

Economic Survey – October 2007



Ministry of Finance

Economic Policy Division
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... 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;

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Contents

	page
1. State of the Economy	3
Local Scene	6
Economic Growth	6
Sectoral Contribution to Gross Value Added	6
Labour Market	7
Productive Activities	8
Services Activities	8
Prices and Incomes	9
Foreign Trade and Payments	10
Financial Developments	11
International Scene	13
Outlook for Industrialised Economies	18
Commodity Markets	20
Future Economic Prospects	22
2. Economic Growth	27
National Expenditure	28
Private Final Consumption Expenditure	29
General Government Final Consumption Expenditure	31
Gross Capital Formation	31
Foreign Demand and Supply	32
Sectoral Contribution to Gross Value Added	33
Gross National Income	38
International Comparison	42
3. Employment	47
Labour Market Developments	49
Private Sector Employment	51
Public Sector Employment	52
Sectoral Employment	54
Direct Production	55
Manufacturing of Food Products, Beverages and Tobacco	59
Manufacturing of Textile and Textile Products	60
Manufacturing of Leather and Leather Products	60
Manufacturing of Pulp, Paper and Paper Products	60

Manufacturing of Chemicals, Chemical Products and Man-made Fibres	61
Manufacturing Rubber and Plastic Products	61
Manufacturing of Electrical and Optical Equipment	61
Manufacturing of Transport Equipment	63
Market Services	63
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	64
Hotels and Restaurants	66
Transport, Storage and Communications	66
Financial Intermediation	68
Real Estate, Renting and Business Activities	68
Unemployment	69
Part-Time Activity	72
4. Productive Activities	77
Domestic Manufacturing Performance	79
Food and Beverages Products	84
Textiles and Textile Products	86
Wearing Apparel and Clothes	86
Publishing and Printing	87
Chemicals and Chemical Products	88
Rubber and Plastic Products	89
Electrical Machinery and Apparatus	90
Radio, TV and Communication Equipment	90
Medical, Precision and Optical Instruments	92
Furniture and Other Manufacturing	92
Value Added	94
Sectoral Analysis	100
Agriculture and Fisheries	103
Agriculture	103
Fisheries	108
The Shipyard Sector	109
5. Services Activities	119
Tourism	120
Monthly Distribution	122
Tourist Nationality	124
Cruise Passengers	126

Accommodation	127
Employment	129
Foreign Exchange Earnings	129
Malta Financial Services Authority	130
Malta Enterprise Corporation	133
6. Prices and Incomes	139
Inflation	139
International Comparison	145
Sectoral Wages	146
7. Foreign Trade and Payments	155
Foreign Trade	157
Exports	159
Geographical Distribution - Exports	162
Imports	164
Geographical Distribution - Imports	166
Geographical Distribution - Trade Balances	168
Balance of Payments	169
The Current Account	170
The Goods and Services Account	170
The Income Account and Current Transfers	172
The Capital and Financial Account	174
8. Financial Developments	179
Public Finance	179
Revenue	180
Expenditure	182
Recurrent Expenditure	183
Capital Expenditure	185
Fiscal Performance	188
International Comparison	189
Monetary Developments	191
Monetary Aggregates	191
Counterparts of Monetary Expansion	194
The Money Market	195
The Capital Market	197
The Maltese Lira	200

Boxes

3.1 The Labour Force Survey	49
4.1 Economic Accounts for Agriculture	106
6.1 Harmonised Index of Consumer Prices (HICP)	140
7.1 International Competitiveness	156
8.1 General Government Budgetary Components	187

Tables

1.1 World GDP, Volume	14
1.2 Inflation: Harmonised Index of Consumer Prices	14
1.3 Unemployment Rate	15
1.4 Exports of Goods, Volume	15
1.5 Imports of Goods, Volume	16
1.6 Projections	23
2.1 GDP by Category of Expenditure	27
2.2 GDP by Category of Expenditure - Percentage Changes	29
2.3 GNI, Private Final Consumption Expenditure and Expenditure by Tourists	30
2.4 Gross Fixed Capital Formation	31
2.5 Sectoral Contribution to Gross Value Added	35
2.6 Gross National Income	40
2.7 Average Weekly Compensation per Employee	42
2.8 Gross Domestic Product at Constant Market Prices	43
2.9 GDP by Category of Expenditure at Constant Market Prices	44
3.1 Labour Market Performance	48
3.2 Public Sector Employment	54
3.3 Employment in Direct Production	56
3.4 Changes in Manufacturing Employment	57
3.5 Manufacturing Employment	58
3.6 Changes in Employment in Market Services	64
3.7 Employment in Market Services	65
3.8 Registered Unemployed by Duration of Registration	69
3.9 Registered Unemployed by Age Distribution	70
3.10 Registered Unemployed Classified by Occupation	71
3.11 Part-Time Employment	72
4.1 Value Added at Factor Cost per capita	95
4.2 Personnel Costs per capita	96
4.3 Gross Operating Surplus per capita	97

4.4	Value Added at Factor Cost per capita	98
4.5	Average Value Added at Factor Cost per capita	99
4.6	Composition of Value Added at Factor Cost	100
4.7	Slaughtering	104
4.8	Fresh Fruit and Vegetables Indices	105
4.9	Imports of Major Agricultural Commodities	105
4.10	Fresh Fish Indices	108
4.11	Exports of Fish	109
5.1	Main Tourism Indicators	121
5.2	Monthly Tourist Departures	123
5.3	Tourist Departures by Nationality	126
5.4	Main Types of Tourist Accommodation	127
5.5	Monthly Accommodation Occupancy Rates - 2007	128
5.6	Earnings from Tourism	129
6.1	12-Month Moving Inflation Rate	141
6.2	Retail Prices Index	141
6.3	Index by Commodity Group - Average for 12 months to September	143
6.4	European Union Inflation Rates	146
6.5	Average Weekly Wages - September 2006	148
6.6	Average Weekly Wages - September 2007	149
6.7	Changes in Average Weekly Wages	150
6.8	Proportion of Sampled Employees in Wage Ranges	151
7.1	Foreign Trade	158
7.2	Commodity Breakdown of Exports	160
7.3	Total Exports by Main Geographical Areas	163
7.4	Imports by Broad Economic Category	164
7.5	Imports by Main Geographical Areas	167
7.6	Trade Balances with Various Countries.....	168
7.7	Balance of Payments - Goods, Services and Income Account (Net)	171
7.8	Balance of Payments - Current Account	173
7.9	Current, Capital and Financial Flows	175
8.1	Government Revenue and Expenditure	180
8.2	General Government Net Lending or Borrowing	189
8.3	General Government Gross Debt	190
8.4	Monetary Aggregates and Their Counterparts	192
8.5	Government Stocks	198
8.6	Selected Indicators of the Capital Market	199
8.7	Movements in the Exchange Rates of the Maltese Lira	200

Appendix Tables

4.1	Sampled Manufacturing Firms	111
8.1	Government Revenue	203
8.2	Government Recurrent Expenditure	204
8.3	Government Capital Expenditure	206

Charts

1.1	Inflation Rates	17
1.2	Unemployment Rates	17
1.3	Brent Average Monthly Prices	22
2.1	Real Gross Domestic Product per capita	28
2.2	Gross Value Added - Sectoral Contribution	34
2.3	Compensation of Employees and GDP	39
2.4	Average Weekly Compensation per Employee	41
3.1	Labour Force and Gainfully Occupied Population	50
3.2	Gainfully Occupied Population - Private and Public Sectors Percentage Shares	53
3.3	Direct Production - Total Sector Employment	55
3.4	Manufacturing - Total Sector Employment	57
3.5	Manufacturing of Textiles and Textile Products - Total Sector Employment	60
3.6	Manufacturing of Chemicals, Chemical Products and Man-made Fibres	62
3.7	Manufacturing of Electrical and Optical Equipment - Total Sector Employment	62
3.8	Market Services - Total Sector Employment	63
3.9	Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods) - Total Sector Employment	66
3.10	Hotels and Restaurants - Total Sector Employment	67
3.11	Transport Storage and Communications - Total Sector Employment	67
3.12	Real Estate, Renting and Business Activities - Total Sector Employment	68
4.1	Total Sales - Total Manufacturing	81
4.2	Earnings from Employment - Total Manufacturing	81
4.3	Net Investment - Total Manufacturing	82
4.4	Average Weekly Sales per Employee - Total Manufacturing	82
4.5	Average Weekly Earnings per Employee - Total Manufacturing	83
4.6	Manufacturing - Percentage Average Growth Rate	83
4.7	Average Weekly Sales per Employee - Food and Beverages Products	85
4.8	Average Weekly Earnings per Employee - Food and Beverages Products.....	85
4.9	Average Weekly Sales per Employee - Wearing Apparel and Clothes	86
4.10	Average Weekly Earnings per Employee - Wearing Apparel and Clothes	87
4.11	Average Weekly Sales per Employee - Chemicals and Chemical Products	88
4.12	Average Weekly Earnings per Employee - Chemicals and Chemical Products	89

4.13 Average Weekly Sales per Employee - Radio, TV and Comm Equip	91
4.14 Average Weekly Earnings per Employee - Radio, TV and Comm Equip	91
4.15 Average Weekly Sales per Employee - Furniture and Other Manufacturing	93
4.16 Average Weekly Earnings per Employee - Furniture and Other Manufacturing	93
5.1 Tourist Departures	124
5.2 Tourist Market Shares	125
5.3 Tourist Earnings Per Capita	130
6.1 12-Month Moving Inflation Rate	142
7.1 Foreign Trade	158
7.2 Rate of Import Cover	159
7.3 Total Exports	161
7.4 Breakdown of Exports	161
7.5 Geographical Distribution – Exports to EU	163
7.6 Breakdown of Consumer Imports	165
7.7 Total Imports	166
7.8 Geographical Distribution – Imports from EU	167
7.9 Current Account Balance	169
7.10 Deficit in Goods and Services Account	171
8.1 Government Recurrent Revenue and Total Expenditure	181
8.2 Government Total Expenditure	183
8.3 Capital Expenditure	186
8.4 Monetary Assets	193
8.5 Net Foreign Assets	194
8.6 Exchange Rate Movements of the Maltese Lira	201

Statistical Annex

I. Population	209
II. Social Indicators	210
III. Factor Incomes in Gross National Income	211
IV. Gross National Income and Expenditure	212
V. Labour	213
VI. Tourism	214
VII. Foreign Trade	215
VIII. Balance of Payments	216
IX. Government Revenue and Expenditure	217
X. Monetary Aggregates and their Counterparts	218

1. State of the Economy

1. State of the Economy

The economic recovery recorded during 2005 and 2006 has been sustained during the first six months of 2007. Indeed, economic momentum has been registered in various emerging growth sectors. Furthermore, a recovery was recorded in the performance of the tourism industry. On the other hand, specific sectors in the Maltese economy, especially certain low-value added manufacturing activities, continue to face significant international competitive challenges including the risk of delocalisation of domestic operations to low-cost countries. Nevertheless, the rate of economic growth has edged up further during the first half of 2007 and these improvements were reflected in the labour market.

On the fiscal front, Government's objective to attain sound public finances is being attained. Indeed, Malta's general Government deficit decreased to 2.5 per cent of GDP in 2006, below the 3 per cent of GDP ceiling established by the Maastricht criteria. Indeed, the European Commission abrogated the excessive deficit procedure for Malta in June 2007.

On account of these developments, and since the other convergence criteria, including that concerning price stability, were fulfilled, in July 2007, Malta was formally approved to join the Euro Area on January 1st 2008.

The positive signs emerging from various economic indicators are encouraging. Further efforts along the track record of recent years would ensure that a number of emerging challenges are addressed and that sustainable economic growth is achieved. In particular, on the international front, of particular relevance is the continued high level of oil prices together with further pressures arising from the ongoing increases in the prices of grains and related products. In addition, there are downside risks from the effect of the recent financial turmoil on the international economic environment. Moreover, like many other Euro Area countries, other challenges are posed by unfavourable demographic trends and the pervasive pace of global competition. In this context, the need for further efforts to continue to ensure macroeconomic stability and to improve competitiveness, especially as Malta joins the Euro Area, is highlighted.

Economic growth accelerated to 3.6 per cent in the first two quarters of 2007, on the back of notable growth in private consumption and positive contribution by the external sector. These factors offset the effects of subdued government consumption and declining investment expenditure.

The general growth recovery experienced by the domestic economy was echoed in the labour market despite continuous global competitive pressures which impinge negatively on specific sectors of the economy. In fact, employment registered an increase of 0.4 per cent between June 2006 and June 2007. In line with the trend observed in previous years, this was primarily driven by a rise in female employment, while the number of employed males declined. The private sector continued to be the major source of job creation in the Maltese economy while public sector employment sustained the downward trend registered in recent years. Sectors involved in direct production, specifically the manufacturing sector, continued to experience job losses, but this was more than offset by growth in employment opportunities in market services activities such as the real estate, renting and business activities, other community, social and personal services activities and the financial intermediation sectors. In June 2007, unemployment under Part I of the Register stood at 3.9 per cent, down by 0.6 percentage points, compared to the rate recorded in June 2006. Furthermore, the increasing trend in part-time employment continued with part-time employment rising by 7.2 per cent in the twelve months to June 2007.

Following the strong growth registered during 2006, total manufacturing turnover (based on a survey of manufacturing firms) increased further by around 4 per cent during the first six months of 2007. This development was mainly underpinned by a rise in exports of nearly 4.7 per cent. The dominant radio, television and telecommunications sector, which accounted for almost one-half of total turnover in the manufacturing industry, maintained the significantly high sales recorded during the first six months of 2006. The chemicals and chemical products sector, which mainly comprises pharmaceuticals, as well as the publishing and printing sector, recorded significant increases in turnover. On the other hand, the textiles and textile products and the wearing apparel and clothing sectors continued to register a fall in turnover. Meanwhile, turnover in the second largest sector – food and beverages – remained practically unchanged when compared to the same period of the previous year. These developments reflect the ongoing shift from low value-added sectors to other emerging sectors with higher value-added. Overall employment in manufacturing declined while earnings increased, thus resulting in higher average compensation per capita in the total industry. Meanwhile, capital outlays remained practically unchanged in the period under review.

Tourism remains a mainstay of the Maltese economy. This sector has been facing competitive challenges in recent years. However, a turnaround was registered by the local tourism industry during the first eight months of 2007, with an increase of 7.6 per cent in tourist departures. Gross foreign exchange earnings from tourism rose by 7.1 per cent during the first half of 2007. The

cruise liner niche continued to sustain the positive performance registered in recent years with a further strong rise of 26.6 per cent in activity during the January-August 2007 period.

The inflation rate (as measured by the Retail Price Index) followed a consistent downward trend since October 2006 and continued to ease to 0.81 per cent in September 2007. This trend in the domestic inflation was also reflected in the harmonised index of consumer prices (HICP) which reported a fall in the inflation rate to 0.4 per cent in September 2007 from 3.2 per cent a year earlier. In fact, Malta recorded the lowest rates of inflation among the EU27 Member States in recent months.

In the first six months of 2007, the current account deficit improved by Lm30.2 million to reach Lm81.2 million or 7.4 per cent of GDP. This improvement in the current account balance was mainly attributable to a decline in imports of goods and services equivalent to 8.4 percentage points of GDP, which offset the decrease in the ratio of exports of goods and services to GDP of 3.0 percentage points. On the other hand, the income account deteriorated mainly due to higher net income from direct investment, whilst net inflows by way of current transfers also declined. Meanwhile, an outflow in the capital and financial account excluding reserve assets was recorded during the period under review.

On the fiscal front, the structural deficit in the first nine months of 2007 stood at Lm73.3 million, from Lm72.9 million recorded in the same period last year. This development was underpinned by an increase in expenditure outlays which was practically offset by the rise in recurrent revenue. Despite these developments, the fiscal deficit is expected to be further reduced as the current year unfolds, in line with Government's fiscal consolidation programme.

As highlighted above, positive results were recorded in various economic indicators, which augur well for sustained growth in the Maltese economy in the coming years. In particular, achievements in the fiscal arena coupled with real economic growth and favourable price developments put the Maltese economy on a sound economic footing to facilitate integration with the economies of the Euro Area. Further efforts to address a number of economic challenges would ensure that the economic benefits of Euro adoption are exploited. In particular, it is necessary to ensure that the economy becomes more competitive, dynamic and flexible by effecting further structural reforms in line with the Lisbon goals, efforts to attract more investment in growth sectors should be sustained, whilst macroeconomic stability should be maintained. This

would enable the achievement of further job creation and the attainment of a higher standard of living for the Maltese population.

Local Scene

Economic Growth

In the first six months of 2007, real GDP increased by 3.6 per cent. In nominal terms, GDP advanced by 6.1 per cent to Lm1,091.6 million. Both the domestic and external sector contributed positively to GDP growth. Improvements were registered in private consumption whilst general Government consumption expenditure was relatively subdued. On the other hand, gross fixed capital formation exhibited a decline. With respect to external demand, both exports and imports of goods and services exhibited a decrease in real terms. However, the fall in imports of goods and services outweighed the decline in exports such that the contribution of the external sector to economic growth was positive.

In real terms, consumers' expenditure increased by 3.8 per cent, whilst in nominal terms an increase of 3.0 per cent was recorded. Nominal general Government final consumption expenditure advanced by 2.5 per cent in the first two quarters of 2007. This corresponded to a rise of 0.9 per cent in real terms. Gross fixed capital formation declined by 5.8 per cent in nominal terms, and by 6.0 per cent in real terms.

Exports of goods and services increased by 2.3 per cent to Lm890.4 million in nominal terms. In real terms, exports contracted by 4.7 per cent reflecting upward movements in export prices. Imports of goods and services registered a decrease of 3.4 per cent and 6.5 per cent in nominal and real terms, respectively.

Sectoral Contribution to Gross Value Added

During the first six months of 2006, Gross value added (GVA) at basic prices increased by 6.4 per cent in nominal terms reaching Lm937.0 million. This growth in GVA was mainly attributable to the real estate, renting and business activities sector and to a lesser extent to the other community, social and personal services activities and financial intermediation sectors. Other significant increases were registered in the construction, manufacturing, public administration and defence services sectors as well as in the transport, storage and communications sector. The only declines which were registered were minimal and occurred in the fishing and mining and quarrying sectors.

In the first six months of 2007, Gross National Income (GNI) at market prices increased by Lm58 million, or by 5.8 per cent, to Lm1,050.2 million. This increase reflected a rise in GDP at market prices which was partly offset by a higher level of outflow of net property income. Compensation of employees advanced by Lm16.8 million or by 3.6 per cent during the period January-June 2007. Average compensation per employee in nominal terms increased by 0.7 per cent to Lm126.05. In real terms, average compensation was 0.4 per cent higher than in the comparable previous period. An increase of Lm43.9 million or 10.5 per cent occurred in gross operating surplus and mixed income reaching Lm462.2 million. Taxes on production and imports increased by Lm5.5 million or 3.5 per cent and reached Lm164.9 million during the period under review, while subsidies increased by Lm3.5 million and amounted to Lm22.5 million.

Labour Market

Labour market developments during the year to June 2007 largely reflect the growth recovery experienced in Maltese economy during the same period. At the end of June 2007, the gainfully occupied stood at 140,067, an increase of 587 or 0.4 per cent over the same month the previous year. At the same time, the number of persons registering for employment under Part I of the Register fell by 900 to 5,701 at the end of June 2007. Consequently, the unemployment rate stood at 3.9 per cent in comparison to 4.5 per cent registered in the same month the previous year. Meanwhile, the number of part-time workers increased by 3,130 or 7.2 per cent to 46,318 in June 2007.

During the year to June 2007, private sector employment maintained the upward trend registered in previous years as it increased by 1,184 or 1.2 per cent to 97,465. At the same time, employment in the public sector recorded a decline of 597 or 1.4 per cent to 42,602. These developments reflect Government's policy of a declining role by the public sector as provider of employment.

The trend noted in previous years relating to a shift away from direct production activities and towards market services was sustained during the year to June 2007. In fact, employment in direct production registered a decline of 556 or 1.3 per cent to 42,277, whilst market services employment increased by 1,217 or 1.3 per cent to 97,340. The decrease in direct production was mainly attributable to a decline in employment within the manufacturing sector. Meanwhile, the improvement recorded in employment in market services activities reflected increases in a number of sectors, most notably in the real estate, renting and business activities, the community, social and personal services activities and the financial intermediation sectors.

Productive Activities

During the first half of 2007, turnover in the manufacturing industry rose by 4.1 per cent when compared to the level registered a year earlier. This was mainly underpinned by a rise in exports of 4.7 per cent reflecting rises in publishing and printing, chemicals and chemical products, electrical machinery and apparatus and furniture and other manufacturing sectors. Conversely, the main declines in export levels were recorded in the textiles and textile products, wearing apparel and clothing, leather and leather products, medical precision and optical instruments sectors. Meanwhile, following the notable recovery in 2006, the radio, television and telecommunications sector maintained the level of exports stable during the January-June 2007 period. Local sales by the manufacturing industry increased marginally by 1.3 per cent. Capital outlays have remained practically unchanged in the January-June 2007 period.

Average weekly sales per capita rose by 4.3 per cent and reached Lm1,064 and average weekly exports per capita rose by 4.9 per cent to Lm875. Furthermore, average weekly per capita compensation levels increased by 4.7 per cent and reached Lm130.

As the agriculture and fisheries sector faces severe constraints due to the small setting of the country, its contribution towards the domestic economy is relatively low. Nonetheless, it still provides support for other economic sectors such as tourism, as well as having a positive impact on the environment. Financial assistance and incentive schemes are provided to the agriculture sub-sector through the Special Market Programme for Maltese Agriculture. During the first two quarters of this year, this sector's contribution towards the total economy was 2.2 per cent of Gross Value Added.

The shipyard sector has been undergoing a restructuring process in recent years, with the aim of becoming viable by the year 2008. Whilst Malta Shipyards Limited registered an increase in turnover to Lm15.5 million during the first seven months of 2007, losses remained significant, albeit lower than targeted for the same period.

