25	112.42	108.98	129.14	107.71
Communications	101.84	113.60	94.75	133.37	105.20
Community & Business	85.34	108.47	94.69	122.63	104.28
Recreation Services	94.35	99.47	104.86	106.12	99.22
Hotels & Catering Ests	91.95	99.08	98.30	96.33	94.74
All Firms	88.73	106.24	112.39	130.93	105.81
Direct Production	86.58	104.40	98.12	113.07	95.06
Market Services	93.90	109.03	114.50	142.96	115.59

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

firms as at September 2006 stood at Lm105.81. This represents a weekly increase of Lm3.79, of which Lm2.25 comprised the cost of living adjustment for 2006.

The best performing sub-sectors as at September 2006 remained unchanged from those in September 2005, namely the Banking and Other Financial Institutions sub-sector which had a weekly average remuneration of Lm146.09, the Transport sub-sector with Lm120.73 and the Tobacco sub-sector with a weekly average wage of Lm114.45. Conversely, the least remunerated sub-sectors in the sample were the Textile, Footwear and Clothing sub-sector (Lm75.21) and the Machinery sub-sector (Lm80.00). The highest average wage was recorded in the Managerial grade in the Banking and other Financial

### Changes in Average Weekly Wages

September 2006 - September 2005

Table 6.7

per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	2.5	2.5	2.6	2.4	2.5
Food	3.1	2.8	3.2	3.2	3.1
Beverages	4.5	3.7	2.5	3.2	3.8
Tobacco	2.5	2.0	2.2	1.9	2.2
Textiles, Footwear and Clothing	4.0	4.7	4.3	3.9	4.1
Furniture	3.0	2.4	2.2	2.5	2.6
Paper & Printing	2.9	3.6	2.4	2.6	3.0
Chemicals	3.1	2.4	2.5	2.0	2.8
Non-Metallic Products	3.0	2.4	-	2.3	2.6
Metal Products	5.2	6.2	5.0	2.8	5.3
Machinery	3.1	2.9	3.4	2.7	3.0
Electrical Machinery	2.8	2.2	2.7	2.1	2.5
Transport Equipment	3.1	2.9	2.8	2.7	2.8
Miscellaneous	6.1	5.8	5.1	2.7	5.3
Electricity & Gas Services	2.5	2.2	2.2	2.0	2.3
Construction	2.9	2.2	2.2	-	2.6
Wholesale & Retail Trade	4.2	3.7	7.0	4.3	4.5
Banking & OFI	3.6	2.0	3.0	1.9	2.7
Insurance & Real Estate	2.2	-	2.0	-	2.1
Transport	2.3	1.9	2.3	1.2	2.0
Storage and Warehousing	3.0	3.3	3.3	3.2	3.1
Communications	4.1	3.7	2.9	2.6	3.3
Community & Business	4.8	3.3	6.7	11.1	7.5
Recreation Services	2.4	2.3	2.2	2.2	2.3
Hotels & Catering Ests	3.5	3.0	3.1	3.4	3.3
All Firms	3.5	3.0	3.6	5.2	3.7
Direct Production	3.4	2.9	2.8	2.4	3.0
Market Services	3.7	3.2	3.8	7.1	4.4

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

Institutions sub-sector at Lm196.94, while other relatively high wages were those for the Managerial grade in the Transport sub-sector (Lm193.53). The lowest reported wage remained that of the Labourer grade in the Textiles, Footwear and Clothing sub-sector which stood at Lm71.61, which stands at Lm13.73 or 23.7 per cent higher than the national minimum wage which during 2006 stood at Lm57.88.

Table 6.7 shows the percentage changes in average weekly wages recorded during the period September 2005 to September 2006. During the period under review, the wage increase registered in the market services was higher than that recorded in the direct production sector. Whilst the average wage in the

Sector \ Wage Range	Up to Lm66.24	Lm66.25- Lm76.24	Lm76.25- Lm86.24	Lm86.25- Lm96.24	Over Lm96.25
Oil Drilling	0.0	0.0	0.0	94.8	5.2
Food	0.0	0.0	13.4	23.4	63.2
Beverages	0.0	0.0	8.1	36.0	56.0
Tobacco	3.2	1.6	0.0	0.0	95.2
Textiles, Footwear & Clothing	51.3	2.1	12.9	22.9	10.9
Furniture & Fixtures	3.6	2.2	14.4	23.7	56.1
Paper & Printing	0.0	0.0	10.8	14.5	74.7
Chemicals	0.0	3.3	0.1	67.1	29.5
Non-Metallic Products	0.0	0.0	41.2	0.0	58.8
Metal Products	0.0	0.0	4.9	17.0	78.1
Machinery	13.4	17.0	25.0	37.5	7.1
Electrical Machinery	4.9	4.2	20.9	33.7	36.2
Transport Equipment	7.1	0.7	1.1	48.5	42.6
Miscellaneous	7.1	0.7	1.1	48.5	42.6
Electricity & Gas	0.0	0.0	0.0	47.8	52.2
Construction	0.0	0.0	66.4	0.0	33.6
Wholesale & Retail Trade	0.0	8.3	6.1	50.3	35.2
Banking & OFI	0.0	0.0	0.0	0.1	99.9
Insurance & Real Estate	0.0	0.0	0.0	0.0	100.0
Transport	0.0	0.7	0.0	0.0	99.3
Storage and Warehousing	0.0	0.0	0.0	0.0	100.0
Communications	0.0	2.9	5.5	32.3	59.3
Community & Business	1.0	6.0	14.5	21.8	56.7
Recreation Services	0.0	0.0	14.9	29.8	55.4
Hotels & Catering Ests	0.3	3.6	10.6	56.9	28.6
All Firms	3.1	2.7	12.6	23.6	58.0
Direct Production	6.1	2.1	21.0	27.5	43.3
Market Services	0.4	3.3	4.8	19.9	71.6

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

direct production increased by Lm2.81 or 3.0 per cent to reach Lm95.06 in September 2006, the average weekly wage rate in the market services sector increased by Lm4.83 or 4.4 per cent, thus reaching Lm115.59 in September 2006. It is relevant to highlight that the best performing sub-sectors as at September 2006 were the Community & Business sub-sector which registered an increase of 7.5 per cent followed by the Metal Products and Miscellaneous sub-sectors, both with an increase of 5.3 per cent.

Table 6.8 provides data regarding the distribution of average weekly wages along different brackets as at September 2006. This dispersion is closely related to the relative skill-level and specialised expertise demanded by each sub-sector. Generally speaking, specialised skills tend to receive a premium wage for their service. The largest share of employees (58.0 per cent) for all firms earned on average a weekly wage that fell within the highest weekly wage bracket of Lm96.25 and above. The second largest proportion (23.6 per cent) fell within the Lm86.25 – Lm96.24 bracket. Only 3.1 per cent of all employees fell within the lowest bracket (below Lm66.24). It is of interest to note that while 71.6 per cent of those employed in the services sector fell in the highest wage bracket, only 43.3 per cent of those employed in the direct production earned more than Lm96.25 weekly. The majority of workers in the Textiles, Footwear & Clothing (51.3 per cent) sub-sector fell within the lowest income bracket. On the other hand, all those employed in the Insurance and Real Estate and Storage and Warehousing sub-sectors and almost all those employed in the Banking and Other Financial Institutions sub-sector and in the Transport sub-sector earned more than Lm96.25 per week. However, it is pertinent to note that the sample under the former two categories was relatively small.

The dispersion in average weekly wage rates between the different sub-sectors and between firms engaged in direct production and those in the market services is indicative of the different types and levels of skills and expertise required and the different operational structures. In fact, the actual take-home pay of a large number of workers in the direct production sector may be higher than the basic wage owing to production bonuses and allowances.

## 7. Foreign Trade and Payments

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## 7. Foreign Trade and Payments

Following recent trends, the deficit in the current account of the balance of payments continued to increase in the first half of 2006. This occurred despite a significant increase in exports during the period. The deterioration in the current account deficit was due to notably higher imports. The increase in imports of goods included higher imports of industrial supplies, capital goods, and a further rise in imports of fuel. An increase in imports of consumer goods was also registered.

The trends in the merchandise account apparent in the first half of 2006 continued in the following two months. During the January-August 2006 period higher exports were registered in the machinery and transport equipment sector, chemicals and the food, beverages and tobacco sector. These positive developments compensated for the continuous decline in exports of clothing as well as the contractions recorded in other categories. Higher output and exports by the Maltese economy during this period led to a comparable increase in imports of industrial supplies. Imports of capital goods also registered an increase, reflecting the investment activity in the economy. The increase in imports of capital goods included one-off items of a substantial magnitude, including imports of cranes and sea-vessels. The rise in the fuel import bill continued in the first eight months of 2006, in line with higher international oil prices.

Trade activity during the period under review was marked by a notable increase in imports and exports to the EU and Asia. An increase in imports from the American continent and from Oceania was also registered although the latter included one off items.

Balance of payments data for the first half of 2006 also show a deterioration in the services balance, marked by lower receipts on transport services, a further increase in Maltese tourist expenditure abroad and an increase in net earnings from other services. Meanwhile, tourism earnings were stable. The income account improved primarily as a result of lower earnings registered by foreign-owned companies operating from Malta. Current transfers increased primarily as a result of higher net receipts by General Government. This reflects the receipts from EU funds.

A current account deficit of 12.5 per cent of GDP was registered in the first half of 2006. This was entirely financed by net Foreign Direct Investment (FDI) inflows and capital transfers. During the period under consideration, FDI inflows

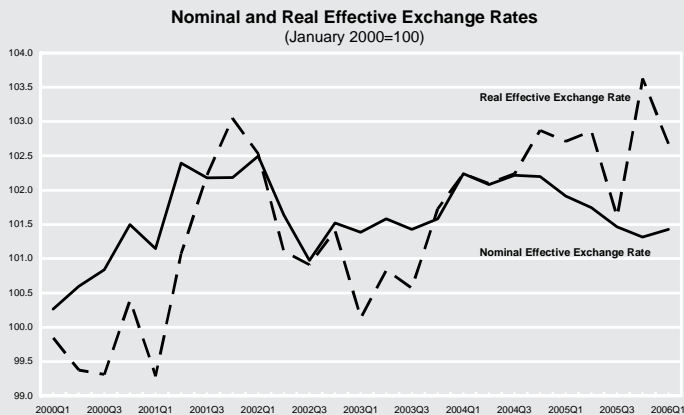
## Box 7.1

### International Competitiveness

The real effective exchange rate (REER), which provides an indication of a country's international price competitiveness, is defined as the product of the nominal effective exchange rate (NEER) and the relative price of domestic to foreign goods and services. A decline in the REER implies that domestic prices are cheaper than foreign prices. This may be brought about by a depreciation of the nominal exchange rate and/or an increase (decline) in domestic prices which is lower (higher) than that registered abroad.

During the 2000 to 2004 period, the NEER appreciated by an average rate of 0.2 per cent per annum. Thereafter, the NEER depreciated by 0.6 per cent, possibly reflecting the depreciation of the Maltese Lira against the Sterling and the US Dollar during this period. The REER followed a similar trend, although the appreciation of the REER between 2000 and 2004 exceeded that of the NEER. In 2005, the depreciation of the NEER was not followed by a depreciation in the REER. Instead, the REER appreciated by a further 0.3 per cent, reflecting relatively higher domestic consumer price inflation.

A note of caution is here warranted. The measurement of the NEER and the REER tend to differ significantly due to different trade weights, price indices and also due to different base years. Thus different sources of data may tend to give different results. However, most measures of the NEER and REER available indicate a deterioration in competitiveness due to a relatively higher domestic inflation relative to that of main trading partners and competitors in recent months.



Source: Central Bank of Malta



were influenced by the sale of Government shares in Maltacom plc. Net outflows in the portfolio investment account were more than offset by net inflows in the other investment account. Meanwhile, a net outflow in the net errors and omission account was registered.

The stock of foreign exchange reserves in 2005 remained high as confirmed by reserve adequacy ratios. Indicative estimates of the stock of foreign exchange reserves continued to exceed the monetary base and covered more than 6 months of imports. Reserve assets continued to increase in the first half of 2006, primarily as a result of privatisation proceeds.

## Foreign Trade

Trade developments during the first eight months of 2006 were significantly influenced by international events. External shocks to the Maltese economy included further increases in international oil prices whilst competitive price pressures in a number of industries continued.

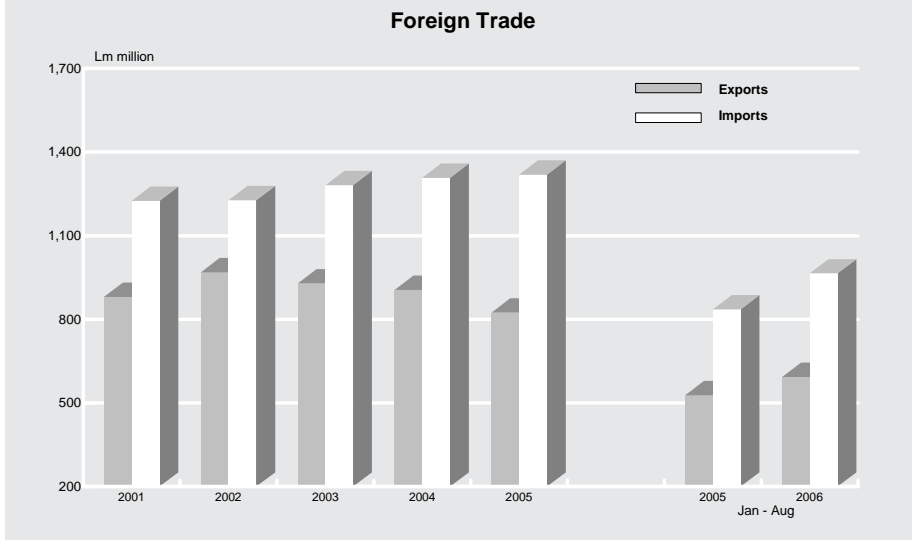
On the positive side, the first eight months of 2006 were characterised by a recovery in exports of semiconductors. Export figures were also affected by the closure of a major Maltese clothing manufacturer and the increase in sales of pharmaceuticals. In addition, economic activity in Malta's main trading partners improved, possibly stimulating foreign demand for Maltese exports. All these factors contributed to an increase in the value of Maltese exports.

However, the increase in exports, was not enough to compensate for the increase in imports. Imports increased in all major categories, leading to a wider negative trade gap of Lm371.4 million in the first eight months of 2006 compared to a negative gap of Lm307.2 million in the same period last year. Further details are provided in Chart 7.1 and Table 7.1. As illustrated in Chart 7.2, the rate of import cover, which has been on a downward trend since 2002, declined further from 63.2 per cent in the January-August period of 2005 to 61.5 per cent in the comparable period of 2006.

## Exports

In the first eight months of 2006, exports increased by Lm65.3 million to Lm593.4 million. This represents an increase of 12.4 per cent. The machinery and transport equipment sector was the major contributor to the increase in total exports. Other notable improvements were registered by the chemicals sector, which

Chart 7.1

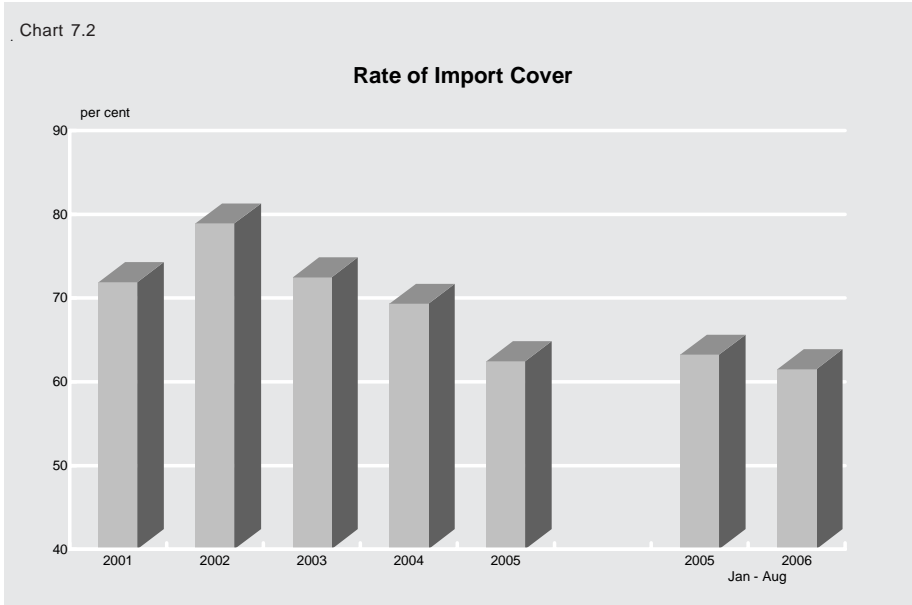


**Foreign Trade**

Table 7.1 Lm million

	2002	2003	2004	2005	2005 Jan/Aug	2006 Jan/Aug
<b>Imports (c.i.f.)</b>	1,227.5	1,281.2	1,307.5	1,319.2	835.3	964.8
<b>Total Exports (f.o.b.)</b>	968.4	928.3	906.3	823.8	528.1	593.4
<b>Trade Gap</b>	-259.1	-352.9	-401.2	-495.4	-307.2	-371.4
of which:						
Exceptional Item (Exports)	50.1	-	-	-	-	-
Exceptional Item (Imports)	-	2.1	-	-	-	32.0

Source: National Statistics Office



contributed 13.2 per cent of the growth in exports, together with food, beverages and tobacco with a 9.8 per cent contribution. Meanwhile, the clothing sector continued on a negative trend. The commodity breakdown of exports is provided in Table 7.2.

Exports by the machinery and transport equipment sector are primarily made up of semiconductor devices. This sector is made up of a small number of large multinational firms. Trade developments in this sector tend to follow closely the developments registered on a global scale by a leading multinational semiconductor manufacturer, which also operates from Malta. Figures for the second quarter of 2006 point to an increase of around 15 per cent in sales by this multinational, mainly in telecom, computers and industrial market segments. Locally, following the restructuring efforts of last year by this company, exports by the machinery and transport equipment sector increased by Lm66.5 million, or 20.4 per cent, to Lm392.5 million in the first eight months of 2006. The share of exports of electrical machinery and equipment reached 66.1 per cent, the highest ratio in recent years.

