Economic Review

April 2013

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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.
This document is based on statistical information available up to 2nd April 2013.

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State of the Economy

In the final months of 2012, the global economy weakened again with preliminary data indicating that the slowdown effected both advanced and emerging economies. It is evident that the global economy has not yet recovered from the effects of the international financial crisis and the international economic environment remains fragile. Against this challenging background, the Maltese economy experienced negative growth during the first quarter of 2012, but returned to positive territory during the rest of the year. Overall, during 2012 the Maltese economy experienced a positive growth in real terms of 0.8 per cent, mainly underpinned by the performance of the external sector.

In line with the trends noted in recent years, economic growth was primarily driven by the positive performance of services activities, particularly in emerging sectors. The performance of tourism was also noteworthy, when compared to 2011. However, construction and utilities contributed negatively to economic growth.

Meanwhile, during the twelve months to October 2012, the labour market registered a relatively positive performance, underpinned by rising participation rates and employment levels. Over the same period, the unemployment rate increased marginally by 0.2 percentage points to 4.4 per cent. The rise in employment mirrored the expansion in economic activity with increases in employment levels mainly concentrated in services activities as employment in direct production experienced a decrease. The inflation rate, as measured by the twelve-month moving average of the Retail Price Index, experienced a decrease during the first eight months of the year, and increased marginally in the remaining months, standing at 2.42 per cent in December 2012.

The correction of macroeconomic imbalances continued during 2012, with the country reporting a current account surplus of 0.4 per cent of GDP for the first time since 2002. This reflected an increase in the services balance while the goods deficit contracted. Moreover, the income account deficit continued to widen, as increased net payments of direct investment income and lower net payments of other investment income more than offset increased net receipts of portfolio investment income.

Malta's contribution to Euro Area (EA) broad money (M3) increased by €621.9 million reaching €10,420.7 million at the end of February 2013 when compared to the same month in 2012 reflecting an increase in net claims on non-residents of the EA. During the same comparative period, narrow money (M1) increased by €496.8 million, reaching €6,024.9 million mainly driven by an increase in overnight deposits from residents of Malta. During this period, the increase in M1 was also the main contributor to the increase in Intermediate Money (M2) which reached €10,231.6 million in February 2013, increasing by €645.4 million when compared to the level registered in February 2012. Loans to Maltese residents, excluding the General Government, increased by €72.6 million thus reaching €8,582.4 million in February 2013 when compared to a year earlier mainly as a result of increases in loans to households and individuals.

Meanwhile, the General Government deficit in Malta rose to 3.3 per cent of GDP, a deterioration of 0.5 percentage points over the corresponding January-December period in 2011. This reflected a rise in the expenditure ratio which more than outweighed the increase in revenue-to-GDP ratio. The increase in the revenue ratio for 2012 was mainly underpinned by higher ratios to GDP of current taxes on income and wealth, market output and capital transfers receivable. Meanwhile, the increase in the expenditure-to-GDP ratio largely reflected higher ratios to GDP in social benefits other than social transfers in kind, wages, intermediate consumption, capital transfers payable and gross fixed capital formation.

Economic Growth

Gross Domestic Product increased by 0.8 per cent in real terms during 2012 when compared with 2011. This reflects a decline of 1.0 per cent registered in the first quarter followed by positive growth rates for subsequent quarters of 1.3 per cent, 1.8 per cent, and 1.1 per cent, respectively. In nominal terms, the growth rate registered for 2012 stood at 3.0 per cent down from a growth rate of 3.8 per cent registered in 2011.

The expansion in real GDP recorded in 2012 was driven mainly by external demand, contributing to nearly 1.0 percentage points. Moreover, the domestic sector contributed 0.4 percentage points towards growth in 2012 while changes in inventories registered a negative contribution of 0.5 percentage points.

Economic Forecasts

The Economic Policy Department within the Ministry for Finance (MFIN) produces macro-economic forecasts on a bi-annual basis. These forecasts provide vital input to the local budgetary process including the fiscal projections underpinning the Budget and Malta's Stability Programme. This note presents the main macroeconomic forecast estimates for the period 2013-2016 together with a brief description of the underlying external assumptions and developments which have taken place since the previous forecasting exercise carried out in Autumn.

Main External Assumptions

The assumptions on the external environment represent an important input to the forecasting exercise. These assumptions concern a significant number of variables including future oil prices, interest and exchange rates, and growth of world GDP. External assumptions are generally based on the views expressed by international institutions, mainly European Commission, International Monetary Fund (IMF), and Consensus Forecast. The projected growth rates for the EA and the United States can be found in Table 1.

Projections

Table 1

		2011	2012	2013*	2014*
Real GDP (% Change)					
	Euro Area	1.4	-0.6	-0.3	1.4
	United States	1.8	2.2	1.9	2.6
	Japan	-0.6	1.9	1.0	1.6
Inflation (% Change)					
	Euro Area	2.7	2.5	1.8	1.5
	United States	3.2	2.1	1.8	2.2
	Japan	-0.3	-0.1	0.2	0.4
Unemployment Rate (% of Labour Force)					
	Euro Area	10.2	11.4	12.2	12.1
	United States	8.9	8.1	7.6	7.0
	Japan	4.6	4.3	4.3	4.2

*Projections

Source: Eurostat, European Commission, IMF

A Brief Discussion of Macro Forecasts 2013-2016

In 2013, the Maltese economy is expected to continue growing at a rate of 1.4 per cent in real terms. This is expected to be underpinned primarily by domestic led growth and to a marginally lesser extent by the external sector of the economy.

After the negative growth rate of 0.6 per cent in 2012, growth in private consumption expenditure is expected to pick-up in 2013. Indeed, private consumption is forecasted to increase by 0.9 per cent in real terms in 2013 sustained by the positive performance in employment growth and also by moderate increases in wages that underpin subdued growth in unit labour costs, until 2015. Subsequently, a recovery in wages is expected in 2016. This moderate pace of growth in private consumption expenditure is expected to be sustained in 2014. Private consumption expenditure growth is expected to gain further momentum in 2015 and 2016 rising by 1.5 per cent and 1.7 per cent, respectively.