Services Activities

Services activities are becoming increasingly important in the Maltese economy. Within the services sector, tourism remains a major employer and source of foreign exchange earnings. During January-August 2007, tourist departures rose by 7.6 per cent over the corresponding 2006 period, to 825,874 visitors.

Gross foreign exchange earnings from tourism increased by 7.1 per cent during the first half of 2007, to Lm108.7 million and per capita earnings recorded a marginal increase of 0.7 per cent to Lm216.7. Similarly, earnings per nights spent increased from Lm23.5 to Lm26.1 during the same period in 2007. Meanwhile, full-time employment in hotels and restaurants recorded a decline of 3.5 per cent between June 2006 and June 2007, reflecting the closure of two hotels. On the other hand, the positive performance achieved by the cruise liner industry over the recent years continued to be consolidated during the first eight months of 2007, with cruise passenger arrivals reaching 295,220, an increase of 26.6 per cent over the same period of 2006.

The Malta Financial Services Authority (MFSA) is the single regulator and supervisory authority for the financial services sector in Malta. The MFSA also manages the Registry of Companies and has the responsibility of the Listing Authority.

The role of the Malta Enterprise (ME) is to attract inward investment and support enterprises in Malta. It provides pre-investment advice and support, start-up assistance as well as post investment services and aftercare facilities. Malta Enterprise also offers trade promotion services aimed at introducing foreign companies to suitable manufacturers, service providers, suppliers and potential strategic partners in Malta.

Prices and Income

Malta's inflation rate, as measured by percentage changes in the 12-month moving average for the Retail Price Index (RPI), followed a relatively steep downward path since October 2006, falling to a low rate of 0.81 per cent in September 2007. The Clothing and Footwear, the Transport and Communications and the Water, Electricity, Gas and Other Fuels sub-indices have contributed to the overall drop of the 12-month moving average inflation rate. On the other hand, positive contributions were mainly attributed to the Food, Housing and Personal Care and Health sub-indices.

When considering the 12-month moving average of the Harmonized Index of Consumer Prices (HICP), the inflation rate also declined significantly, reaching a low of 0.4 per cent in September 2007, from 3.2 per cent recorded last year. Malta's inflation rate has been the lowest amongst the EU Member States in recent months.

The study of average weekly wages derived from collective agreements of 200 companies employing a total workforce of 27,727 employees revealed an overall rate of wage increase of Lm2.11 or 2.0 per cent. The cost of living increase granted for 2007 was of Lm1.75 per week. Moreover, the highest percentage wage rise was registered in the Metal products sub-sector, at 3.9 per cent. Around 57 per cent of all employees in the sample earned an average weekly wage of more than Lm 98.00.

Foreign Trade and Payments

In the first six months of 2007, the current account deficit improved by Lm30.2 million to reach Lm81.2 million. This represents a reduction in the current account imbalance of 3.4 percentage points of GDP, to 7.4 per cent of GDP. The improvement reflects a decline in domestic absorption relative to income gains. Indeed, the improvement in the current account balance was primarily linked to a decline in imports of goods and services equivalent to 8.4 percentage points of GDP. On the other hand, although exports of goods and services increased by Lm20.1 million, its ratio to GDP declined by 3.0 percentage points.

The improvement in the balance on goods and services during the first half of the year was underpinned by an improvement in the goods account following a reduction in imports of Lm51.1 million and higher exports of Lm16.9 million. The deficit in the goods account stood at 15.4 per cent of GDP during the January-June 2007 period.

An analysis of trade statistics suggests that the first seven months of 2007 were characterised by an increase in total exports reflecting higher exports of chemicals (+Lm12.3 million) as well as in printed matter (+Lm6.9 million). Following last year's significant growth, exports of machinery and transport equipment recorded a marginal improvement. These positive developments compensated for the continuous decline in exports of clothing.

Meanwhile, in January-July 2007, a fall in imports was registered. The main contributors to this contraction were industrial supplies and capital goods. Following the notable increase registered in 2006, industrial supplies declined by 3.0 per cent. Capital goods registered a decline of 19.6 per cent, reflecting in part the import of Lm15.0 million in exceptional items registered last year, as well as developments in investment activity. Contrary to the increasing trend in imports of durable goods in the previous four years, in January-July 2007 this category of imports declined slightly by Lm0.8 million. On the other hand, higher imports were registered for food and beverages and other consumer goods. In

the period under review, the fuel imports bill continued on its upward trend, rising by Lm10.9 million.

On a geographical basis, higher exports were registered to Africa and the EU. Furthermore, a decline in imports from the EU, Africa, America and Oceania also occurred. Trade activity with Asia increased considerably with an increase in both exports and imports registered during the period under review.

Despite an increase in tourism earnings of Lm7.1 million and higher net receipts on transport services of Lm5.3 million, net payments on other services deteriorated by Lm22.4 million during the first six months of 2007. Moreover, expenditure by Maltese tourists abroad continued to increase by Lm5.4 million. As a result, the services balance deteriorated by Lm15.2 million, or 2.2 percentage points of GDP to reach 11.4 per cent of GDP.

The imbalance in the income account increased further by Lm5.4 million in the first half of 2007 and stood at Lm38.2 million. This represents an outflow of 3.5 per cent of GDP. The deterioration in the income account was mainly due to higher net income payments from direct investment, reflecting higher profits registered by foreign owned companies. Meanwhile, net interest receipts on portfolio investment improved by Lm25.3 million whilst net income payment on other investments improved by Lm4.2 million.

Net inflows by way of current transfers were Lm17.1 million less in the period under review when compared with the same period in 2006. This reflected lower net transfer receipts by Government and higher net payments on private transfers.

An outflow in the capital and financial account excluding reserve assets was recorded during the period under review. The capital and financial account, inclusive of net errors and omissions but excluding foreign reserves, deteriorated from a net inflow of 12.3 per cent of GDP in the first half of 2006 to a net outflow of 1.2 per cent of GDP in the comparable period of 2007. As a result a loss in reserves equivalent to 8.7 per cent of GDP was registered during the January-June 2007 period.

Financial Developments

During the January-September 2007 period, the structural deficit reached Lm73.3 million, from Lm72.9 million recorded during the same period last year.

This reflected an increase in expenditure outlays which marginally offset the rise in recurrent revenue. Despite these developments, the downward path in the fiscal deficit registered in recent years is expected to be maintained as the current year unfolds.

During the first nine months of 2007, Government recurrent revenue increased by Lm15.8 million to Lm645.7 million, reflecting the rise in tax revenue which more than outweighed the decline recorded in non-tax revenue. Total Government expenditure increased by Lm16.3 million to Lm719.0 million, underpinned by higher recurrent expenditure that outweighed the decline recorded in capital expenditure. Interest on public debt was recorded at the level registered a year earlier and stood at Lm63.0 million. Recurrent expenditure increased by Lm22.6 million to Lm582.7 million. Around 86 per cent of this increase related to higher outlays on Programmes and Initiatives. During the same period, capital expenditure declined by Lm6.5 million to Lm73.3 million. The public sector borrowing requirement for the first nine months of 2007 stood at Lm76.6 million.

During the first eight months of 2007, growth in broad money accelerated, driven by a significant expansion in domestic credit and the slowdown in growth of other counterparts of M3, which more than offset a slower growth in net foreign assets.

The Central Bank of Malta, in order to provide support to the currency against a background of rising interest rates abroad, has tightened its monetary policy stance raising the central intervention rate by 25 basis points in January 2007 and a further 25 basis points to 4.25 per cent in May 2007. Since then, the Central Bank of Malta left the central intervention rate unchanged.

In line with developments in international foreign exchange markets between the Euro and other major currencies, the Maltese Lira appreciated against the US Dollar, the Japanese Yen and the Sterling during the first nine months of 2007. No fluctuations from the central parity rate of the Maltese Lira with the Euro were recorded since entry into ERM II in May 2005. In July 2007, the Council of the EU on Economic and Financial Affairs took the final formal decision allowing Malta to adopt the Euro from 1 January 2008 and irrevocably set the conversion rate for the Maltese lira to the Euro at the central rate of the Maltese Lira within the ERM II, i.e. EUR/MTL 0.4293.

International Scene

After the recovery of world GDP growth in 2006, the world economy is expected to somewhat moderate during the course of 2007. In fact, world GDP growth is expected to decrease by 0.4 percentage points from 5.2 per cent recorded in 2006 to around 4.8 per cent during 2007. Despite this deceleration, world GDP growth is still considered to have remained robust for the fourth consecutive year despite the recent turmoil in the financial markets as well as the elevated oil prices.

Financial markets experienced some unrest during the summer of 2007 which started with the re-pricing of risk in the US sub-prime mortgage market and which, due to securitisation, spread wider. In fact, the initial unrest in the US adversely affected stock markets and increased volatility in foreign-exchange markets. Moreover, lack of confidence in counterparties also had a bearing on money markets which experienced higher money market rates. The intervention of Central Banks to inject liquidity has somewhat helped stabilise the markets; however, risks for the future have been adversely effected. Inter-bank lending rates remain high and the markets exhibit increased risk aversion.

In addition, the price of oil is likely to remain high in the coming months and a possible build up of geopolitical tensions, could prove to be a source of further downside risks to growth in world economies. Furthermore, the more pronounced than previously anticipated slowdown in the US economy could have rippling effects on the rest of the world economies, especially in Europe, serving as catalyst to the unwinding of global financial imbalances. In fact, in certain Euro Area Member States, housing investment could slow down even further.

The analysis in this section is based on the relevant macroeconomic indicators as published in the European Commission Spring Economic Forecast updated, where possible, by the Interim Forecast published in September 2007. The relevant indicators are displayed in Tables 1.1 to 1.5 and Charts 1.1 and 1.2.

The easing in world GDP growth is mostly attributed to the slowing down of the US economy. However, the growth sustained by other important economies, most notably in Asia, has helped limit the moderation in world GDP growth. GDP growth in the US is expected to remain below trend during 2007 and reach a level of around 2.2 per cent compared to a level of 3.3 per cent during 2006. The corrections to the US housing sector were also further reinforced by the adverse developments in the financial markets. In fact, if the

World GDP, Volume
annual percentage change

Table 1.1

	2004	2005	2006	2007*
World	5.3	4.8	5.2	4.8
Industrialised Countries	3.2	2.5	3.1	2.6
EU 27	2.5	1.7	3.0	2.8
Euro Area	2.0	1.4	2.8	2.5
Germany	1.2	0.9	2.9	2.4
France	2.3	1.2	2.0	1.9
Italy	1.2	0.1	1.9	1.9
United Kingdom	3.3	1.9	2.8	2.9
United States	3.9	3.2	3.3	2.2
Japan	2.7	1.9	2.2	2.3
Canada	3.3	2.9	2.8	2.4
Others	7.6	7.4	7.7	7.3
Russia	7.2	6.4	6.7	6.8
China	10.1	10.2	10.7	10.5

*Projections

Source: European Commission

Inflation: Harmonised Index of Consumer Prices*

percentage change on preceeding year

Table 1.2

	2004	2005	2006	2007**
EU 27	2.3	2.3	2.3	2.2
Euro Area	2.1	2.2	2.2	2.0
Germany	1.8	1.9	1.8	2.1
France	2.3	1.9	1.9	1.4
Italy	2.3	2.2	2.2	1.9
United Kingdom	1.3	2.1	2.3	2.4
United States	2.7	3.4	3.2	2.3
Japan	0.0	-0.3	0.2	0.0

*National index if not available

**Projections

Source: European Commission

Unemployment Rate*

per cent of labour force

Table 1.3

	2004	2005	2006	2007**
EU 27	9.0	8.7	7.9	7.2
Euro Area	8.8	8.6	7.9	7.3
Germany	9.5	9.5	8.4	7.3
France	9.6	9.7	9.4	8.9
Italy	8.0	7.7	6.8	6.6
United Kingdom	4.7	4.8	5.3	5.0
USA	5.5	5.1	4.6	4.7
Japan	4.7	4.4	4.1	4.1

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

Source: European Commission

Exports of Goods, Volume

percentage change on preceeding year

Table 1.4

	2004	2005	2006	2007*
EU 27	7.2	5.3	9.2	7.0
Euro Area	6.9	4.2	8.2	6.7
Germany	9.6	6.9	12.5	8.7
France	3.9	3.1	6.0	5.5
Italy	3.3	-0.5	5.3	4.9
United Kingdom	4.9	7.9	11.6	5.8
USA	9.2	6.8	9.0	7.0
Japan	13.9	7.0	9.5	7.3

*Projections

Source: European Commission

Imports of Goods, Volume
percentage change on preceeding year

Table 1.5

	2004	2005	2006	2007*
EU 27	7.4	5.8	9.1	7.2
Euro Area	6.7	5.2	7.7	6.7
Germany	6.9	6.5	11.1	8.5
France	6.6	6.1	6.7	6.0
Italy	2.7	0.5	4.3	4.6
United Kingdom	6.6	7.0	11.8	5.7
USA	10.8	6.1	5.8	3.2
Japan	8.1	5.8	4.5	7.3

*Projections

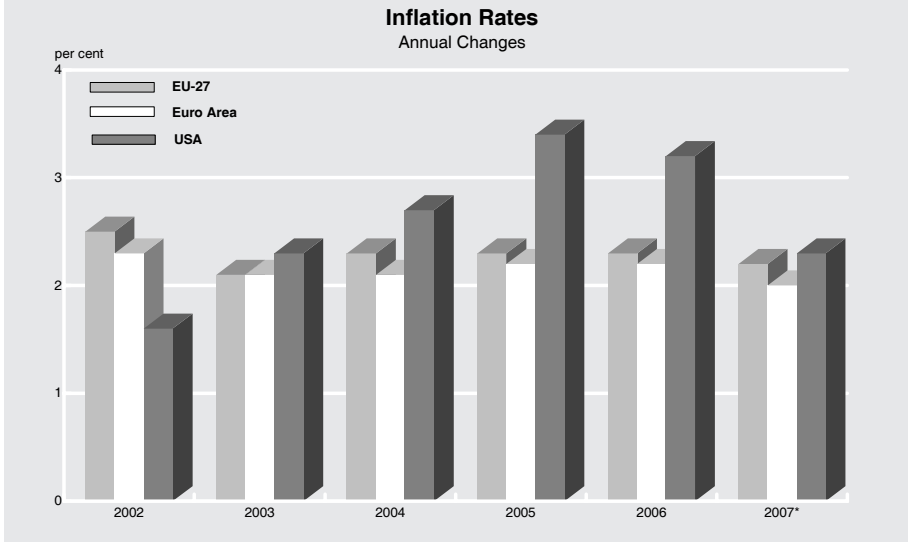
Source: European Commission

developments in financial markets continue to deteriorate, the US housing market could slow down even further leading to a more pronounced deceleration of the US economy. However, in light of future projections for the performance of the US economy, the extent of the downturn in the US housing market remains questionable. On the other hand, the European Commission's Spring Economic Forecast, expect GDP growth in the Chinese economy to reach around 10.5 per cent during 2007, mainly due to tightening measures introduced by the Chinese administration, and decreasing only mildly by 0.2 percentage points from the previous year. The Interim Forecast, however, suggests a better than expected performance for China during 2007, thanks to positive performance in investment and exports.

Economic performance in the EU and Euro Area remained buoyant throughout 2006, reaching 3.0 and 2.8 per cent in both areas respectively; the highest level recorded since 2000. Both regions are expected to decelerate mildly during 2007, mainly due to a weaker than expected data for the second quarter of the year. Nevertheless, at 2.8 and 2.5 per cent for the EU and Euro Area respectively, economic growth during 2007 is expected to remain relatively optimistic as both regions started the year on a positive note. In both cases, GDP growth is expected to be mainly driven by investment. The somewhat lower growth which is expected in the Euro Area in relation to the EU is attributable to relatively lower performance in some Member States, most notably, France, Italy and the Netherlands.

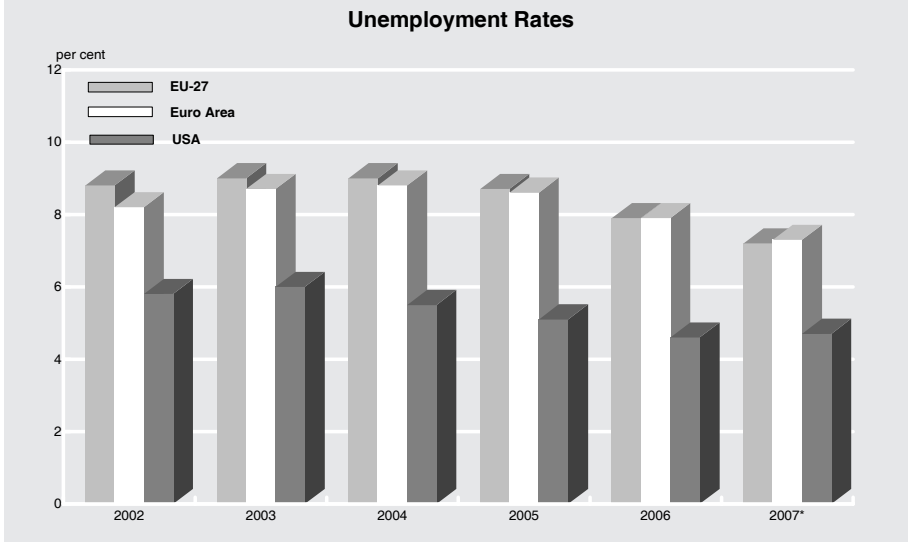
While annual GDP growth remained robust in Japan during 2006, the Japanese economy also started 2007 on a positive note and real GDP growth is forecasted

Chart 1.1



*Projections

Chart 1.2



*Projections

at 2.3 per cent for 2007. In fact, private consumption is forecasted to reaccelerate during 2007, driving into 2008 also thanks to a favourable labour market situation.

Outlook for Industrialised Economies

The EU and Euro Area started 2007 on a positive note. Growth in the first quarter of 2007 was carried on by investment, also reflecting high capacity utilisation, buoyant company profits and still favourable financing conditions. The second quarter of 2007 was, however, underpinned by lower GDP growth. Despite a stronger than expected performance during the first quarter of 2007, GDP growth was somewhat revised downwards for the rest of the year for both areas following the weaker than anticipated data in the second quarter. HICP inflation in the EU and Euro Area for the year 2007 has been revised slightly upwards in the Interim Forecast compared to the Spring Forecast and is expected to reach a rate of 2.2 and 2.0 per cent respectively. Unemployment projections for 2007 show a decrease in unemployment in both the EU and Euro Area. In fact, the unemployment rate is expected to reach 7.2 and 7.3 per cent for both areas respectively. The labour market has continued to improve during the first half of 2007 over the previous year.

The German economy was recently affected by temporary factors such as the anticipation effects of the VAT increase in early 2007 as well as a demand shortfall in the first half of 2007. Nonetheless, GDP growth in Germany is expected to remain buoyant during 2007 at 2.4 per cent, following a growth rate of 2.9 per cent registered in 2006. The contraction in private consumption expenditure during the first quarter of 2007 was partly countered by growth contributions from inventories as well as from a boost in the construction industry thanks to warmer weather conditions. Growth in the second quarter of 2007 was aided by a recovery in private consumption as well as increased investment in machinery and equipment. HICP inflation is expected to reach 2.1 per cent during 2007 representing an increase of 0.3 percentage points over the previous year. The increase in inflation was mainly attributable to the effects of the VAT hike, the introduction of university tuition fees and higher food prices. Unemployment has also decreased and in 2007 the unemployment rate is expected to be around 7.3 per cent, marking a decrease of 1.1 percentage points over the previous year.

GDP growth in France is expected to moderate slightly from 2006 to reach 1.9 per cent during 2007. According to the European Commission's Interim Forecast, the French economy has, in fact, lost momentum during the second quarter of

2007 when compared to the Spring Forecast. This was mainly due to the revision of the quarterly GDP data for 2006 as well as an unexpected stagnation of business during the second quarter of 2007. Overall, on the other hand, personal disposable income has been supported by recent tax cuts which could further boost households' confidence. Inflation in France is expected at 1.4 per cent for 2007, decreasing by 0.5 percentage points from the previous year. Unemployment is also expected to decrease to 8.9 per cent during 2007, from a level of 9.4 per cent recorded during 2006.

Economic growth in Italy for 2007 is expected to remain unchanged from the previous year at 1.9 per cent. After the acceleration in growth registered during 2006, the Italian economy slowed down during the beginning of 2007. Business confidence indicators for the services and manufacturing industries for the second half of the year are, however, more optimistic. Despite the slowdown in employment growth, private consumption was the main driver of GDP growth during the beginning of 2007 and growth in VAT receipts for the month of August suggest that domestic demand will continue to be the main contributor to growth throughout the rest of the year. HICP inflation in Italy is expected to decrease from 2.2 per cent in 2006 to an expected 1.9 per cent for 2007. This decrease in inflation is mostly due to a lower contribution of energy prices to annual inflation as well as to lower prices in the telecommunications sector ensuing from liberalisation measures. The unemployment rate in Italy is also expected to decrease marginally from 6.8 per cent during 2006 to 6.6 per cent in 2007.

GDP growth in the UK is expected to edge up slightly to 2.9 per cent in 2007. The first two quarters of 2007 were underpinned by buoyant economic activity which was stronger than was previously expected. Domestic demand was the main contributor to growth during both quarters. Net exports, on the other hand, had a mild negative effect on growth in the second quarter of 2007. The drop in fixed investment during the second quarter was also countered by the positive contribution of inventories. Economic growth is expected to moderate during the second half of the year as an effect of past monetary tightening effecting household consumption and business investment during the coming months. Inflation in the UK is expected to increase by 0.1 of a percentage point during 2007 to 2.4 per cent. Even though HICP inflation fell sharply during the first half of 2007, the rate of inflation is expected to increase again due to higher expected food prices after the recent floods. Coupling these effects, oil prices are expected to exert greater pressure on petrol prices later on during the year. The unemployment rate is expected to reach 5.0 per cent, thus signifying a reduction in unemployment by 0.3 percentage points from 2006.