Another major development during the period under review was an increase in exports of chemicals, which compensated for the decline in exports of clothing. The trend increase in pharmaceutical sales registered by a major operator in this sector between 2003 and 2005 continued during the period under review. Between 2003 and 2005 exports of chemicals increased by an annual average

### Commodity Breakdown of Exports

Table 7.2

Lm million

	2002	2003	2004	2005	2005 Jan/Aug	2006 Jan/Aug
<b>Total Exports</b>						
Food, Beverages and Tobacco	56.6	50.7	45.2	39.7	26.1	32.5
Chemicals	18.6	19.0	23.9	40.9	24.6	33.2
Semi-manufactures	49.0	48.8	50.6	54.2	37.0	31.8
Machinery and Transport						
Equipment	601.8	576.7	576.0	513.2	326.0	392.5
Clothing	69.0	62.0	46.7	40.3	26.4	18.8
Fuels	52.2	51.6	39.2	9.7	5.3	6.8
Printed Matter	27.8	31.8	32.4	34.4	21.5	20.5
Toys and Games	29.4	28.2	29.5	28.4	19.9	16.8
Scientific Instruments	25.3	27.9	25.1	26.8	17.3	16.6
Other Manufactures	38.7	31.6	37.7	36.2	24.0	23.9
<b>Total Exports</b>	968.4	928.3	906.3	823.8	528.1	593.4

Source: National Statistics Office

growth of 47 per cent. This positive trend continued in the period under review with exports increasing further by Lm8.6 million. On the other hand, following the downward trend in exports of clothing registered in recent years, the clothing sector has been negatively affected by the recent closure of a major clothing manufacturer. These developments reflect significant competitive price pressures from low-cost centres. During the period under review, exports of clothing were Lm7.6 million less than last year.

Other contributors to exports were food items with a 24.5 per cent increase from last year. This sector contributed to almost 10 per cent of the increase in exports. The increase in food exports has been mainly the result of higher exports of tuna. Higher exports of fuel used for bunkering services have also been registered during the first eight months of 2006. Nevertheless, such increases were offset by lower exports from other sectors mainly semi-manufactures (-Lm5.2 million) and toys and games (-Lm3.1 million).

If one were to exclude exports of machinery and transport equipment sectors, it is interesting to note that exports in the first eight months of 2005 and 2006 remained stable at around Lm200 million. This occurred despite the trend decline in exports of clothing, traditionally the second major exporting sector, and the substantial increase in the exports of chemicals. This is indicative of the restructuring in the manufacturing sector with declining exports from traditional

Chart 7.3

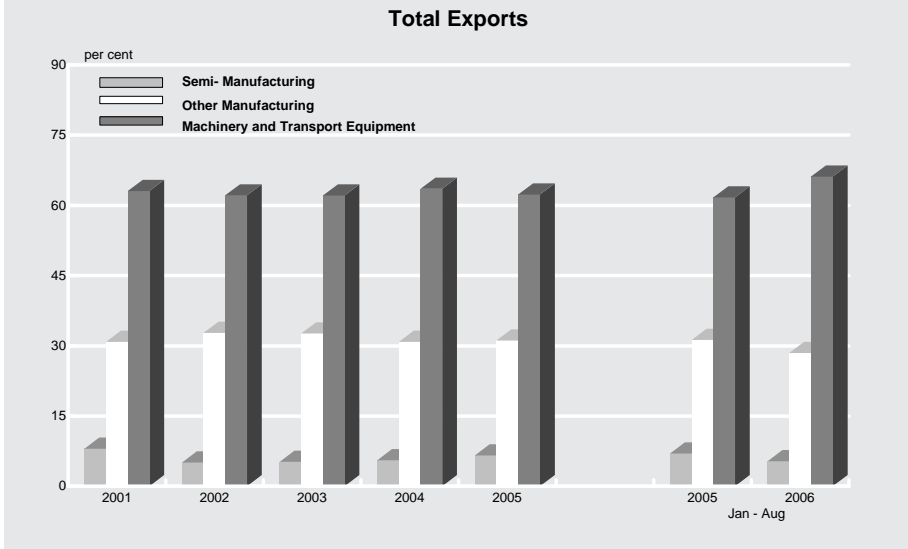
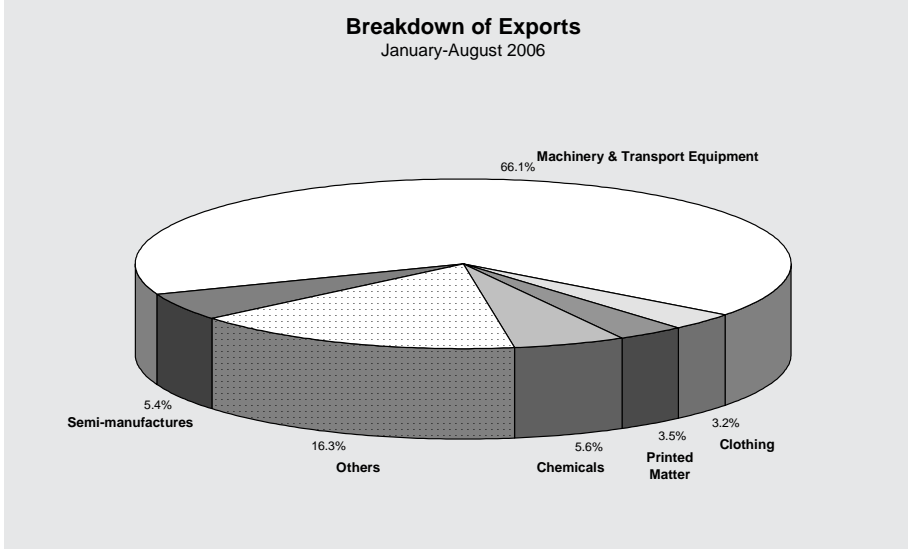


Chart 7.4



sectors being compensated by higher exports in both emerging and existent sectors. Of particular relevance is the emergence of chemical products within Malta's manufacturing industry. This category of exports now represents 5.6 per cent of Maltese exports, and in Jan-Aug 2006 constituted the second major export commodity. Further details are provided in Chart 7.3 and Chart 7.4.

## Geographical Distribution – Exports

During the first eight months of 2006, exports partly reflected the economic activity of Malta's main trading partners. Table 7.3 provides a detailed analysis of the geographical distribution of exports.

Exports to the EU increased by around 11 per cent during the first eight months of 2006. Higher exports to France (+Lm12.7 million), Germany (+Lm6.6 million) and Italy (+Lm1.6 million) were registered whilst exports to the UK declined by Lm4.3 million. Lower exports to Belgium (-Lm6.7 million) were also

	2002	2003	2004*	2005*	2005* Jan/Aug	2006* Jan/Aug
Europe	448.9	435.5	441.8	439.6	280.9	314.3
EU*	440.8	430.1	434.6	429.6	275.3	306.4
Italy	32.7	31.5	27.8	43.0	20.9	22.5
Germany	93.6	95.2	97.5	101.0	65.7	72.3
France	120.0	120.2	140.6	121.8	78.3	91.0
U.K.	112.2	109.0	102.9	92.3	64.9	60.6
Netherlands	10.3	6.8	7.4	7.5	5.3	7.4
Belgium	30.7	25.6	11.6	18.5	13.3	6.6
Others	41.4	41.6	46.8	45.5	26.9	45.8
Euro Area	313.4	296.1	302.8	305.0	191.0	223.7
Other European countries	8.0	5.5	7.2	10.0	5.6	7.9
Africa	44.8	35.1	46.7	61.8	38.4	30.8
America	163.7	143.2	150.7	129.5	85.7	82.8
USA	159.4	134.2	141.8	113.2	75.5	75.9
Others	4.3	9.0	8.9	16.3	10.2	6.9
Oceania	0.6	0.5	0.9	1.5	1.0	1.2
Asia	247.7	255.2	225.5	181.7	116.5	158.2
Japan	41.6	37.1	25.8	17.8	12.0	24.2
Singapore	151.9	155.9	131.4	96.9	62.9	74.9
Others	54.2	62.2	68.3	67.0	41.6	59.2
Ships & Aircraft	62.8	58.8	40.7	9.7	5.6	6.1
<b>Total Exports</b>	<b>968.5</b>	<b>928.3</b>	<b>906.3</b>	<b>823.8</b>	<b>528.1</b>	<b>593.4</b>
EU Exports as % of Total	45.5	46.3	48.0	52.1	52.1	51.6

\*As from 2004 considered by country of consignment

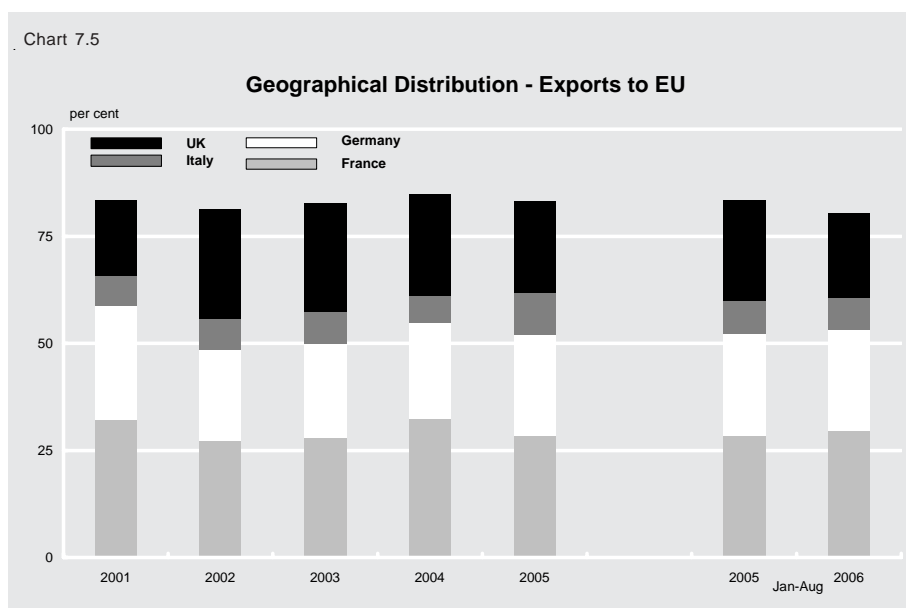
Source: National Statistics Office

registered. Total exports to the EU increased by Lm31.1 million. Nevertheless, the share of total exports to the EU declined in the first eight months of 2006, contrary to the upward trend in the previous three years. In the period under review, exports to the EU represented 51.6 per cent of total exports. Chart 7.5 illustrates the share of Maltese exports to the EU directed to the four main trading partners.

Exports to America registered a decline of Lm2.9 million during the first eight months of 2006. Exports to the USA increased by Lm0.4 million whereas exports to other American countries fell by Lm3.3 million. Moreover, contrary to trends in the previous two years, exports to Africa also registered a decline of Lm7.6 million compared to January-August 2005.

On the other hand, exports to Asia regained momentum and increased by Lm41.7 million, or 35.8 per cent during the period under review. The increase in Maltese exports towards Asia was spread among the whole Asian market with significant increases registered with Japan, Singapore, Malaysia and China.

In China the significant increase was mainly attributed to higher exports of electrical machinery and equipment from Lm3.5 million in the period January-August 2005 to around Lm13 million in the same period in 2006. Moreover, an increase has been registered in the exports of printed books to Malaysia from Lm1.8 million in 2005 to Lm3.5 million in 2006.



In contrast to the decreasing trend in exports to ships and aircraft, a marginal increase of Lm0.5 million has been registered in this sector for the period under review.

## Imports

During the first eight months of 2006, imports increased by Lm129.5 million, or 15.5 per cent to Lm964.8 million. Table 7.4 provides a detailed analysis of imports by broad economic category. The major contributors to the increase in imports were industrial supplies and capital goods. Industrial supplies contributed to more than half the growth in imports whilst imports of capital goods represented around one-fourth of the increase. Meanwhile, the increase in imports of consumer goods represented less than 7 per cent of the increase in imports registered during the period under review. Higher imports of fuel were also registered during the period under analysis, and contributed to 12 per cent of the growth in imports.

Industrial supplies registered an increase of 18.8 per cent to Lm448.6 million. This reflects the increase in output and export activity registered during the period under analysis. All components within the industrial supplies category

	2002	2003	2004	2005	2005 Jan/Aug	2006 Jan/Aug
<b>Consumer Goods</b>						
Food and Beverages	99.6	104.1	117.1	121.7	77.4	77.9
Durable Goods	120.2	127.3	136.0	150.7	96.0	101.1
Others	74.3	79.7	87.0	82.8	53.5	56.7
<b>Total</b>	294.1	311.1	340.1	355.2	226.9	235.7
<b>Industrial Supplies</b>						
Primary	23.5	17.5	16.2	19.8	13.0	12.6
Semi-finished	579.9	612.3	577.6	531.0	348.4	405.2
Finished	17.9	21.1	23.5	35.7	16.1	30.8
<b>Total</b>	621.3	650.9	617.3	586.5	377.5	448.6
<b>Capital and Others</b>						
Capital Goods	198.6	205.9	235.7	226.7	148.9	180.5
Fuel	102.8	101.9	107.2	142.8	76.8	92.5
Non-specified and Gold	10.7	11.4	7.2	8.0	5.2	7.5
<b>Total</b>	312.1	319.2	350.1	377.5	230.9	280.5
<b>Total Imports</b>	1,227.5	1,281.2	1,307.5	1,319.2	835.3	964.8

Source: National Statistics Office



registered an increase between the first eight months of 2005 and 2006 except primary industrial supplies, which experienced a slight fall of 3.1 per cent.

Imports of capital goods for the first eight months of 2006 stood at Lm180.5 million. This reflected investment activity in the period under review. It includes exceptional items of Lm32 million, the majority of which comes from the import of several sea-vessels and cranes.

Imports of consumer goods edged up by 3.9 per cent to Lm235.7 million. All the components of consumer goods registered increases over the previous year. Food and beverages increased slightly by 0.6 per cent, durable goods imports increased by 5.3 per cent whereas 6.0 per cent increase in imports was registered in the other consumer goods category. The composition of consumer imports is illustrated in Chart 7.6. A breakdown of imports into consumer goods, industrial supplies and capital goods is provided in Chart 7.7.

Imports of fuel continued to increase by Lm15.7 million to Lm92.5 million. This was primarily related to the substantial increase in oil prices on the international market.

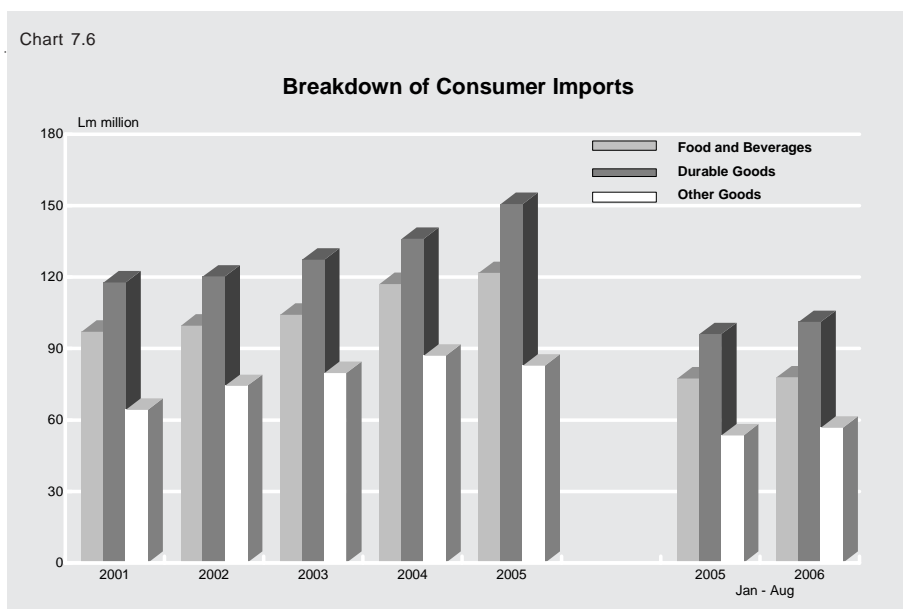
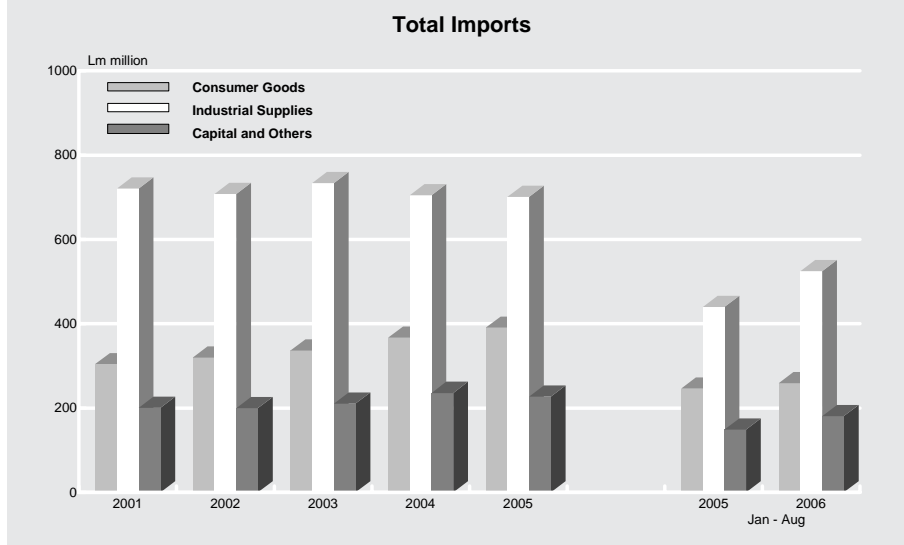


Chart 7.7



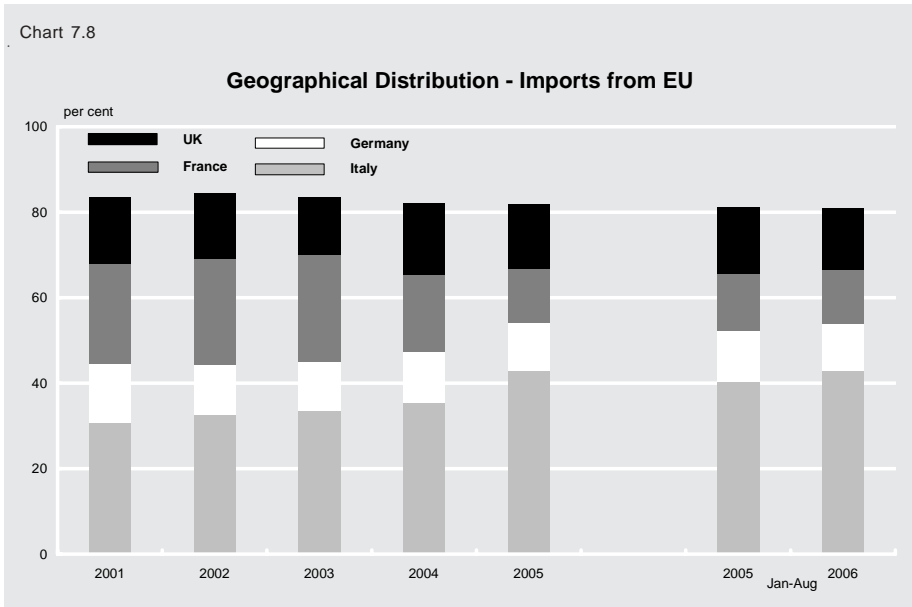
## Geographical Distribution – Imports

During the period under review, the highest percentage increase in imports was registered from Asia and America both recording an increase in excess of 44 per cent from last year. Both the dollar and the yen have depreciated against the Maltese Lira from 2005 to 2006 and this could have contributed to the increase in imports from these regions.