Growth in Government final consumption is projected to increase by 0.6 per cent in real terms in 2013 and by 0.5 per cent in 2014. For 2015 and 2016, growth in government consumption expenditure is expected to increase to 1.1 per cent in 2015 and to 1.6 per cent in 2016.

Investment is expected to increase marginally in 2013 and more strongly in the outer years of the forecast. Indeed, for the medium term, investment is expected to rise by around 3 per cent with private investment gradually becoming the major contributor to overall investment. Private investment is traditionally a relatively volatile component of GDP and is therefore relatively difficult to forecast. Such rates of growth represent a rather moderate rate of investment growth that is consistent with the envisaged expansion of output and external demand over the forecasting period.

For 2013, exports are expected to increase by 2.1 per cent while imports are expected to grow by 1.6 per cent. The gap between exports and imports is projected to decrease over the forecast period. This is consistent with a medium term growth which will increasingly be driven by the domestic demand component.

Real GDP growth for the medium term is expected to remain stable at 1.9 per cent and thus close to its potential. As a result, no excessive pressures on prices and wages are foreseen. HICP inflation is expected to decelerate from 2.0 per cent in 2013 to around 1.7 per cent over the medium term. It is worth noting

GDP by Category of Expenditure

Percentage Changes

Table 2

	2009	2010	2011	2012
At Current Market Prices				
Private Final Consumption Expenditure[1]	3.5	2.3	4.2	1.2
General Government Final Consumption Expenditure	0.8	4.9	4.5	7.4
Gross Fixed Capital Formation	-8.9	7.2	-10.6	2.8
Changes in Inventories	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-
Exports of Goods and Services	-10.8	23.7	8.6	4.9
Total Final Expenditure	-4.9	11.7	4.2	3.6
Less Imports of Goods and Services	-10.2	18.7	4.7	4.2
Gross Domestic Product	0.1	5.8	3.8	3.0
At Constant 2000 Prices				
Private Final Consumption Expenditure[1]	0.7	-0.7	3.3	-0.6
General Government Final Consumption Expenditure	-2.7	1.7	3.8	5.5
Gross Fixed Capital Formation	-13.4	0.9	-14.1	-2.5
Changes in Inventories	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-
Exports of Goods and Services	-8.4	18.1	0.8	5.2
Total Final Expenditure	-5.4	7.6	-0.2	2.6
Less Imports of Goods and Services	-8.2	12.7	-2.0	4.4
Gross Domestic Product	-2.6	2.9	1.7	0.8

[1] Includes NPISH final consumption expenditure

Source: National Statistics Office

that these forecasts assume no major increases in international commodity prices. Macroeconomic projections are also consistent with moderate growth in average wages over the forecast period.

The unemployment rate is expected to increase marginally to 6.6 per cent in 2013 and to decline thereafter. Despite the slowdown in employment growth expected over the medium term, the unemployment rate is still expected to remain relatively low as increases in labour force participation are mitigated by declines in the working age population.

Comparison with DG ECFIN's Forecasts

The European Commission, through DG ECFIN, produces three sets of economic forecasts in Spring, in Autumn, and in Winter, the latter being produced as from this year. The forecasts cover the EU economy as well as all individual Member States and forecasts are produced for the current year and the subsequent one. These forecasts will however be revised in the coming weeks when the Spring forecasts are published.

A comparison of the main macroeconomic forecasts for the Maltese economy produced by MFIN and DG ECFIN Forecasts are provided in Table 3. Winter forecasts as produced by the European Commission confirm once again the resilience of the Maltese economy as the expected growth rates outperformed the average growth rate for the Euro Area. For 2013, DG ECFIN is forecasting a 1.5 per cent increase in economic growth, whilst a 2.0 per cent increase in real economic growth is projected for 2014. The sources of growth are very similar to what is being projected by MFIN. DG ECFIN however project stronger employment growth that corresponds to a stronger increase in investment activity. Higher inflation is also expected by DG ECFIN.

Sectoral Contribution to Gross Value Added (GVA)

During 2012, GVA at basic prices increased by 3.4 per cent compared with the 3.2 per cent growth in 2011. Growth in GVA at basic prices is attributable to increases registered in a number of sectors of the economy with the exception of the construction sector as well as in the activities related to mining and quarrying and electricity, gas, steam and air-conditioning supply, water supply, waste management and remediation. Significant increases were recorded in the financial and insurance activities, in the arts, entertainment and recreation, repair of household goods and other services sector, in the information and communication sector, and in the public administration and defence, compulsory

Macroeconomic Projections
Percentage Changes

Table 3

	2012	2013		2014		2015	2016
	actual data	MFIN	ECFIN	MFIN	ECFIN	MFIN	MFIN
GDP at constant prices	0.8	1.4	1.5	1.6	2.0	1.9	1.9
Private Consumption	-0.6	0.9	0.6	1.0	1.2	1.5	1.7
Public Consumption	5.5	0.6	1.2	0.5	1.3	1.1	1.6
Gross Fixed Capital Formation	-2.5	0.5	4.0	3.2	5.0	3.0	2.8
Exports of Goods and Services	5.2	2.1	4.0	1.6	4.8	1.0	0.7
Imports of Goods and Services	4.4	1.6	3.9	1.2	4.9	0.7	0.6
Contributions to growth (Percentage Points)							
Domestic demand	0.4	0.8	1.2	1.1	1.7	1.5	1.8
Inventories	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net Exports	1.0	0.6	0.4	0.5	0.3	0.3	0.2
Nominal GDP	3.0	3.3	4.1	3.8	4.4	4.2	4.3
Harmonised Unemployment Rate	6.4	6.6	6.4	6.4	6.2	6.1	5.7
Employment	2.4	0.7	1.7	0.9	1.9	0.7	0.9
HICP Inflation Rate	3.2	2.0	2.2	1.6	2.2	1.7	1.8
Compensation per employee	2.9	0.7	2.2	1.1	2.3	1.3	3.4
Unit labour costs	3.4	0.5	2.4	0.3	2.2	0.1	2.2
Technical Assumptions							
WGDP	0.3	0.5	-	1.5	-	1.8	1.8
EUR/USD exchange rate	1.283	1.308	-	1.292	-	1.281	1.281
EUR/GBP exchange rate	0.810	0.857	-	0.844	-	0.829	0.829
Oil price (USD per barrel)	111.6	111.1	-	111.6	-	109.4	109.4