According to the European Commission's Spring Forecast, real GDP growth in the US should average around 2.2 per cent during 2007, thus representing a significant decrease of 1.1 percentage points from a rate of 3.3 per cent recorded during the previous year. Nonetheless, the Commission's Interim Forecast reveals that leading indicators in the US point towards a deeper correction in the housing market than anticipated earlier and which was also further reinforced by the negative developments in the financial markets. Residential investment in the second half of 2007 is also expected to decrease. Notwithstanding these developments, starting from next year, GDP growth is expected to return to its long term trend as the slowdown in the economy is expected to be relatively short lived. The outlook for inflation in the US points towards a decrease of 0.9 percentage points in inflation for 2007 from the previous year, reaching a level of 2.3 per cent. Unemployment, on the other hand, is expected to increase marginally to 4.7 per cent.

According to the European Commission's Spring Forecast, China's GDP growth should reach 10.5 per cent during 2007. The Interim Forecast, however, reveals that China has performed better than expected and in fact, GDP growth is now expected to average over 11.0 per cent during 2007 as a whole, thus representing an increase of around 0.5 percentage points from the previous forecast and around 0.3 percentage points higher than the growth registered during 2006. The better than expected performance of the Chinese economy is attributable to increased fixed investment and exports.

During 2007, growth in both the Russian and Japanese economies is expected to be around 0.1 percentage point higher than the previous year's performance. Real GDP growth in Russia and Japan is thus expected to be 6.8 and 2.3 per cent, respectively. Following its resilience in 2006, Japan's economic expansion is set to continue in 2007 thanks to favourable conditions in the labour market combined with a positive corporate sector environment, decreasing tax burdens on households in the financial year of 2007 as well as firm demand in Asia. Japan is expected to have an average rate of zero inflation during 2007, from 0.2 per cent in the previous year. The unemployment rate during 2007 is expected to remain unchanged at 4.1 per cent.

Commodity Markets

Oil prices have been varying widely during the past months. The price of oil increased substantially during mid-2006, but eased on later during the year to little over \$50 a barrel. The decline in crude oil prices during this period was mainly attributable to the end of the Lebanon conflict. Since the beginning of

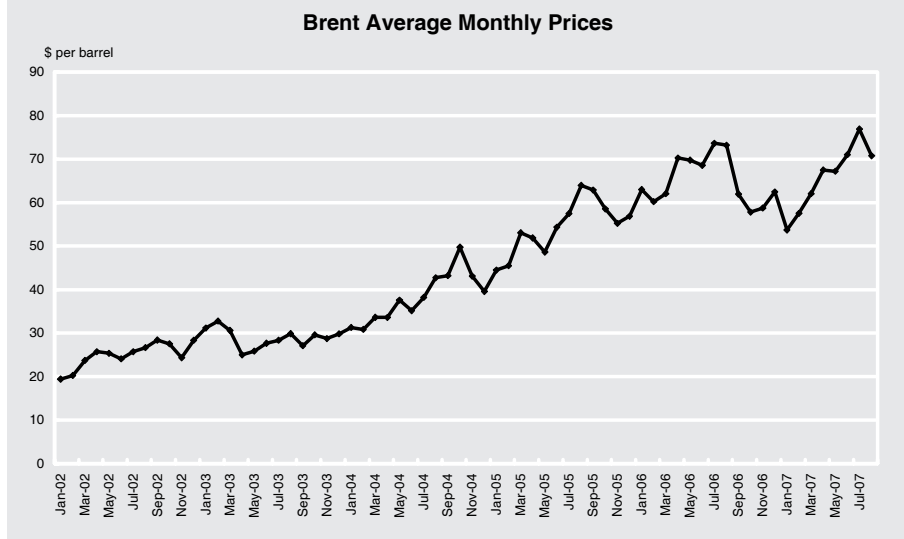
2007, however, the price of oil has continued to increase, reaching a monthly average of around \$76 a barrel during July. Upward revisions in future growth in demand for oil have, in fact, caused oil prices to start rising again as of February of this year. Colder weather in the US, together with supply cuts by OPEC and rising concerns about Iran's nuclear programme and troubles in the Nigeria river delta region have contributed to increasing oil prices. The global economic outlook has also helped to boost future growth in demand for oil and consequently prices of crude oil. Chart 1.3 displays Brent average monthly oil prices between January 2002 and August 2007.

The acceleration of global demand for oil, coupled with a slow growth of supply suggests that the oil market will remain tight. Oil demand is expected to grow by 1.7 per cent during this year according to the International Energy Agency and by around 2.4 per cent during 2008. As a result, oil prices are expected to remain relatively high over the period 2007 to 2008. While futures market contracts indicate prices ranging around \$80 per barrel over the short term, the annual average Brent crude oil price is estimated at around \$66 for 2007 and \$70 during 2008.

According to the IMF April 2007 World Economic Outlook, the IMF non-fuel commodity index rose by 28.0 per cent in 2006, being a new record high. This development was underpinned by a rise in the prices of metals as well as a strengthening of agricultural prices. In fact, food prices rose by 10.0 per cent during 2006. Moreover, according to the US Department of Labor, the producer price index for cereal and bakery products has increased by around 6.9 per cent during August 2007 when compared to August 2006. Looking ahead, the rising demand for bio-fuels will also likely cause cereal prices to increase further as more pressure is put on the production of corn. Increases in the prices of metals are also expected further on during the year. The IMF non-fuel commodity index is, therefore, forecasted to continue increasing in the rest of 2007.

In 2006, global semiconductor sales revenue grew by 8.9 per cent, thus representing a 2.1 percentage point increase from the growth in sales revenue registered in the previous year. This increase was mainly attributable to growth in demand for consumer electronics, most notably, cellular phones. Increased sales were also recorded in the memory segment which more than offset a decline in revenues from microprocessors. Microprocessors were in fact subject to fierce competition coupled with low demand which drove prices lower. Capital spending by semiconductor producers increased by 19.0 per cent in 2006 mostly

Chart 1.3



underpinned by memory manufacturing in Asia. Semiconductor sales revenue is expected to grow by around 10 per cent in 2007.

Future Economic Prospects

As portrayed in Table 1.6, real GDP growth in the EU is expected to reach 2.7 per cent during 2008, which is only marginally lower than the 2.8 per cent expected for 2007. Against the background of the recent unrest in the financial markets, the positive outlook from the European Commission’s Spring Forecast has been largely maintained in the Interim Forecasts with the outlook for the largest economies in the EU remaining buoyant. Moreover, even though survey data weakened, these indicators still remained at relatively high levels and the positive developments in the labour markets should also underpin private consumption expenditure. HICP inflation in the EU has been revised upwards in the Interim Forecast and is expected to reach around 2.1 per cent during 2008. Employment growth should continue throughout 2007 following output growth. Moreover, the unemployment rate is expected to decrease to 6.7 per cent in 2008, signifying a 0.5 percentage point decrease from that expected for the current year.

GDP growth in the US is expected to return to its long-term trend at 2.7 per cent in 2008 following an expected growth rate of 2.2 per cent for 2007. The expected pick-up in the US economy is underpinned by an assumed relatively short-lived slowdown. However, a longer lasting correction in the housing market

Projections

Table 1.6

	2006	2007*	2008*
Real GDP (% change)			
EU 27	3.0	2.8	2.7
United States	3.3	2.2	2.7
Japan	2.2	2.3	2.1
Inflation (% change)			
EU 27	2.3	2.2	2.1
United States	3.2	2.3	1.9
Japan	0.2	0.0	0.4
Unemployment Rate (% of labour force)			
EU 27	7.9	7.2	6.7
United States	4.6	4.7	5.0
Japan	4.1	4.1	4.2

*Projections

Source: European Commission

cannot be excluded. Inflation in the US is forecasted to reach 1.9 per cent in 2008, representing a decrease of 0.4 percentage points from the estimate for 2007. Unemployment is also estimated to increase by 0.3 percentage points over the course of 2008 to 5.0 per cent.

Projections for the Japanese economy point towards a mild slowdown, albeit still robust performance for 2008. The rate of growth of GDP is expected to decrease by 0.2 percentage points from a forecast of 2.3 per cent for 2007 to 2.1 per cent in 2008. Inflation in Japan is expected to increase from a negligible rate in 2007 to a level of 0.4 per cent during 2008. Unemployment is also set to increase marginally to 4.2 per cent in 2008 from 4.1 per cent during the current year.

Whilst risks in the Commissions Forecasts are broadly balanced for 2007, the recent turmoil in the financial markets may have a more negative effect on the global economy in 2008. The deterioration in the US housing market may, in fact, have a greater bearing on the US slowdown than previously anticipated thus also weighing negatively on world growth, in particular Europe. Persistent distress in the financial markets may also lead to increased tightening of financing conditions. A worsening of households and companies balance sheets could also ensue, thus adversely effecting consumer and investor confidence. Due to these considerations, the risks identified for 2008 are tilted to the downside.

2. Economic Growth

2. Economic Growth

The recovery in the performance of the Maltese economy was sustained during the first half of 2007, with the pace of economic growth increasing from the rate recorded in the previous two years. During the period January-June of 2007 the economy grew by 3.6 per cent in real terms compared to 3.2 per cent in the corresponding 2006 period. In nominal terms, Gross Domestic Product (GDP) advanced by 6.1 per cent. In the first quarter of 2007 real GDP growth was 3.5 per cent, whilst in the second quarter it stood at 3.7 per cent.

Data presented in this Chapter is based on the latest available national accounts data which is compiled according to the European System of Accounts (ESA95) methodology. This internationally compatible accounting framework enables a systematic and detailed description of the economy and its core components,

	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure ⁽¹⁾	1,277.1	1,340.0	1,390.7	653.4	673.3
General Government Final					
Consumption Expenditure	401.2	408.9	432.0	208.4	213.6
Gross Fixed Capital Formation	371.3	395.7	418.6	212.1	199.7
Changes in Inventories	-55.0	1.3	-6.4	48.2	45.4
Acquisitions less Disposals of Valuables	-1.8	-1.9	6.0	3.0	3.0
Exports of Goods and Services	1,525.2	1,586.8	1,890.1	870.3	890.4
Total Final Expenditure	3,518.1	3,730.8	4,131.0	1,995.4	2,025.5
Less Imports of Goods and Services	1,599.8	1,696.0	1,973.6	966.5	933.9
Gross Domestic Product	1,918.2	2,034.8	2,157.4	1,028.9	1,091.6
At Constant 2000 Prices					
Private Final Consumption Expenditure ⁽¹⁾	1,187.0	1,214.5	1,230.8	577.0	598.7
General Government Final					
Consumption Expenditure	342.2	343.1	356.0	171.4	173.0
Gross Fixed Capital Formation	339.9	356.5	364.5	184.4	173.3
Changes in Inventories	-49.8	1.2	-5.8	42.6	40.3
Acquisitions less Disposals of Valuables	-1.6	-1.7	5.4	2.7	2.7
Exports of Goods and Services	1,658.3	1,638.0	1,801.6	847.1	807.0
Total Final Expenditure	3,476.0	3,551.6	3,752.4	1,825.3	1,795.0
Less Imports of Goods and Services	1,757.9	1,781.0	1,926.0	948.9	887.2
Gross Domestic Product	1,718.1	1,770.6	1,826.4	876.4	907.8

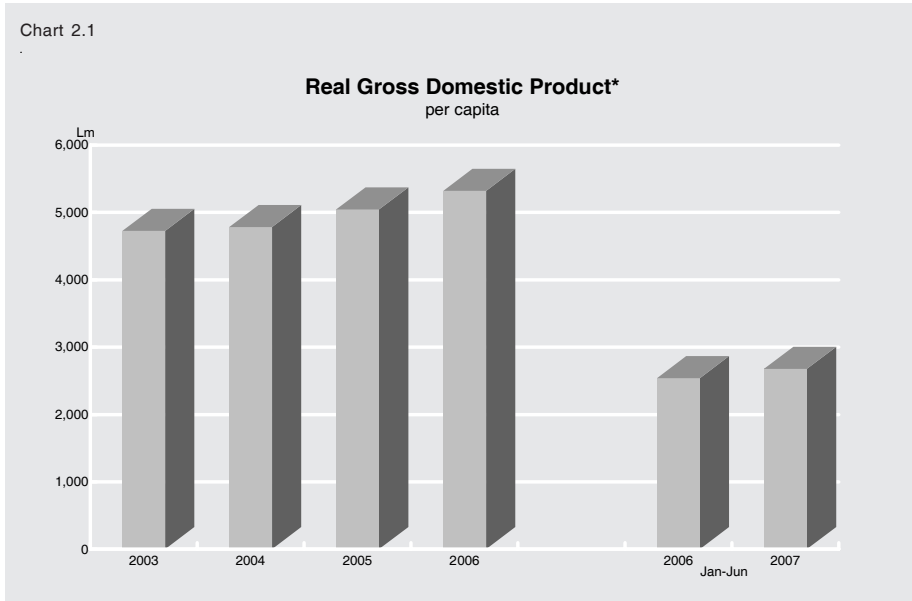
⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

whilst facilitating the comparison of such analysis. 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. A reconciliation of the production side with estimates of expenditures on output produced is then carried out.

National Expenditure

GDP in nominal terms increased by 6.1 per cent to reach Lm1,091.6 million in the first two quarters of 2007. At constant prices, GDP increased by 3.6 per cent reaching Lm907.8 million. Real growth registered in the Maltese economy in 2006, and in the first half of 2007 emanated from positive contributions in both the domestic and external sectors. Real GDP per capita increased to Lm2,678 from the level of Lm2,541 registered in the comparable period in 2006, as shown in Chart 2.1. Table 2.1 outlines GDP data by category of expenditure at current and constant market prices, whilst Table 2.2 gives the relevant percentage changes registered by different categories.



*Based on total population

GDP by Category of Expenditure

Percentage Changes

Table 2.2

	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure ⁽¹⁾	4.9	4.9	3.8	2.6	3.0
General Government Final Consumption Expenditure	3.6	1.9	5.7	3.9	2.5
Gross Fixed Capital Formation	0.4	6.6	5.8	8.5	-5.8
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	0.2	4.0	19.1	18.6	2.3
Total Final Expenditure	2.3	6.0	10.7	12.5	1.5
Less Imports of Goods and Services	2.9	6.0	16.4	20.4	-3.4
Gross Domestic Product	1.8	6.1	6.0	6.0	6.1
At Constant 2000 Prices					
Private Final Consumption Expenditure ⁽¹⁾	2.5	2.3	1.3	-0.6	3.8
General Government Final Consumption Expenditure	0.6	0.3	3.8	1.3	0.9
Gross Fixed Capital Formation	-0.6	4.9	2.2	4.7	-6.0
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	2.0	-1.2	10.0	9.7	-4.7
Total Final Expenditure	1.9	2.2	5.7	7.2	-1.7
Less Imports of Goods and Services	3.7	1.3	8.1	11.0	-6.5
Gross Domestic Product	0.1	3.1	3.2	3.2	3.6

⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

Private Final Consumption Expenditure

This category of expenditure consists of household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption expenditure. The latter incorporates expenditure by non-profit organisations such as trade unions, band clubs and charities. In nominal terms, private consumption increased by 3.0 per cent whilst in real terms consumption increased by 3.8 per cent in the first two quarters of 2007. The pace of growth in private consumption in real terms was considerably higher in the period under review when compared to the corresponding period in 2006. This largely reflects a decline in the private consumption deflator. In the period under review, the proportion of private consumption in real GDP remained stable at 65.9 per cent.

Most sub-components of private consumption registered an increase in expenditure in nominal terms when compared to the previous period. The highest increases in relative terms occurred in the restaurants and hotels, miscellaneous goods and services and the communications categories. On the other hand, minor decreases were registered in the clothing and footwear, and alcoholic beverages and tobacco sub-sector.

The private consumption variable incorporates expenditure by Maltese tourists abroad, which during the period under review exhibited a notable increase. In the same period, the expenditure by tourists in Malta increased also. It is noteworthy to mention that the latter category is deducted from the computation of private final consumption expenditure, in order to avoid double counting in view of the fact that the latter is included also as a category of expenditure in exports of goods and services.

Table 2.3 outlines data on Gross National Income in per capita terms (GNI), private final consumption expenditure and expenditure by tourists in nominal terms. During the period under review GNI per capita grew by 5.2 per cent whilst private final consumption expenditure per capita increased by 2.4 per cent. Moreover, in the first six months of 2007, per capita tourist expenditure increased by 0.7 per cent.

GNI, Private Final Consumption Expenditure and Expenditure by Tourists

(at current market prices)

Table 2.3

	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
Per Capita (Lm)					
GNI*	4,727	4,814	5,160	2,451	2,577
Private Final Consumption Expenditure*	3,059	3,322	3,429	1,614	1,652
Expenditure by Tourists	230.3	224.1	231.8	215.2	216.7
Per Capita (% change)					
GNI*	0.5	1.8	7.2	6.3	5.2
Private Final Consumption Expenditure*	0.1	8.6	3.2	2.0	2.4
Expenditure by Tourists	-5.4	-2.7	3.4	2.8	0.7

*Based on total population

Source: National Statistics Office

General Government Final Consumption Expenditure

In the first two quarters of 2007, general Government expenditure at market prices increased by 2.5 per cent, whilst in real terms, Government expenditure advanced by 0.9 per cent. The major increases were recorded in the health and education sub-categories, although nominal increases were registered in all sub-components of expenditure.

As a ratio of GDP, general Government final consumption expenditure decreased by 0.7 percentage points to 19.6 per cent of GDP, in line with Government's fiscal consolidation objective. 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 constitute a redistribution of funds between different sectors of the economy.

Gross Capital Formation

Within the ESA95 methodology, Gross Capital Formation consists of gross fixed capital expenditure, changes in inventories and acquisitions less disposals of valuables. In the first half of 2007, gross fixed capital formation decreased by 5.8 per cent in nominal terms, whilst in real terms a decline of 6.0 per cent was recorded. The share of changes in inventories and the acquisitions less disposals of assets in GDP declined from 4.7 per cent in the first half of 2006 to 4.2 per

Gross Fixed Capital Formation

Table 2.4

	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
At Current Market Prices					
Gross Fixed Capital Formation (Lm million)	371.3	395.7	418.6	212.1	199.7
% change	0.4	6.6	5.8	8.5	-5.8
GDP (Lm million)	1,918.2	2,034.8	2,157.4	1,028.9	1,091.6
(GFCF/GDP) %	19.4	19.4	19.4	20.6	18.3
At Constant 2000 Prices					
Gross Fixed Capital Formation (Lm million)	339.9	356.5	364.5	184.4	173.3
% change	-0.6	4.9	2.2	4.7	-6.0
GDP (Lm million)	1,718.1	1,770.6	1,826.4	876.4	907.8
(GFCF/GDP) %	19.8	20.1	20.0	21.0	19.1

Source: National Statistics Office

cent in the period under review. Data on gross fixed capital formation in nominal and real terms is presented in Table 2.4.

The ratio of investment to real GDP stood at 19.1 per cent during the January-June 2007 period, being slightly lower than that registered in the previous years. The decline in investment was largely triggered by a decline of 12.4 per cent in private investment which was not entirely offset by an increase of 26.1 per cent in Government investment. In the first six months of 2007, construction investment increased by 2.3 per cent whilst the machinery and transport category declined by 19.4 per cent. It is pertinent to point out that the data for the first six months of 2006 included major exceptional import items, of a capital nature.

Foreign Demand and Supply

In today's globalised world, the economic performance of any country is highly dependant on the external sector dynamics. This applies to a greater degree in a small and open economy like Malta which is inherently dependent on trade for its economic prospects. Over the past years, a number of negative shocks emanating from the external sector have been experienced, including the continued upward spiral in the price of oil, and more recently cereals, increased international competitive pressures following the globalisation phenomenon and considerable volatility in the market price of a major export category.

After a strong growth of 18.6 per cent in exports of goods and services during the January-June 2006 period, exports increased by 2.3 per cent in nominal terms during the first six months of 2007. It is pertinent to point out that balance of payments statistics suggest that both the export of goods and services increased, with exports of goods increasing by 3.7 per cent whilst exports of services increased by 0.8 per cent. In respect of the services category, the major increases were registered in financial services and tourism earnings. On the other hand, within the goods category the major increases were registered within the printed matter and the pharmaceutical products categories. In real terms exports of goods and services contracted by 4.7 per cent, reflecting upward movements in price dynamics.

Nominal imports of goods and services declined by 3.4 per cent in the first two quarters of 2007. This corresponds to a drop of 6.5 per cent in real terms. The decrease in imports was caused by a considerable lower level of goods imported which more than offset the increase registered in importation of services. Within the goods category, the machinery and transport equipment and the miscellaneous manufactured articles categories exhibited the largest declines, with the former

reflecting exceptional import items in 2006. These declines were partially offset by higher payments made in respect of financial services, transport services and higher payments by Maltese tourists abroad.

The increase recorded in exports of goods and services and the decline in the imports of goods and services triggered a considerable improvement in the current account deficit during the first six months of 2007, such that it declined to Lm81.2 million from Lm111.4 million during the comparable 2006 period.