Imports from the EU increased by 9.1 per cent, lower than the 11.3 per cent increase in exports. Imports from all the main EU trading partners increased slightly, including a notable increase of Lm38.3 million in imports from Italy. These were primarily mineral fuels and oils with an increase from Lm31.6 million in 2005 to Lm52.6 million in 2006 and electrical machinery and equipment with an increase of Lm24.9 million in the period under review.

Imports from the American continent increased substantially by 44.9 per cent. This was underpinned by an increase of Lm18.7 million in imports from the USA. Total imports from the USA stood at Lm56.3 million in the first eight months of 2006.

Imports from Oceania also registered a remarkable increase of Lm12.3 million from Lm2.3 million to Lm14.6 million. Included in this figure is however the



import of a sea-vessel which accounts for the increase registered during the period under review.

Imports from Asia increased from Lm120.1 million to Lm173.8 million during the period under review. Imports from Japan increased by Lm3.1 million and another Lm9.8 million increase came from Singapore. Imports from other Asian countries increased by a significant Lm40.8 million. Major increases were registered from China, Taiwan and Malaysia and include an exceptional import of cranes amounting to Lm13.6 million from China. An increase in imports of electrical machinery and equipment was registered from Malaysia and Taiwan with an increase of Lm4.1 million and Lm9.7 million respectively from January-August 2005 to the same period in 2006.

During the period under review, imports from the African market registered the only fall. Despite a higher fuel import bill a substantial decline of around 53 per cent, from Lm37.2 million to Lm17.5 million, has been registered for the first eight months of 2006. This may be attributed to a lower volume of fuel imports from Africa. It is notable that last year, a significant increase in imports of fuel from Egypt was registered which did not repeat itself this year. Indeed, imports from Egypt fell by Lm24 million in the first eight months of 2006, contributing to the decrease in imports from Africa of Lm19.7 million. Chart 7.8 and Table 7.5 analyse imports by main geographical areas in more detail.

### Imports by Main Geographical Areas

Table 7.5

Lm million

	2002	2003	2004*	2005*	2005* Jan/Aug	2006* Jan/Aug
Europe	891.6	937.5	996.6	999.2	630.5	693.5
EU*	833.3	877.0	949.8	951.5	600.0	654.7
Italy	271.7	294.4	336.1	408.3	241.6	279.9
U.K.	127.7	118.6	157.4	143.7	93.1	93.5
Germany	98.5	101.0	113.8	106.5	71.8	73.3
France	205.1	218.9	171.4	121.2	80.3	83.4
Netherlands	28.5	29.7	45.9	43.9	29.2	34.4
Others	101.6	114.4	125.2	257.1	83.9	90.2
Euro Area	680.9	732.5	761.8	779.2	488.1	540.9
Other European Countries	58.2	60.5	46.9	47.6	30.5	38.8
Africa	17.3	10.8	25.8	55.5	37.2	17.5
America	127.4	115.9	84.9	81.4	45.2	65.5
USA	115.3	103.9	69.9	69.7	37.6	56.3
Others	12.1	12.0	15.0	11.7	7.7	9.2
Oceania	6.2	6.8	3.3	3.6	2.3	14.6
Asia	185.0	210.2	196.9	179.5	120.1	173.8
Japan	27.9	29.3	26.9	24.5	17.4	20.5
Singapore	51.8	59.6	53.4	51.2	36.1	45.9
Others	105.3	121.3	116.6	103.8	66.6	107.4
<b>Total Imports</b>	<b>1,227.5</b>	<b>1,281.2</b>	<b>1,307.5</b>	<b>1,319.2</b>	<b>835.3</b>	<b>964.8</b>
EU Imports as % of Total	67.9	68.5	72.6	72.1	71.8	67.9

\*As from 2004 considered by country of consignment

Source: National Statistics Office

## Geographical Distribution – Trade Balances

The trade balance with the EU has deteriorated by Lm23.8 million during the period under review. Apart from France and Germany, Malta's trade balance with major economies within the EU deteriorated. The trade deficit with France turned into a surplus of Lm7.7 million, whilst the trade deficit with Germany declined by Lm5.1 million. On the other hand, the trade deficit with Italy deteriorated by a further Lm36.7 million. The positive trade balance with Singapore improved further by Lm2.2 million whereas the trade deficit with Japan improved by Lm9.1 million turning into a surplus of Lm3.7 million. On the other hand, the USA trade surplus deteriorated by Lm18.3 million whereas the trade balance with Libya fell by Lm6 million. The trade balance with China has widened further by Lm9.7 million. However, this has been influenced by an exceptional import item. Further details are provided in Table 7.6.

	2002	2003	2004*	2005*	2005* Jan/Aug	2006* Jan/Aug
EU*	-392.5	-447.1	-515.1	-521.9	-324.6	-348.4
Belgium	-10.4	3.8	-9.9	-6.5	-2.7	-9.0
France	-85.1	-98.7	-30.8	0.6	-2.0	7.7
Germany	-5.0	-5.8	-16.3	-5.6	-6.1	-1.0
Italy	-239.1	-262.9	-308.3	-365.3	-220.7	-257.4
Netherlands	-18.3	-22.9	-38.5	-36.4	-24.0	-27.0
United Kingdom	-15.5	-96.2	-54.5	-51.3	-28.2	-32.9
Other EU	-19.0	35.6	-56.8	-57.4	-40.9	-28.8
<b>Other Countries</b>						
USA	44.1	30.3	72.0	43.6	37.9	19.6
Japan	13.6	7.8	-1.1	-6.8	-5.4	3.7
Singapore	100.2	96.3	78.0	45.7	26.8	29.0
Libya	24.0	20.9	28.4	34.7	23.7	17.7
China	-25.2	-33.5	-20.0	-17.4	-11.5	-21.2

\*As from 2004 considered by country of consignment

Source: National Statistics Office

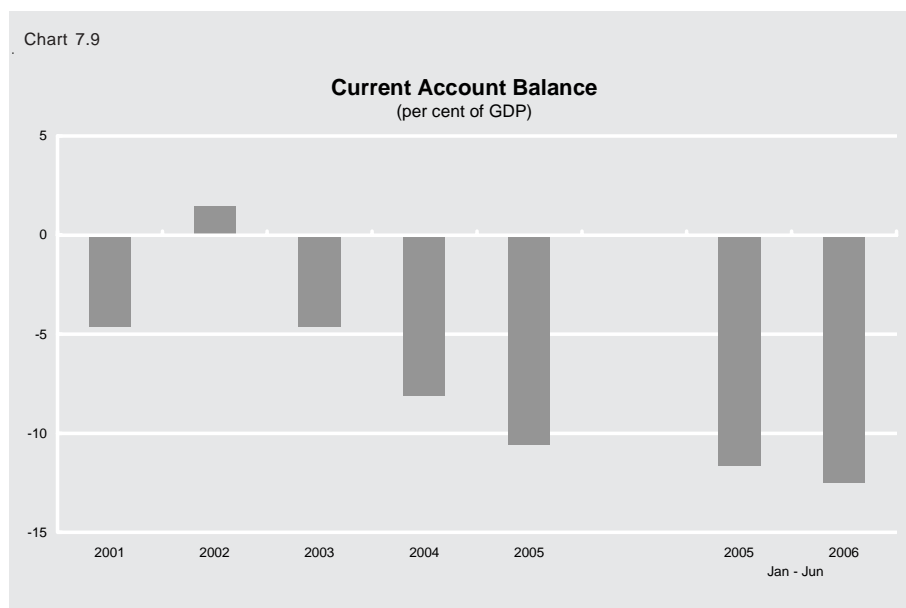
## Balance of Payments

As a result of data revisions carried out by the NSO and new data reporting systems, data on the balance of payments published in this Economic Survey are not comparable to data published in previous years.

In particular, the TOURSTAT and the CRUISETAT Surveys now provide the source for gross tourism earnings, replacing data collected from foreign currency transactions reported to the Central Bank of Malta by the banking institutions and other authorised dealers. As a result, data have been revised backwards to 1995.

From 2004 onwards, INTRASTAT data is now being utilised to extract shipment data (freight and insurance) from the c.i.f. import figure. This has resulted in a break in series, with the goods account and transportation account not strictly comparable to previous data.

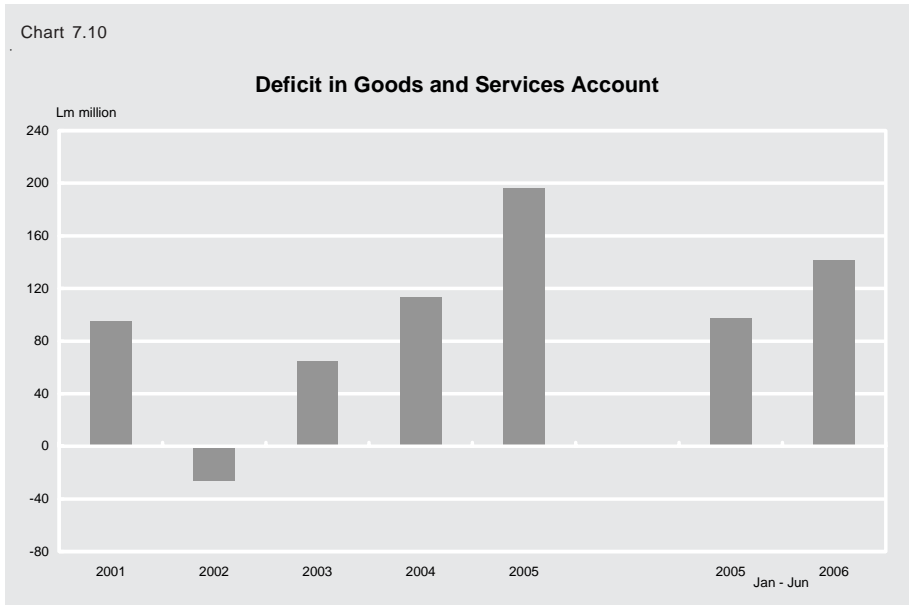
Malta's balance of payment statistics are generally characterized by current account deficits. As shown in Chart 7.9, Malta's current account balance over the last five years was in deficit except in 2002 when there was an exceptional export item. This reflects Malta's need to import most of its material goods for



production and consumption, as it lacks natural resources and raw materials. Indeed, current account deficits are typical of small open economies.

Current account deficits tend to be exacerbated when the economy is going through a catching-up process, as most new Member States in the EU are experiencing. This generally involves an increase in investment activity which is not necessarily financed by domestic savings. As a result, foreign borrowing, typically in the form of foreign direct investment (FDI) inflows, is necessary to make up for the lack of domestic savings. As long as the current account deficit reflects productive investment in the economy, it is considered to be sustainable. FDI is also associated with technology transfer which, in a small market such as Malta, can be a partial substitute to domestic research and development. In addition, FDI inflows are generally regarded as stable long-term flows.

The sustainability of a country's current account deficit is also evidenced by the stock of foreign currency reserves. Between 1997 and 2005, foreign exchange reserves always exceeded the monetary base, with indicative estimates showing the ratio reaching 1.3 at the end of 2005. Figures for the first six months of 2006 point to further increases in foreign exchange reserves. Indeed, despite persistent current account deficits and the gradual liberalisation of the current and capital account during the last decade, the Maltese lira continued to be sustained by ample reserves. This is further evidence of the ability of small open economies to live with persistent current account deficits.



## The Current Account

Malta's export performance, the increase in imports as a result of trade liberalisation and a higher energy bill, together with higher earnings by foreign-owned companies were the main contributors towards the increase in the current account deficit in the last few years. In the first six months of 2006, the current account deficit increased further to Lm123.4 million, marked primarily by a deterioration in the goods and services balance. Chart 7.10 shows the deficit in the goods and services account since 2001.

## The Goods and Services Account

The recovery in the semiconductors industry evidenced by the increase in the value of exports, higher exports of food and the positive export performance in a number of emerging industries such as chemicals were the main contributors behind the significant improvement of Lm43.2 million in exports of goods and services. However, these were more than offset by higher imports of goods. Although the increase in exports covered the consequent increase in industrial supplies and the additional expenditure on capital goods and consumer goods imports, the increase in the fuel import bill contributed to the deterioration in the deficit on the merchandise account. As a result, the deficit in the goods account increased by Lm31.6 million.

Developments in the transport account show a declining trend in both receipts and payments. However, between 2002 and 2005 the decline in payments on transport generally exceeded the decline in receipts with the negative balance in this account improving. In 2004 and 2005, a surplus was registered. However, data for the first six months of 2006 show a decrease in receipts which resulted in a deterioration in the balance on the transport account. As a result, net receipts from transport declined by Lm13.5 million.

The travel account shows the receipts and payments from tourism services and is a major source of export revenue and foreign exchange earnings in the Maltese economy. Indeed, tourism earnings represent around 20 per cent of exports of goods and services. Tourism earnings have remained relatively stable since 2002, with marginal declines registered in 2004 and 2005. However, expenditure by Maltese tourists abroad has been following an increasing trend, rising from Lm66.4 million in 2002 to Lm92.9 million in 2005. In the first six months of 2006 tourism earnings remained relatively stable whilst the continued growth in expenditure by Maltese tourists abroad appears to have stabilized. As a result of these developments, the balance on the travel account deteriorated marginally by Lm2.1 million to Lm60.1 million during the first two quarters of 2006.

Receipts and payments on other services have generally been following an upward trend between 2002 and 2005. Financial, insurance, business and professional services, account for around 70 per cent of the flows in the other services account. In 2005, the total combined earnings of all these sectors amounted to around Lm107 million whilst payments amounted to around Lm121 million. In the first six months of 2006, export earnings from financial, insurance and computer services declined. These were partly compensated for by higher receipts from business services. These developments were the major contributors to the decline in earnings from other services. Meanwhile, payments on financial, insurance, business and professional services registered a decline. This represented the major source of decline in payments on other services. The net balance on the other services account improved, reaching Lm3.0 million in the first six months of 2006.

Table 7.7 illustrates the developments in the goods and services account that resulted in a deterioration of Lm43.8 million during the first half of 2006. This was partly compensated by a decline in net payments in the income account of Lm10.9 million. During the first six months of 2006, the income account registered a surplus of Lm1.1 million, primarily as a result of lower outflows on investment income.



**Balance of Payments**  
Goods, Services and Income Account (Net)

Table 7.7

Lm million

	2002	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
<b>GOODS</b>						
General Merchandise Transactions	-191.6	-295.0	-362.2	-435.3	-196.3	-225.1
Nonmonetary Gold	-9.3	-8.8	-6.6	-7.3	-3.8	-4.8
Others	46.6	44.6	50.1	32.5	16.2	14.5
<b>Total Goods</b>	<b>-154.2</b>	<b>-259.1</b>	<b>-318.7</b>	<b>-410.1</b>	<b>-183.8</b>	<b>-215.4</b>
<b>SERVICES</b>						
Transportation	-6.1	-9.4	31.2	39.1	24.4	10.9
Travel	197.2	191.2	178.5	169.4	62.2	60.1
Other Services	-10.4	12.5	-3.9	5.4	-0.4	3.0
<b>Total Services</b>	<b>180.7</b>	<b>194.4</b>	<b>205.7</b>	<b>214.0</b>	<b>86.3</b>	<b>74.0</b>
<b>Total Goods and Services</b>	<b>26.4</b>	<b>-64.8</b>	<b>-113.0</b>	<b>-196.1</b>	<b>-97.6</b>	<b>-141.4</b>
<b>INCOME</b>						
Compensation to employees	5.6	5.7	6.0	4.8	2.5	3.9
Investment Income	5.1	-10.6	-19.6	-26.7	-12.3	-2.8
<b>Total Income</b>	<b>10.7</b>	<b>-4.9</b>	<b>-13.6</b>	<b>-21.8</b>	<b>-9.8</b>	<b>1.1</b>
<b>Total Goods, Services and Income</b>	<b>37.1</b>	<b>-69.6</b>	<b>-126.6</b>	<b>-217.9</b>	<b>-107.3</b>	<b>-140.3</b>

Source: National Statistics Office

## The Income Account and Current Transfers

The income account is primarily made up of the earnings on direct investments of foreign-owned companies which operate in Malta. These earnings represent an outflow of funds from the current account of the balance of payments. Thus, an increase in earnings of foreign-owned companies will automatically result in a higher current account deficit. However, when these earnings are not distributed to shareholders but re-invested in the company, the outflow of funds in the current account is then neutralized by an inflow of funds in the financial account as FDI. In the case of distributed profits, only an outflow of funds in the current account is recorded, with the corresponding balance sheet entry being an outflow of foreign exchange reserves. This implies that, whilst distributed profits reduce foreign exchange reserves, re-invested earnings do not affect foreign exchange reserves in the balance of payments.

Between 2002 and 2005, earnings of foreign-owned companies followed an upward trend, increasing from around Lm76 million in 2002 to around Lm123 million in 2005. This had a negative impact on the current account. It is noteworthy

that in 2005 the increase in earnings of foreign-owned companies contributed to almost 45 per cent of the deterioration in the current account. It is notable that in 2003 and 2004 almost one-third of these earnings were re-invested in the Maltese economy. However, in 2005, the share of earnings which were re-invested declined.

In the first six months of 2006 earnings of foreign-owned companies declined by 14.2 per cent. In addition, interest earnings on portfolio investments increased by Lm56 million during this period, primarily consisting of interest on bonds held by banks. Furthermore, net payments in the form of other investment income increased by around Lm52 million, offsetting the higher interest earnings on portfolio investments.

As a result of these developments, the negative balance on the investment income account registered in the January-June period of 2005 improved by Lm9.5 million to a deficit of Lm2.8 million in the comparable period of 2006. Moreover, higher net income by way of employee compensation was registered bringing the balance on the income account to a net inflow of Lm1.1 million, compared to a net outflow of Lm9.8 million a year earlier.

<b>Balance of Payments</b>						
Current Account						
Table 7.8	Lm million					
	2002	2003	2004	2005	2005 Jan/Jan	2006 Jan/Jan
<b>GOODS AND SERVICES</b>						
Exports of Goods and Services	1,515.7	1,461.3	1,467.9	1,406.7	654.8	698.0
Imports of Goods and Services	1,489.3	1,526.0	1,580.9	1,602.7	752.3	839.5
Goods and Services Account	26.4	-64.8	-113.0	-196.1	-97.6	-141.4
<b>INCOME</b>						
Income Received	369.3	337.9	329.7	411.6	186.8	284.5
Income Paid	358.6	342.7	343.3	433.4	196.6	283.4
Income Account	10.7	-4.9	-13.6	-21.8	-9.8	1.1
<b>CURRENT TRANSFERS (Net)</b>						
General Government Transfers	3.2	8.9	3.0	7.7	-3.7	23.1
Private Transfers	-14.1	-25.6	-27.2	4.5	3.2	-6.1
Total Net Current Transfers	-11.0	-16.7	-24.2	12.2	-0.5	17.0
<b>Balance on Current Account</b>	<b>26.1</b>	<b>-86.3</b>	<b>-150.8</b>	<b>-205.7</b>	<b>-107.8</b>	<b>-123.4</b>

Source: National Statistics Office

A net inflow of Lm17.0 million by way of current transfers was also registered during the first two quarters of 2006. Current transfers consisted primarily of General Government transfers, and include Malta's contribution to the EU budget and any EU recurrent funds received. Funds received from the EU tied to capital projects (such as the Structural and Cohesion funds) are not part of the current account but are instead classified as capital transfers. Net inflows by way of General Government transfers rose reflecting inflows of Lm59.9 million which more than offset the outflows of Lm36.8 million. A net outflow of Lm6.1 million by way of private current transfers was also registered in the period under review.