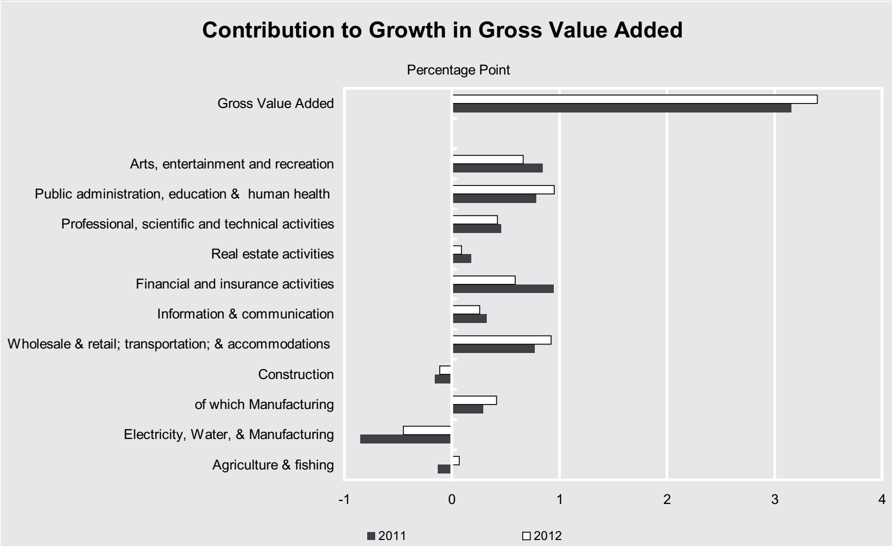
Source: MFIN, ECFIN

social security, education, human health and social work activities.

Looking at a slightly more disaggregated level, some notable developments emerge. GVA classified under the wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation and food services sector increased by 4.3 per cent during 2012 when compared to 2011. At a more disaggregated level, GVA at basic prices in the wholesale and retail trade and repair of motor vehicles and motorcycles sector in 2012 stood at €620.3 million, a rise of 3.6 per cent when compared to 2011.

The accommodation and food service activities sector also registered a rise in its GVA at basic prices, amounting to €19.2million (6.7 per cent) during 2012 to €307.5 million. On the other hand, the transportation and storage sector increased by 3.3 per cent during 2012 to €352.8 million. During the period under review, there were also declines in the manufacturing of machinery and

Chart 1



equipment (4.0 per cent) and manufacturing of computer and electronics (1.9 per cent).

Labour Market

During the twelve months to October 2012, the Maltese labour market recorded a relatively positive performance, as reflected by the increasing participation rates and employment levels and the relatively low and stable unemployment rate. Indeed, as shown in Table 4, full-time employment increased by 2,113 or 1.4 per cent to 152,501 while the labour force increased by 2,588 or 1.6 per cent to 159,514. The increase in the gainfully occupied population was underpinned by an increase of 1,940 in the number of females, while the number of males in full-time employment rose by 173. However, the number of unemployed persons increased by 475 such that the unemployment rate increased from 4.2 per cent in October 2011 to 4.4 per cent in October 2012. Meanwhile, Table 5 shows a selection of Labour Force Survey Indicators.

During the period under review, the share of direct production employment in total employment continued to decline whereas the share of market services continued to increase, in line with the trend registered in recent years. This reflected a decline in direct production employment of 590 or 1.6 per cent to 36,915 while market services employment increased by 2,762 or 2.5 per cent

Labour Market Performance

Table 4

	2010 Oct	2011 Oct	2012 Oct
Labour Supply	153,838	156,926	159,514
Gainfully Occupied	147,142	150,388	152,501
Registered Unemployed*	6,696	6,538	7,013
% Unemployed of Labour Supply	4.4	4.2	4.4
Private Sector	106,717	109,311	111,647
Public Sector	40,425	41,077	40,854
Total Direct Production	37,885	37,505	36,915
Total Market Services	108,591	112,264	115,026
Part-time Employment as Primary Job	28,941	29,791	31,807

*Includes both Parts I and II of the Registered Unemployed

Source: Employment and Training Corporation

Labour Force Survey Indicators

Table 5

	2010 Oct-Dec	2011 Oct-Dec	2012 Oct-Dec
Activity Rate	60.5	61.4	63.6
Male	77.5	77.9	77.7
Female	42.8	44.4	49.0
Employment Rate	56.3	57.3	59.5
Male	72.0	73.0	73.1
Female	40.0	41.1	45.4
Unemployment Rate	6.8	6.6	6.5
15-24	13.7	13.6	12.8
25+	5.5	5.2	5.3

Source: National Statistics Office

to 115,026. The most significant increases were recorded in education, health, computer programming, legal and accounting activities as well as gambling and betting activities. On the other hand, the most significant declines were recorded in construction, the manufacture of fabricated metal products and air transport (the latter reflecting early retirement schemes offered to employees within a major company within the sector).

Productive Activities

Statistical data for 2012 illustrates how the total turnover index of the industry increased by 6.6 per cent when compared to 2011. This was underpinned by an increase of 6.8 per cent in total domestic sales coupled with a rise of 6.0 per cent in export sales. During the same period, industry wages and salaries increased by 2.9 per cent. On the other hand, employment levels and hours worked decreased by 0.8 per cent and 0.4 per cent, respectively.