Sectoral Contribution to Gross Value Added

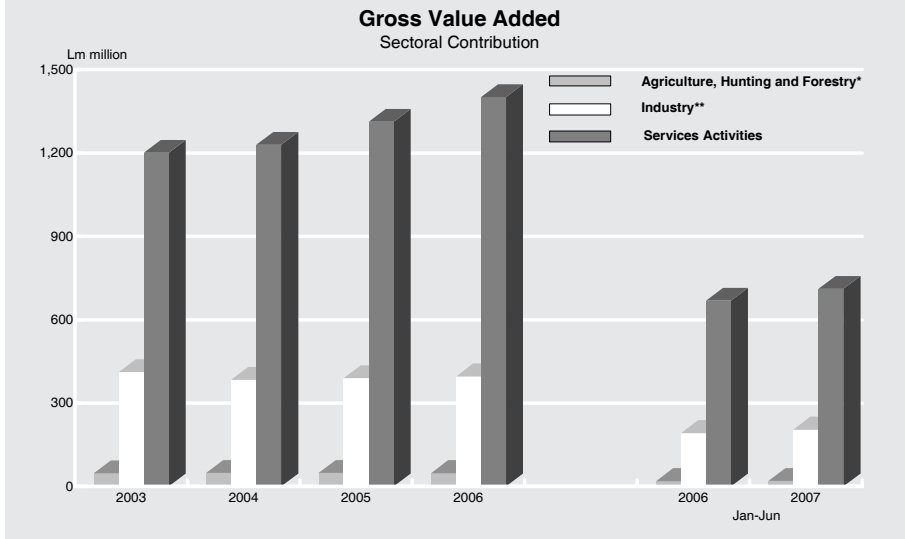
Gross Value Added (GVA) is defined as the value generated by any unit engaged in a production activity and is obtained as the excess output over intermediate consumption. Intermediate consumption consists of the value of the goods and services consumed as inputs in the process of production, excluding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

In the first half of 2007, GVA at basic prices increased by 6.4 per cent and stood at Lm937.0 million. This growth in GVA was mainly attributable to the real estate, renting and business activities sector and to a lesser extent to the other community, social and personal services activities and financial intermediation sectors. Other significant increases were registered in the construction, manufacturing, public administration and defence services sectors as well as in the transport, storage and communication sector. The only declines which were registered were minimal and were evidenced in the fishing and mining and quarrying sectors.

Chart 2.2 depicts the sectoral contribution of agriculture, hunting and forestry, industry and services activities to GVA at basic prices. As is indicated in the Chart, the Maltese is becoming more services-oriented. Over the period 2003-2006, the share of agriculture, hunting and forestry including fishing dropped marginally and stood at 2.6 per cent. On the other hand, there was a redistribution between the industry and services activities as the share of the former dropped by 3.4 per cent.

There were no significant changes in the sectoral contribution to GVA during the period under review. The share of agriculture, hunting and forestry, which also includes fishing, remained the same as was recorded in the same period of

Chart 2.2



*Includes fishing and operation of fish hatcheries and fish farms

**Includes energy and construction

2006 and stood at 2.2 per cent. Also, in the period January-June 2007, the shares of industry and service activities also were unchanged from the same period in 2006. The share of industry stood at 21.9 per cent while the services sector generated the highest GVA, as its share stood at 76 per cent.

Table 2.5 presents the sectoral contribution to GVA at basic prices for the period 2004-2007. In the first half of 2007, GVA at basic prices in agriculture, hunting and forestry, fishing and operation of fish hatcheries and fish farms increased by Lm1.2 million, to Lm20.4 million. This rise was attributable to an increase in GVA of agriculture, hunting and forestry by Lm1.3 million which was slightly offset by a drop of Lm0.1 million in fishing activities. Meanwhile, GVA at basic prices in the industry category rose by Lm12.5 million or by 6.5 per cent, to Lm205.2 million. Indeed, there were improvements in all segments of the industry with the exception of a marginal decrease in the GVA for mining and quarrying sector. Substantial increases were recorded in the construction and manufacturing sectors.

In January-June 2007, gross value added generated in the services category improved further as it increased by Lm42.9 million or 6.4 per cent and reached Lm711.4 million. All sectors classified under this category have recorded increases in the GVA at basic prices. Major increases were registered in real

Sectoral Contribution to Gross Value Added

(at basic prices)

Table 2.5 Lm million

	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
Agriculture, Hunting and Forestry	37.4	37.6	35.2	17.1	18.4
Fishing	11.0	11.0	13.0	2.1	2.0
Mining and Quarrying	5.4	5.8	5.9	3.0	2.9
Manufacturing	288.7	299.3	300.3	146.5	151.4
Electricity, Gas and Water Supply	22.9	15.6	18.4	8.0	10.2
Construction	66.9	69.0	71.6	35.2	40.7
Wholesale and Retail Trade ⁽¹⁾	215.3	230.2	225.3	111.5	112.9
Hotels and Restaurants	104.8	103.8	100.5	40.7	41.8
Transport, Storage and Communication	165.5	172.0	175.3	82.0	86.6
Financial Intermediation	66.4	85.9	93.4	44.0	50.3
Real Estate, Renting and Business Activities	257.0	271.0	304.5	147.9	161.8
Public Administration and Defence ⁽²⁾	125.4	125.6	125.5	62.7	67.4
Education	106.9	110.4	112.6	55.3	56.9
Health and Social Work	100.3	105.0	111.1	55.3	57.8
Other Community, Social and Personal Service Activities ⁽³⁾	85.1	106.1	150.6	67.7	74.4
Private Households with Employed Persons	2.8	2.9	3.0	1.5	1.5
Gross Value Added	1,662.0	1,751.1	1,846.1	880.4	937.0

⁽¹⁾Includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods

⁽²⁾Includes Compulsory Social Security

Source: National Statistics Office

estate, renting and business activities, other community, social and personal service activities (which includes the remote gaming activities) and financial intermediation sectors. Other significant increases were also registered in the transport, storage and communication and in public administration and defence sectors.

During the first six months of 2007, GVA at basic prices in agriculture, hunting and forestry increased by Lm1.3 million to Lm18.4 million. This reflects a rise in output combined with a decline in intermediate consumption. The share of agriculture, hunting and forestry in total GVA stood at the same level recorded in the same period of 2006, that is, at 2 per cent.

The manufacturing sector recorded a rise in GVA at basic prices of Lm4.9 million or 3.3 per cent and reached Lm151.4 million, in the period under review. This improvement was underpinned by a rise in output of Lm12.3 million which was only partly offset by a rise in intermediate consumption. The main improvements in GVA at basic prices occurred in the manufacture of chemicals and chemical products (Lm2.7 million), manufacture of electrical machinery and apparatus (Lm1.9 million), publishing and printing (Lm1.2 million) and manufacture of other transport equipment (Lm1.1 million). On the other hand, drops were mainly registered in the GVA of the manufacture of food and beverages (Lm1.0 million), the manufacture of medical, precision and optical instruments (Lm0.5 million), the manufacture of wearing apparel and clothing (Lm0.5 million) and the manufacture of textiles and textile products (Lm0.4 million). Meanwhile, the manufacture of radio, television and communication maintained its level of GVA recorded in the previous January-June 2006. During the period under review, the share of the manufacturing sector in total GVA stood at 16.2 per cent, practically unchanged from the share registered in the same period of 2006.

Both output and intermediate consumption decreased in the electricity, gas and water sector but the decline in intermediate consumption of Lm5.6 million more than outweighed the decline in output of Lm3.3 million resulting in an increase of GVA at basic prices of Lm2.2 million in this sector. These developments were mainly underpinned by an increase in the GVA of Lm2.5 million in the electricity, gas, steam and hot water supply sub-sector which was partly offset by a marginal drop in the GVA of the collection, purification and distribution of water sub-sector. The rise in the GVA of the former sub-sector mainly reflects a drop in intermediate consumption which outweighed the drop in output. In the period under review, the share of the electricity, gas and water sector in total GVA at basic prices remained practically the same as in the same period of the previous year and stood at 1.1 per cent.

The GVA in the construction sector increased by Lm5.5 million, to Lm40.7 million. This was mainly a result of a substantial increase in output of Lm6.0 million which was minimally offset by a marginal increase in intermediate consumption of Lm0.4 million. The share of GVA generated in the construction sector to the total GVA at basic prices amounted to 4.3 per cent, remaining almost the same as that registered in the same period of 2006.

In the wholesale and retail trade sector (including repair of motor vehicles, motorcycles and personal and household goods) GVA at basic prices stood at Lm112.9 million, an increase of Lm1.4 million in the period under review. This

reflects an advance in output of Lm4.1 million which more than outweighed the rise of Lm2.7 million in intermediate consumption. The major increase was recorded in the sale, maintenance and repairs of motor vehicles and motorcycles and amounted to Lm1.0 million. Despite this improvement, the overall share in the sector in total GVA at basic prices dropped from 12.7 per cent to 12.0 per cent.

There was a marginal increase of Lm1.1 million in the GVA in the hotels and restaurants sector which stood at Lm41.8 million during the period under review. This improvement, which reflects the overall improvement in the performance of the tourism industry, was underpinned by a rise in output of Lm2.8 million which more than outweighed the rise in intermediate consumption of Lm1.7 million. However, the share of the sector in total GVA at basic prices did not change during the period under review and stood at 4.5 per cent.

The GVA at basic prices in the transport, storage and communication sector registered an increase of Lm4.6 million in the period under review. This was a result of an increase of Lm14.1 million in output which was partly offset by an increase in intermediate consumption of Lm9.4 million. At sub-sectoral level, the main increases in GVA were recorded in the support and auxiliary transport services and travel agencies services (Lm3.9 million) and in the water transport services (Lm1.3 million). The share of this sector to total GVA at basic prices remained practically unchanged at 9.2 per cent

The financial intermediation sector continued on an upward trend as it increased by Lm6.3 million in the period under review, to reach Lm50.3 million. This improvement mainly reflects increases in the GVA of financial intermediation services except insurance and pension funding services sector which rose by Lm5.3 million. Both output and intermediation consumption increased by Lm11.7 million and Lm5.4 million respectively. The share of this sector to total GVA at basic prices increased marginally to 5.4 per cent.

Output in the real estate, renting and business activities sector increased by Lm18.0 million while intermediate consumption increased by Lm4.1 million. This led to an increase in GVA at basic prices of Lm13.9 million to reach Lm161.8 million. The main increases in this sector were registered in the other business services (Lm6.9 million), real estate services (Lm4.6 million) and in the computer related services (Lm2.5 million) sub-sectors. The overall share of real estate, renting and business activities in total GVA at basic prices has increased from

16.8 per cent achieved in January-June period of 2006 to 17.3 per cent in the same period of 2007.

The public administration and defence (including compulsory social security) sector has recorded a rise of Lm4.7 million or 7.5 per cent in GVA during the period under review. The improvement in this sector mainly reflects an increase of Lm6.9 million in output which was partly offset by a rise of Lm2.2 million in intermediate consumption. The share of this sector towards total GVA at basic prices remained at the same level of 7.2 per cent recorded in the previous period.

During the first six months of 2007, in the educational sector, the GVA at basic prices increased by Lm1.6 million to Lm56.9 million. This development was due to higher output by Lm2.1 million which was partly offset by higher intermediate consumption of Lm0.5 million. Despite this improvement, the share of education in total GVA at basic prices did not change in the period January-June and stood at 6.1 per cent.

The value added generated by the health and social work sector has increased by Lm2.5 million or 4.5 per cent during the period under review. The gross value added in this sector amounted to Lm57.8 million. The improvement in sectoral GVA at basic prices is explained by an output increase of Lm1.9 million combined with a decline in intermediate consumption of Lm0.6 million. The sectoral share in total GVA at basic prices remained at the 6.2 per cent level recorded in the previous period.

The other community, social and personal service activities sector continued on its upward trend as GVA at basic prices expanded further by Lm6.7 million in the period under review. However, the share of the sector in total GVA at basic prices did not change significantly and stood at 7.9 per cent. The output in this sector increased by Lm21.8 million and was partly offset by an increase in intermediate consumption of Lm15.1 million. The sectoral increase in GVA was wholly attributable to the other recreational, cultural and sporting activities sub-sector as continued positive results were registered by international internet betting companies operating from Malta.

Gross National Income

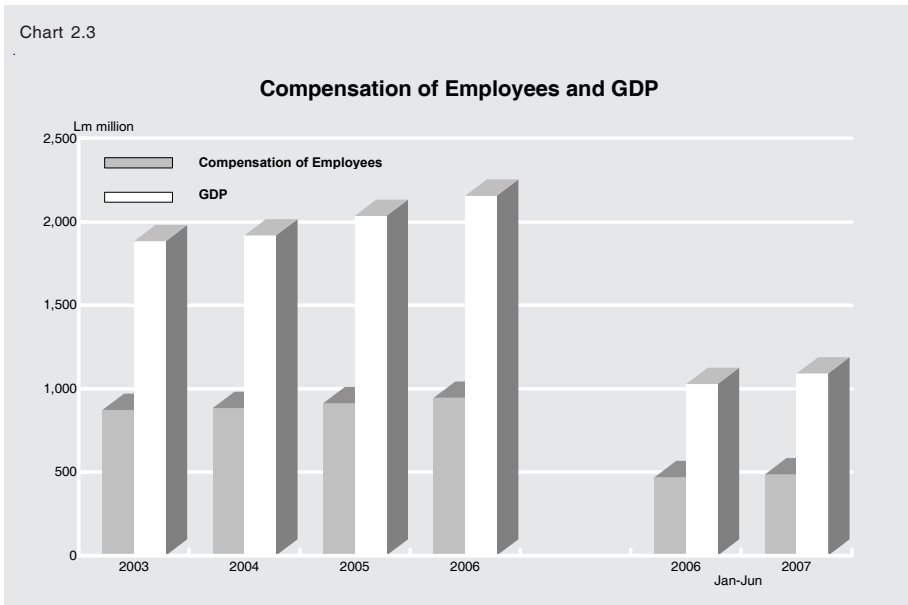
Gross National Income (GNI) is calculated by augmenting Gross Domestic Product at market prices by net compensation received from the rest of the

world, subsidies less taxes from/to rest of 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 Lm58 million, or by 5.8 per cent, to Lm1,050.2 million. This increase reflected a rise in GDP at market prices which was partly offset by a higher level of outflow of net property income. Table 2.6 provides information on the components of GNI at market prices during the period 2004-2007.

The compensation of employees rose by Lm16.8 million or by 3.6 per cent during the first half of 2007. Chart 2.3 illustrates the developments in compensation of employees and GDP at market prices over the period 2003-2007. During the period under review the share of employee compensation to GDP at market prices dropped by 1.1 percentage points to reach 44.6 per cent.

There were increases in employee compensation in all sectors of the economy except in the agriculture, hunting and forestry, transport, storage and communication, hotels and restaurants and mining and quarrying sectors. On the other hand, significant increases were evidenced in real estate, renting and business activities (Lm3.5 million), public administration and defence (Lm3.1 million) and manufacturing (Lm2.9 million) sectors. Other increases but to a



Gross National Income

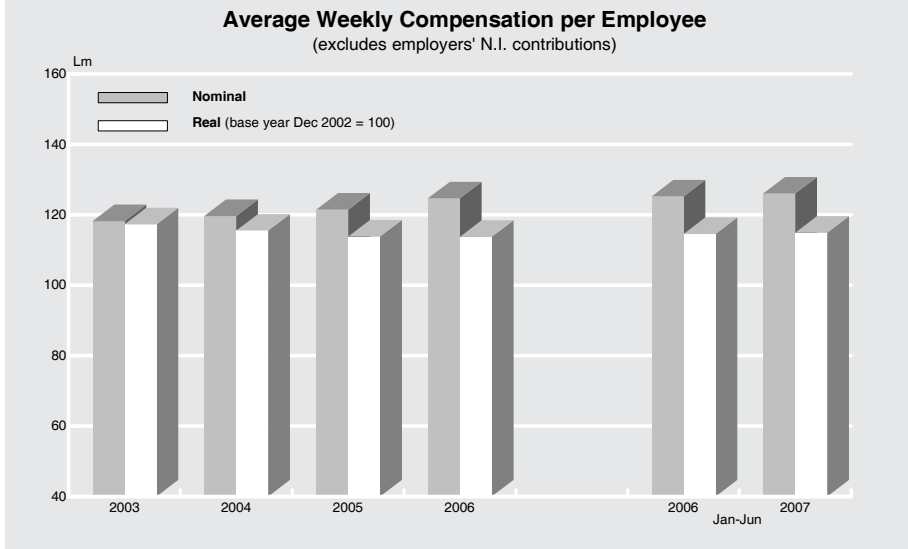
Table 2.6	Lm million				
	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
Compensation of employees	884.5	913.5	946.6	470.2	487.0
Gross operating surplus and mixed income	785.2	854.7	916.1	418.3	462.2
Taxes on production and imports	285.4	309.0	335.3	159.4	164.9
Less Subsidies	36.9	42.4	40.6	19.0	22.5
Gross Domestic Product at current market prices	1,918.2	2,034.8	2,157.4	1,028.9	1,091.6
Net compensation of employees from the rest of the world	5.8	4.1	3.2	1.8	1.7
Subsidies less Taxes on products from/to the rest of the EU	-4.7	-7.9	-5.4	-4.0	-3.3
Net property income from the rest of the world	-22.9	-89.0	-62.0	-34.5	-39.8
Gross National Income at current market prices	1,896.5	1,942.0	2,093.1	992.2	1,050.2

Source: National Statistics Office

lesser extent were registered in other community, social and personal service activities sector as well as health and social work sector.

Chart 2.4 and Table 2.7 present developments in the compensation of employees and total employment as outlined by the average weekly compensation per employee. It is pertinent to note that data in respect of compensation of employees is derived from national accounts data and includes the earnings of both full-time and part-time employees. The average weekly compensation is derived by dividing aggregate compensation by the employment level used in national accounts statistics. This recently available indicator, being based on the national accounts definition, is being used instead of the previous labour force survey. Hence, given this change, it is pertinent to note that data is not comparable with that published in previous Economic Surveys. As in previous years, nominal figures were deflated by the Retail Price Index using the base year December 2002 = 100 in order to derive real average weekly compensation figures.

Chart 2.4



In the period under review, average compensation per employee in nominal terms increased by 0.7 per cent to Lm126.05. In real terms average compensation totalled Lm114.94 and was 0.4 per cent higher than in the comparable previous period.

The gross operating surplus and mixed income increased by Lm43.9 million, or by 10.5 per cent and stood at Lm462.2 million in the first six months of 2007. At a sectoral level, there were no declines in the gross operating surplus whilst the main improvements were registered in real estate, renting and business activities, construction, other community, social and personal service activities and financial intermediation sectors. The hotels and restaurants sector have recorded a surplus following a major loss registered in the same period of 2006 whilst the electricity, gas and water supply sector recorded lower losses by Lm2.5 million.

Taxes on production and imports increased by Lm5.5 million or 3.5 per cent during the period under review and reached Lm164.9 million. Underlying such increases were higher receipts from VAT. Subsidies increased by Lm3.5 million and amounted to Lm22.5 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 six months of 2007, net property income from the rest of the world

Average Weekly Compensation per Employee*

Table 2.7

	Nominal		Real**	
	Value Lm	Change %	Value Lm	Change %
2004	119.61	1.3	115.50	-1.5
2005	121.43	1.5	113.84	-1.4
2006	124.69	2.7	113.73	-0.1
2006 (Jan-Jun)	125.14	3.2	114.53	0.0
2007 (Jan-Jun)	126.05	0.7	114.94	0.4

*Excludes employers' National Insurance contributions

**Base year December 2002=100

Source: National Statistics Office

deteriorated by Lm5.3 million and stood at a negative amount of Lm39.8 million. This development reflected the fact that higher receipts from abroad were more than offset by the increase in payments abroad in the investment income account in the Balance of Payments. 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, dropped marginally by Lm0.1 million, to Lm1.7 million. Furthermore, taxes paid to the rest of the EU increased slightly by Lm0.5 million and amounted to Lm5 million.

International Comparison

Malta's lack of natural resources and its small size underpin the relatively high degrees of openness of the economy. As a consequence, economic developments occurring in countries that are major trading parties have a direct bearing on Malta's economic performance. This section gives a brief summary of the economic developments in the EU. Table 2.8 provides the growth rates of real GDP for the EU27 Member States whilst Table 2.9 presents the composition of economic growth for the EU27 countries in real terms. The data is based on the European Commission's Spring 2006 forecasts, updated where possible by the Interim Forecasts published in September 2007.

Following a considerable improvement in GDP growth registered by the EU27 in 2006, the region is expected to witness a marginal decline in real GDP growth in 2007, with the EU27 economies expected to expand by 2.8 per cent. The

recent publication of the interim forecast shows that European economies have performed slightly worse than was previously expected. In fact the growth of both the Euro Area and the EU27 region has been adjusted downwards by 0.1 percentage point for 2007. Further downside risks, in the form of higher prices for the majority of input materials ranging from oil, gold and cereals coupled with the recent turmoil in credit markets could dent growth further. Furthermore, the persistent appreciation of the euro could also further stoke competitive pressures. Ultimately much depends on whether the current volatility is translated into a mere temporary downturn or a recessionary climate in world economic activity.

Gross Domestic Product
at constant market prices

Table 2.8 % change

	2004	2005	2006	2007*
Austria	2.4	2.0	3.1	2.9
Belgium	3.0	1.1	3.1	2.3
Bulgaria	6.6	6.2	6.1	6.1
Cyprus	4.2	3.9	3.8	3.8
Czech Republic	4.2	6.1	6.1	4.9
Denmark	2.1	3.1	3.1	2.3
Estonia	8.1	10.5	11.4	8.7
Finland	3.7	2.9	5.5	3.1
France	2.3	1.2	2.0	1.9
Germany	1.2	0.9	2.9	2.4
Greece	4.7	3.7	4.3	3.7
Hungary	4.9	4.2	3.9	2.4
Ireland	4.3	5.5	6.0	5.0
Italy	1.2	0.1	1.9	1.9
Latvia	8.7	10.6	11.9	9.6
Lithuania	7.3	7.6	7.5	7.3
Luxembourg	3.6	4.0	6.2	5.0
Netherlands	2.0	1.5	3.0	2.5
Poland	5.3	3.5	6.1	6.5
Portugal	1.3	0.5	1.3	1.8
Romania	8.5	4.1	7.7	6.7
Slovakia	5.4	6.0	8.3	8.5
Slovenia	4.4	4.0	5.2	4.3
Spain	3.2	3.5	3.9	3.7
Sweden	4.1	2.9	4.4	3.8
United Kingdom	3.3	1.9	2.8	2.9
EU 27	2.5	1.7	3.0	2.8
Euro Area	2.0	1.4	2.8	2.5
Malta	0.1	3.1	3.2	3.6

*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

	2004	2005	2006	2007*
EU 27				
Private Consumption	2.1	1.7	2.2	2.5
Government Consumption	1.6	1.7	2.1	1.8
Gross Fixed Capital Formation	3.2	3.1	5.6	5.2
Exports of Goods and Services	7.2	5.3	9.2	7.0
Imports of Goods and Services	7.4	5.8	9.1	7.2
Gross Domestic Product	2.5	1.7	3.0	2.9

*Forecast

Source: European Commission

Assuming the disruptions are short-lived, expectations are that domestic demand would continue to be the main contributor to GDP growth in both the euro area and the EU, with private consumption having a major expansionary impact on GDP. This results from persistent signs of improvement in European labour markets and the relatively high level of consumer confidence prevailing within the region.