Table 7.8 highlights the major developments in the current account. The increasing trend in the current account deficit continued throughout the first six months of 2006, reaching Lm123.4 million. This represents an increase of Lm15.6 million over the comparable period in 2005. The increase in the current account deficit resulted from the deterioration in the goods and services balance, with income and current transfers contributing positively to a reduction in the deficit.

## The Capital and Financial Account

Malta's current account deficit is typically financed by capital transfers and FDI inflows. As illustrated in Table 7.9, the current account deficit registered

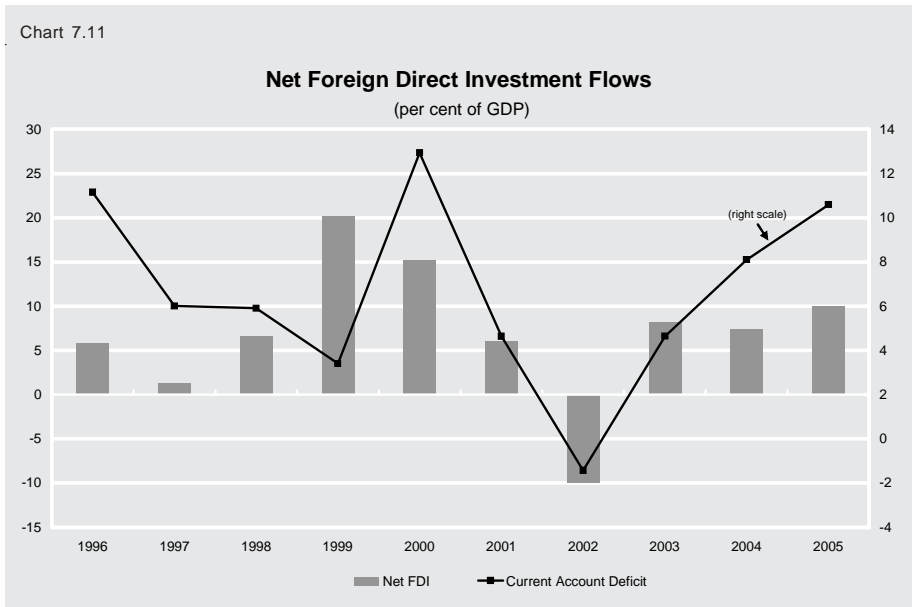
	2002	2003	2004	2005	2005 Jan/Jun	2006 Jan/Jun
Current Account	1.4	-4.6	-8.1	-10.6	-11.7	-12.5
Capital Account	0.2	0.4	1.5	3.5	3.4	2.4
Financial Account excl. Reserves	5.5	5.2	-0.1	8.4	9.1	18.9
Net Foreign Direct Investment	-9.9	8.3	7.4	10.0	13.8	16.0
Net Portfolio Investment Equity Flows	1.5	-0.5	-0.9	-1.0	-0.4	-0.9
Net Portfolio Debt Flows	-10.2	-31.7	-37.9	-46.1	-4.1	-68.3
Net Financial Derivatives	0.0	0.5	-0.3	-0.4	-0.8	0.7
Net Other Investment Flows	24.1	28.6	31.5	46.0	0.6	71.4
Reserve Assets	-6.7	-2.9	3.7	-4.2	5.7	-1.6
Net Errors and Omissions	-0.4	2.0	3.0	2.9	-6.5	-7.3

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

Source: National Statistics Office

between 2003 and 2005 was sustained by net capital inflows and net inflows by way of FDI. Transactions of a relatively significant magnitude are evident in portfolio and other investment flows. However, these typically reflect balance sheet entries of foreign financial institutions that exclusively deal with non-residents, with inflows of other investments generally offsetting outflows of portfolio investments. The magnitude of these transactions is disproportionate to the marginal impact of the operations of these institutions on the balance of payments, including the foreign currency reserves of the Central Bank.

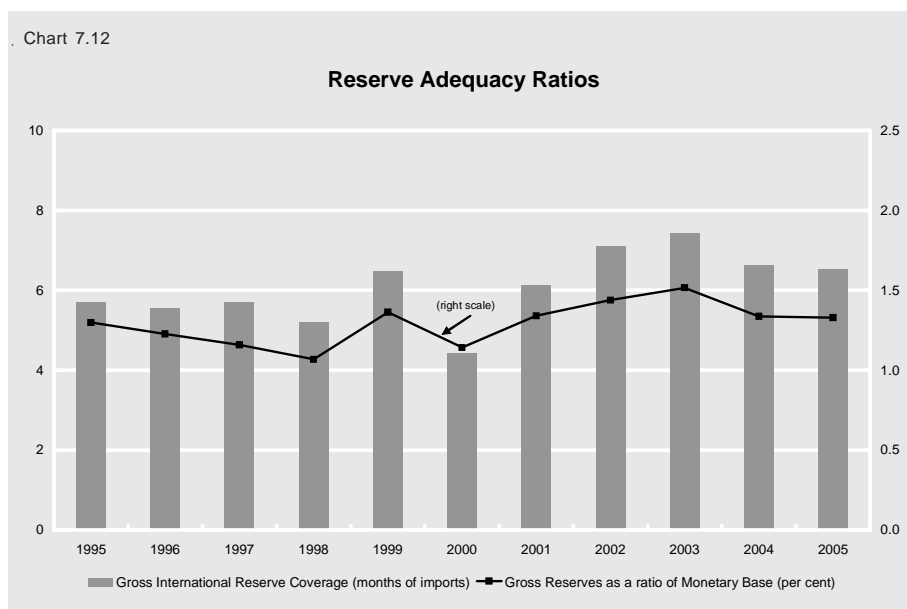
The current account deficit registered during the January-June 2006 period continued to be financed by capital transfers and inflows of FDI. Inflows by way of capital transfers are primarily made up of General Government transfers. Following Malta’s accession into the EU, and the funds received from the Italian Protocol, General Government transfers have increased considerably, reaching Lm24.3 million in the first six months of 2006. This trend is expected to persist for the next seven years in line with the EU funds that Malta is entitled to under the agreement on the Financial Perspectives for 2007-2013. Since most of these funds will be related to particular capital projects it is expected that such transactions are recorded as capital rather than current transfers. A net outflow of Lm0.4 million by way of other capital transfers was also recorded during the first half of 2006.



The net FDI inflows in the January-June period of 2006 were characterized by the privatization proceeds from the sale of shares in Maltacom plc. In addition, a substantial capital injection in Malta was also recorded during the period under review. Nevertheless, this injection was neutralized, with the capital inflow sent abroad. Net FDI inflows stood at Lm157.9 million, Lm30.5 million more than the comparable period a year ago. This represents a net inflow equivalent to 16.0 per cent of GDP.

An analysis of the last five years indicates that, with the exception of 2002, net FDI inflows generally exceeded 5 per cent of GDP. FDI inflows over the last five years have generally followed an upward trend, reaching 10.0 per cent of GDP in 2005. These figures include the capital inflows of foreign financial institutions that exclusively deal with non-residents. Chart 7.11 depicts developments in net FDI flows compared to the trend followed by the current account deficit for the 1996-2005 period.

Portfolio investment flows in the Maltese economy typically comprise of debt instruments, primarily bonds and notes held by banks. A net outflow by way of portfolio debt flows equivalent to 68.3 per cent of GDP was registered during the first six months of 2006. Portfolio investment equity flows also registered a net outflow of 0.9 per cent of GDP. Portfolio investment outflows were offset by a net inflow of 0.7 per cent of GDP by way of financial derivatives and a net inflow of 71.4 per cent of GDP by way of other investment flows. A rise in



long-term bank lending to non-residents and a reduction in non-residents' holdings of currency and deposits in Malta led to a gross outflow of around Lm1.3 billion in the other investment account. This was however offset by a substantial inflow of around Lm2 billion, mainly due to loans (primarily of a short-term nature) taken up by banks from non-residents and an increase in deposits held by non-residents with domestic banks.

During the period under review, net errors and omissions represented a net outflow of 7.3 per cent of GDP, compared to a similar net outflow of 6.5 per cent of GDP a year earlier. A net inflow in the capital and financial account, inclusive of errors and omissions, equivalent to 14.0 per cent of GDP, was recorded in the January-June period of 2006. This exceeded the current account deficit recorded during the same period. As a result, reserve assets increased further by 1.6 per cent of GDP, being underpinned by the privatization proceeds from the sale of shares in Maltacom plc. Further details are provided in Table 7.9. Chart 7.12 illustrates a number of indicators related to the adequacy of reserve assets. The Chart indicates that despite Malta's current account deficits over the last decade, reserves remained relatively stable, both in terms of import coverage and as a ratio of the monetary base.

## **8. Financial Developments**

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## 8. Financial Developments

Developments in Government's fiscal position registered during the first nine months of 2006 reflect Government's priority to address the imbalance in public finances. Indeed, the downward path in the fiscal deficit registered in recent years was sustained during the January-September 2006 period, as the structural deficit declined from Lm85.4 million to Lm72.9 million. This decline was underpinned by higher tax revenue and lower capital expenditure which more than outweighed the increase in recurrent expenditure.

In the first eight months of 2006, broad money (M3) continued to expand, reflecting an acceleration in both domestic credit and net foreign assets, which more than offset the more rapid growth of the other counterparts of M3. In May 2006, the Central Bank of Malta raised the central intervention rate by 25 basis points to 3.50 per cent. During the January-September 2006 period, the Maltese lira remained stable in ERM II at the central parity rate of EUR/MLT0.4293. As the Maltese lira is pegged to the Euro, the Maltese lira appreciated against the Japanese Yen and the US Dollar but depreciated against the Sterling.

### Public Finance

Government finance data presented in this Chapter is defined on a cash basis rather than on an accrual basis. As a result, such data should be interpreted with caution since developments in the Government's net financial position may not reflect actual spending and revenue collection. Table 8.1 presents Government's fiscal position during the first nine months of the 2003-2006 period. Meanwhile, recent developments in total expenditure and recurrent revenue are depicted in Chart 8.1.

### Revenue

During the first nine months of 2006, Government recurrent revenue increased by Lm22.9 million to Lm629.9 million. This was attributable to higher tax revenue, the latter accounting for around 85 per cent of total recurrent revenue. Indeed, the increase in tax revenue more than offset the decline in non-tax revenue registered during the first nine months of 2006. Appendix Table 8.1 presents developments in the components of Government revenue for the first nine months of the 2003-2006 period.

## Government Revenue and Expenditure

(January-September)

Table 8.1

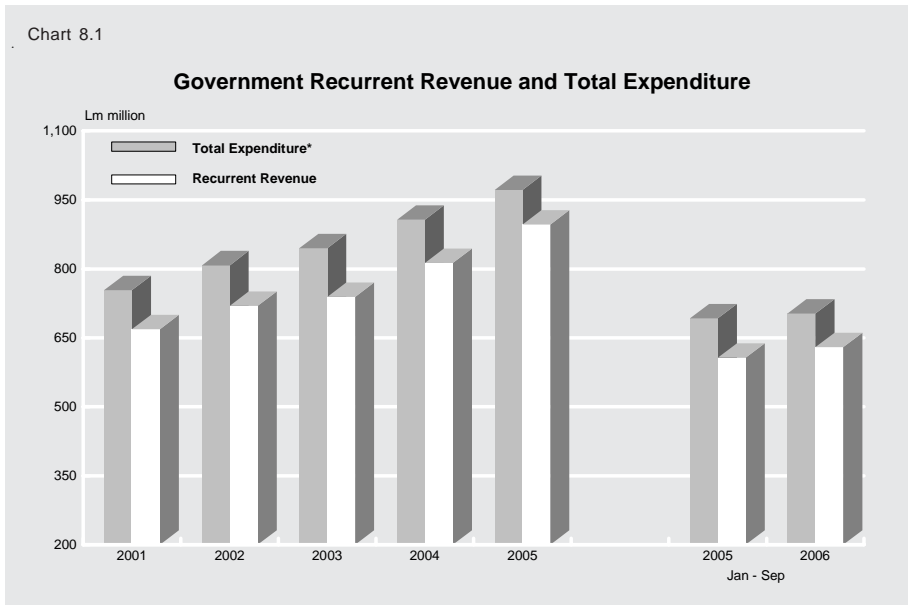
Lm million

	2003	2004	2005	2006
<b>Recurrent Revenue</b>	496.6	538.2	606.9	629.9
Tax Revenue	443.6	472.0	500.0	537.3
Direct Tax Revenue	251.0	258.7	265.7	287.5
Indirect Tax Revenue	192.6	213.3	234.3	249.8
Non-Tax Revenue	53.0	66.2	106.9	92.5
<b>Total Expenditure</b>	632.4	648.0	692.3	702.7
Recurrent Expenditure	499.4	518.1	543.4	560.1
Interest on Public Debt	48.8	54.3	55.8	62.9
Capital Expenditure	84.2	75.6	93.1	79.7
Productive	23.4	17.9	23.2	22.5
Infrastructure	23.6	27.2	32.9	20.9
Social	37.2	30.6	37.0	36.3
<b>Structural Balance</b>	(135.8)	(109.9)	(85.4)	(72.9)
<b>Financed by:</b>				
Extraordinary Receipts				
Receipts from sale of shares	0.0	0.0	1.1	74.2
Sinking Funds of Converted Loans	2.1	8.9	3.8	5.3
Sinking Fund Contribution/Direct Loan Repayments	(6.2)	(6.3)	(6.0)	(6.7)
Public Sector Borrowing Requirement	(139.9)	(107.3)	(86.5)	—
Loans	102.1	70.4	110.0	10.0
Local Loans	69.9	70.4	110.0	10.0
Foreign Loans	32.2	0.0	0.0	0.0

Source: The Treasury/Ministry of Finance

During the first nine months of 2006, tax revenue registered an increase of Lm37.3 million to Lm537.3 million, attributable to both higher direct and indirect tax revenue. Direct tax revenue increased by Lm21.8 million to Lm287.5 million on account of both higher revenue from income tax and social security contributions. Indirect tax revenue increased by Lm15.5 million to Lm249.8 million. This expansion was attributable to higher revenue collected from the three different categories of indirect tax revenue namely customs and excise duties, licences, taxes and fines, and Value Added Tax (VAT).

During the first nine months of 2006, revenue generated from income tax increased by Lm15.5 million to Lm155.3 million. Ongoing efforts to improve efficiency in tax collection contributed to the increase in income tax revenue. Moreover, revenue from income tax was also affected by the changes in the



\*excluding contributions to Sinking Fund and Direct Loan Repayments

way tax on property is charged as announced in the Budget Speech for 2006. In addition, the higher revenue from income tax also reflects the latest economic indicators, particularly developments in the labour market as well as average income levels. After remaining relatively stable over the first three quarters of the past recent years, social security contributions increased from Lm126.0 million to Lm132.3 million during the first nine months of 2006.

Revenue generated from customs and excise duties increased by Lm6.8 million, mostly on account of higher receipts from excise duties on petroleum. Moreover, higher receipts from import duties as well as higher revenue from excise duties on cigarettes also contributed to this increase.

During the first three quarters of 2006, revenue collected from licences, taxes and fines, amounted to Lm70.7 million or Lm5.0 million more than that registered in the first nine months of 2005. This expansion is attributable to higher gaming tax receipts reflecting higher activity by the gaming industry as well as higher receipts from the motor vehicle registration tax. In addition, the increase in the passenger departure tax payable on outgoing air fares as from August 2005 also contributed to higher revenue in this category.

Revenue generated from Value Added Tax increased by Lm3.6 million to Lm125.2 million. This expansion is partly attributable to higher revenue from

VAT charged on water and electricity following increases in the surcharge on the consumption of these utilities. VAT charged on these utilities to domestic consumers is absorbed by Enemalta. Moreover, it is pertinent to note that for the corresponding 2005 period, this item of revenue reflected the implementation of a scheme whereby additional penalties were waived off in cases where timely payment of the balance due was made by a stipulated date.

During the first nine months of 2006, non-tax revenue declined by Lm14.4 million to Lm92.5 million. The main items of non-tax revenue are grants, fees of office, the transfer of profits generated by the Central Bank of Malta and miscellaneous receipts. Revenue generated from the transfer of profits generated by the Central Bank of Malta declined by Lm4.0 million to Lm10.0 million. Fees of office amounted to Lm12.9 million during January-September 2006, a decrease of Lm5.5 million. It is pertinent to note that for the corresponding 2005 period this item of revenue included receipts amounting to Lm6.2 million collected under the investment registration scheme. During the first nine months of 2006, higher revenue was generated from the eco-contribution. Additional revenue was also generated from higher fees for rights of use which include wireless licences, fixed telephone licences and mobile telephone licences.

During the January-September 2006 period, miscellaneous receipts declined by Lm6.6 million to Lm10.1 million. This is mainly attributable to lower premia from the sale above par of Government stocks by auction. Moreover, additional revenue was generated from dividends on investment mainly reflecting higher dividends from Maltacom plc in May. In addition, higher revenue was generated from the sale of land.

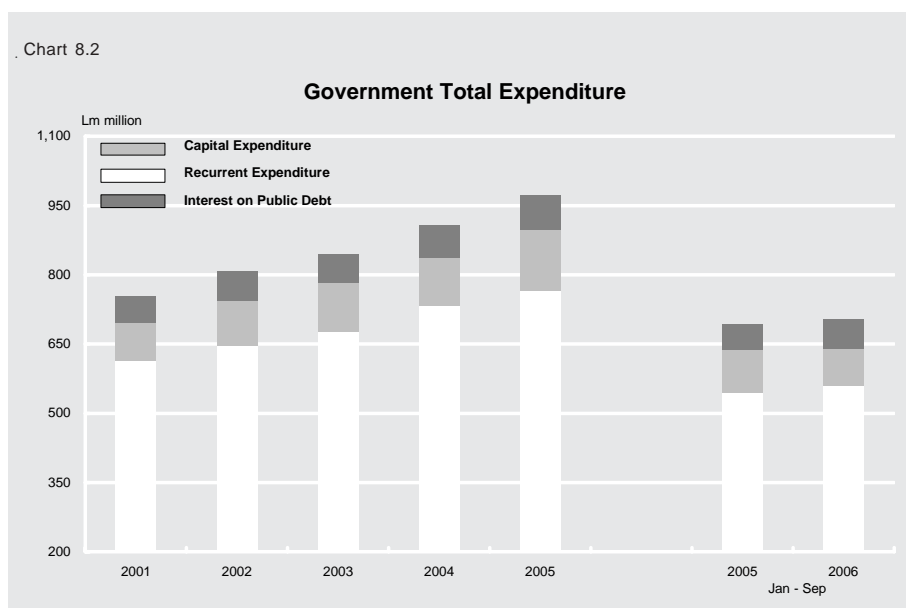
During the first nine months of 2006, grants received declined by Lm2.4 million to Lm37.9 million. It is pertinent to note that grants received during the first nine months of 2005 included transfers received in terms of the Fifth Italian Financial Protocol. Meanwhile, funds forthcoming from the European Union increased by Lm3.6 million.