At a sectoral level, the increase in the total industry turnover index is mainly attributed to increases in the turnover index of electricity and water supply, and the manufacturing sector. Moreover, the mining and quarrying sector reported a decrease of 8.4 per cent in the turnover index when compared to 2011, underpinned by declines in domestic sales.

Tourism

During January-December 2012, tourist departures increased by 2.1 per cent over the previous comparable period, to reach the record level of 1,443,973 visitors. The average length of stay increased marginally from 8.3 nights in 2011 to 8.7 nights in 2012. Earnings from tourism registered an increase of 8.2 per cent during this twelve month period, to €984.7 million. On a per capita basis, expenditure by tourists increased by 6 per cent to €682 during this period, while earnings per night spent increased from €77.8 to €78.0. The cruise liner industry (excluding Maltese cruise passengers) also registered a positive performance, increasing by 9.7 per cent over 2011, to 594,350 arrivals. Full-time employment in accommodation and food service activities increased from 9,583 as at the end of October 2011 to 9,717 at the end of October 2012.

Recent data indicates that in the first two months of 2013, tourist departures amounted to 126,329, an increase of 2.6 per cent over the corresponding period in 2012. During this period, increases were recorded in the British, German and Italian markets. Total nights spent during this period increased by 12.2

Main Tourism Indicators

Table 6

	2008	2009	2010	2011	2012
Tourist Departures	1,290,856	1,182,490	1,338,841	1,414,503	1,443,973
Nights spent (000's)	10,962	9,949	11,148	11,703	12,618
Cruise Passengers*	537,707	419,627	474,272	541,565	594,350
Total full-time employment in hotels and restaurants**	10,006	9,379	9,474	9,583	9,717
Earnings (€ million)	729.2	639.8	813.9	910.0	984.7
Per Capita Earnings (€)	564.9	541.1	607.9	643.3	682.0
Earnings Per Nights Spent (€)	66.5	64.3	73.0	77.8	78.0

*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

(1)Data as at end of October

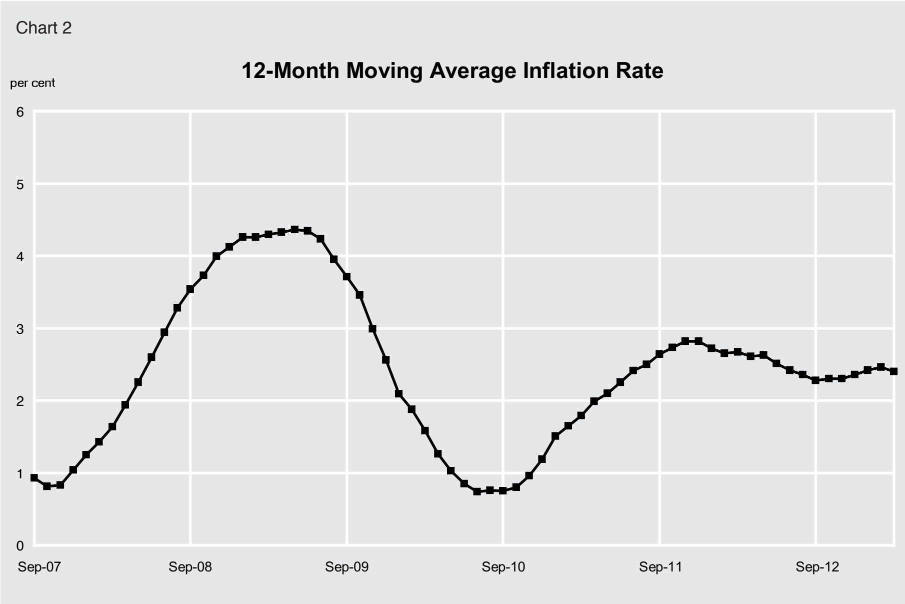
Source: National Statistics Office, Employment and Training Corporation

per cent over the comparable period in 2012, thus resulting in an increase in the average length of stay from 7.9 nights in 2012 to 8.6 nights in the first two months of 2013.

Prices

During the year 2012, the rate of inflation as measured by the 12-month moving average was relatively volatile. Indeed, between January 2012 and August 2012, RPI inflation decreased from 2.65 per cent to 2.28 per cent. Subsequently, it increased again reaching the rate of 2.46 per cent in January 2013. Latest data available for the month of February 2013, show that the 12-month moving average inflation dropped marginally to 2.40 per cent.

A closer look at the data indicates that the decline in headline inflation recorded during the first eight months reflected the negative contribution of the Clothing and Footwear sub-index and declines in the contribution to inflation of the Housing and Transport and Communications sub-indices. Furthermore, the rise in the headline rate observed between September 2012 and January 2013



was mainly due to increases in contribution from Food and Recreation and Culture sub-indices.

Foreign Trade and Payments

Trade data for 2012 illustrates that exports increased by €562.8 million, the majority of which consisted of an increase in fuel exports of €356.0 million. On the other hand, imports increased by €825.7 million. As in the case of exports, fuel imports were a key driver that underpinned the increase in imports. Imports of fuel increased by €848.2 million. During 2012, imports of industrial supplies and consumer goods increased by €4.4 million and €30.7 million, respectively whilst capital and other goods decreased by €63.6 million. These developments resulted in a widening of the trade gap by €262.9 million over a year earlier to a level of €1,778.5 million. It is pertinent to note that fuels and lubricants were the main driver underpinning such deterioration. In fact, the trade gap would have narrowed if we were to exclude fuel.

Meanwhile, the current account registered a surplus of €24.2 million or 0.4 per cent of GDP, improving by €34.0 million over 2011. It is to be noted that with the exception of 2002, current account surpluses were only recorded before the early nineties. This improvement mainly reflected developments in the services account balance since the goods account balance remained relatively unchanged in terms of GDP. The services account surplus increased by €116.3 million over the previous year, thereby reaching a level of €1,506.5 million. This improvement stemmed from increased net services exports, as a result of increased tourism and other services net exports as transportation net imports remained unchanged.