3. Employment

3. Employment

During the twelve months to June 2007, overall, positive developments were registered in the labour market, largely reflecting the general growth recovery experienced by the domestic economy during the same period. Nevertheless, at the same time, specific sectors of the labour market that are exposed to global competitive pressures are still undergoing restructuring. Indeed, the trend noted in previous years relating to the shift away from direct production activities and towards market services was sustained during the year to June 2007. Meanwhile, the expansion of part-time employment continued, indicating an increasing degree of flexibility of the labour market which in itself can contribute to further employment creation. Moreover, the decreasing trend of public sector employment registered in recent years was sustained over the past twelve months reflecting Government's policy in this area. In addition, the private sector continued to be the major source of job creation in the Maltese economy.

Table 3.1 shows that at the end of June 2007, the gainfully occupied population stood at 140,067, an increase of 587 or 0.4 per cent over the same month the previous year. At the same time, the number of persons registering for employment under Part I of the Register fell by 900 to 5,701 at the end of June 2007. These developments were reflected in a decline of 137 in the labour supply to 146,404. Meanwhile, persons with a part-time job as their primary occupation stood at 26,168, an increase of 1,948 or 8.0 per cent over June 2006.

The data in this Chapter presents revisions of labour market data provided by the Employment and Training Corporation (ETC). Therefore, data in this Chapter are not directly comparable to data presented in previous issues of the Economic Survey. The ETC classifies the gainfully occupied population according to the standard NACE classification of economic activities.

It is pertinent to note that data on registered unemployment is composed of both Part I and Part II of the register. Part I of the Register comprises those persons who are eligible for work and registering with the ETC as unemployed. Meanwhile, Part II of the Register includes those persons searching for work but not eligible to Register under Part I. Categories of persons registering under Part II 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. Based on these definitions of Part I and Part

Labour Market Performance

Table 3.1

	2003	2004	2005	2006	2007
	Jun	Jun	Jun	Jun	Jun
Labour Supply	145,732	145,803	145,329	146,541	146,404
Males	104,060	103,864	102,920	103,021	101,945
Females	41,672	41,939	42,409	43,520	44,459
Gainfully Occupied	138,494	137,861	138,399	139,480	140,067
Males	98,180	97,430	97,416	97,509	96,971
Females	40,314	40,431	40,983	41,971	43,096
Total Private Sector	91,035	90,913	92,858	96,281	97,465
Private Direct Production	34,159	33,330	33,366	33,167	33,002
Private Market Services	56,156	56,926	58,878	62,719	64,126
Temporary Employment	720	657	614	395	337
Total Public Sector	47,459	46,948	45,541	43,199	42,602
Public Sector	47,160	46,674	45,288	43,070	42,489
Temporary Employment	299	274	253	129	113
Registered Unemployed*	7,238	7,942	6,930	7,061	6,337
Males	5,880	6,434	5,504	5,512	4,974
Females	1,358	1,508	1,426	1,549	1,363
% of Labour Supply of which unemployment under Part I (%)	5.0 4.5	5.4 5.0	4.8 4.3	4.8 4.5	4.3 3.9
Self-Employed**	15,782	16,054	16,319	16,509	16,632
Males	13,745	13,932	14,095	14,168	14,214
Females	2,037	2,122	2,224	2,341	2,418
% of Gainfully Occupied	11.4	11.6	11.8	11.8	11.9
Memorandum:					
Total Direct Production***	45,120	43,158	42,921	42,833	42,277
Total Market Services***	92,355	93,772	94,611	96,123	97,340
Total Private Sector Share	65.7%	65.9%	67.1%	69.0%	69.6%
Total Public Sector Share	34.3%	34.1%	32.9%	31.0%	30.4%
Part-time Employment as Primary Job	18,476	20,492	22,459	24,220	26,168

*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 (NSO) in accordance with the methodologies of the European Union's statistical agency, Eurostat, and the International Labour Organisation. The LFS provides information regarding the labour market, educational levels, salary conditions and other useful indicators. However, it is not directly comparable to statistics emanating from the administrative records of the Employment and Training Centre (ETC), mainly due to differences in definitions and methodology of the two datasets. Additionally, 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 a sampling error.

By the end of the second quarter of 2007, the labour supply stood at 166,653, an increase of 2,100 or 1.3 per cent over the second quarter of 2006. During the same period, employment increased by 3,766 to 155,580, whilst unemployment fell by 1,666 to 11,073. The increase in employment is attributable to the increase in female employment of 3,065 to 50,935 and an increase of 701 male employees to 104,645. Following these developments, female employment accounted for 32.7 per cent of total employment whilst male employment accounted for 67.3 per cent. Declines in male and female unemployment amounted to 1,031 and 635 persons, respectively.

During the year to the second quarter of 2007, the activity rate increased by 0.7 percentage points to 59.6 per cent. This development reflected an improvement in the female activity rate of 1.9 percentage points to 40.3 per cent, while the male activity rate fell by 0.4 percentage points to 78.8 per cent. Meanwhile, the number of inactive persons stood at 161,836, 69.0 per cent of which were accounted for by females.

In the second quarter of 2007, the employment rate increased by 1.4 percentage points and stood at 55.7 per cent. This reflects a marginal increase in the male employment rate of 0.3 percentage points to 74.3 per cent, and a 2.3 percentage point increase in the female employment rate to 36.8 per cent. Meanwhile, the unemployment rate fell by 1.1 percentage point to 6.6 per cent, reflecting a decline in the female unemployment rate of 1.6 percentage points to 8.7 per cent and of 0.9 percentage points to 5.6 per cent in the case of males.

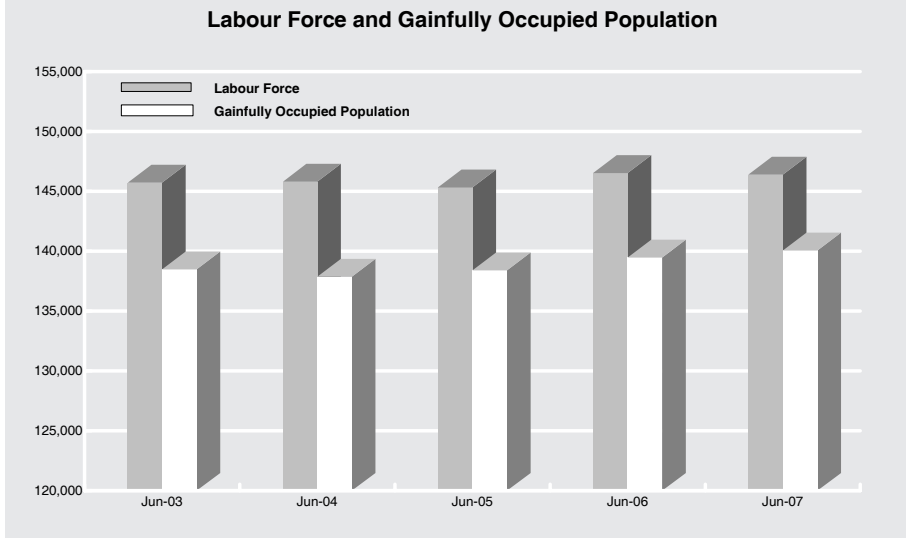
The highest shares in total employment were recorded by technicians and associate professionals, and service workers and shop and sales workers occupations. Indeed, both sectors employed around 24,000 workers, and each accounted for around 15.5 per cent of total employment. During the same period, the average gross annual salary for an employee increased by 2.1 per cent to Lm5,503. The highest average gross annual salary of Lm9,176 related to legislators, senior officials and managers, followed by an average annual salary of Lm7,315 for professionals. Meanwhile, the lowest average gross annual salary of Lm4,285 related to service workers and shop and sales workers.

II of the Register, unemployment under Part I of the Register provides a better indication for analyzing developments in the labour market.

Labour Market Developments

This section presents an analysis of the main labour market developments that occurred during the period June 2003 to June 2007. As shown in Chart 3.1 the labour supply rose by 672 or 0.5 per cent between June 2003 and June 2007,

Chart 3.1



reaching a level of 146,404 persons at the end of June 2007. During this four year period, the labour supply registered a generally upward trend albeit at varying pace from year-to-year reflecting developments in both the gainfully occupied population and the number of registered unemployed persons.

Labour supply developments were characterized by different trends in the male and female components. Since June 2003, the male component in the labour supply declined by 2,115 or 2.0 per cent to 101,945, whilst the female component increased by 2,787 or 6.7 per cent to 44,459. Consequently, in June 2007, the share of males in the labour force stood at 69.6 per cent, down by 1.8 percentage points from June 2003. Meanwhile, the female component increased from 28.6 per cent to 30.4 per cent by the end of June 2007. This reflects the various incentives introduced with the aim to increase the female participation in the labour market.

During the four years to June 2007, the gainfully occupied population maintained a general upward trend, registering consistent yearly increases of around 0.5 per cent, except for a drop of 633 employees recorded during the twelve months to June 2004. Indeed, the gainfully occupied population stood at 140,667 at the end of June 2007, reflecting an increase of 1,573 or 1.1 per cent over June 2003. In general, the number of gainfully occupied males followed a consistent downward trend declining by 1,209 or 1.2 per cent over June 2003, thus reaching

96,971 at the end of June 2007. Consequently, the share of males in the gainfully occupied population stood at 69.2 per cent by the end of June 2007, a decline of 1.7 percentage points over June 2003. At the same time, over the four year period under review female employment increased by 2,782 or 6.9 per cent to 43,096. At the end of June 2007, the female share in the total gainfully occupied population stood at 30.8 per cent, from 29.1 per cent in June 2003.

The number of unemployed persons under Part I of the Register fell by 877 persons to 5,701 over the four years to June 2007. However, during this period the unemployment level registered fluctuations. An increase of 677 in the number of Part I registrants was recorded during the twelve months to June 2004 followed by a drop of 1,037 persons during the following twelve months to June 2005. Subsequently, an increase of 383 in the number of unemployed persons was recorded during the twelve months to June 2006, followed by a significant drop of 900 unemployed persons in June 2007. Consequently, in June 2007 the unemployment rate of Part I registrants stood at 3.9 per cent, down by 0.6 percentage points from June 2003.

Private Sector Employment

Employment in the private sector, inclusive of temporary employees, increased by an annual average of 1.7 per cent over the period ranging from June 2003 to June 2007. Indeed, during the four-year period to June 2007, private employment increased by 6,430 or 7.1 per cent, reaching 97,465 at the end of June 2007. Advances were recorded in each year, except in the twelve months to June 2004, when a decline of 122 was recorded. During the four years to June 2007, higher private sector employment was entirely driven by expansions in employment in the private market services. At the same time, employment in private direct production followed a generally downward trend over the four years to June 2007.

During the period under observation, employment in private direct production fell by 1,157 or 3.4 per cent to 33,002 employees at the end of June 2007. Indeed, as stated earlier, employment in private direct production followed a generally downward trend, with the largest decline of 829 employees recorded during the year ending June 2004. Consequently, the share of private direct production in the gainfully occupied population stood at 23.6 per cent at the end of June 2007, 1.1 percentage points lower than the share recorded at the end of June 2003. These developments reflect private sector restructuring particularly in specific sectors of the manufacturing industry.

At the same time, since the end of June 2003, employment in private market services increased by 7,970 or 14.2 per cent to 64,126 at the end of June 2007. Consequently, private market services employment accounted for 65.8 per cent of total private sector employment, up from 61.7 per cent recorded in June 2003.

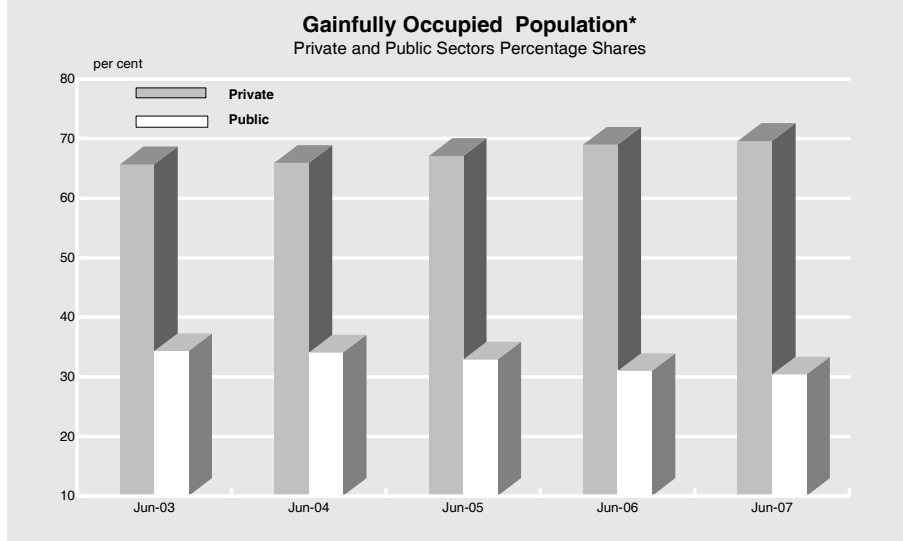
Temporary private sector employment maintained on a downward trend over the period June 2003 to June 2006. At the end of June 2007, temporary employees stood at 337, from 720 at the end of June 2003.

The number of self-employed persons has increased consistently during the period under observation. In fact, the number of self-employed in the private sector stood at 16,632 at the end of June 2007, up by 850 or 5.4 per cent from June 2003. During the same period, the share of self-employed in the gainfully occupied population increased by 0.5 percentage points to 11.9 per cent. On a gender basis, increases of 469 or 3.4 per cent and 381 or 18.7 per cent were recorded in the number of male and female self-employed, respectively. Consequently, by the end of June 2007, the female share in total self-employed persons stood at 14.5 per cent, up from 12.9 per cent in June 2003, whilst that for males stood at 85.5 per cent compared to 87.1 per cent four years earlier. Despite these developments, the share of females in total self-employed persons remains relatively low in comparison to the share of females in the gainfully occupied population, probably reflecting the role of cultural traits and traditional role-playing.

Public Sector Employment

Over the period ranging from June 2003 to June 2007, public sector employment (inclusive of temporary employment) was on a downward trend, falling by 4,857 or 10.2 per cent to 42,602 employees. This development reflected privatization initiatives, the restructuring of public sector entities as well as Government's policy to restrict employment into non-essential categories in the public sector. Indeed, the collective agreement for public sector employees covering the period 2005-2010 envisages a reduction in Government employees through natural attrition. Furthermore, hiring in the public sector is subject to approval by the Recruitment and Redeployment Advisory Group and is being done on a strictly need basis. As a result of these developments, as illustrated in Chart 3.2, the share of public sector employment in the gainfully occupied population declined from 34.3 per cent in June 2003 to 30.4 per cent in June 2007.

Chart 3.2



*Including temporary employees

As shown in Table 3.2, employment in Government Departments declined by 1,469 or 4.6 per cent during the four years to June 2007. As mentioned above, this largely reflects Government's policy to restrict employment into non-essential categories of Government Departments as well as the setting up of new entities that took over responsibilities previously carried out by Government Departments. Indeed, this downward trend in employment in Government Departments was sustained over the twelve months to June 2007 as such employment declined by 281 to 30,377. By the end of the period under observation, as a result of developments in other categories of public sector employment, the share of Government Department employees in total public sector employment stood at 71.3 per cent up from 67.1 per cent in June 2003.

At the end of June 2007, employment in companies with a public sector majority shareholding stood at 3,192, a decline of 4,052 or 55.9 per cent from June 2003. This decline is mainly attributable to the privatization of Malta Freeport Terminals Ltd., Air Supplies and Catering Co. Ltd. and Maltacom plc, as well as the restructuring of the shipyards, Maltapost plc and Public Broadcasting Services Ltd. The closing down of Sea Malta Co. Ltd. and more recently the sale of Tigne Development Co. Ltd, together with the introduction of voluntary early retirement schemes in AirMalta plc also contributed to this decline. Consequently, the share of employees in companies with public majority shareholding fell by

Public Sector Employment

Table 3.2

	2003 Jun	2004 Jun	2005 Jun	2006 Jun	2007 Jun
Government Departments	31,846	31,735	31,106	30,658	30,377
Companies with public sector majority shareholding	7,244	6,307	5,500	3,591	3,192
Independent Statutory Bodies	8,070	8,632	8,682	8,821	8,920
Temporary Employees	299	274	253	129	113
Total	47,459	46,948	45,541	43,199	42,602

Source: Employment and Training Corporation

7.8 percentage points to 7.5 per cent of total public sector employment over the four year period to June 2007.

At the end of June 2007, employment in Independent Statutory Bodies stood at 8,920, reflecting an increase of 850 or 10.5 per cent from June 2003. This mainly reflected the setting up of new entities which took over responsibilities previously executed by Government Departments as well as recruitment at the Malta College of Arts, Science and Technology (MCAST) which is classified as an Independent Statutory Body. Moreover, the establishment of Malta Shipyards Ltd and Industrial Project Services Limited (IPSL) resulted in a reclassification of employees from public sector majority shareholding companies category to Independent Statutory Bodies and thus also contributed to this increase. Following such developments, Independent Statutory Bodies accounted for 20.9 per cent of total public sector employees at the end of June 2007, up from 17.0 per cent in June 2003.

At the end of June 2007, temporary employees stood at 113, representing a decline of 186 over June 2003. Consequently, the share of temporary employees in total public sector employment fell from 0.6 per cent in June 2003 to 0.3 per cent in June 2007.

Sectoral Employment

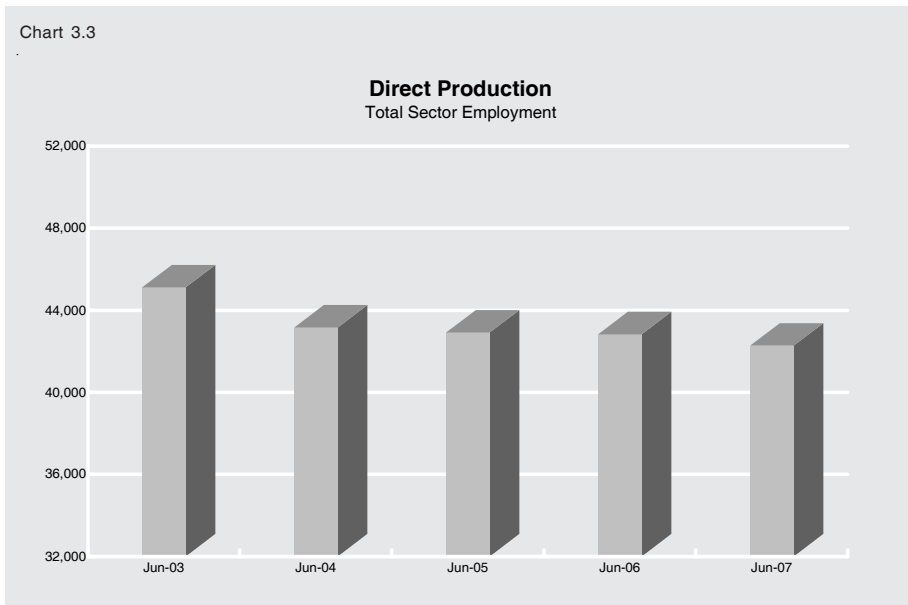
At the end of June 2007, direct production employment (exclusive of temporary employees) accounted for 30.2 per cent of the total gainfully occupied population, down from 30.7 per cent recorded at the end of June 2006. At the same time,

the share of market services stood at 69.5 per cent, from 68.9 per cent a year earlier, reflecting the ongoing shift towards a more service oriented economy. The following analysis provides a detailed overview of employment performance of major economic activities in both the direct production and market services categories.

Direct Production

Chart 3.3 shows the developments in direct production over the period June 2003 to June 2007. At the end of June 2007, total employment in direct production stood at 42,277, down by 556 or 1.3 per cent over June 2006. The private sector accounted for 78.1 per cent of total direct production employment. The decline in direct production employment is mainly attributable to the public sector, albeit a decrease was also recorded in the private sector.

Lower employment levels in direct production were recorded in manufacturing, electricity, gas and water, agriculture, hunting and forestry and construction sectors. However, these developments were partially offset by higher employment in the fishing sector. Table 3.3 provides an overview of the main developments in direct production employment over the June 2003-June 2007 period. It is pertinent to note that manufacturing accounts for more than one-half of employment in direct production whilst construction accounts for around a further one-quarter.