## **Expenditure**

During the first nine months of 2006, total Government expenditure which comprises recurrent expenditure, capital expenditure and interest on public debt increased by Lm10.4 million to reach Lm702.7 million. This expansion was attributable to higher recurrent expenditure and interest on public debt which outweighed reductions in capital outlays. Total Government expenditure excludes contribution to the Sinking Fund in respect of local and foreign loans and direct

repayment of loans. Recurrent expenditure, which constitutes around 80 per cent of total expenditure, increased by Lm16.7 million to Lm560.1 million. Over 60 per cent of this increase related to higher payments in social security benefits. Meanwhile, capital expenditure outlays decreased by Lm13.4 million to Lm79.7 million. Capital expenditure accounted for around 11 per cent of total expenditure. Interest on public debt increased by Lm7.1 million to Lm62.9 million, accounting for around 9 per cent of total expenditure. Chart 8.2 depicts trends in total Government expenditure in recent years.

Recurrent expenditure is classified into four main categories namely personal emoluments, operational and maintenance expenses, programmes and initiatives and contributions to Government entities. The expansion in recurrent expenditure registered during the first nine months of 2006 was mainly underpinned by increases in expenditure under Programmes and Initiatives which excludes operational costs of Government departments but includes payments made in respect of ad hoc programmes run by Government as well as subsidies, payments and grants for provision of services to citizens, charitable and private institutions. Expenditure under Programmes and Initiatives constitutes around 60 per cent of total recurrent expenditure. This category of recurrent expenditure increased by Lm17.5 million to Lm341.0 million. The main items of higher expenditure under this category are social security benefits, expenditure by the Inland Revenue Department relating to repayments in terms of the Income Tax Act (Cap. 123) and expenditure related to health, the elderly and community care.



Personal emoluments constitute around 25 per cent of total recurrent expenditure. This category of expenditure increased by Lm1.8 million or 1.2 per cent to Lm141.2 million during the first nine months of 2006. This relatively low increase in personal emoluments reflects Government's policy to restrict recruitment into non-essential categories in Government Departments. The share of Operational and Maintenance expenditure in recurrent outlays stood at around 5 per cent. Main items of expenditure falling under this category include expenditure on utilities' consumption across Ministries and Government departments and contractual services mainly on education as well as outlays towards the national health system. Contributions to Government entities, which constitutes around 9 per cent of total recurrent expenditure, declined by Lm3.1 million to Lm52.1 million during the first nine months of 2006. This decrease partly reflects lower expenditure by Government entities falling under the Ministry for Investment, Industry and Information Technology.

Appendix Table 8.2 presents a detailed breakdown of recurrent expenditure on a cost centre basis for the first nine months of the 2003-2006 period. The major developments recorded in the separate expenditure categories are discussed below.

During the first nine months of 2006, Government welfare payments increased by Lm10.8 million to Lm174.4 million. This item of expenditure includes retirement pension, children's allowance, social assistance and other benefits and is influenced by developments in wages and inflation as well as demographic changes. Expenditure in respect of the Department of Social Security mainly consists of the State contribution in terms of the Social Security Act, 1987. This item of expenditure increased by Lm1.9 million and is in turn reflected in an increase in revenue from social security contributions.

Expenditure incurred by the Ministry of Finance decreased from Lm23.1 million to Lm21.0 million. The timing difference in payment requests for Malta's contribution to the EU Budget constitutes the main cause for the variation under this cost-centre. Malta's contribution to the EU Budget is more than compensated for by receipts of funds from the EU. Expenditure incurred by the Inland Revenue Department increased by Lm3.2 million to Lm8.1 million. Expenditure by this Department mainly relates to repayments in terms of the Income Tax Act (Cap. 123).

During the January-September 2006 period, the Office of the Prime Minister registered an increase of Lm1.4 million in recurrent expenditure to Lm4.9 million. This increase was mainly attributable to contributions to Government entities,

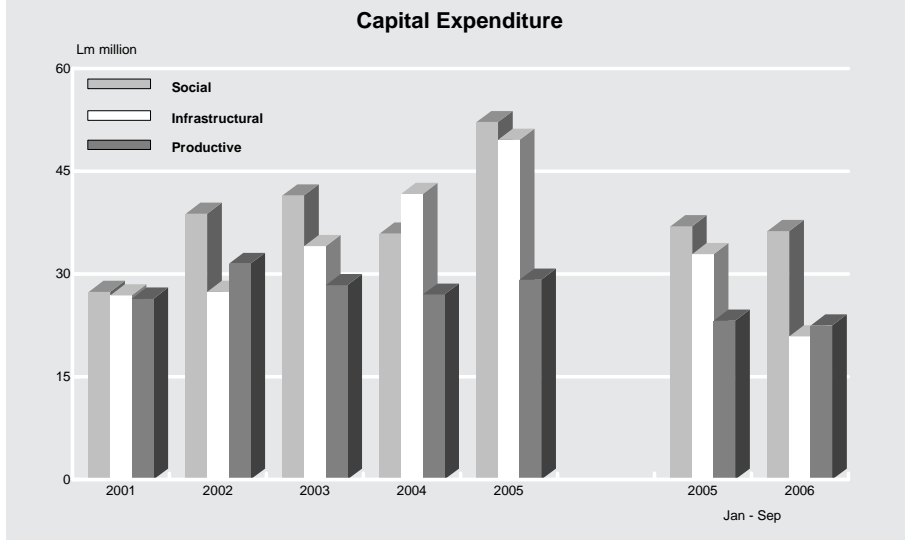
notably Industrial Projects and Services Ltd which was previously accounted for under the Ministry of Investment, Industry and Information Technology (MIIT). Indeed, expenditure by this Ministry declined from Lm32.9 million to Lm28.0 million. In addition, the lower level of expenditure by the MIIT is also attributable to lower contributions to Government entities. On the other hand, higher expenditure was incurred in respect of the Film Industry Incentives as announced in the Budget Speech for 2006.

The Ministry for Rural Affairs and the Environment registered a decline of Lm4.2 million in recurrent expenditure during the first nine months of 2006. Expenditure under this cost-centre includes funds for the agriculture support scheme as well as the costs of the solid waste management strategy. Recurrent expenditure by the Ministry of Health, the Elderly and Community Care increased by Lm6.2 million to Lm60.3 million, mainly due to increases in payments on medicines and surgical materials. Expenditure under the cost-centre Elderly and Community Care increased by a further Lm2.8 million to Lm12.0 million, accounting for all elderly welfare outlays.

The capital expenditure programme decreased from Lm93.1 million during the first nine months of 2005 to Lm79.7 million during the corresponding 2006 period. This temporary reduction was caused by a timing difference in payments on infrastructural projects, mainly those linked with EU financing and the Mater Dei hospital. It should also be noted that outlays incurred during the corresponding 2005 period included significant amounts earmarked for the modernization of the road network programme financed through the Fifth Italian Protocol. Meanwhile, marginal declines were registered in the two other categories of capital expenditure namely investment directed towards social development and productive investment. These developments were reflected in a fall in the share of investment directed towards infrastructural facilities, to 26.2 per cent, from 35.3 per cent recorded during the first nine months of 2005. Productive investment accounted for 28.2 per cent during January-September 2006, as compared to 24.9 per cent during the corresponding 2005 period. The proportion of social investment in the total capital programme also increased to 45.6 per cent from 39.8 per cent recorded for the first nine months of 2005. A detailed breakdown of Government's capital expenditure programme for the first nine months of the 2003-2006 period is presented in Appendix Table 8.3. Meanwhile, Chart 8.3 illustrates developments in capital expenditure.

The actual outlay during the period under review on Government's capital programme for productive investment declined marginally by Lm0.7 million to Lm22.5 million. A marginal increase amounting to Lm0.2 million was registered

Chart 8.3



in the funds earmarked towards the development of industries. Meanwhile, marginally higher investment has also been allocated towards agriculture and fisheries. Investment towards the development of tourism, which is primarily administered by Malta Tourism Authority, stood at Lm7.3 million during the first nine months of 2006. Additional funds also earmarked towards the tourism industry amounting to Lm0.8 million are included under the infrastructure and social headings. Moreover, capital outlays allocated under the item Public Buildings, Plant and Equipment declined by Lm0.6 million to Lm10.4 million.

During the period under review, capital outlays on infrastructural projects decreased by Lm11.9 million to Lm20.9 million. This was mainly underpinned by lower outlays allocated under the item public buildings, plant and equipment which decreased from Lm24.3 million to Lm11.0 million. This decline followed the relatively high outlays incurred last year for the modernization of the road network programme financed through the Fifth Italian Protocol. Additional funds amounting to Lm2.3 million were allocated towards the improvement of the road infrastructure while capital expenditure for Gozo increased by Lm0.4 million to Lm0.9 million. On the other hand, outlays incurred for the sewage infrastructure declined from Lm2.4 million to Lm1.2 million.

Government's capital programme for social investment amounted to Lm36.3 million during the first nine months of 2006, as compared to Lm37.0 million recorded during the corresponding 2005 period. Capital expenditure on health,



which is mainly incurred in respect of the new hospital, decreased by Lm1.0 million to Lm29.4 million. Moreover, payments on capital projects on education also declined from Lm3.0 million to Lm2.2 million. Capital outlays allocated under the item Public Buildings, Plant and Equipment increased to Lm3.8 million, up from Lm2.7 million, mainly reflecting higher outlays in respect of waste management services.

## Fiscal Performance

The first nine months of 2006 were characterized by the ongoing implementation of Government's fiscal consolidation programme as the structural deficit declined from Lm85.4 million to Lm72.9 million. Meanwhile, extraordinary receipts increased significantly reflecting the sale of Government's stake in Maltacom plc in May 2006. As a result, the structural balance was financed through these proceeds and other financing items related to the Sinking Fund such that the public sector borrowing requirement for the first nine months of 2006 was negligible.

## International Comparison

Table 8.2 presents the budgetary position of the EU Member States for the three years to 2005, whilst Table 8.3 shows their General Government debt position. It is pertinent to note that the analysis in this section is based on General Government fiscal data according to the ESA95 methodology and is thus not comparable with data presented in other sections of this Chapter. Furthermore, data for the EU Member States is as presented in the European Commission Spring 2006 Forecasts whilst data for Malta is according to the report of Government deficit and debt levels transmitted by Malta in September 2006 for the excessive deficit procedure according to Regulation 3605/93.

In 2005, on average the general Government budget balance for the EU was 2.3 per cent of GDP, as compared to 2.6 per cent of GDP in 2004. The aggregate outcome for the EU 25 reflects diverse budgetary performances across Member States. Four countries namely Poland, Cyprus, France and Slovakia brought their deficits below the 3 per cent of GDP threshold in 2005. Despite improvements in their budgetary positions, Germany, Greece as well as Malta remained with deficits above the 3 per cent benchmark. During 2005, few countries experienced a worsening of their fiscal position namely Austria, Hungary, Italy, Luxembourg, Portugal and the United Kingdom. Meanwhile, other Member States including Czech Republic, Lithuania, the Netherlands and Slovenia registered a declining fiscal imbalance. Amongst the 25 Member States,

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

as a percentage of GDP

Table 8.2 per cent

	2003	2004	2005
Austria	-1.5	-1.1	-1.5
Belgium	0.1	0.0	0.1
Cyprus	-6.3	-4.1	-2.4
Czech Republic	-6.6	-2.9	-2.6
Denmark	1.0	2.7	4.9
Estonia	2.4	1.5	1.6
Finland	2.5	2.3	2.6
France	-4.2	-3.7	-2.9
Germany	-4.0	-3.7	-3.3
Greece	-5.8	-6.9	-4.5
Hungary	-6.4	-5.4	-6.1
Ireland	0.2	1.5	1.0
Italy	-3.4	-3.4	-4.1
Latvia	-1.2	-0.9	0.2
Lithuania	-1.2	-1.5	-0.5
Luxembourg	0.2	-1.1	-1.9
Netherlands	-3.1	-1.9	-0.3
Poland	-4.7	-3.9	-2.5
Portugal	-2.9	-3.2	-6.0
Slovakia	-3.7	-3.0	-2.9
Slovenia	-2.8	-2.3	-1.8
Spain	0.0	-0.1	1.1
Sweden	0.1	1.8	2.9
United Kingdom	-3.3	-3.3	-3.5
EU 25	-3.0	-2.6	-2.3
Malta	-10.0	-5.0	-3.2

*Source: European Commission  
National Statistics Office  
Ministry of Finance*

only eight countries have a balanced budget or are in surplus, namely Belgium, Denmark, Estonia, Finland, Ireland, Latvia, Spain and Sweden.

Notable improvements were recorded in the budgetary positions of Cyprus, Greece, the Netherlands as well as Malta, registering a fiscal adjustment of around 2 percentage points. In fact, Malta's budgetary position improved from 5.0 per cent of GDP in 2004 to 3.2 per cent of GDP in 2005. This reflects Government's ongoing fiscal consolidation efforts.

**General Government Gross Debt**  
as a percentage of GDP

Table 8.3

per cent

	2003	2004	2005
Austria	64.4	63.6	62.9
Belgium	98.5	94.7	93.3
Cyprus	69.7	71.7	70.3
Czech Republic	30.0	30.6	30.5
Denmark	44.4	42.6	35.8
Estonia	6.0	5.4	4.8
Finland	44.3	44.3	41.1
France	62.4	64.4	66.8
Germany	63.8	65.5	67.7
Greece	107.8	108.5	107.5
Hungary	56.7	57.1	58.4
Ireland	31.1	29.4	27.6
Italy	104.2	103.8	106.4
Latvia	14.4	14.6	11.9
Lithuania	21.2	19.5	18.7
Luxembourg	6.3	6.6	6.2
Netherlands	51.9	52.6	52.9
Poland	43.9	41.9	42.5
Portugal	57.0	58.7	63.9
Slovakia	42.7	41.6	34.5
Slovenia	29.1	29.5	29.1
Spain	48.9	46.4	43.2
Sweden	51.8	50.5	50.3
United Kingdom	39.0	40.8	42.8
EU 25	62.0	62.4	63.4
Malta	70.2	74.9	74.2

*Source: European Commission  
National Statistics Office  
Ministry of Finance*

The average general Government debt-to-GDP ratio in the EU increased by 1 percentage point to 63.4 per cent at the end of 2005. Greece and Italy continued to have debts exceeding the 100 per cent mark while a number of countries including Austria, Belgium, Cyprus, France, Germany and Portugal exceeded the 60 per cent threshold. At 74.2 per cent, the debt-to-GDP ratio for Malta also exceeded the reference value in 2005.

## Monetary Developments

Broad money (M3) continued to expand during the first eight months of 2006. The acceleration in monetary growth was mainly attributable to acceleration in both domestic credit and net foreign assets, which more than offset the more rapid growth of the other counterparts of M3.

## Monetary Aggregates

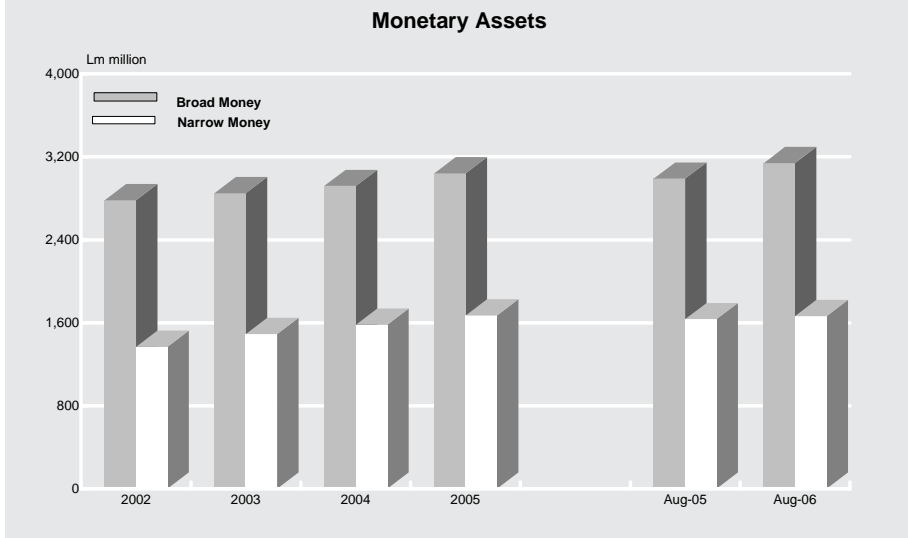
During the first eight months of 2006, broad money (M3) continued to expand, increasing by 3.3 per cent to Lm3,140.7 million. The acceleration in monetary growth is mainly attributable to a more rapid expansion in time deposits with an agreed maturity of up to two years. Table 8.4 and Chart 8.4 present developments in the main monetary indicators.

	2004 (Dec)	2005 (Aug)	Aug-05 - Dec-04 % Change	2005 (Dec)	2006 (Aug)	Aug-06 - Dec-05 % Change
<b>Monetary Aggregates</b>						
<b>Narrow Money (M1)</b>	1,580.9	1,634.7	3.4	1,670.1	1,664.6	-0.3
Currency in Circulation	486.0	497.8	2.4	498.9	487.4	-2.3
Deposits withdrawable on demand	1,095.0	1,136.9	3.8	1,171.1	1,177.2	0.5
<b>Intermediate Money (M2)</b>	2,918.3	2,988.6	2.4	3,041.6	3,140.7	3.3
Narrow Money (M1)	1,580.9	1,634.7	3.4	1,670.1	1,664.6	-0.3
Savings Deposits redeemable at notice up to 3 months	30.0	30.3	0.9	31.4	31.1	-1.1
Time Deposits with agreed maturity up to 2 years	1,307.3	1,323.6	1.2	1,340.1	1,445.0	7.8
<b>Broad Money (M3)</b>	2,918.3	2,988.6	2.4	3,041.6	3,140.7	3.3
<b>Counterparts of M3</b>						
<b>Domestic Credit</b>	2,603.1	2,606.9	0.1	2,636.7	2,723.4	3.3
Net Claims on central government	545.1	519.4	-4.7	442.7	359.4	-18.8
Claims on other residents	2,058.0	2,087.5	1.4	2,194.0	2,364.0	7.8
<b>Net Foreign Assets</b>	1,625.7	1,696.0	4.3	1,809.5	2,049.9	13.3
Central Bank of Malta	870.3	893.0	2.6	932.6	961.6	3.1
Other Monetary Financial Institutions	755.4	803.0	6.3	876.9	1,088.3	24.1
<b>Less other counterparts of M3<sup>(1)</sup></b>	1,310.6	1,314.3	0.3	1,404.6	1,632.6	16.2

<sup>(1)</sup>Other counterparts of M3 include the capital base of the Monetary Financial Institutions sector, longer-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets. They are equal to the difference between the sum of domestic credit and net foreign assets and M3.