On the other hand, the goods account deficit contracted by €25.0 million. Notwithstanding, as a proportion of GDP, this remained relatively stable at approximately 16.0 per cent of GDP. This reflected an increase in goods exports which offset the increase in goods imports. The movements underlying this development is attributable to the decrease recorded in goods procured by carriers which more than offset the increase of imports of general merchandise.

Furthermore, the income account deficit widened by €77.2 million over 2011, mainly reflecting increased net payments of direct investment income and lower net payments of other investment income. Concurrently, current transfers net inflows contributed positively to the improvement in the current account surplus, since these increased by €20.0 million mainly due to higher government transfers.

During 2012, an inflow of 1.5 per cent of GDP was registered in the capital account. The latter was more than offset by an aggregate outflow of 3.2 per cent of GDP in the financial account. This represents an increase in net outflows over the level registered in 2011. The latter was underpinned by a decrease in both direct investment net inflows and other investment net inflows, which more than offset the decrease in portfolio net outflows. Furthermore, an increase in reserve assets of 1.8 per cent of GDP was recorded. It is to be noted that during 2011, reserve assets decreased by 0.8 per cent of GDP. Concomitantly, net inflows classified as net errors and omissions stood at 3.1 per cent of GDP. Balance of Payments data expressed as a percentage of GDP are presented in Table 7.

Financial Developments

Public Finance

In January-February 2013, the shortfall between Central Government's recurrent revenue and total expenditure amounted to €104.0 million, a decrease of €46.7 million when compared to the same period in 2012. The improvement was mainly the result of higher recurrent revenue, although this was partially offset by increases in capital and recurrent expenditure. Unless otherwise stated, the analysis in this section is based on Government finance data, as classified in

Balance of Payments

Table 7 (per cent of GDP)

	2008	2009	2010	2011	2012
GOODS AND SERVICES					
Exports of Goods and Services	91.8	81.8	95.6	100.2	102.4
Imports of Goods and Services	-93.6	-84.0	-94.2	-95.0	-96.1
Goods and Services Account	-1.8	-2.2	1.4	5.1	6.3
INCOME					
Income Received	37.1	27.6	25.8	25.1	27.3
Income Paid	-40.0	-34.7	-32.4	-30.9	-34.1
Income Account	-2.9	-7.1	-6.6	-5.8	-6.8
CURRENT TRANSFERS (Net)					
General Government Transfers	0.2	0.8	0.4	0.7	1.0
Private Transfers	-0.3	-0.1	-0.0	-0.2	-0.2
Total Net Current Transfers	-0.1	0.7	0.4	0.5	0.8
Balance on Current Account	-4.9	-8.6	-4.7	-0.2	0.4
Capital Account*	0.4	1.7	1.7	1.0	1.5
Financial Account excl. Reserves*					
Net Foreign Direct Investment	5.7	3.7	10.7	4.3	2.8
Net Portfolio Investment Equity Flows	-1.0	-0.5	-0.3	0.0	0.4
Net Portfolio Debt Flows	7.1	-31.9	-50.5	-47.4	-24.1
Net Financial Derivatives	-5.8	-2.0	0.4	0.4	0.3
Net Other Investment Flows	-4.4	30.2	37.3	40.5	17.4
Reserve Assets	1.8	-0.0	-0.4	0.8	-1.8
Net Errors and Omissions	0.9	7.4	5.8	0.6	3.1

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

Source: National Statistics Office

the statement of the Consolidated Fund, which data is defined on a cash basis rather than on an accruals system. Consequently, this data should be interpreted with caution since developments in Government's net financial position may not fully reflect spending and revenue flows defined along accruals concepts. Table 8 displays cash data relating to the developments in Government revenue and expenditure.

Government Revenue and Expenditure

Table 8								€ 000
							January-February	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
Recurrent Revenue	2,224,459	2,302,145	2,370,770	2,525,356	2,643,831	2,715,732	362,605	436,970
Tax Revenue	1,982,019	2,098,312	2,130,120	2,242,530	2,323,351	2,392,966	323,575	351,838
Direct Tax Revenue	1,143,673	1,246,042	1,265,543	1,353,307	1,361,700	1,475,617	155,974	196,704
Indirect Tax Revenue	838,346	852,270	864,577	889,223	961,651	917,349	167,601	155,134
Non-Tax Revenue	242,442	203,834	240,649	282,825	320,480	322,766	39,029	85,132
Total Expenditure	2,333,593	2,535,281	2,667,791	2,804,568	2,862,441	3,078,008	513,300	540,921
Recurrent Expenditure	1,896,636	2,124,093	2,204,421	2,296,343	2,361,285	2,488,423	420,142	432,000
Interest Payments	179,053	189,038	192,023	196,755	212,462	225,808	35,907	36,188
Capital Expenditure	257,904	222,150	271,346	311,470	288,695	363,777	57,251	72,732
Productive	47,781	51,118	85,331	57,734	49,080	84,799	27,264	38,258
Infrastructural	113,418	115,696	121,874	199,725	189,076	220,240	21,820	27,871
Social	96,704	55,336	64,142	54,011	50,539	58,738	8,167	6,603
Structural Balance	-109,133	-233,136	-297,021	-279,212	-218,610	-362,276	-150,696	-103,951
Financed by:								
Extraordinary Receipts	14,894	33,318	2,795	0	9,622	28,425	0	0
Sinking Fund Contribution and Direct Loan Repayment	-21,214	-111,375	-269,432	-207,440	-141,940	-361,330	0	0
Equity Acquisition	0	-6,500	-541	-200	-6,000	-33,392	0	0
Loan Facility Agreement with Hellenic Republic	0	0	0	-19,770	-30,842	0	0	0
Loan Facility Agreement with Air Malta plc	0	0	0	0	-52,000	0	0	0
Public Sector Borrowing Requirement	-115,453	-317,693	-564,199	-506,622	-439,770	-728,573	-150,696	-103,951
Local Loans	126,040	285,735	455,793	577,687	567,798	645,652	274,703	0