Employment in Direct Production*

Table 3.3

	2003	2004	2005	2006	2007
	Jun	Jun	Jun	Jun	Jun
Agriculture, Hunting and Forestry	2,806	3,048	3,089	3,035	2,965
Private	1,651	1,658	1,640	1,627	1,625
Public	1,155	1,390	1,449	1,408	1,340
Fishing	400	412	443	461	502
Private	400	412	443	461	502
Public	0	0	0	0	0
Mining and Quarrying	507	510	508	507	488
Private	507	510	508	507	488
Public	0	0	0	0	0
Manufacturing	27,195	25,247	24,926	24,083	23,751
Private	24,448	23,424	23,143	22,331	21,985
Public	2,747	1,823	1,783	1,752	1,766
Electricity, Gas and Water	3,060	3,558	3,406	3,259	3,109
Private	1	1	1	5	8
Public	3,059	3,557	3,405	3,254	3,101
Construction	11,152	10,383	10,549	11,488	11,462
Private	7,152	7,325	7,631	8,236	8,394
Public	4,000	3,058	2,918	3,252	3,068
Total Employment in Direct Production	45,120	43,158	42,921	42,833	42,277
Private	34,159	33,330	33,366	33,167	33,002
Public	10,961	9,828	9,555	9,666	9,275

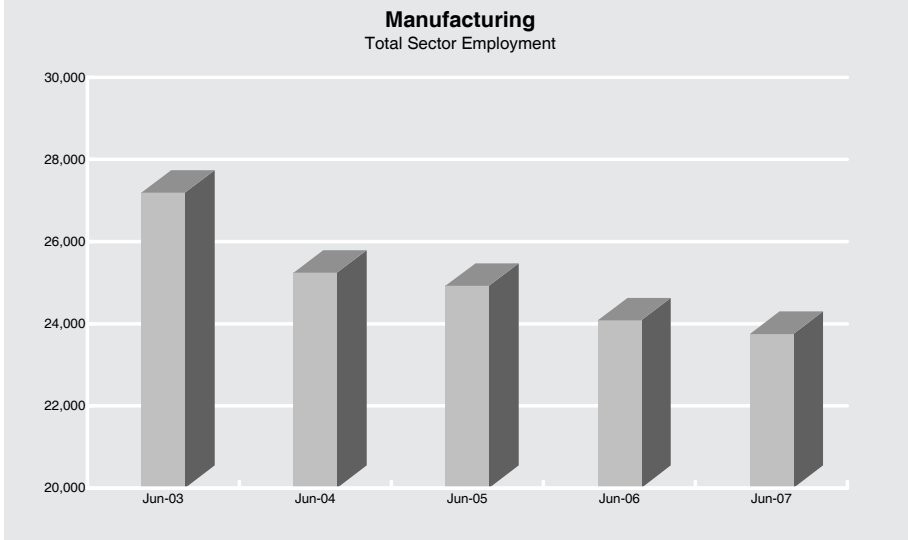
* Excluding temporary employees

Source: Employment and Training Corporation

During the year to June 2007, employment in the construction sector stood at 11,462, recording a decrease of 26 or 0.2 per cent over June 2006. This decrease was driven by a decrease of 184 or 5.7 per cent in the public sector which was partly offset by an increase in the private sector of 158 or 1.9 per cent. At the end of June 2007, the share of construction sector employment in total direct production employment stood 27.1 per cent, up from 26.8 per cent recorded in June 2006. Meanwhile, employment in the fishing sector continued its upward trend and stood at 502 at the end of June 2007, an increase of 41 or 8.9 per cent over June 2006. This was entirely driven by the private sector and was mainly attributable to job creation in fish farming activities.

Over the twelve months to June 2007, a decline of 150 or 4.6 per cent was recorded in the employment complement in the electricity, gas and water sector, which stood at 3,109. Two-thirds of this decline was accounted for by the collection, purification and distribution of water sub-sector whilst the other one-

Chart 3.4



Changes in Manufacturing Employment*

Table 3.4

	2004-03 Jun	2005-04 Jun	2006-05 Jun	2007-06 Jun
Total Change	-1,948	-321	-843	-332
Private	-1,024	-281	-812	-346
Public	-924	-40	-31	14
Total Private Increases	196	112	556	182
Total Public Increases	0	0	8	15
Total Private Decreases	1,220	393	1,368	528
Total Public Decreases	924	40	39	1

* Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

Manufacturing Employment*

Table 3.5

	2003	2004	2005	2006	2007
	Jun	Jun	Jun	Jun	Jun
Mfg of Food Products, Beverages and Tobacco	3,958	3,967	3,906	3,819	3,603
Private	3,958	3,967	3,906	3,819	3,603
Public	0	0	0	0	0
Mfg of Textiles and Textile Products	3,358	2,718	2,653	1,715	1,528
Private	3,358	2,718	2,653	1,715	1,528
Public	0	0	0	0	0
Mfg of Leather and Leather Products	606	467	378	215	209
Private	606	467	378	215	209
Public	0	0	0	0	0
Mfg of Wood and Wood Products	204	213	204	188	165
Private	204	213	204	188	165
Public	0	0	0	0	0
Mfg of Pulp, Paper and Paper Products; Publishing and Printing	1,928	1,948	1,913	1,913	1,897
Private	1,812	1,835	1,817	1,856	1,841
Public	116	113	96	57	56
Mfg of Coke, Refined Petroleum Products and Nuclear Fuel	12	1	1	3	5
Private	12	1	1	3	5
Public	0	0	0	0	0
Mfg of Chemicals, Chemical Products and Man-Made Fibres	735	812	846	950	1,007
Private	735	812	846	950	1,007
Public	0	0	0	0	0
Mfg of Rubber and Plastic Products	1,808	1,736	1,741	1,638	1,674
Private	1,808	1,736	1,741	1,638	1,674
Public	0	0	0	0	0
Mfg of Other Non-Metallic Mineral Products	1,255	1,224	1,196	1,250	1,280
Private	1,255	1,224	1,196	1,250	1,280
Public	0	0	0	0	0
Mfg of Basic Metals and Fabricated Metal Products	1,314	1,290	1,290	1,311	1,281
Private	1,306	1,287	1,290	1,311	1,281
Public	8	3	0	0	0
Mfg of Machinery and Equipment n.e.c	457	503	525	519	557
Private	457	503	525	519	557
Public	0	0	0	0	0
Mfg of Electrical and Optical Equipment	5,378	5,266	5,166	5,502	5,455
Private	5,378	5,266	5,166	5,502	5,455
Public	0	0	0	0	0
Mfg of Transport Equipment	3,059	2,175	2,132	2,133	2,167
Private	436	468	445	438	457
Public	2,623	1,707	1,687	1,695	1,710
Manufacturing n.e.c.	3,123	2,927	2,975	2,927	2,923
Private	3,123	2,927	2,975	2,927	2,923
Public	0	0	0	0	0
Total Manufacturing Employment	27,195	25,247	24,926	24,083	23,751

* Excluding temporary employees

Source: Employment and Training Corporation

third was accounted for by the energy sector. Meanwhile, the employment complement in agriculture, hunting and forestry sector stood at 2,965, recording a drop of 70 or 2.3 per cent. This was attributable to the public sector as employment in the private sector remained relatively unchanged. The level of employment in the mining and quarrying sector fell by 19 or 3.7 per cent to 488. Despite these developments, the share of these sectors in total direct production were practically unchanged from those at the end of June 2006.

At the end of June 2007, manufacturing employment stood at 23,751, a decline of 332 or 1.4 per cent over June 2006. This reflected job losses in the private sector. At 56.2 per cent, the share of manufacturing in total direct production employment was practically unchanged over the twelve months to June 2007. Chart 3.4 illustrates the downward trend in employment levels in the manufacturing industry over the four year period to June 2007.

Table 3.4 shows that total private sector decreases in manufacturing employment during the twelve months to June 2007 amounted to 528. However, these were partly offset by total private sector increases of 182 employees. Meanwhile, manufacturing employment in the public sector remained relatively stable. Job losses were mainly recorded in manufacturing of food products, beverages and tobacco, manufacturing of textiles and textile products and manufacturing of electrical and optical equipment, while a number of other categories also recorded job losses but of a relatively smaller magnitude. On the other hand, a notable job increase was particularly recorded in the manufacture of chemicals, chemical products and man-made fibres. These developments are indicative of the continuous shift in the manufacturing sector towards higher value-added sectors. Table 3.5 provides data on employment developments in the manufacturing industry covering the period June 2003 to June 2007.

Manufacturing of Food Products, Beverages and Tobacco

At the end of the period under observation, employment in the food products, beverages and tobacco sector amounted to 3,603, a decline of 216 or 5.7 per cent when compared to June 2006. Around one-half of this decrease was attributable to the manufacture of food products and beverages, whilst the other half was attributable to lower employment in the manufacture of tobacco products. The decline recorded in the latter reflected the change in nature of operations from manufacturing to trading of a large firm in this sub-sector. Accordingly this was reclassified to the wholesale and retail sector. At the end of June 2007, the share of food products, beverages and tobacco sectors in total manufacturing employment stood at 15.2 per cent as compared to 15.9 per cent a year earlier.

Manufacturing of Textiles and Textile Products

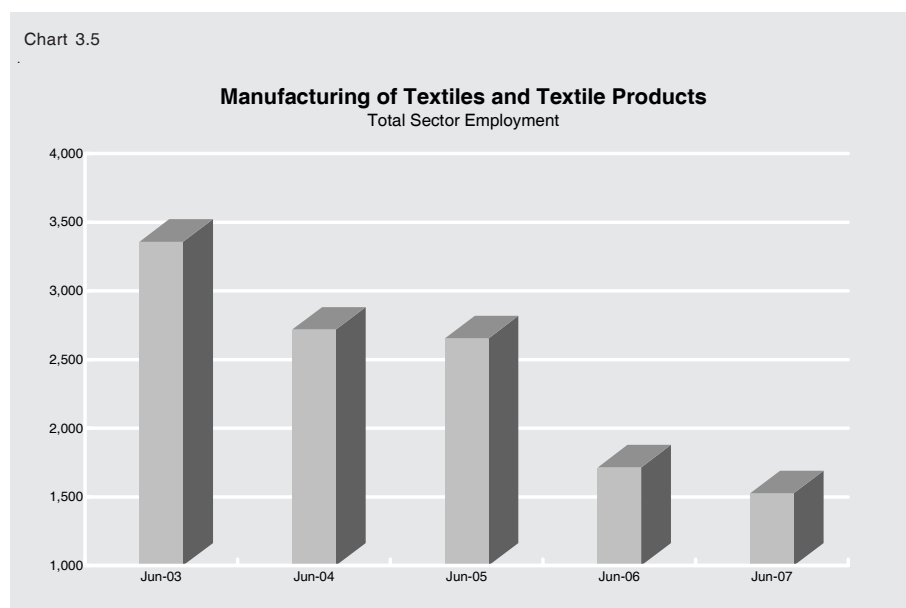
At the end of June 2007, employment in the manufacture of textiles and textile products sector stood at 1,528, down from 1,715 recorded at the end of June 2006. The decline was concentrated in the manufacturing of wearing apparel sub-sector. Meanwhile, employment in the manufacture of textiles sub-sector was relatively stable. As highlighted in Chart 3.5, this sector has registered significant job losses in recent years, as a result of the intensive price competition, especially from low-cost countries. At the end of June 2007, the share of the manufacture of textile and textile products in total manufacturing stood at 6.4 per cent, down from 7.1 per cent in June 2006.

Manufacturing of Leather and Leather Products

At the end of June 2007, employment in the manufacture of leather and leather products sector stood at 209, a decline of 6 employees or 2.8 per cent over the comparable period ending June 2006. Over the four year period to June 2007, employment in this sector declined to almost one-third of the employment complement recorded in June 2003. The share of manufacture of leather and leather products sector in total manufacturing employment stood at 0.9 per cent, thus remaining unchanged from the share recorded a year earlier.

Manufacturing of Pulp, Paper and Paper Products

Employment in the manufacture of pulp, paper and paper products, publishing, printing and reproduction of recorded media sector stood at 1,897 by the end of



June 2007, a marginal decline of 16 or 0.8 per cent from the level in June 2006. Employment in both the manufacture of pulp, paper and paper products and publishing, printing and reproduction sub-sectors remained generally stable. In June 2007, the share of this sector in total manufacturing employment stood at 8.0 per cent, marginally up from the share recorded during the same month of the previous year.

Manufacturing of Chemicals, Chemical Products and Man-made Fibres

In June 2007 employment in the manufacturing of chemicals, chemical products and man-made fibres sector continued the upward trend experienced in previous years. Chart 3.6 shows that the increase in employment in this sector amounted to 57 or 6.0 per cent and sectoral employment stood at 1,007 employees at the end of June 2007. The growth in this sector is evident in its share in manufacturing employment which rose to 4.2 per cent in June 2007, from 3.9 per cent in June 2003.

Manufacturing of Rubber and Plastic Products

During the twelve months to June 2007, the labour complement within the rubber and plastic products sector increased by 36 or 2.2 per cent to 1,674. However, this increase has not compensated fully for the job losses within this sector registered since June 2003. The rubber and plastic products sector accounted for 7.0 per cent of total manufacturing employment at the end of the period under observation.

Manufacturing of Electrical and Optical Equipment

Over the year to June 2007, aggregate employment in the manufacture of electrical and optical equipment sector declined by 47, to stand at 5,455. This decrease mainly reflected lower employment in the manufacture of medical, precision and optical instruments sub-sector, whilst employment in the manufacture of office machinery and computers and the manufacture of radio, television and communication equipment and apparatus recorded smaller declines. These declines were partly mitigated by the increase of 105 employees in the manufacture of electrical machinery and apparatus sub-sector. Chart 3.7 shows that employment in the manufacture of electrical and optical equipment followed a downward trend between June 2003 and June 2005 but increased significantly in June 2006 followed by a marginal drop by June 2007. This sector remains the largest source of employment in the manufacturing industry and at

Chart 3.6

Manufacturing of Chemicals, Chemical Products and Man-made Fibres

Total Sector Employment

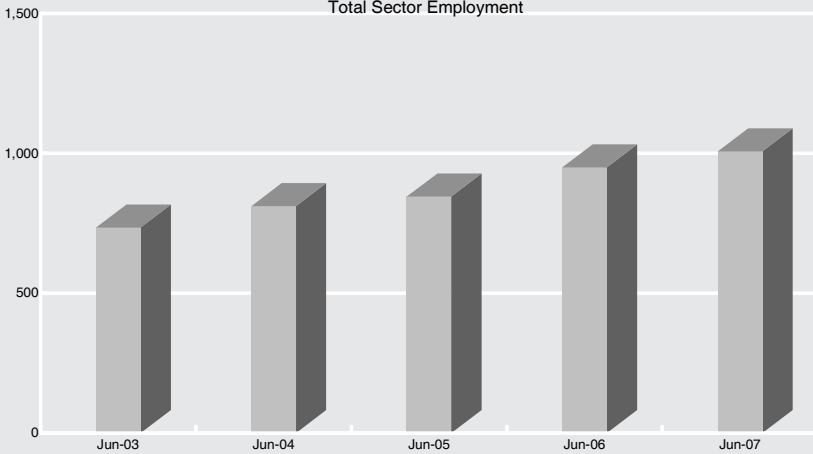
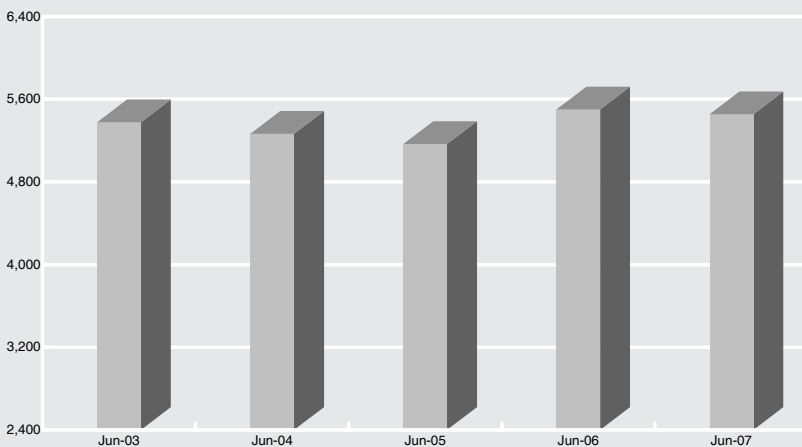


Chart 3.7

Manufacturing of Electrical and Optical Equipment

Total Sector Employment



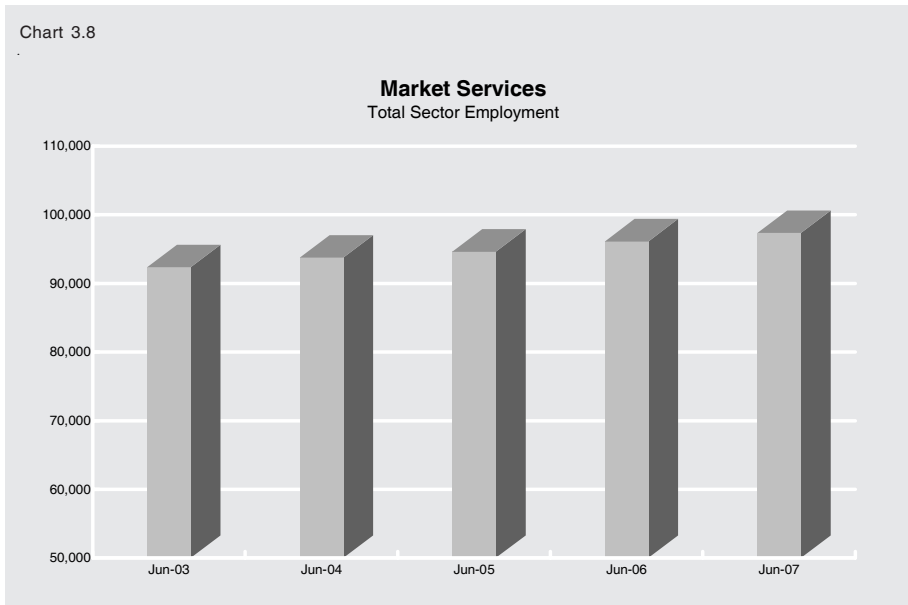
the end of June 2007, its share in total manufacturing employment stood at 23.0 per cent.

Manufacturing of Transport Equipment

During the year to June 2007, the labour complement in the manufacture of transport equipment increased by 34 or 1.6 per cent, reaching a total of 2,167. This reflects the restructuring of the shipyards that led to a significant decline in employment within this sector in June 2004. Thereafter, the employment complement within this sector remained relatively unchanged. By the end of June 2007, the share of manufacture of transport equipment in total manufacturing employment stood at 9.1 per cent.

Market Services

Chart 3.8 shows that employment in market services activities followed an upward trend over the four year period to June 2007. Indeed, market service activities remained the main source of employment creation over this period. During the year to June 2007, employment in market services recorded an increase of 1,217 or 1.3 per cent to 97,340. This increase was mainly due to an overall expansion of 1,407 in the private sector while employment in the public sector recorded an overall decline of 190 employees.



Changes in Employment in Market Services*

Table 3.6

	2004-03	2005-04	2006-05	2007-06
	Jun	Jun	Jun	Jun
Total Change	1,417	839	1,512	1,217
Private	770	1,952	3,841	1,407
Public	647	-1,113	-2,329	-190
Total Private Increases	922	1,977	4,050	1,847
Total Public Increases	927	253	97	252
Total Private Decreases	152	25	209	440
Total Public Decreases	280	1,366	2,426	442

*Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

As shown in Table 3.6, by the end of June 2007, job losses by the private sector amounted to 440 while job gains by the private sector reached 1,847. Meanwhile, job losses by the public sector amounted to 442 and were partly offset by job gains of 252. Job increases during the twelve months to June 2007 were mainly concentrated in real estate, renting and business activities and other community, social and personal services activities sectors. Other increases were recorded in financial intermediation, public administration and defence, education, and health and social work. Meanwhile, job losses were recorded mainly in hotels and restaurants and transport storage and communications. Table 3.7 presents data on the main employment developments in market services activities over the period June 2003 to June 2007.

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

During the twelve months to June 2007, the labour complement in wholesale and retail trade sectors increased marginally by 8 employees to 21,193. Chart 3.9 shows that employment in this sector was generally on a gradual upward trend throughout the period June 2003 to June 2006. The labour complement remained relatively stable in both public and private sectors. Declines were recorded in employment in sales, maintenance and repair of motor vehicles sub-sectors. At the same time, employment in the retail trade sub-sector remained relatively stable. It should be noted that the marginal increase registered in the wholesale trade and commission trade sub-sector was the result of a reclassification from the manufacturing of tobacco to this sector. The share of employment of the wholesale and retail trades sector in total employment in

Employment in Market Services*

Table 3.7

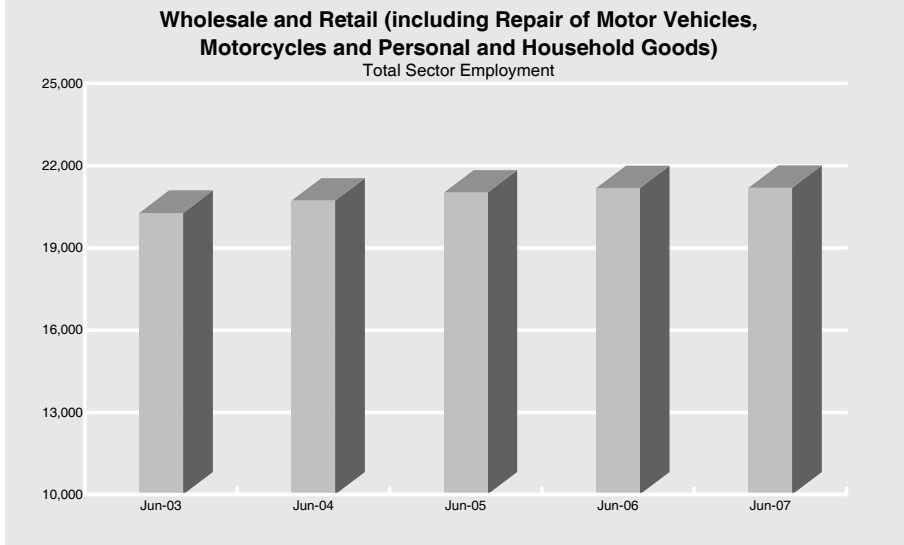
	2003 Jun	2004 Jun	2005 Jun	2006 Jun	2007 Jun
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	20,279	20,726	21,020	21,185	21,193
Private	20,132	20,588	20,902	21,160	21,171
Public	147	138	118	25	22
Hotels and Restaurants	9,294	9,173	9,131	8,885	8,578
Private	8,940	8,828	8,852	8,645	8,463
Public	354	345	279	240	115
Transport, Storage and Communications	11,245	11,162	11,279	11,172	10,683
Private	5,834	5,913	6,639	8,175	7,919
Public	5,411	5,249	4,640	2,997	2,764
Financial Intermediation	5,053	5,024	5,059	5,171	5,315
Private	4,593	4,559	4,585	4,693	4,829
Public	460	465	474	478	486
Real Estate, Renting and Business Activities	8,705	9,435	9,808	11,434	12,536
Private	8,062	8,292	8,670	10,266	11,395
Public	643	1,143	1,138	1,168	1,141
Public Administration and Defence (including Compulsory Social Security)	10,832	10,964	10,850	10,649	10,797
Private	2	2	3	4	6
Public	10,830	10,962	10,847	10,645	10,791
Education	11,315	11,603	12,013	12,137	12,231
Private	2,597	2,689	2,855	2,926	3,037
Public	8,718	8,914	9,158	9,211	9,194
Health and Social Work	9,334	9,485	9,169	9,237	9,409
Private	1,368	1,425	1,400	1,458	1,532
Public	7,966	8,060	7,769	7,779	7,877
Other Community, Social and Personal Service Activities**	6,131	6,039	6,118	6,091	6,438
Private	4,461	4,469	4,808	5,230	5,614
Public	1,670	1,570	1,310	861	824
Extra-Territorial Organisations and Bodies	167	161	164	162	160
Private	167	161	164	162	160
Public	0	0	0	0	0
Total Employment in Market Services	92,355	93,772	94,611	96,123	97,340

* Excluding temporary employees

**Includes Private Households with Employed Persons

Source: Employment and Training Corporation

Chart 3.9



market services stood at 21.8 per cent, down from 22.0 per cent in the same month of the previous year.