Source: Central Bank of Malta

Chart 8.4



Narrow money (M1), which accounts for around one half of M3, contracted by 0.3 per cent to Lm1,664.6 million, compared to the 3.4 per cent growth rate registered during the corresponding 2005 period. This deceleration in the growth rate of M1 mainly reflected a contraction in currency in circulation, which more than offset the marginal increase registered in deposits withdrawable on demand. Deposits withdrawable on demand increased by Lm6.1 million, or 0.5 per cent, as compared to a growth rate of 3.8 per cent during the first eight months of 2005. While demand deposits increased by Lm17.6 million to Lm329.7 million, savings deposits decreased from Lm859.0 million to Lm847.5 million. Currency in circulation, the other component of M1, declined by Lm11.5 million or 2.3 per cent, compared to a positive growth rate of 2.4 per cent registered in the same period last year.

Intermediate money (M2) consists of M1 and short-term deposits not withdrawable on demand. During the first eight months of 2006, M2 increased by Lm99.1 million or 3.3 per cent, compared to the 2.4 per cent growth rate registered during the corresponding 2005 period. The acceleration in the growth rate of M2 was attributable to a significantly higher growth in time deposits with an agreed maturity of up to two years, which more than offset a contraction in both narrow money and savings deposits redeemable at notice up to three months. Time deposits rose from Lm1,340.1 million at the end of 2005 to Lm1,445.0 million in August 2006, representing a growth rate of 7.8 per cent

compared to a growth rate of 1.2 per cent registered in the first eight months of 2005. This increase in time deposits mainly reflected growth in deposits denominated in Maltese Lira held by households and non-profit institutions. Deposits redeemable at notice up to three months decreased by 1.1 per cent during the first eight months of 2006.

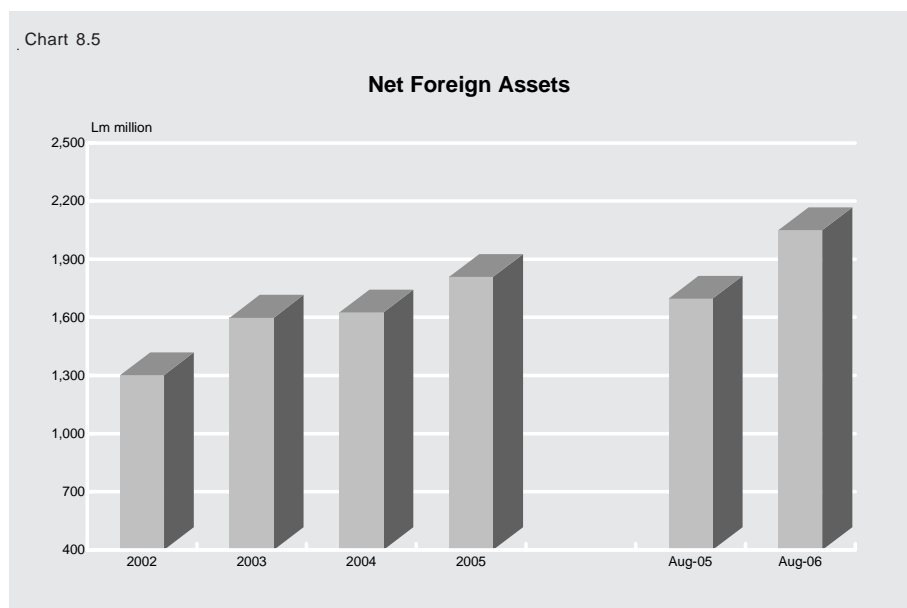
M3 is essentially equal to M2 given that the amount of marketable instruments, namely repurchase agreements and debt securities with a maturity of up to two years transacted during the first eight months of the year was insignificant.

## Counterparts of Monetary Expansion

The pick-up in monetary growth registered during the first eight months of 2006 was mainly attributable to a more rapid expansion in the net foreign assets of the banking system, which more than offset the acceleration recorded in the other counterparts of M3 category. The latter category, which includes the capital base of the Monetary Financial Institutions sector, longer-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets, is deducted from broad money. To a lesser extent, monetary growth also reflected a rise in domestic credit that was driven entirely by higher lending to the non-bank private sector.

Domestic credit registered an increase of 3.3 per cent during the first eight months of 2006, from Lm2,636.7 million in December 2005 to Lm2,723.4 million in August 2006. This relatively higher growth rate is mainly attributable to higher claims on other residents, which more than offset significantly lower net claims on central Government. In fact, net claims on central Government declined from Lm442.7 million in December 2005 to Lm359.4 million in August 2006, corresponding to a decline of 18.8 per cent. This decline in the net claims on central Government mainly reflects reductions of claims by the other monetary financial institutions on Treasury Bills and Malta Government Stocks, as well as increases in Government deposits with these institutions. This drop in the net claims on central Government was partly offset by a decline of Lm76.6 million in the claims by the Central Bank of Malta on the central Government, the latter largely reflecting a drop in Government deposits with the Central Bank of Malta.

Claims on other residents recorded a higher growth rate, increasing by 7.8 per cent to Lm2,364.0 million in August 2006, as compared to the growth rate of 1.4 per cent registered during the corresponding period last year. Claims on other residents consist mainly of loans and advances and holdings of securities,



including equities, issued by the non-bank private sector and public non-financial companies. Interbank claims are excluded. The acceleration in the growth rate of claims on other residents was attributable to a substantial increase in the claims on non-bank private sector. Claims on non-bank private sector, which amount to around 94 per cent of total claims on other residents, include private non-financial companies, insurance companies, other financial intermediaries and financial auxiliaries, households, and non-profit institutions. In particular, during the first eight months of this year, there was a significant increase in credit to households and individuals, for the most part lending for house purchases.

During the first eight months of 2006, net foreign assets of the banking system expanded at a faster pace when compared to the same period in 2005, as illustrated in Chart 8.5. In fact, total net foreign assets increased by 13.3 per cent to Lm2,049.9 million, compared to a growth rate of 4.3 per cent registered during the corresponding period last year. The expansion in net foreign assets was mainly attributable to higher holdings of international banks and financial institutions. In fact, holdings of monetary financial institutions increased by 24.1 per cent during the first eight months of the year, mainly reflecting an injection of equity capital from abroad. The Central Bank's net foreign asset holdings increased by Lm29.0 million or 3.1 per cent, to Lm961.6 million reflecting higher tax revenues from international trading companies, EU funds and proceeds from the privatization of Maltacom plc which more than offset the negative contributions of higher prices for oil imports and foreign currency sales to deposit

money banks. The other counterparts of M3 amounted to Lm1,632.6 million, up by 16.2 per cent compared to the level at the end of 2005.

## The Money Market

Monetary policy in Malta is geared towards maintaining price stability. Price stability is widely seen as the proper goal of monetary policy, essential to encourage sustainable economic growth. The Central Bank of Malta aims to achieve the goal of price stability through a fixed exchange rate which is the intermediate target of monetary policy. In this regard, the Central Bank engages in money market activity and open market operations to influence the level of liquidity in the banking system and consequently the economy.

Sustaining the value of the Maltese Lira by maintaining sustainable levels of foreign exchange reserves is one of the functions of the Central Bank in order to maintain parity with the Euro and thus ensure price stability. While the exchange rate is the nominal anchor of monetary policy, the rationale of the Central Bank of Malta to provide support to the currency in the context of a liberalized capital account, does require the Bank to mirror interest rates offered by other currencies primarily the Euro.

During the first few months of 2006, the interest rate differential in favour of the Maltese lira narrowed progressively, caused mainly by rising Euro interest rates. This called for tightening of the monetary policy stance by the Central Bank of Malta. In fact, the Central Bank of Malta raised the central intervention rate by 25 basis points to 3.50 per cent in May 2006. This increase in the central intervention rate aimed to enhance the attractiveness of Maltese lira assets, particularly bank deposits. The Central Bank judged the increase in rates appropriate in the light of concern about the rapid growth in imports of consumer goods and the further acceleration in the rate of inflation. Moreover, additional evidence of an underlying downward trend in the Central Bank's external reserves also called for tightening of its monetary policy, despite a substantial increase in reserves in May which reflected the receipt of privatization proceeds. Thereafter, the Central Bank of Malta left the central intervention rate unchanged in view of the credit institutions' decision to offer higher interest rates payable on term deposits which resulted in a growth in bank deposits.

As money market rates in the Euro area rose consistently in the beginning of 2006, the premium on Maltese Lira assets narrowed significantly. Though in the first four months the Euro yields had risen, the Central Bank of Malta left the central intervention rate unchanged as the markets judged the interest rate



premium on the lira as appropriate. However, further increases in interest rates abroad called for tightening of monetary policy by the Central Bank of Malta in May 2006. Subsequently, short-term interest rate differentials in favour of the Maltese Lira narrowed again, as a result of higher Euro interest rates.

Activity in the money market includes Treasury Bills, while open market operations include term deposits and the inter-bank market lending. During the first nine months of 2006, the Central Bank continued to absorb liquidity from the rest of the banking system through weekly auctions of 7-day term deposits. The Central Bank absorbed Lm4,451.1 million, up from Lm649.7 million in the first nine months of 2005. The interest rate paid on these deposits increased from 3.20 per cent at the end of 2005 to 3.45 per cent in September 2006, reflecting the increase in the Central Bank intervention rate. During the period under review, the Central Bank has not injected any further liquidity into the system through reverse repo agreements.

Following an upward trend in the activity in the inter-bank market registered in previous years, the value of inter-bank loans declined from Lm368.9 million in December 2005 to Lm204.5 million in September 2006. A total of 124 overnight inter-bank deals (including deals between 1 to 3 days) were conducted between January and September 2006. Meanwhile, 37 deals and 1 deal were transacted on the 7-day and 14-day tenor, respectively. The interest rate on the 7-day inter-bank lending also increased from 3.24 per cent to 3.38 per cent between the end of 2005 and September 2006.

In order to finance its short-term borrowing requirements, Government resorts regularly to the money market. During the first nine months of 2006, a total of Lm298.5 million worth of Treasury Bills were issued on the primary market, as compared to Lm331.2 million issued over the same period last year. The bulk of the Treasury Bills issued were with a maturity period of 91 days. In fact, out of Lm298.5 million Treasury Bills issued in the primary market, Lm202.3 million had a maturity of 91 days, representing over two-thirds of turnover in the primary market. Short-term money market rates remained relatively stable during the first three months of the year, before moving up in line with the official rates in May. In fact, the yield on the three-month bill and the six-month bill increased from 3.22 per cent and 3.23 per cent in December 2005 to 3.65 per cent and 3.79 per cent respectively in September 2006. In the primary market, the rate for the one-year Treasury bill stood at 3.87 per cent, up from 3.22 per cent.

In the secondary market for Treasury Bills, turnover declined from Lm111.8 million during the first nine months of 2005 to Lm76.2 million during the first

nine months of this year. The value of transactions involving the Central Bank also declined from Lm91.6 million to Lm76.1 million during the period under review. Yields in the secondary market also increased. The interest rate for three-month Treasury Bills increased from 3.22 per cent at the end of last year to 3.65 per cent in September 2006. Meanwhile, the rates for six-month and one-year Treasury Bills on the secondary market increased from 3.27 per cent and 3.32 per cent at the end of 2005, to 3.75 per cent and 3.87 per cent at the end of September 2006 respectively.

## The Capital Market

During the first nine months of 2006 there were three new issues of Government stocks with a total value of Lm45.7 million. Five stocks were redeemed, two of which were followed by a re-issue. The total value of redemptions was Lm84.4 million, which were followed by re-issues worth Lm50.0 million.

In February 2006, Lm25.0 million in Government bonds were redeemed, attributable to the redemption of MGS 2021 Fungibility Issue Tranche C. This was followed by a re-issue on the same date of Lm25.0 million worth of stocks, namely MGS 2016. In March Government issued Lm25.0 million MGS 2016 (II) FI carrying a coupon rate of 4.8 per cent. Subsequently, in May, MGS 2016 (II) FI was redeemed and re-issued on the same day. The redemption of MGS 2006 (IV) worth Lm0.2 million was done in June, followed by the simultaneous issue of Lm1.5 million 7 per cent MGS 2016 (III). During August there were two other redemptions of a total of Lm34.3 million relating to MGS 2006 (II) and MGS 2006 (III). During the same month, MGS 2014 (III) FI was issued, carrying a coupon rate of 5.1 per cent, as a roll-over to MGS 2006 (II). The small investors share in the new stock was very significant and there was a general over subscription to these stocks.

Between January and September 2006, there were two new corporate bond issues registered in the primary market. In March, International Hotel Investments plc, a hotel company, issued Lm5.4 million worth of Euro denominated bonds carrying a coupon rate of 6.5 per cent, redeemable between 2012 and 2014. In June, Global Financial Services Group plc issued Lm7.3 million worth of Euro denominated bonds carrying a coupon rate of 5.6 per cent, redeemable in 2016. During the first nine months of 2006, two corporate bonds were redeemed, namely 6.5 per cent Gasan Finance 2006/9 and 6.5 per cent Cc Car Parks plc Bonds 2006.

Following the increase in turnover in the secondary market for Government bonds registered during the first nine months of 2005, the turnover in Government securities increased marginally from Lm58.8 million to Lm59.8 million during the first nine months of 2006. A total of 2,391 deals were registered on the Malta Stock Exchange resulting in an average value per transaction of Lm23,201 based on the nominal value of the bonds. The highest turnover was registered in the 7.2 per cent MGS 2008 (II), followed by 7.35 per cent MGS 2007. The highest volume of transactions in Government bonds in the secondary market was recorded in the 7.2 per cent MGS 2008 (II) with a volume of 12.9 million in 39 deals. As shown in Table 8.5, which shows selected values of the activity on the secondary market in Government stocks, the value transacted by the Central Bank was Lm35.2 million, while other investors took up Lm24.6 million.

During the period under review, the turnover in the corporate secondary bond market decreased from Lm6.3 million to Lm3.6 million. The listed bonds with the highest market value of stocks transacted were the 6.7 per cent Eden Finance 2010, 8 per cent Bay Street Finance 2012, and 6.7 per cent Tumas Investments 2010/12. As shown in Table 8.6, the listings of corporate bonds on the secondary market stood at 26 companies at the end of September 2006.

<b>Government Stocks</b>				
Activity on the Secondary Market				
Table 8.5				
	2006	2006	2006	2006
	Jan/Mar	Apr/Jun	Jul/Sep	Jan/Sep
Turnover in Government Stocks:				
Nominal Value (Lm million)	6.2	29.3	20.1	55.5
Market Value (Lm million)	6.7	31.6	21.5	59.8
Number of Transactions	807	888	696	2,391
Average Value per Transaction (Lm)*	9,603	32,942	28,815	23,201
Amount sold by CBM (Lm million)**	—	0.9	6.7	7.6
Amount bought by CBM (Lm million)**	2.4	14.9	10.3	27.6
* Based on Nominal Values				
** Based on Market Values				
Source: Central Bank of Malta				

### Selected Indicators of the Capital Market

Table 8.6

	2006 Jan/Mar	2006 Apr/Jun	2006 Jul/Sep	2006 Jan/Sep
<b>Corporate Bonds*</b>				
Number of Listings**	27	28	26	26
Turnover (Lm million)	1.2	1.0	1.4	3.6
<b>Equities*</b>				
Number of Issues Outstanding**	13	13	13	13
Turnover (Lm million)	43.7	25.7	9.4	78.8
<b>Total Listed Securities*</b>				
Total Turnover (Lm million)	44.9	26.7	10.8	82.4
Market Capitalisation (Lm million)**	3,402.1	3,070.4	2,958.9	2,958.9
MSE Ord. Share Index**	6,508.7	5,428.0	5,144.0	5,144.0

\*Including the Alternative Companies listing

\*\*As at end of period

Source: Malta Stock Exchange

Activity in the secondary equity market stood at Lm78.8 million. The highest trading companies on the secondary markets for equities were HSBC Bank Malta plc, Bank of Valletta plc, Maltacom plc and Malta International Airport plc.

The Malta Stock Exchange share index closed at 5,144.0 on 30 September 2006, a 30.6 per cent increase over the end of September 2005. The development in MSE share index is reflected in the market capitalisation, which increased from Lm2,602.2 million to Lm2,958.9 at the end of September 2006.

## The Maltese Lira

As from 2 May of 2005, Malta joined the Exchange Rate Mechanism (ERM II) implying the re-pegging of the Maltese lira solely to the Euro. During the first nine months of 2006, the Maltese lira remained stable in ERM II at the central parity rate of EUR/MLT 0.4293. Between January and September 2006, preparations continued for Euro adoption which is targeted for 1 January 2008. The National Euro Changeover Committee set up during the last quarter of 2005, stepped up its work to ensure a smooth transition to the Euro. As the

### Movements in the Exchange Rates of the Maltese Lira

Table 8.7

Currency	End of Period	Exchange Rate	% change over Previous Period
US Dollar (MTL/USD)	Dec-03	2.9197	16.44
	Dec-04	3.1393	7.52
	Dec-05	2.7570	-12.18
	Sep-06	2.9471	6.90
UK Sterling (MTL/GBP)	Dec-03	1.6351	5.13
	Dec-04	1.6252	-0.61
	Dec-05	1.6012	-1.48
	Sep-06	1.5805	-1.29
Japanese Yen (MTL/JPY)	Dec-03	312.160	4.87
	Dec-04	321.710	3.06
	Dec-05	323.950	0.70
	Sep-06	347.970	7.41
Euro (EUR/MTL)	Dec-03	0.4317	3.22
	Dec-04	0.4343	0.61
	Dec-05	0.4293	-1.16
	Sep-06	0.4293	0.00

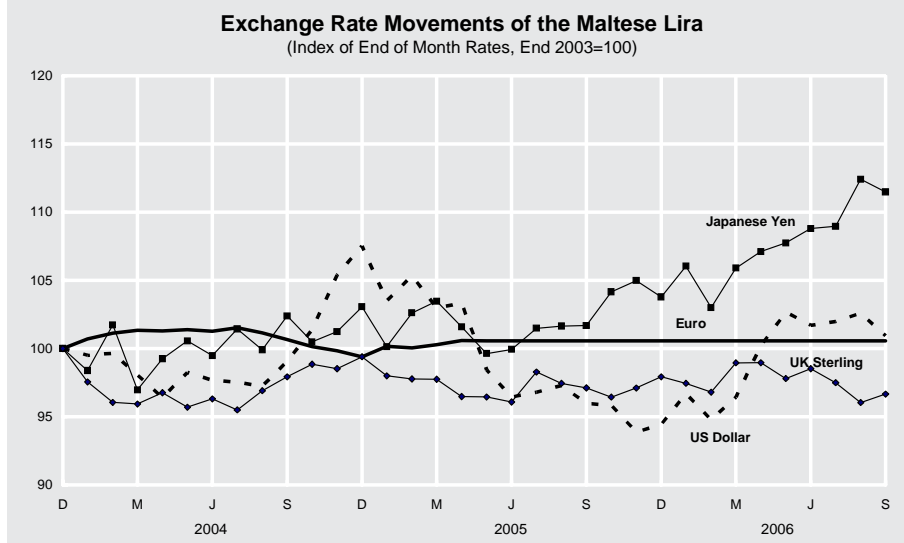
All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the euro, for which the rate denotes units of Maltese lira per one euro. As a result, an increase in the EUR/MTL exchange rate implies a depreciation of the Maltese lira against the euro and vice versa.