Source: National Statistics Office

Revenue

During the period January-December 2012, recurrent revenue increased by €71.9 million, mainly as a result of higher taxation revenue, although income from non-tax revenue also registered an increase. During 2012, the share of Government revenue from taxes remained relatively stable at around 88 per cent of the total recurrent revenue. Revenue received from taxes increased by €69.6 million, reaching €2,393.0 million during the January-December 2012 period. This increase was mainly characterised by an increase in direct tax revenue of €113.9 million which was partially offset by a decrease in indirect tax revenue of €44.3 million. The increase in direct tax revenue was driven by both an increase in revenue from income tax receipts as well as an increase in social security contributions, although growth in the latter was relatively lower. Meanwhile, the decline in proceeds from indirect taxation reflected lower receipts from customs and excise duties, which were, however, partially offset by an increase in Value Added Tax (VAT) receipts. Income from licences, taxes and fines also contributed marginally to lower revenue receipts. In 2012, revenue from direct and indirect taxes amounted to €1,475.6 million and €917.3 million, respectively.

Expenditure

During January-December 2012, total Government expenditure, consisting of recurrent expenditure, capital expenditure and interest on public debt, increased by €215.6 million over the same period in 2011, to €3,078.0 million. This increase was mainly the result of higher recurrent expenditure, although capital expenditure and interest on public debt also contributed positively towards the increase registered in total Government expenditure.

Recurrent expenditure made up over 80 per cent of total expenditure. During 2012, an increase of €127.1 million in recurrent expenditure was registered over the corresponding period in the previous year. Meanwhile, capital expenditure amounted to nearly 12 per cent of total expenditure. Capital expenditure increased by €75.1 million to reach €363.8 million. During January-December 2012, interest on public debt registered an increase of €13.3 million, reaching €225.8 million.

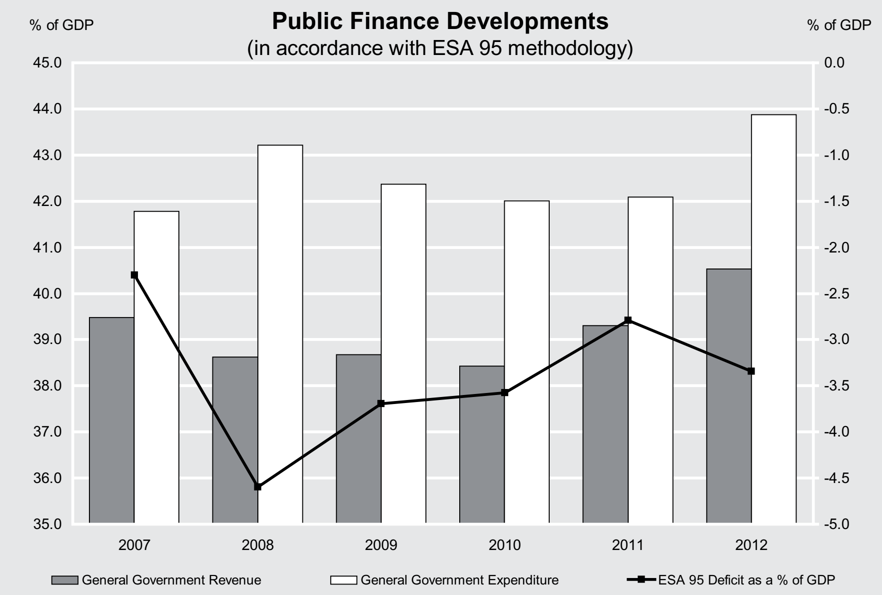
General Government Budgetary Developments

The Quarterly Accounts of the General Government published by the National Statistics Office (NSO) depict Government's fiscal position using the European System of Accounts 1995 (ESA95) methodology. It is significant to note that the data presented in the following section is not comparable to that classified in the statement of the Consolidated Fund. The recent trends in Government Budgetary Developments are portrayed in Chart 3.[1]

During 2012 the deficit-to-GDP ratio stood at 3.3 per cent of GDP, deteriorating by 0.5 percentage points over the corresponding January-December period in 2011. This is the result of a rise in the expenditure ratio which more than outweighed the increase in the revenue-to-GDP ratio. Indeed, in 2012 the revenue-to-GDP ratio increased from 39.3 per cent in 2011 to 40.5 per cent in 2012. The increase of 1.2 percentage points was mainly underpinned by higher ratios to GDP of current taxes on income and wealth, market output and capital transfers receivable.

When compared to 2011, the expenditure-to-GDP ratio for January-December period of 2012 increased by 1.8 percentage points to 43.9 per cent of GDP, mainly on account of rising gross capital formation, social benefits other than social transfers in kind, wages, intermediate consumption and capital transfers payable.

Chart 3



Monetary Conditions

Malta's contribution to Euro Area broad money (M3), which includes deposit liabilities to both Maltese residents, as well as to other residents of the Euro Area increased by €621.9 million reaching €10,420.7 million at the end of February 2013 when compared to the same month in 2012. This increase was the result of an increase in net claims on non-residents of the Euro Area which more than offset the negative contributory effect of an increase in the other counterparts component, as well as a small decline registered in the credit counterpart during the same comparative period. Table 9 displays data relating to the developments in the main monetary indicators for the period February 2012 to February 2013.

Narrow money (M1) increased by €496.8 million, reaching €6,024.9 million in February 2013 when compared to €5,528.0 million registered in February 2012. Although this increase was broad based across currency issued and overnight deposits, this development was mainly the result of an increase in overnight deposits from residents of Malta which increased by €464.0 million, reaching €5,131.3 million over the same comparative period.