Hotels and Restaurants

Chart 3.10 shows employment in the hotel and restaurant sector for the period ranging from June 2003 to June 2007. The number of persons employed within the hotels and restaurant sector at the end of June 2007 stood at 8,578, down by 307 or 3.5 per cent from the same month the previous year. This decrease was attributable to declines in both the public and private sector. In fact, private and public employment in these sectors declined by 182 and 125, respectively. These results largely reflect the closure of two hotels during the period under review. As at June 2007, employment in the hotels and restaurants sector accounted for 8.8 per cent of total employment in market services, down by 0.4 percentage points from the share recorded in June 2006.

Transport, Storage and Communications

At the end of June 2007, employment in the transport, storage and communications sector stood at 10,683, a decrease of 489 or 4.4 per cent over the same month the previous year. This reflected a decline in the labour complement of both the private and public sector. The drop in the public sector employment complement was the result of the voluntary early retirement schemes introduced in AirMalta Co Ltd. as part of the restructuring process aimed at

Chart 3.10

Hotels and Restaurants Total Sector Employment

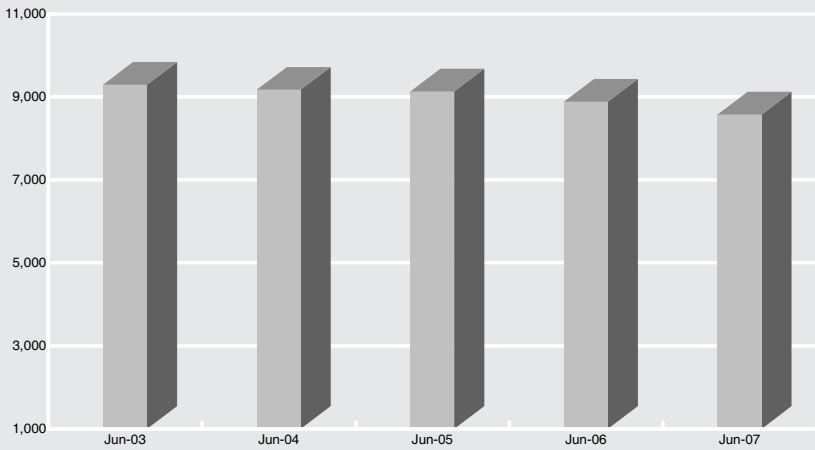
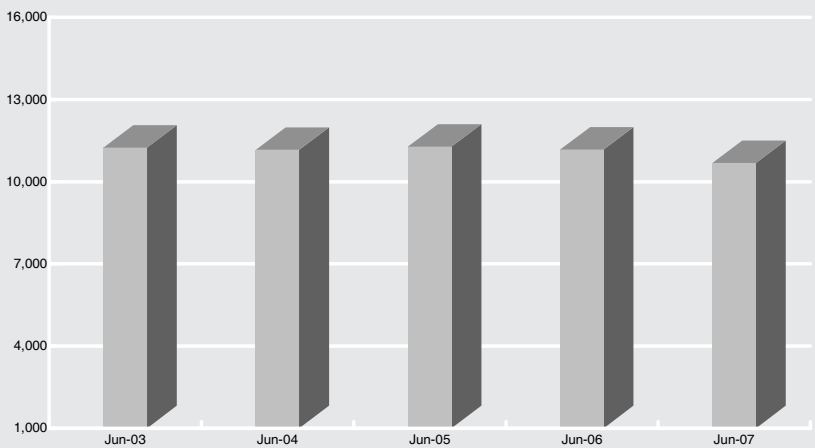


Chart 3.11

Transport Storage and Communications Total Sector Employment



improving the financial situation of the company. Developments in employment from June 2003 to June 2007 are shown in Chart 3.11. On a sub-sectoral level, significant drops in employment were recorded mainly in air transport, land transport and post and telecommunications, as well as supporting and auxiliary transport activities. By the end of June 2007, the transport, storage and communications sector accounted for 11.0 per cent of total market services employment, down from 11.6 per cent a year earlier.

Financial Intermediation

At the end of June 2007, employment in the financial intermediation sector stood at 5,315, up by 144 or 2.8 per cent over June 2006. This increase is almost entirely accounted for by the private sector. On a sub-sectoral level, the increase was mainly attributable to higher employment levels in the financial intermediation sub-sector, which were partly offset by a significant decline in activities auxiliary to financial intermediation sub-sector. By the end of the period under observation, the share of financial intermediation in total market services employment stood at 5.5 per cent, up by 0.1 percentage point from June 2006.

Real Estate, Renting and Business Activities

The labour complement in the real estate, renting and business activities sector stood at 12,536 in June 2007, an increase of 1,102 or 9.6 per cent over the same month the previous year. This increase was mainly due to increases in the



private sector that more than offset minimal declines in the public sector. On a sub-sectoral basis, the growth in employment was mainly attributable to an increase in the other business activities sub-sector, namely higher employment by a major call centre as well as to developments in computer and related activities and real estate activities. Chart 3.12 shows the upward trend in the number of persons employed in the real estate, renting and business sector over recent years. By the end of the period under observation, this sector accounted for 12.9 per cent of total market services employment, up by 1.0 percentage point over June 2006.

Unemployment

The analysis in this section focuses on the registered unemployed statistics under Part I of the unemployment Register. At the end of June 2007, the number of registered unemployed amounted to 5,701, a decrease of 900 or 13.6 per cent over June 2006. Consequently, the unemployment rate stood at 3.9 per cent, down by 0.6 percentage points, from the rate recorded in June 2006.

On a gender basis, the decline in the number of persons registering for employment was concentrated amongst males, as the number of males registering for employment fell by 645. Meanwhile, the number of females registering for employment dropped by 255. By the end of the period under observation, the share of males in total unemployed stood at 79.1 per cent, whilst the share of females stood at 20.9 per cent.

Registered Unemployed*
by duration of registration

Table 3.8

	Registered Unemployed	under 9 weeks %	9 - 48 weeks %	over 48 weeks %
2002	6,774	15.8	37.3	46.9
2003	7,494	20.8	41.2	38.0
2004	7,390	16.8	38.6	44.6
2005	6,696	21.6	37.0	41.4
2006	6,446	20.9	36.5	42.7
2006 (Jun)	6,601	16.9	41.4	41.8
2007 (Jun)	5,701	17.5	35.5	47.0

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

The decline in the level of unemployment was mainly concentrated amongst persons registering for employment for 9 to 48 weeks. In fact, as shown in Table 3.8, the share of persons registering for work for 9 to 48 weeks fell by 5.9 percentage points to 35.5 per cent by the end of June 2007. Meanwhile the share of unemployed persons registering for more than 48 weeks increased by 5.2 percentage points to 47.0 per cent, whilst the share of persons registering for less than 9 weeks stood at 17.5 per cent, 0.6 percentage points higher than the share recorded in June 2006.

As shown in Table 3.9, the age distribution of registered unemployed shifted towards older workers as the share of workers aged 49 years and over in total registered unemployed increased by 2.6 percentage points over the twelve months to June 2007. At the same time, the share of unemployed workers aged between 25 and 49 years in total unemployed stood at 58.2 per cent, a 2.1 percentage point increase over June 2006. In contrast, the share of persons aged between 16 and 24 years in total registered unemployed stood at 22.0 per cent, down by 4.7 percentage points over twelve months earlier.

Table 3.10 shows the registered unemployed classified by occupation as at the end of June 2007. The decline in unemployment recorded during the period under observation was driven by a decrease in persons registering for both manual and non-manual work. By the end of June 2007 the number of persons seeking non-manual employment stood at 2,118, a decrease of 196 over June 2006. This development was mainly due to decreases recorded in the technological and professional category, as well as in clerical and related works. The decline recorded in these categories was partly mitigated by the increase

Registered Unemployed*
by age distribution

Table 3.9

	Registered Unemployed	16 - 24 years %	25 - 49 years %	over 49 years %
2002	6,774	28.3	56.2	15.5
2003	7,494	28.4	55.1	16.5
2004	7,390	26.3	56.4	17.3
2005	6,696	28.2	55.1	16.7
2006	6,446	26.1	55.9	18.0
2006 (Jun)	6,601	26.7	56.1	17.2
2007 (Jun)	5,701	22.0	58.2	19.8

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Registered Unemployed Classified by Occupation*

at June 2007

Table 3.10

	Registered Unemployed			Percentage Share		
	Males	Females	Total	Males	Females	Total
Non-Manual						
Clerical & related workers	350	423	773	7.8	35.5	13.6
Supervisory	32	1	33	0.7	0.1	0.6
Technological & professional	541	76	617	12.0	6.4	10.8
Miscellaneous non-manual	433	262	695	9.6	22.0	12.2
Total Non-Manual	1,356	762	2,118	30.1	63.9	37.2
Manual						
Agriculture	175	1	176	3.9	0.1	3.1
Construction	452	0	452	10.0	0.0	7.9
Textiles	8	14	22	0.2	1.2	0.4
Printing	12	0	12	0.3	0.0	0.2
Metal working	199	0	199	4.4	0.0	3.5
Catering	182	34	216	4.0	2.9	3.8
Other services	422	109	531	9.4	9.1	9.3
Labouring	534	104	638	11.8	8.7	11.2
Miscellaneous	917	117	1034	20.3	9.8	18.1
Total Manual	2,901	379	3,280	64.3	31.8	57.5
Disabled persons	252	51	303	5.6	4.3	5.3
Total	4,509	1,192	5,701	100.0	100.0	100.0

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

in the number of persons registering for employment in the miscellaneous non-manual work category. Meanwhile, the number of persons seeking manual employment stood at 3,280, a decline of 644 during the twelve months to June 2007. Whilst the larger decline was recorded in the category of miscellaneous manual work, other significant decreases were also recorded in construction, metal working, catering and agriculture categories. Meanwhile, a significant increase in the number of registered unemployed was recorded in the labouring category. These changes reflect the reclassification of unemployed Part 1 registrants into different occupational categories, as well as new registrants.

The share of persons seeking non-manual employment in total unemployment stood at 37.2 per cent, up from 35.1 per cent in June 2006. The number of males seeking non-manual employment dropped by 71 to 1,356 and the share of males in the number of persons seeking non-manual employment stood at 64.0 per cent. Meanwhile, the number of females seeking non-manual employment

declined by 125 to 762 and accounted for 30.1 per cent of persons seeking non-manual employment.

During the same period, the share of persons seeking manual employment in total unemployment stood at 57.5 per cent, down from 59.4 per cent. The share of males in the persons seeking manual employment stood at 88.4 per cent.

The number of disabled persons registering for employment declined by 60 to 303 and accounted for 5.3 per cent of total unemployment as at June 2007.

Part-time Activity

At the end of June 2007, total part-time employment stood at 46,318, an increase of 3,130 or 7.2 per cent over June 2006. As shown in Table 3.11, since June 2003, total part-time employment increased by 12,820 or 38.3 per cent, reflecting increases in both part-timers holding a full-time job and part-time as a primary job. Throughout this four year period, an increasing trend was registered in both male and female part-time employment. These developments are indicative of an increased offering of part-time jobs by employers as well as flexibility of the labour supply to match labour demand.

	2003	2004	2005	2006	2007
	Jun	Jun	Jun	Jun	Jun
Part-Timers holding a full-time job	15,022	16,231	17,424	18,968	20,150
Males	11,606	12,286	12,995	13,942	14,583
Females	3,416	3,945	4,429	5,026	5,567
Part-Timers as a primary job	18,476	20,492	22,459	24,220	26,168
Males	7,022	7,911	8,787	9,657	10,691
Females	11,454	12,581	13,672	14,563	15,477
Total Part-Time Employment	33,498	36,723	39,883	43,188	46,318
Males	18,628	20,197	21,782	23,599	25,274
Females	14,870	16,526	18,101	19,589	21,044
Part-Timers as a primary job					
Males (as % of total gainfully occupied)	7.2	8.1	9.0	9.9	11.0
Females (as % of total gainfully occupied)	28.4	31.1	33.4	34.7	35.9
Total (as % of total gainfully occupied)	13.3	14.9	16.2	17.4	18.7

Source: Employment and Training Corporation

At the end of June 2007, persons holding a part-time job as their primary job increased by 1,948 or 8.0 per cent to 26,168. Of these 10,691 were males, while 15,477 were females. Table 3.11 shows that the share of persons holding a part-time job as their primary occupation in the gainfully occupied population stood at 18.7 per cent, up by 1.3 percentage points over June 2006. Meanwhile, males holding a part-time job as a primary occupation as a percentage of males gainfully occupied stood at 11.0 per cent, whilst the respective share for females stood at 35.9 per cent. This suggests that part-time work offers females the chance of a better balance between working life and family responsibilities.

In June 2007, the number of part-timers holding a full-time job stood at 20,150, an increase of 1,182 or 6.2 per cent over June 2006. At the end of the period under observation, the share of male part-timers holding a full time job stood at 72.4 per cent, whilst the corresponding share for females stood at 27.6 per cent.

4. Productive Activities

4. Productive Activities

The local manufacturing industry is made up of a relatively large number of locally-owned small and medium-sized enterprises as well as a number of relatively large foreign-owned export-oriented subsidiaries. Over the recent years, this industry has been facing a number of challenges. The largely domestic-oriented small and medium-sized enterprises have been undergoing a restructuring process to enable them to withstand increasing competitive pressures from imported goods. In addition, globalisation brought about intensified competitive challenges from low-cost countries to export-oriented subsidiaries. As a result of such developments, the manufacturing industry has witnessed a decline in certain low value-added sectors such as textiles, clothing and footwear. Nevertheless, it is encouraging that emerging sectors, such as chemicals, have sustained significant growth.

In the first six months of 2007, the domestic manufacturing industry was positively affected by the world economy which remained robust. In particular, Malta's trading partners registered a positive economic performance in the period under review. During January-June 2007, the growth recorded in the previous year was sustained as the domestic manufacturing sector continued on an upward trend with turnover increasing by around 4 per cent. This development was mainly underpinned by a rise in exports of nearly 4.7 per cent. Significant rises in exports were recorded in the publishing and printing and chemicals and chemical products as well as electrical machinery and apparatus and furniture and other manufacturing. On the other hand, exports by the traditional low value-added sectors such as textiles and textiles products, wearing apparel and clothing and leather and leather products continued on a downward trend whilst the medical, precision and optical instruments sector also recorded lower exports.

The radio, TV and communication equipment sector is the largest sector within the manufacturing industry. Turnover in this sector makes up over 47 per cent of the total turnover generated by the whole industry and it exports 57.8 per cent of the total production exported in the manufacturing industry. Following a significant increase of around 25 per cent in the period January-June 2006, exports by this sector remained practically stable as they increased by a marginal 0.4 per cent in the first six months of 2007.

It is pertinent to note that during the period January-June 2007, local sales increased marginally by 1.3 per cent. This contrasts with the weak performance of comparable periods in the previous three years. This development reflects

increases in the publishing and printing, fabricated metal products and food and beverages sectors. These increases were partly offset by decreases in local sales in other sectors namely the furniture and other manufacturing.

Capital outlays have remained practically unchanged in the period under review at around Lm33 million. Meanwhile, earnings increased and employment levels declined resulting in higher average compensation per capita in the total industry. In fact, average weekly earnings per capita increased by nearly 5 per cent, during the period under review. This reflects the restructuring underway in the manufacturing sectors especially the shift towards higher value added sectors.

Value added at factor cost measures the wealth generation capability of the manufacturing industry. Value added at factor cost per capita for the total manufacturing industry increased by 5.8 per cent between 2005 and 2006, reflecting an increase in both personnel costs per capita and in gross operating surplus per capita. The radio, TV and communication equipment sector remained the largest contributor to aggregate value added. Other sectors, mainly the food, beverages and tobacco, furniture and other manufacturing and chemicals and chemical products sectors also contributed significantly towards aggregate value added in the manufacturing sector.

Over the past recent years, the agriculture and fisheries sector has maintained a low but stable share in the Maltese economy. This sector has important linkages with other economic sectors such as tourism. During the first two quarters of this year, the wholesale value of fruit and vegetables sold through organized markets increased by 7.5 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 21.7 and 13.2 per cent respectively when compared to January-June 2006 period. Exports of fish during the first seven months of this year increased substantially both in volume and value terms, when compared to the same period in the preceding year.

The local shipyard industry has been facing increasing competition from other low cost shipyards during recent years as well as domestic productivity challenges. During the first seven months of 2007, Malta Shipyards Limited, increased its turnover to Lm15.5 million. Notwithstanding this, losses were recorded for the same period, albeit lower than targeted. Productivity, safety performance, environmental issues and quality standards continued to be addressed. At 1,758 employment at Malta Shipyards Limited as at the end of the first two quarters of this year remained practically unchanged when compared to the same period in 2006.

This Chapter first reviews the performance of the local manufacturing industry in the first six months of 2007. Data provided by the National Statistics Office (NSO) and analysed in this Chapter is 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.

The second part of this Chapter reviews sectoral value added at factor cost for the total manufacturing industry. Data for this section is compiled by the NSO from annual business surveys and is classified according to NACE. The methodology adopted by the NSO in data collection and compilation of value added at factor cost is in line with the Structural Business Council Regulation 58/97, thereby being comparable to European Union (EU) methodology.

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 period under review, turnover in the total manufacturing industry increased by 4.1 per cent and stood at Lm506.4 million. This performance was mainly underpinned by a rise in exports of 4.7 per cent which reached Lm416.3 million. Substantial increases in exports levels were recorded in the publishing and printing, chemicals and chemical products, electrical machinery and apparatus and furniture and other manufacturing sectors, and to a lesser extent in the rubber and plastic and radio, TV and communication equipment sectors. Conversely, the main downturns in exports levels were registered in the textiles and textile products, wearing apparel and clothes, leather and leather products,

medical, precision and optical instruments sectors. Other drops were also evidenced in the food and beverages and other transport equipment sectors.

Local sales for the total industry increased by 1.3 per cent to Lm90.1 million, during the first half of 2007. This rise mainly reflects increases in the publishing and printing, fabricated metal products and food and beverages sectors. These were partly offset by a decline in the local sales of the furniture and other manufacturing and to a lesser extent by drops in paper and paper products, the electrical machinery and apparatus and medical, precision and optical instruments sectors.

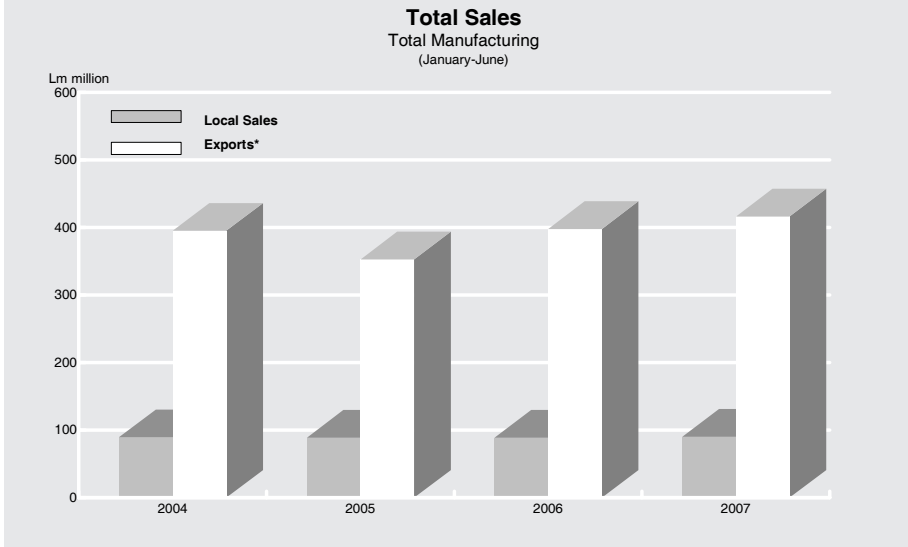
Chart 4.1 presents developments in exports and local sales. The share of local sales between 2004 and 2007 has dropped marginally by 0.7 percentage points to 17.8 per cent, whereas the share of exports in total turnover rose to 82.2 per cent. This indicates that the manufacturing industry is becoming somewhat more export-oriented.