Source: Central Bank of Malta

Maltese lira is fixed with the Euro, the Maltese lira appreciated against the Japanese Yen and the US Dollar but depreciated against the Sterling. The developments of the Maltese lira against the major currencies are presented in Table 8.7 and Chart 8.6.

After strengthening in 2005, the US Dollar depreciated against the Euro in the first nine months of 2006 partly reflecting the fact that the Federal Reserve Bank has halted its monetary tightening amid signs of slower growth by the US economy. Financial markets are also still watching the twin deficits of the US economy. The Maltese lira strengthened by 6.9 per cent against the US Dollar. The Maltese lira fell to a low of USD2.7600 on February 27, but reached a high of USD3.0129 on June 5. It then retreated somewhat to a closing value of USD2.9471 at the end of September.

Chart 8.6



During the first nine months of 2006, the Maltese lira registered a loss of 1.29 per cent against the Sterling. This was partly attributable to increased interest rates in August by the Bank of England amid signs of a strengthening UK economy. The Maltese lira appreciated to a high of GBP1.6339 on April 5, before depreciating to a low of GBP1.5594 on September 26.

During the first nine months of 2006, the Maltese lira registered a gain of 7.41 per cent against the Japanese Yen. The Maltese lira fell to a low of Yen319.753 on January 12, but appreciated to a high of Yen344.503 on September 26.

**Government Revenue**  
(January-September)

Appendix Table 8.1

Lm thousand

	2003	2004	2005	2006
<b>Tax Revenue</b>	443,598	472,009	499,994	537,318
Direct Tax Revenue	250,969	258,690	265,698	287,522
Income Tax	125,001	133,894	139,733	155,259
Social Security	125,968	124,796	125,965	132,263
Indirect Tax Revenue	192,630	213,318	234,297	249,796
Customs and Excise Duties	44,942	42,420	47,153	53,968
Licences, Taxes and Fines	61,624	73,325	65,618	70,663
Value Added Tax	86,064	97,573	121,526	125,165
<b>Non-Tax Revenue</b>	52,985	66,208	106,938	92,532
Fees of Office	4,214	4,144	18,380	12,920
Reimbursements	3,525	5,802	5,410	7,568
Rents	8,087	6,354	7,410	7,767
Dividends on Investments	2,616	3,637	2,847	4,356
Repayment of, and Interest on Loans made by Government	66	14	13	11
Miscellaneous Receipts	5,696	10,197	16,670	10,106
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	24,783	18,233	14,001	10,001
Grants	2,115	15,944	40,324	37,920
<b>Recurrent Revenue</b>	496,583	538,217	606,932	629,849
Extraordinary Receipts	2,137	8,899	4,929	79,512
Loans	102,129	70,448	110,000	10,000
<b>Total Revenue</b>	600,849	617,565	721,861	719,361

Source: *The Treasury/Ministry of Finance*

**Government Recurrent Expenditure**  
(January-September)

Appendix Table 8.2

Lm thousand

	2003	2004	2005	2006
Office of the President	532	597	439	444
House of Representatives	646	824	831	853
Office of the Ombudsman	120	130	130	140
National Audit Office	600	650	575	660
Office of the Prime Minister	3,098	3,712	3,493	4,925
Public Service Commission	100	98	96	104
Armed Forces of Malta	9,617	9,016	9,307	10,126
Information	872	389	333	367
Government Printing Press	0	400	371	370
Electoral Office	2,340	1,143	940	1,009
Ministry for the Family and Social Solidarity	5,535	3,893	4,661	5,429
Social Security	40,570	39,949	39,877	41,807
Social Security Benefits	150,258	155,561	163,686	174,438
Family and Social Welfare	541	486	412	278
Elderly and Community Care	10,170	10,273	9,289	12,043
Housing	551	807	917	860
Industrial and Employment Relations	396	421	398	382
Ministry of Education, Youth and Employment	27,770	27,843	33,572	32,848
Education	36,984	35,406	35,714	36,565
Libraries and Archives	504	472	447	449
Ministry of Finance	1,841	14,374	23,064	21,039
Treasury	902	7,826	1,214	919
Pensions	21,088	21,528	23,736	24,013
Inland Revenue	3,549	3,798	4,867	8,055
Customs	3,920	3,648	3,785	3,542
V.A.T.	2,419	2,465	2,381	2,221
Contracts	268	270	298	300
Ministry for Resources and Infrastructure	17,711	15,582	12,053	11,743
Ministry for Tourism and Culture	1,958	1,896	3,575	3,200
Civil Aviation	432	403	371	396
Economic Policy	634	466	228	256
Commerce	1,782	2,132	1,444	1,396
Consumer and Competition	397	327	376	344



**Government Recurrent Expenditure**  
(January-September)

Appendix Table 8.2 continued

Lm thousand

	2003	2004	2005	2006
Ministry for Justice and Home Affairs	2,845	1,936	1,908	2,254
Police	12,242	11,735	11,191	11,702
Correctional Services	1,819	1,821	2,059	2,121
Civil Protection	935	1,027	1,026	939
Government Property Division	1,885	951	1,012	1,039
Registration	633	629	743	689
Ministry for Rural Affairs and the Environment	12,313	13,021	21,051	16,805
Ministry for Gozo	15,175	13,531	14,107	14,557
Ministry of Health, the Elderly and Community Care	52,891	55,410	54,149	60,301
Local Councils	5,541	5,371	5,615	5,981
Judicial	2,722	2,922	2,797	2,682
Ministry of Foreign Affairs	5,709	5,467	6,079	6,339
Ministry for Investment, Industry and IT	0	29,630	32,870	28,030
[Ministry for Competitiveness and Communications]	0	0	2,113	2,281
[Ministry for Urban Development and Roads]	0	0	3,854	2,866
[Ministry for Transport and Communications]	3,554	4,416	0	0
[Ministry for Youth and the Arts]	0	3,481	0	0
[Youth and Sport]	801	0	0	0
[Ministry for Economic Services]	30,513	0	0	0
[Ministry of Justice and Local Government]	1,700	0	0	0
<b>Recurrent Expenditure</b>	<b>499,383</b>	<b>518,133</b>	<b>543,451</b>	<b>560,107</b>

Note: [ ] denotes change in name of cost-centres

Source: The Treasury/Ministry of Finance

**Government Capital Expenditure**  
(January-September)

Appendix Table 8.3

Lm thousand

	2003	2004	2005	2006
<b>Productive Investment</b>	23,437	17,860	23,200	22,468
Ship Repair and Shipbuilding	4,459	0	0	112
Development of Industries	4,694	2,231	3,171	3,375
Agriculture and Fisheries	1,379	1,236	911	1,068
Tourism	8,351	8,628	7,936	7,347
Public Buildings, Plant and Equipment	4,342	5,663	10,966	10,370
Capital Expenditure for Gozo	212	102	216	196
<b>Infrastructure</b>	23,612	27,190	32,860	20,917
Roads	5,172	3,215	3,139	5,396
Sewers	1,885	1,061	2,363	1,205
Development of Malta Freeport	2,206	3,457	2,562	2,408
Public Buildings, Plant and Equipment	13,469	18,944	24,307	11,030
Capital Expenditure for Gozo	880	513	489	878
<b>Social</b>	37,129	30,583	37,046	36,338
Education	5,144	4,089	2,997	2,154
Culture	165	220	299	148
Sports	545	400	62	0
Health	27,520	22,175	30,388	29,437
Elderly and Community Care	133	320	151	249
Housing	1,568	1,297	346	329
Public Buildings, Plant and Equipment	1,843	1,972	2,662	3,831
Capital Expenditure for Gozo	211	110	141	190
<b>Total Capital Expenditure</b>	84,178	75,633	93,106	79,723

Source: The Treasury/Ministry of Finance

## Statistical Annex

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## Population

Table I

	1998	1999	2000	2001	2002	2003	2004	2005	2004 Jan/June	2005 Jan/June	2006 Jan/June
<b>Maltese Population (000's)</b>	378.5	380.2	382.5	385.1	386.9	388.9	390.7	391.9	389.5	391.1	393.3
Males (000's)	187.7	188.6	189.7	191.0	192.0	192.9	193.9	194.6	193.3	194.2	195.3
Females (000's)	190.8	191.6	192.8	194.1	195.0	195.9	196.8	197.3	196.2	196.9	198.0
% Increase per annum	0.5	0.4	0.6	0.7	0.5	0.5	0.5	0.3	...	...	...
Natural Increase per annum	1,444	1,211	1,298	924	774	830	783	574	...	...	...
Crude Birth Rate (per 1000 population)	11.9	11.3	11.1	10.0	9.8	10.0	9.5	9.6	...	...	...
Crude Mortality Rate (per 1000 population)	8.0	8.1	7.7	7.6	7.8	7.9	7.5	7.8	...	...	...
Crude Marriage Rate (per 1000 population)	6.3	6.3	6.7	5.7	5.8	6.0	6.2	5.9	...	...	...
Infant Mortality Rate (per 1000 births)	5.3	7.2	6.1	4.4	6.0	5.9	5.9	6.0	...	...	...
Life Expectancy (at birth)											
Males	74.4	75.1	74.3	76.1	75.7	76.4	76.7	77.7	...	...	...
Females	80.1	79.3	80.2	80.9	80.5	80.4	80.5	81.4	...	...	...
Life Expectancy (at age 65)											
Males	14.5	15.1	15.0	15.4	15.0	15.7	16.4	16.7	...	...	...
Females	17.9	17.6	18.4	18.6	19.0	18.7	18.8	19.8	...	...	...

Source: National Statistics Office

## Social Indicators

Table II

	1998	1999	2000	2001	2002	2003	2004	2005
GDP at current market prices per capita (Lm)	...	...	4,484	4,549	4,733	4,780	4,764	4,953
<b>Quality of Life</b>								
Motor Vehicle Licences per 1000 population	595.2	614.5	630.6	643.9	657.8	673.9	673.4	671.1
Internet Subscriptions per 1000 population	58.8	63.8	83.1	130.1	168.6	195.7	218.2	219.0
Mobile Phone Subscriptions per 1000 population	49.0	62.5	289.8	559.0	696.9	725.0	765.8	802.0
Fixed Telephone Lines per 1000 population	495.7	508.7	521.7	526.5	521.7	520.9	523.3	517.0
<b>Education</b>								
Number of schools	340	350	331	319	303	303	289	295
Number of teachers (000)	7.7	7.9	8.2	8.4	8.5	8.7	8.9	9.0
Number of pupils/students (000)	98.5	100.5	99.5	99.5	97.8	102.6	103.3	106.6
of which:								
University students (Day Courses)	6,183	6,064	5,554	6,281	5,852	6,692	6,617	7,310
<b>Electricity</b>								
Total Generated (000 Mwh)*	1,720.5	1,840.3	1,916.6	1,943.4	2,055.1	2,208.0	2,216.1	2,240.5
Number of Consumers (000)*	207.5	217.6	226.9	213.8	220.0	234.5	236.0	241.0
Domestic Consumption (million kwh)*	502.0	463.7	539.8	540.3	561.9	623.7	623.7	...
<b>Water</b>								
Total annual production (million m <sup>3</sup> )	39.9	37.3	32.7	33.6	34.1	34.2	32.8	31.3
Average daily consumption (000 m <sup>3</sup> )	108	102	90	92	93	94	90	88
<b>Social Security</b>								
Total Payments (Lm million)	227.8	237.3	251.9	266.7	275.4	292.2	308.4	321.7
Total Contributions (Lm million)	135.7	144.3	162.0	179.1	181.1	188.4	189.7	195.6
Welfare Gap (Lm million)	92.1	93.0	89.9	87.7	94.2	103.8	118.7	126.1

\*Refer to Financial Year

Source: National Statistics Office  
The Treasury

## Factor Incomes in Gross National Income

Table III	Lm million								
	2000	2001	2002	2003	2004	2005	2004 Jan/Jan	2005 Jan/Jan	2006 Jan/Jan
Compensation of employees	743.3	805.9	836.5	873.7	881.8	899.8	437.4	447.6	461.0
Gross operating surplus and mixed income	781.4	744.5	783.5	783.2	737.1	775.8	351.8	362.2	387.9
Taxes on production and imports	214.4	229.8	249.9	242.9	279.2	305.4	130.3	136.6	155.2
Subsidies	24.1	28.5	38.7	41.0	36.9	39.9	18.0	21.1	16.4
<b>Gross Domestic Product at market prices</b>	<b>1,715.0</b>	<b>1,751.7</b>	<b>1,831.3</b>	<b>1,858.8</b>	<b>1,861.2</b>	<b>1,941.1</b>	<b>901.5</b>	<b>925.2</b>	<b>987.7</b>
Net Income from Abroad	-50.4	16.5	10.7	-4.9	-18.3	-29.7	-16.8	-13.2	-1.9
<b>Gross National Income at market prices</b>	<b>1,664.7</b>	<b>1,768.2</b>	<b>1,841.9</b>	<b>1,853.9</b>	<b>1,843.0</b>	<b>1,911.4</b>	<b>884.7</b>	<b>912.0</b>	<b>985.8</b>
<b>Sectoral Contribution to Gross Value Added (at basic prices)</b>									
Agriculture, hunting and forestry <sup>(1)</sup>	2.3	2.6	2.5	2.5	2.5	2.5	2.6	2.6	2.7
Industry <sup>(2)</sup>	28.8	26.0	25.9	25.5	23.7	23.0	24.9	23.7	22.8
Services Activities	69.0	71.4	71.6	72.0	73.8	74.5	72.5	73.7	74.5

<sup>(1)</sup>Includes fishing and operation of fish hatcheries and fish farms

<sup>(2)</sup>Includes energy and construction

Source: National Statistics Office

## Gross National Income and Expenditure

Table IV

Lm million

	2000	2001	2002	2003	2004	2005	2004	2005	2006
							Jan/Jan	Jan/Jan	Jan/Jan
<b>GNI at current market prices</b>	1,664.7	1,768.2	1,841.9	1,853.9	1,843.0	1,911.4	884.7	912.0	985.8
% annual increase of GNI	3.7	6.2	4.2	0.7	-0.6	3.7	-1.9	3.1	8.1
<b>GDP at current market prices</b>	1,715.0	1,751.7	1,831.3	1,858.8	1,861.3	1,941.1	901.5	925.2	987.7
% annual increase of GDP	7.9	2.1	4.5	1.5	0.1	4.3	0.8	2.6	6.8
<b>GDP at constant prices</b>	1,715.0	1,707.4	1,745.0	1,703.5	1,703.5	1,741.0	826.4	836.8	858.9
<b>Total Final Consumption Expenditure</b>									
current market prices	1,442.7	1,507.5	1,524.7	1,590.0	1,650.3	1,726.5	799.8	833.4	874.7
constant prices	1,442.7	1,450.1	1,437.8	1,484.5	1,502.0	1,536.5	730.5	745.8	763.9
Ratio (%) of consumption to GDP at m.p.	84.1	86.1	83.3	85.5	88.7	88.9	88.7	90.1	88.6
<b>General Government Final Consumption Expenditure</b>									
current market prices	326.1	358.6	378.1	398.3	416.1	425.4	210.0	211.5	223.1
constant prices	326.1	328.2	340.6	350.8	355.8	357.9	179.5	179.1	184.4
Ratio (%) of Government consumption to GDP at m.p.	19.0	20.5	20.6	21.4	22.4	21.9	23.3	22.9	22.6
<b>Private Final Consumption Expenditure<sup>(1)</sup></b>									
current market prices	1,116.6	1,148.9	1,146.6	1,191.7	1,234.2	1,301.1	589.8	622.0	651.6
constant prices	1,116.6	1,121.9	1,097.2	1,133.7	1,146.2	1,178.6	551.0	566.7	579.5
Ratio (%) of private consumption to GDP at m.p.	65.1	65.6	62.6	64.1	66.3	67.0	65.4	67.2	66.0
<b>Gross Fixed Capital Formation</b>									
current market prices	375.6	334.0	282.2	365.9	372.5	406.5	180.1	195.7	210.1
constant prices	375.6	322.3	262.0	338.1	340.9	366.3	164.7	176.3	183.0
Ratio (%) fixed investment to GDP at m.p.	21.9	19.1	15.4	19.7	20.0	20.9	20.0	21.2	21.3

<sup>(1)</sup>Including NPISH final consumption expenditure

Source: National Statistics Office



Table V  
Labour

	1998	1999	2000	2001	2002	2003	2004	2005	2004 Jun	2005 Jun	2006 Jun
<b>Labour Supply</b>	140,899	142,499	143,947	145,095	144,981	144,930	145,695	145,316	145,732	145,746	146,498
<b>Gainfully Occupied</b>	132,989	134,193	136,759	137,662	137,465	136,755	137,592	137,937	137,790	138,816	139,437
Males	96,452	96,607	97,856	98,174	97,653	96,672	96,928	96,672	97,321	97,681	97,473
Females	36,537	37,586	38,903	39,488	39,812	40,083	40,664	41,265	40,469	41,135	41,964
<b>Private Direct Production</b>	33,891	33,559	34,332	34,677	34,600	33,337	32,777	32,253	33,206	33,063	32,639
of which:											
Construction	5,952	6,200	6,710	7,088	7,462	7,293	7,326	7,776	7,473	7,606	8,083
Manufacturing	25,310	24,857	25,093	25,102	24,617	23,464	22,891	21,893	23,131	22,852	21,944
Others	2,629	2,502	2,529	2,487	2,521	2,580	2,560	2,594	2,602	2,605	2,612
<b>Private Market Services</b>	48,380	52,111	53,190	53,322	54,631	55,606	58,142	60,152	56,974	59,598	63,204
of which:											
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	19,134	19,615	19,850	19,721	20,131	20,456	21,389	21,600	20,695	21,324	21,533
Hotels and Restaurants	7,840	8,196	8,420	8,324	8,064	8,048	8,043	8,235	8,329	8,887	8,867
Transport Storage and Communications	5,539	5,742	5,475	5,392	5,715	5,631	6,395	6,485	5,754	6,562	8,056
Financial Intermediation	2,772	4,713	4,702	4,643	4,570	4,584	4,519	4,606	4,587	4,580	4,685
Others	13,095	13,845	14,743	15,242	16,151	16,887	17,786	19,226	17,609	18,245	20,063
<b>Public Sector</b>	49,737	47,455	48,031	48,487	47,160	46,832	45,747	44,964	46,679	45,288	43,070
of which:											
Government Departments	32,151	32,097	32,142	32,379	31,921	31,960	31,564	30,969	31,735	31,106	30,658
Independent Statutory Bodies	8,227	8,165	8,173	8,333	7,981	8,588	8,603	8,586	8,541	8,682	8,821
Companies with Public Sector majority s/hld of which:	9,359	7,193	7,716	7,775	7,258	6,284	5,580	5,409	6,403	5,500	3,591
Direct Production	1,510	1,124	1,097	1,084	960	260	246	221	258	239	152
Market Services	7,849	6,069	6,619	6,691	6,298	6,024	5,334	5,188	6,145	5,261	3,439
<b>Temporary Employment</b>	981	1,068	1,206	1,176	1,074	980	926	568	931	867	524
<b>Registered Unemployed*</b>	7,910	8,306	7,188	7,433	7,516	8,175	8,103	7,379	7,942	6,930	7,061
Males	6,775	7,090	6,142	6,161	6,174	6,606	6,511	5,715	6,434	5,504	5,512
Females	1,135	1,216	1,046	1,272	1,342	1,569	1,592	1,664	1,508	1,426	1,549
Per cent of Labour Supply	5.6%	5.8%	5.0%	5.1%	5.2%	5.6%	5.6%	5.1%	5.4%	4.8%	4.8%
of which unemployed under Part I (%)	5.3%	5.4%	4.6%	4.7%	4.7%	5.2%	5.1%	4.6%	5.0%	4.3%	4.5%
<b>Self Employed</b>	15,776	15,862	15,569	15,469	15,555	15,735	16,114	16,263	15,953	16,336	16,428