The increase in M1 was also the main contributor to the increase in Intermediate Money (M2) which reached €10,231.6 million in the period January-February 2013, increasing by €645.4 million when compared to the level registered in

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

Table 9 €million

	2012 (Feb)	2012 (Mar)	2012 (Jun)	2012 (Sep)	2012 (Dec)	2013 (Feb)	Feb-13 - Feb-12 % Change
Narrow Money (M1)	5,528.0	5,581.6	5,778.4	5,929.1	6,005.7	6,024.9	9.0
Currency issued[2]	702.9	701.9	717.4	718.7	726.2	714.6	1.7
Overnight deposits[3]	4,825.1	4,879.8	5,061.1	5,210.4	5,279.5	5,310.2	10.1
Intermediate Money (M2)	9,586.2	9,618.8	9,804.4	10,075.9	10,328.9	10,231.6	6.7
Narrow Money (M1)	5,528.0	5,581.6	5,778.4	5,929.1	6,005.7	6,024.9	9.0
Deposits redeemable at notice up to 3 months[3]	130.7	126.6	146.3	145.7	153.2	114.4	-12.5
Deposits with agreed maturity up to 2 years[3]	3,927.5	3,910.6	3,879.6	4,001.0	4,170.0	4,092.4	4.2
Broad Money (M3)	9,798.8	9,832.6	10,014.0	10,278.3	10,520.4	10,420.7	6.3
Intermediate Money (M2)	9,586.2	9,618.8	9,804.4	10,075.9	10,328.9	10,231.6	6.7
Repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities issued up to 2 years initial maturity[4]	212.6	213.7	209.6	202.5	191.5	189.1	-11.1
Credit Counterpart[5]	16,254.0	15,911.7	15,604.6	15,960.6	15,599.3	15,657.3	-3.7
Credit to residents of Malta	11,036.7	11,016.8	11,097.3	11,150.2	10,988.6	11,136.0	0.9
Credit to general Government	2,443.9	2,426.7	2,450.4	2,453.6	2,287.1	2,422.0	-0.9
Credit to other residents	8,592.8	8,590.1	8,646.9	8,696.6	8,701.5	8,714.0	1.4
Credit to other Euro area residents	5,217.3	4,894.9	4,507.3	4,810.4	4,610.7	4,521.3	-13.3
Net claims on non-residents of the Euro area	7,967.0	8,833.4	10,819.2	8,792.7	10,159.8	10,072.1	26.4
Other counterparts (net)[6]	14,422.2	14,912.6	16,409.8	14,474.9	15,238.7	15,308.7	6.1

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

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

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

[4] Comprises repurchase agreements and debt securities up to 2 years' maturity issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the euro area. Figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the euro area and holdings by non-residents of the euro area.

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

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

Source: Central Bank of Malta

February 2012. The composition of M2 shows a preference towards higher liquidity in the form of overnight deposits. Conversely, deposits redeemable at notice up to three months experienced a slight decline of €16.3 million, reaching €114.4 million in February 2013 when compared to the same month a year earlier. The opposite dynamic occurred with respect to deposits with an agreed maturity of up to two years which registered an increase of €164.9 million, reaching €4,092.4 million in February 2013 when compared to the same month in 2012.

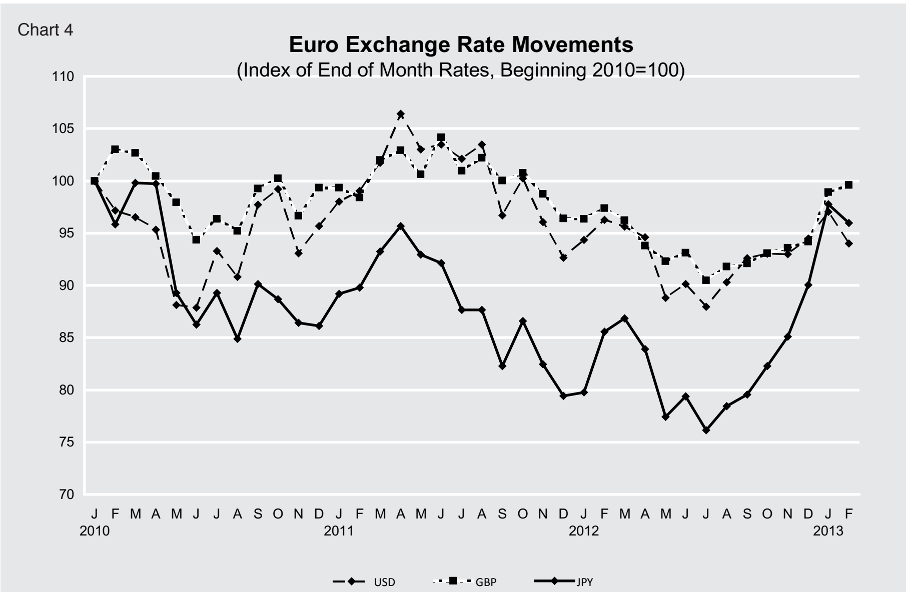
Loans to Maltese residents excluding the General Government increased by €72.6 million reaching €8,582.4 million during the first two months of 2013 when compared to February of 2012. This increase was mainly the result of increases in loans to households and individuals.

Exchange Rates

Chart 4 depicts an indexed Euro exchange rate against the three major currencies, these being the UK Sterling (GBP), the US Dollar (USD) and the Japanese Yen (JPY) since the beginning of 2010. In line with market sentiment, as the Euro debt crisis intensified during mid -2011, the Euro weakened against all three currencies, as market participants sought more attractive alternative assets, notably the US Dollar. In fact, from April 2011 to July 2012, the Euro depreciated from a value of USD 1.49 to USD 1.23, respectively. Nonetheless, since then, the Euro has again strengthened and traded at USD 1.31 at the end of February 2013.