Note: Employment data has been revised  
\* Includes both Parts I and II of the registered unemployed

Source: Employment and Training Corporation

**Tourism**

Table VI

	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug	Jan/Aug
<b>Tourist Arrivals/Departures<sup>(1)(2)</sup> ('000's)</b>	1,182.2	1,214.2	1,215.7	1,180.8	1,132.3	1,118.2	1,157.7	1,170.6	797.6
of which from:									
United Kingdom	448.8	422.4	428.8	466.8	467.4	473.1	453.0	482.6	322.0
Italy	90.6	92.7	92.5	95.3	88.2	92.7	102.6	92.4	80.9
Germany	203.2	212.4	204.7	166.4	148.5	125.4	135.2	138.2	83.8
Libya	37.5	45.0	43.3	32.4	25.0	17.5	12.8	10.7	7.8
Scandinavian Countries	40.0	50.6	52.1	50.4	40.0	47.0	62.1	64.3	42.6
Other	362.2	381.1	384.3	389.5	363.2	362.5	382.0	382.4	267.6
<b>Cruise Passengers ('000's)</b>	144.1	187.8	170.8	259.4	341.6	383.6	285.0	151.2	177.4
<b>Gross Income (£m million)</b>	253.0	267.0	285.4	263.0	263.6	277.2	286.6	262.3	101.2 <sup>(3)</sup>
as ratio (%) of exports of goods and services	21.7	20.7	16.5	18.1	17.4	18.6	18.2	18.6	15.5 <sup>(3)</sup>
<b>Total Sector Employment in Hotels and Restaurants<sup>(4)</sup></b>	8,200	8,549	8,758	8,625	8,378	8,360	8,332	8,503	9,166 <sup>(5)</sup>
% of Gainfully Occupied	6.2	6.4	6.4	6.3	6.1	6.1	6.1	6.2	6.3 <sup>(5)</sup>
<b>Travel Abroad ('000's)</b>	166.7	175.8	194.8	164.9	156.7	174.4	220.2	224.9	117.5 <sup>(6)</sup>
Estimated Expenditure (£m million)	74.9	80.1	88.0	81.2	66.4	88.9	88.1	92.9	34.8 <sup>(8)</sup>
<b>Days Stayed / Nights Spent<sup>(7)</sup> ('000's)</b>	11,326	11,658	10,267	11,067	10,599	11,293	11,175	11,085	7,726
% of which spent in :									
5 star	6.3	6.2	8.6	8.2	8.5	8.4	9.4	10.6	9.9
4 star	25.2	26.1	23.8	26.2	28.6	27.9	32.7	34.0	35.1
3 star	13.1	13.5	14.6	14.6	14.4	14.6	16.9	15.7	16.8
2 star	3.3	2.9	1.7	1.8	1.7	1.8	1.3	0.7	0.9
1 star	0.1	0.1	0.1	0.1	-	-	-	-	-
Unclassified	0.3	0.7	0.4	0.2	0.1	0.2	0.1	0.1	0.1
Guest Houses	0.7	0.6	0.6	0.6	0.5	0.6	0.7	0.8	1.0
Flats/Private Residences	28.7	29.4	31.7	32.4	33.8	33.1	29.7	26.9	27.8
Complexes/Tourist Villages/Apart-hotels	22.3	21.5	20.4	15.8	9.4	12.6	8.1	7.0	6.9

<sup>(1)</sup> As from 2001 tourism data is based on the Inbound Tourism Survey, and is not directly comparable to previous periods

<sup>(2)</sup> Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

<sup>(3)</sup> Data for January-June period

<sup>(4)</sup> Employment data has been revised

<sup>(5)</sup> Data as at end of June

<sup>(6)</sup> Data for January-July period

<sup>(7)</sup> With the removal of departure cards as from 1 January 2000, accommodation data is being compiled from arrival cards. For 2004 includes April-September sea nights from Inbound Tourism Survey

## Foreign Trade

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005 Jan/Aug	2006 Jan/Aug
Lm million												
<b>Imports and Exports</b>												
Imports (cif)	1,007.8	984.2	1,034.9	1,135.8	1,492.4	1,225.2	1,227.5	1,281.2	1,307.5	1,319.2	835.3	964.8
Consumer goods	244.2	254.3	248.4	276.8	304.2	304.3	319.7	336.6	366.9	390.9	246.1	258.8
Industrial supplies	596.2	573.6	627.0	690.9	950.1	720.4	707.7	734.0	704.6	701.0	440.0	525.2
Capital goods and others	167.4	156.3	159.6	168.0	238.0	200.5	200.0	210.7	236.0	227.3	149.2	180.8
Total Exports	624.1	628.9	712.0	791.0	1,072.4	880.7	968.4	928.3	906.3	823.8	528.1	593.4
of which manufactures <sup>(1)</sup>	619.5	622.9	707.0	779.6	1,065.7	871.3	897.1	911.3	890.3	813.9	520.8	579.0
Trade Gap	-383.7	-355.3	-322.9	-344.8	-420.0	-344.5	-259.1	-352.9	-401.2	-495.4	-307.2	-371.4
as % of GDP at current market prices	-28.2	-24.9	-21.4	-21.7	-24.5	-11.4	-8.0	-19.0	-21.6	-25.5	...	...
<b>Selected Groupings</b>												
<b>EU</b>												
Imports	697.7	708.7	725.0	750.5	902.8	788.5	833.3	877.0	949.8	951.5	600.0	654.7
Exports	360.6	344.4	390.7	388.1	364.3	433.9	440.8	430.1	434.6	429.6	275.3	306.4
United Kingdom:												
Imports	144.1	145.1	128.2	123.8	119.7	123.1	127.7	118.6	157.4	143.7	93.1	93.5
Exports	52.0	51.2	54.6	73.2	78.0	76.2	112.2	109.0	102.9	92.3	64.9	60.6
Italy:												
Imports	196.7	199.1	199.4	189.9	249.7	243.5	271.7	294.4	336.1	408.3	241.6	279.9
Exports	77.9	35.7	33.4	39.0	36.1	30.2	32.7	31.5	27.8	43.0	20.9	22.5
Germany												
Imports	94.8	98.3	108.3	113.6	122.1	107.4	98.5	101.0	113.8	106.5	71.8	73.3
Exports	90.2	85.2	89.7	99.4	102.9	114.8	93.6	95.2	97.5	101.0	65.7	72.3
France:												
Imports	159.8	163.0	184.3	217.1	281.9	184.1	205.1	218.9	171.4	121.2	80.3	83.4
Exports	93.4	121.7	147.4	120.4	85.9	140.2	120.0	120.2	140.6	121.8	78.3	91.0
<b>America:</b>												
Imports	77.4	88.3	99.6	104.8	171.1	157.4	127.4	115.9	84.9	81.4	45.2	65.5
Exports	97.6	106.5	131.7	172.7	306.7	178.3	163.7	143.2	150.7	129.5	85.7	82.8
<b>Africa:</b>												
Imports	47.6	24.9	21.7	32.1	24.0	28.6	17.3	10.8	25.8	55.5	37.2	17.5
Exports	18.5	29.7	26.1	26.9	24.9	33.0	44.8	35.1	46.7	61.8	38.4	30.8
<b>Asia:</b>												
Imports	144.5	127.3	153.6	205.2	343.8	197.3	185.0	210.2	196.9	179.5	120.1	173.8
Exports	116.2	104.2	150.2	164.8	246.8	174.2	247.7	255.2	225.5	181.7	116.5	158.2

Source: National Statistics Office

**Balance of Payments**

Table VIII

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005	2006
										Jan/Jan	Jun/Jan	Jun/Jan
<b>Goods Balance (1) (Lm million)</b>	-302.1	-277.9	-260.6	-265.2	-331.0	-254.7	-154.2	-259.1	-318.7	-410.1	-183.8	-215.4
Imports (f.o.b.) (Lm million)	941.2	919.9	969.0	1,070.3	1,418.7	1,155.3	1,153.4	1,201.6	1,242.9	1,268.3	599.3	689.1
Exports (f.o.b.) (Lm million)	639.1	642.0	708.4	805.0	1087.7	900.6	999.2	942.4	924.2	858.3	415.5	473.7
<b>Services-Net (Lm million)</b>	129.5	166.9	179.8	182.8	147.8	159.3	180.7	194.4	205.7	214.0	86.3	74.0
Transport-net (Lm million)	-14.2	-4.2	4.7	0.5	-8.4	4.6	-6.1	-9.4	31.2	39.1	24.4	10.9
Travel-net (Lm million)	148.9	172.9	178.1	186.9	170.5	171.7	197.2	191.2	178.5	169.4	62.2	60.1
Other Services-net (Lm million)	-5.2	-1.7	-2.9	-4.5	-14.3	-17.1	-10.4	12.5	-3.9	5.4	-0.4	3.0
<b>Income-Net (Lm million)</b>	3.7	3.3	-25.4	15.5	-50.4	16.5	10.7	-4.9	-13.6	-21.8	-9.8	1.1
Compensation of Employees-net (Lm million)	0.5	-0.8	2.0	3.0	3.9	2.5	5.6	5.7	6.0	4.8	2.5	3.9
Investment Income-net (Lm million)	3.2	4.1	-27.4	12.4	-54.3	14.0	5.1	-10.6	-19.6	-26.7	-12.3	-2.8
<b>Current Transfers-Net (Lm million)</b>	17.0	21.9	17.1	12.9	11.7	-2.4	-11.0	-16.7	-24.2	12.2	-0.5	17.0
General Government-net (Lm million)	-0.4	1.7	1.0	-3.5	0.3	3.6	3.2	8.9	3.0	7.7	-3.7	23.1
Private-net (Lm million)	17.3	20.2	16.1	16.4	11.3	-6.0	-14.1	-25.6	-27.2	4.5	3.2	-6.1
<b>Current A/C-Net (Lm million)</b>	-152.0	-85.8	-89.1	-54.0	-221.9	-81.2	26.1	-86.3	-150.8	-205.7	-107.8	-123.4
Goods Balance (1) as % of GDP at m.p.	-22.2	-19.5	-17.3	-16.7	-19.3	-14.5	-8.4	-13.9	-17.1	-21.1	-19.9	-21.8
Invisible Balance as % of GDP at m.p.	9.5	11.7	11.9	11.5	8.6	9.1	9.9	10.5	11.1	11.0	9.3	7.5
Investment Income as % of GDP at m.p.	0.3	0.2	-1.7	1.0	-2.9	0.9	0.6	-0.3	-0.7	-1.1	-1.1	0.1
Current a/c Balance as % of GDP at m.p.	-11.2	-6.0	-5.9	-3.4	-12.9	-4.6	1.4	-4.6	-8.1	-10.6	-11.7	-12.5
<b>Capital A/C-Net (Lm million)</b>	21.1	3.2	11.1	10.4	8.3	0.7	2.9	6.6	28.6	67.0	31.0	23.8
<b>Financial A/C-Net (Lm million)</b>	110.2	45.9	41.4	78.0	196.6	-50.7	-21.3	41.7	66.8	83.4	137.4	171.5
Direct Investment-net (Lm million)	79.4	18.6	99.4	321.7	261.3	106.7	-181.8	153.9	138.0	193.9	127.4	157.9
Portfolio Investment-net (Lm million)	-42.1	42.4	-10.1	-201.5	-324.9	-220.1	-159.4	-598.8	-720.7	-915.0	-41.7	-683.8
Financial Derivatives-net (Lm million)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.1	-7.9	-7.1	7.4
Other Investment-net (Lm million)	42.4	-12.5	25.7	54.2	164.6	178.0	441.8	532.3	586.4	893.0	5.7	705.3
Reserve Assets (Lm million)	30.6	-2.7	-73.6	-96.3	97.6	-115.3	-121.8	-54.7	69.2	-80.6	53.0	-15.3

(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

Note: The balance of payments is being compiled in accordance with the fifth edition of the IMF's Balance of Payments Manual. Data has been revised since 1995 and is not comparable to data published in previous years.

Source: National Statistics Office

## Government Revenue and Expenditure

Table IX

	1998	1999	2000	2001	2002	2003	2004	2005	2004 Jan/Sep	2005 Jan/Sep	2006 Jan/Sep
Government Recurrent Revenue (Lm million)	513.7	562.3	617.7	668.6	719.8	739.2	813.0	896.4	538.2	606.9	629.9
Increase/(Decrease) % per annum	(0.1)	9.5	9.9	8.2	7.7	2.7	10.0	10.3	8.4	12.8	3.8
of which:											
Tax Revenue (Lm million)	432.2	481.0	541.2	593.7	634.7	668.3	702.0	740.3	472.0	500.0	537.3
Direct Tax Revenue (Lm million)	246.2	272.6	311.5	345.4	371.3	393.6	400.8	417.3	258.7	265.7	287.5
Indirect Tax Revenue (Lm million)	186.0	208.4	229.7	248.4	263.4	274.6	301.2	323.0	213.3	234.3	249.8
Non-Tax Revenue (Lm million)	81.5	81.3	76.5	74.9	85.1	70.9	111.0	156.1	66.2	106.9	92.5
Total Government Expenditure (Lm million)	653.7	676.2	702.8	753.9	807.5	844.7	907.0	971.7	648.1	692.3	702.7
Increase/(Decrease) % per annum	3.3	3.4	3.9	7.3	7.1	(1.6)	7.4	7.1	2.5	6.8	1.5
of which:											
Recurrent Expenditure (Lm million)	516.4	520.0	549.8	614.6	646.0	677.7	732.8	766.0	518.2	543.5	560.1
Capital Expenditure (Lm million)	96.8	106.1	98.6	80.6	97.7	104.0	104.6	131.0	75.6	93.1	79.7
% of Total Government Expenditure	14.8	15.7	14.0	10.7	12.1	12.3	11.5	13.5	11.7	13.4	11.3
Interest on Public Debt (Lm million)	40.5	50.1	54.4	58.7	63.8	63.0	69.6	74.8	54.3	55.8	62.9
Structural Deficit (Lm million)	(140.0)	(113.9)	(85.1)	(85.3)	(87.7)	(105.5)	(94.0)	(75.3)	(109.9)	(85.4)	(72.9)
Financed by:											
Extraordinary Receipts (Lm million)	35.4	75.5	24.7	22.0	40.6	2.1	8.9	25.6	8.9	4.9	79.5
Receipts from sale of shares (Lm million)	35.4	73.3	12.0	0.0	27.3	0.0	0.0	21.8	0.0	1.1	74.2
Sinking Funds of Converted Loans (Lm million)	0.0	2.2	12.7	22.0	13.3	2.1	8.9	3.8	8.9	3.8	5.3
Sinking Fund Contribution/Direct Loan Repayment (Lm million)	(12.2)	(14.7)	(13.4)	(12.7)	(11.8)	(12.7)	(26.9)	(13.8)	(6.3)	(6.0)	(6.7)
Public Sector Borrowing Requirement (Lm million)	(116.8)	(53.1)	(73.8)	(76.0)	(58.9)	(116.1)	(112.0)	(63.5)	(107.3)	(86.5)	—
Loans (Lm million)	110.0	84.0	0.0	106.8	10.6	132.1	99.9	110.0	70.4	110.0	10.0

Source: The Treasury/Ministry of Finance

### Monetary Aggregates and Their Counterparts\*

Table X

	2001	2002	2003	2004	2005	2005 Aug	2006 Aug
<b>Broad Money (M3) (Lm million)</b>	2,481.1	2,781.5	2,849.2	2,918.3	3,041.6	2,988.6	3,140.7
<b>Intermediate Money (M2)</b>	2,481.1	2,781.5	2,849.2	2,918.3	3,041.6	2,988.6	3,140.7
% Increase per annum	10.0	12.1	2.4	2.4	4.2	2.4	5.1
of which:							
Narrow Money (M1)	1,282.9	1,367.4	1,490.9	1,580.9	1,670.1	1,634.7	1,664.6
Currency in Circulation	418.9	436.8	460.4	486.0	498.9	497.8	487.4
% Increase/ (Decrease) per annum	5.7	4.3	5.4	5.6	2.7	2.4	-2.1
Deposits withdrawals on demand	864.0	930.5	1,030.5	1,094.9	1,171.1	1,136.9	1,177.2
Deposits redeemable at notice up to 3 months	26.3	27.9	28.8	30.0	31.4	30.3	31.1
Deposits with agreed maturity up to 2 years	1,171.9	1,386.2	1,329.5	1,307.3	1,340.1	1,323.6	1,445.0
<b>Domestic Credit</b>	2,324.1	2,401.4	2,467.4	2,603.1	2,636.7	2,606.9	2,723.4
of which:							
Net Claims of Central Government	512.0	539.5	568.4	545.1	442.7	519.4	359.4
Claims on other residents	1,812.1	1,862.0	1,899.0	2,058.0	2,194.0	2,087.5	2,364.0
<b>Net Foreign Assets</b>	1,089.6	1,301.3	1,598.3	1,625.7	1,809.5	1,696.0	2,049.9
Increase/(Decrease) % per annum	11.8	19.4	22.8	1.7	11.3	4.3	20.9
of which:							
Central Bank of Malta	766.5	881.6	919.8	870.3	932.6	893.0	961.6
Other Monetary Financial Institutions	323.1	419.7	678.5	755.4	876.9	803.0	1,088.3
Other Counterparts to Broad Money	932.6	921.3	1,216.5	1,310.6	1,404.6	1,314.3	1,632.6

\*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