After trading at GBP 0.95 in December 2008, the Euro depreciated as the European sovereign debt crisis intensified. In fact, during July 2012 the Euro traded at GBP 0.78. Since then the Euro has strengthened with respect to the Pound Sterling, such that at the end of February 2013 the Euro traded at GBP 0.86.

The Euro also declined vis-à-vis the Japanese Yen, albeit registering strong gains between end 2010 and April 2011. However, in light of the deepening European sovereign debt crisis it depreciated, reaching its lowest trading price of JPY 96.0 at the end of July 2012, from a level of JPY 120.7 at the end of April 2011. However, this was reversed as the Euro appreciated to reach a level of JPY 121.1 at the end of February 2013.



International Scene

Global economic conditions and growth are expected to gradually improve during 2013, as factors underlying weak global activity are predicted to settle down. At the same time, leading institutions such as the International Monetary Fund (IMF) are expecting the economic recovery to be more gradual than forecasted in October 2012. Although policy actions have lowered acute crisis risks in the Euro Area (EA) and the United States (US), the prospect of economic recovery in the EA has been delayed. Similarly, although Japan has entered into a recession, its economic growth is expected to pick up in the short term. At the same time, while some emerging market economies are experiencing a modest pickup in growth, other economies are however still struggling with weak external demand and domestic bottlenecks.

The economy of the European Union (EU) remains fragile and subject to a number of risk factors. The initial signs of recovery seem to have been reversed recently and uncertainty is rising again. Overall spreads and risk premia remain relatively elevated particularly in some Member States. Indeed, uncertainty about the macro-financial situation and the challenging environment are affecting spending decisions by firms and households and in light of trade interlinkages, weakness in demand in some Member States have been transmitted to the rest of the EA and EU. In light of this, the economies of the euro area contracted by 0.6 per cent during 2012.

In the third quarter of 2012, global economic growth increased by around 3 per cent, with the main sources being accelerating economic activity in emerging market economies and higher than expected growth in the US. Further improvements were experienced in the fourth quarter of 2012, albeit due to one-off temporary factors such as increased inventory accumulation. On the other hand, given strong signs of spillovers in the euro area periphery, economic activity was lower than expected. Meanwhile, growth in the US stood at 2.2 per cent during 2012.

Commodities

The price of crude oil was on the rise between June 2012 and February 2013. In fact, in February 2013, the price of crude oil reached US $116.02 per barrel from US $95.16 per barrel in June 2012, an increase of 21.9 per cent during this period. When adjusted to Euros, the price of crued oil increased by 14.3 per cent reflecting the going rate of exchange. Food prices were on an upward trend between June 2012 and February 2013. In fact the IMF food price index grew by 7.1 per cent during this period. Similarly, metal prices have experienced a notable increase throughout the same period as the IMF metals price index shows. In fact the index grew by 10.5 per cent between June 2012 and February 2013.

Outlook

According to the Commission's Winter Forecast 2013, external demand is expected to be the main source of economic growth in the EU as domestic investment and consumption are projected to recover at a later stage. GDP in the EU will remain almost unchanged and that of the EA will contract by 0.3 per cent in 2013. Thus, although progress in national adjustment and a strengthened EU-wide policy response to the EA crisis reduced tail risks, the outlook for the EA has been revised downward for the near-term in light of uncertainty about the ultimate resolution of the crisis despite recent progress. The implementation of the planned policy reforms by EA Member States is expected to contribute to easing such tensions throughout 2013. Unemployment rates are expected to further increase to around 11 per cent and 12 per cent for the EU and EA, respectively. Conversely HICP inflation is projected to decrease to 2 per cent in the EU and to 1.8 per cent in the EA in 2013. These forecasts factor the assumed pick-up in global output growth, as world trade outside the EU is expected to grow by 4.5 per cent.

Vulnerable economies are experiencing reductions in their current account deficits primarily due to a shift in production factors from non-tradables to tradable sectors. At the same time within EU Member States with current account surpluses, consumption is expected to hold up relatively well, which is a further indication of an increased dependence on domestic demand as a main source of growth. In respect of the various fiscal measures implemented during 2012, overall fiscal deficits are projected to have declined to 3.8 per cent in the EU and 3.5 per cent in the EA. Further reductions to 3.5 per cent in the EU and 2.8 per cent in the EA is projected in 2013. Nevertheless, despite ongoing fiscal consolidation, debt-to-GDP ratios are still forecasted to increase in 2013 partly due to slow growth relative to interest rates.

Labour market conditions are expected to worsen further in 2013, reflecting the reduction in economic activity. The labour-market outlook differs considerably across Member States, and much of the projected increase in unemployment is concentrated in a few Member States. High and persistent unemployment in turn bears the risk of becoming structural as the skills of unemployed workers depreciate. This could inhibit the economies' growth potential from going forward. In the light of high unemployment and large negative output gaps, domestic price pressures are expected to remain subdued. Core inflation has been falling very gradually in 2012 and is expected to hover at a rate of around 1.8 per cent in the EU and 1.7 per cent in the EA by the end of the forecast horizon. Given the technical assumption of slightly decreasing commodities prices and the lagged impact of the recent euro appreciation, imported price pressures are also projected to wane. As a result, consumer-price inflation in the EU is forecasted to decrease gradually in the course of 2013 and to stabilise around 1.7 per cent in the EU and 1.5 per cent in the EA next year.

During 2013, growth in the US is expected to average 2 per cent, which is higher than the trend experienced in the second half of 2012. Underlying economic conditions remain broadly on track, and given an improved housing and financial market environment, consumption growth in 2013 is to remain on the positive side. Fiscal policy should avoid disruptive outcomes in the near term. An agreement is needed on a credible plan to reduce the deficit over the medium term and address long-term cost pressures on health care and pensions.

Endnote:

[1.] EDP data for 2009 - 2012 have been transmitted to Eurostat on 28th March and data are still being validated by the European Commission.