As depicted in Chart 4.2, earnings from employment in the manufacturing industry rose marginally in the period under review, despite a decrease in employment levels and stood at Lm61.7 million. This constitutes a reversal of the downward trend registered since January-June 2004, and indicates that the growth sectors are paying relatively higher wages than the contracting manufacturing sectors. Chart 4.3 shows the developments in capital outlays in this industry between 2004 and 2007. Capital outlays have declined slightly by Lm0.6 million to Lm33.2 million in the first six months of 2007.

Chart 4.4 illustrates the trend followed by average weekly sales per employee, which rose by 4.3 per cent and reached Lm1,064. This was mainly underpinned by the performance of the publishing and printing and chemicals and chemical products sectors. Chart 4.5 presents average weekly compensation per capita which sustained its upward trend as it increased by 4.7 per cent in the period under review and stood at Lm130. This reflects a decline in employment levels combined with an increase in the remuneration in the industry.

The average rates of change in exports and local sales registered in nine major sectors within the manufacturing industry during January-June 2003-2007, are presented in Chart 4.6. There were positive growth rates of exports in all the sectors with the exception of wearing apparel and clothes and medical, precision and optical instruments sectors. The largest growth rate in exports was recorded in the chemicals and chemical products sector owing to substantial increases in

Chart 4.1



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

Chart 4.2

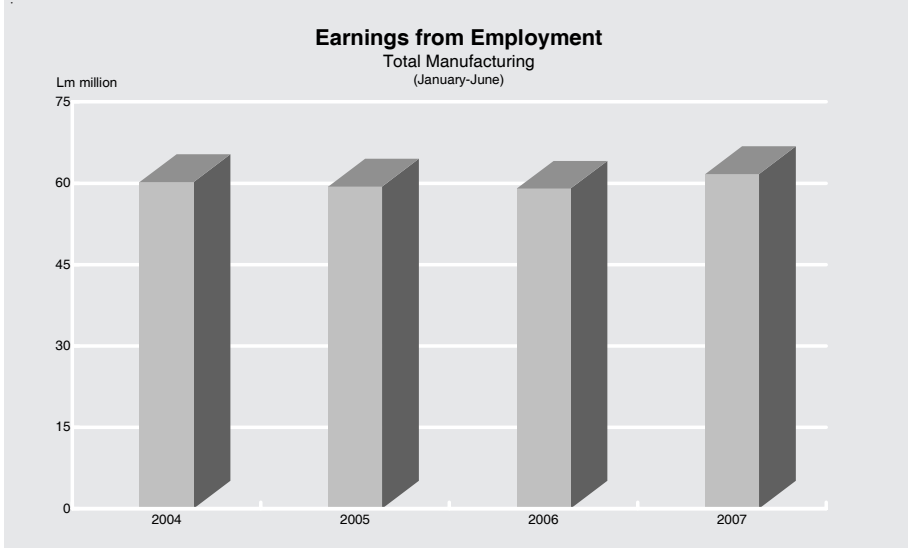


Chart 4.3

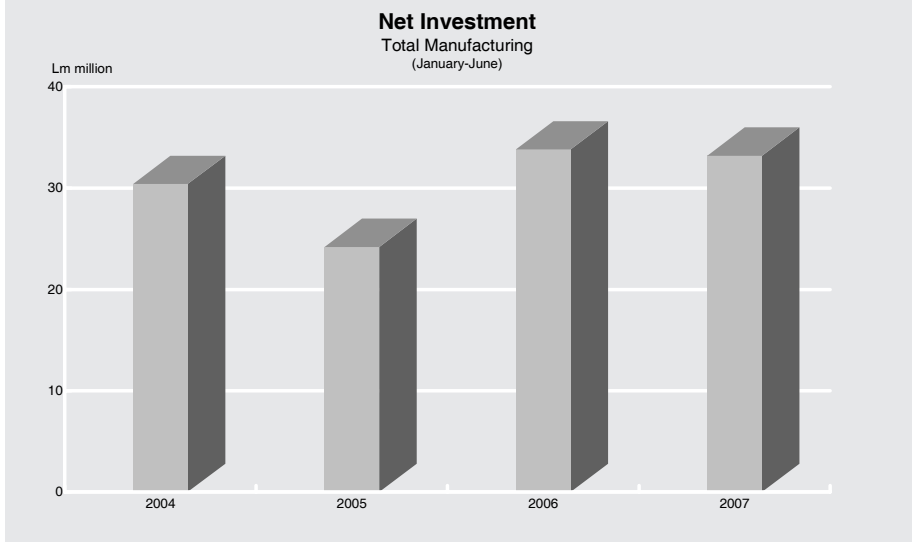
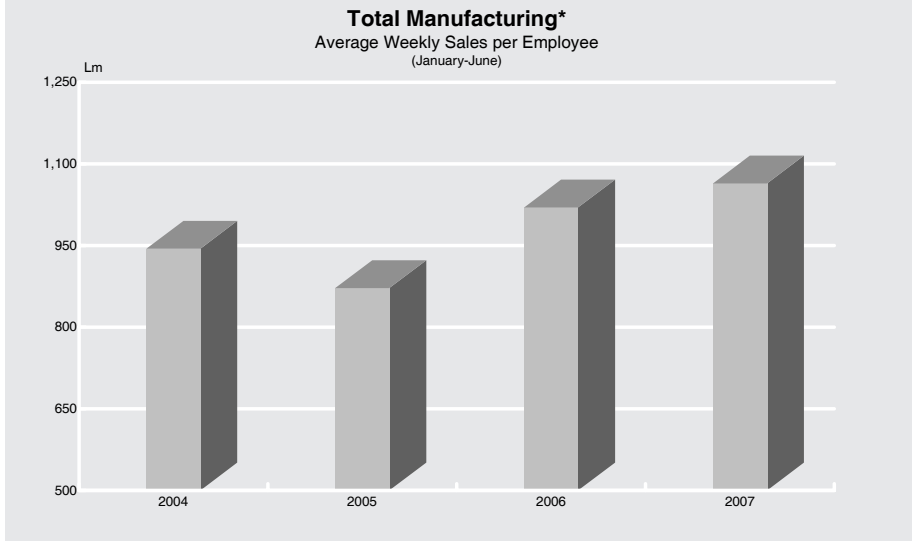


Chart 4.4



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

Chart 4.5

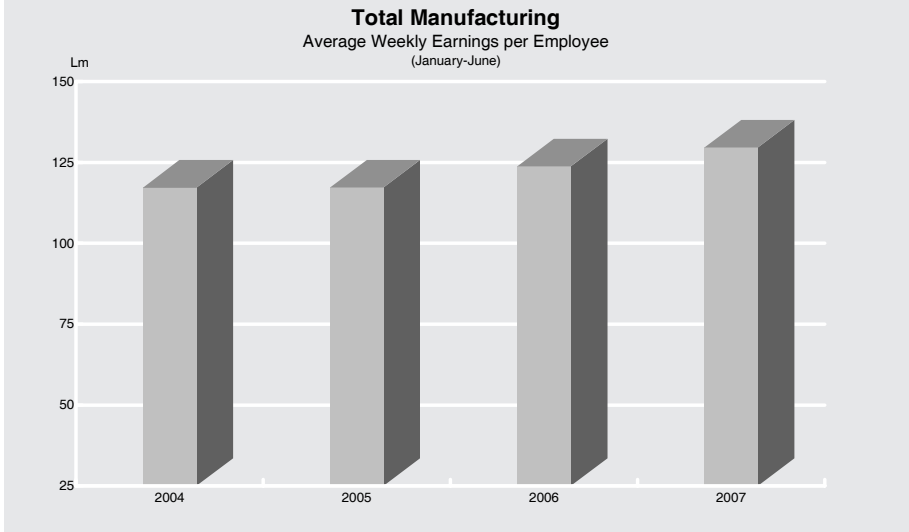
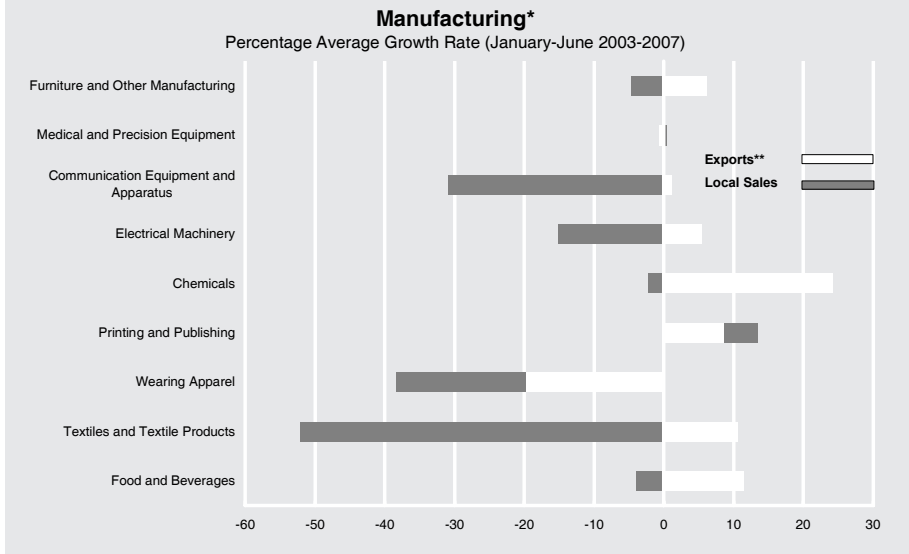


Chart 4.6



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

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

the first halves of both 2006 and 2007. On the other hand, positive growth rates in local sales were only recorded in the publishing and printing and medical, precision and optical instruments 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.

Foods and Beverages Products

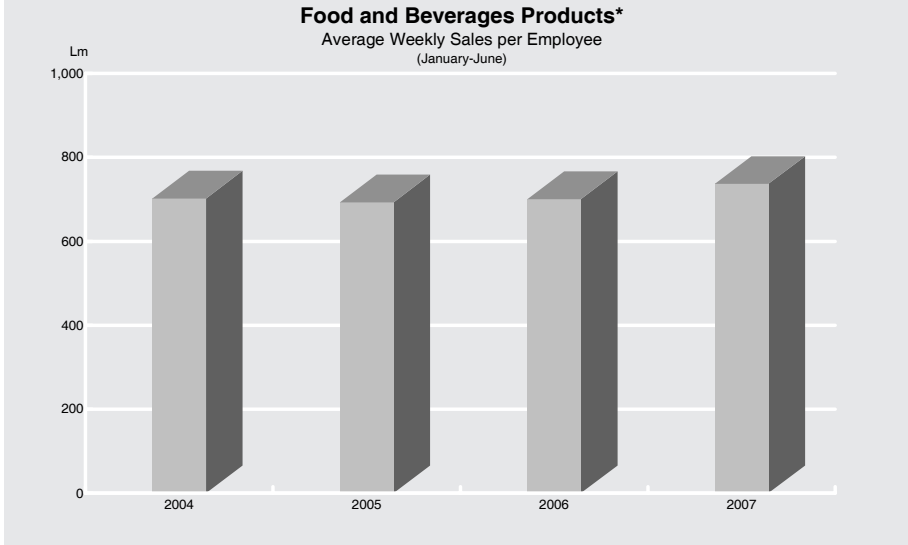
The food and beverages sector remained one of the most locally-oriented sectors in the manufacturing industry. In fact, this sector directed around 77 per cent of its production to the local market, during the period under review. The beverages sub-sector is principally local oriented while the food sub-sector exported around 31 per cent of its output. The sector's share in total manufacturing turnover stood at 10.7 per cent, remaining the sector with the second largest share of turnover in the industry, after the radio, TV and communication equipment apparatus sector. Nonetheless, the gap between the shares of these two sectors is considerable. It is noteworthy that the Tobacco industry is no longer being reported as from 2007 as a main enterprise in this sector changed the nature of its operations from manufacturing to trading.

Total sectoral turnover stood at Lm54.1 million, practically unchanged, when compared to the same period of the previous year. This performance was underpinned by a decline in exports which offset the increase in local sales. The decrease in exports was recorded in the foods sub-sector which dropped by 5.4 per cent and offset the increase in exports of beverages products. The rise of 1.4 per cent in local sales, albeit marginal, is noteworthy as it contrasts with the downward trend registered in the previous three years.

Net investment in the food and beverages products sector increased by Lm3.9 million during the period under review to Lm6.3 million. This increase was mainly underpinned by a substantial increase in net investment of the beverages sub-sector which increased by around Lm4.4 million. This reflects capital outlays by an enterprise operating in the beverages sub-sector.

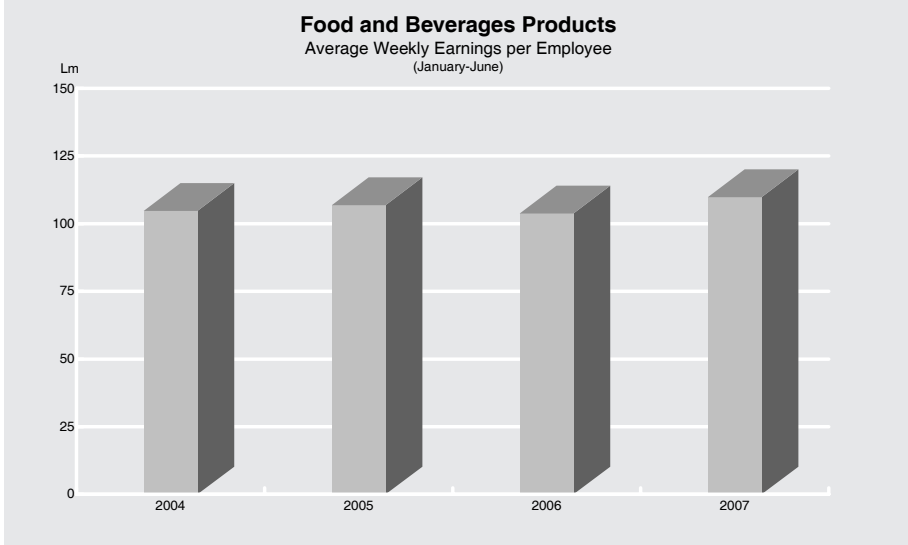
As illustrated in Chart 4.7, average weekly sales per employee increased by Lm36 to reach Lm737, reflecting a drop in the employment levels. Furthermore, as depicted in Chart 4.8, per capita compensation levels rose by Lm6 to Lm110, remaining some 15 per cent below the average for the manufacturing industry.

Chart 4.7



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

Chart 4.8



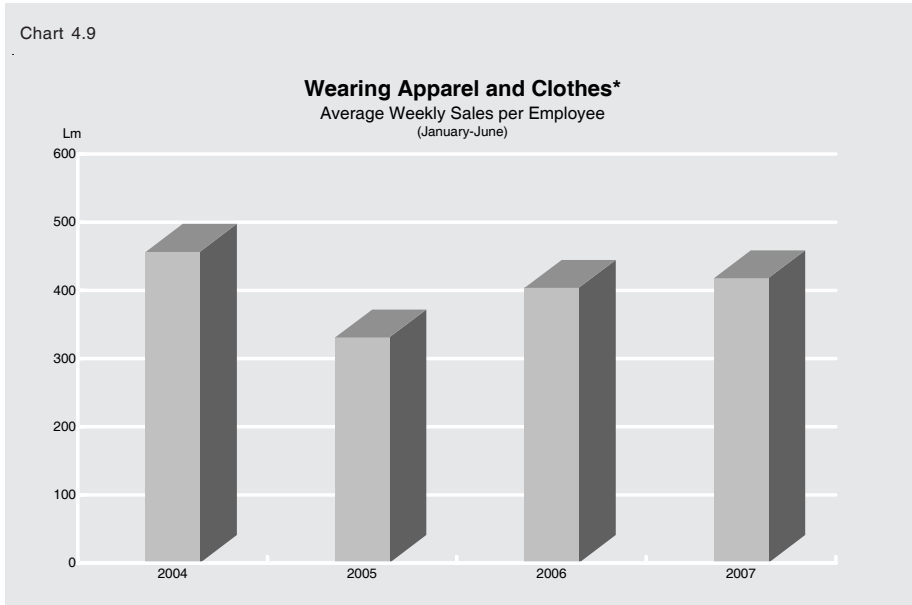
Textiles and Textile Products

This sector continued on a downward trend and, in fact, total turnover decreased by 8.3 per cent, to Lm9.0 million. This decline was mainly underpinned by a decline in exports of the same magnitude. Investment levels dropped as well by Lm0.9 million during the period under review and reached Lm1.4 million.

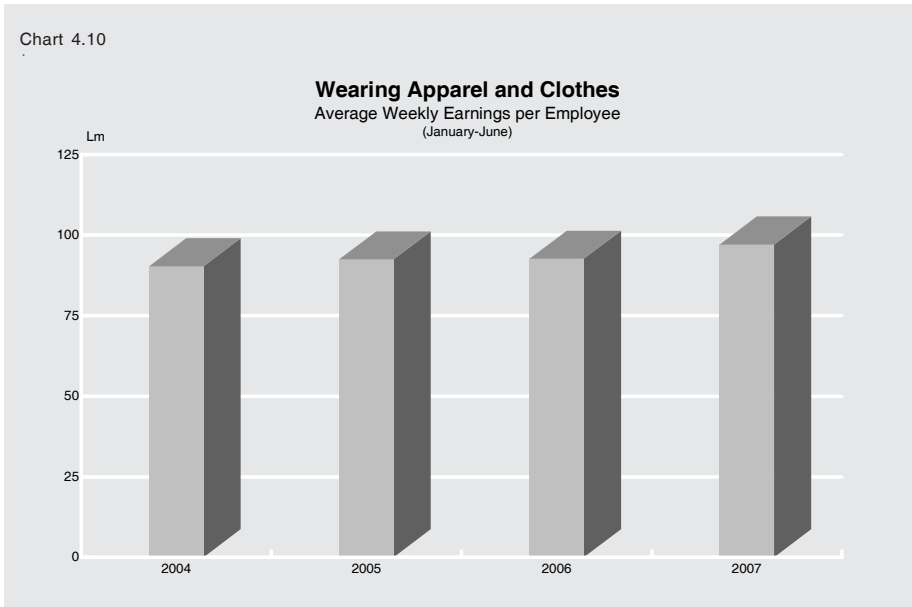
Average weekly sales per employee dropped by around Lm59 to Lm808 while average weekly exports per employee declined by Lm59 to Lm799 during January-June 2007. This reflects the decline in sales which outweighed the decline in employment levels. Average weekly per capita compensation levels declined by Lm8 to Lm 124.

Wearing Apparel and Clothes

The wearing apparel and clothes sector directed around 90 per cent of its production to the export market. In the period under review, total turnover fell by 5.6 per cent to Lm11.4 million. This decline was made up of a drop in domestic exports of 7.2 per cent which offset the marginal increase in local sales of this sector. This sector continues to face increased international competition especially from manufacturers in low-cost locations.



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



Average weekly sales per employee rose by Lm14 to Lm418 and average weekly exports per employee rose by Lm6 to Lm373. These increases were attributable to lower employment levels in the sector. Furthermore, though average weekly earnings per employee increased by Lm4 to Lm97, they still remain around 25 per cent below the average weekly earnings per employee of the total manufacturing industry. Average weekly sales and earnings per capita for the sector are illustrated in Chart 4.9 and Chart 4.10 respectively.

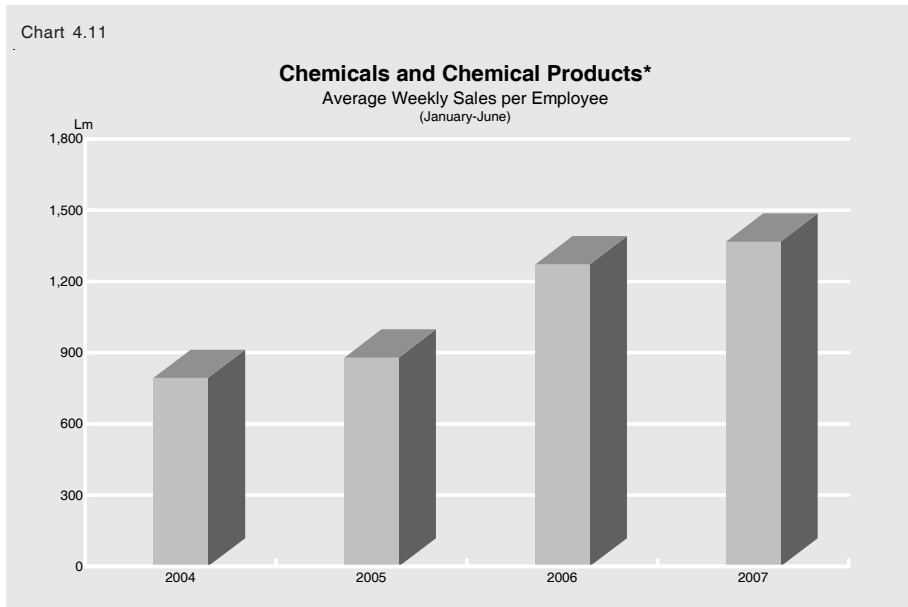
Publishing and Printing

During the first half of 2007, around 66.6 per cent of total turnover in the publishing and printing sector was directed towards the export market. Total turnover rose by 34.4 per cent and amounted to Lm30.6 million. This increase was mainly due to a substantial rise in exports of nearly 50 per cent to Lm20.4 million. This increase occurred in the first quarter of 2007 as in the second quarter of 2007 the same levels of the previous year were achieved. Meanwhile, local sales increased marginally by Lm1.1 million to Lm10.2 million. It is pertinent to note that net investment in this sector rose significantly in the period under review, as it increased by Lm6.4 million to Lm7.4 million. This reflected higher capital outlays by firms established in the sector in the first three months of 2007.

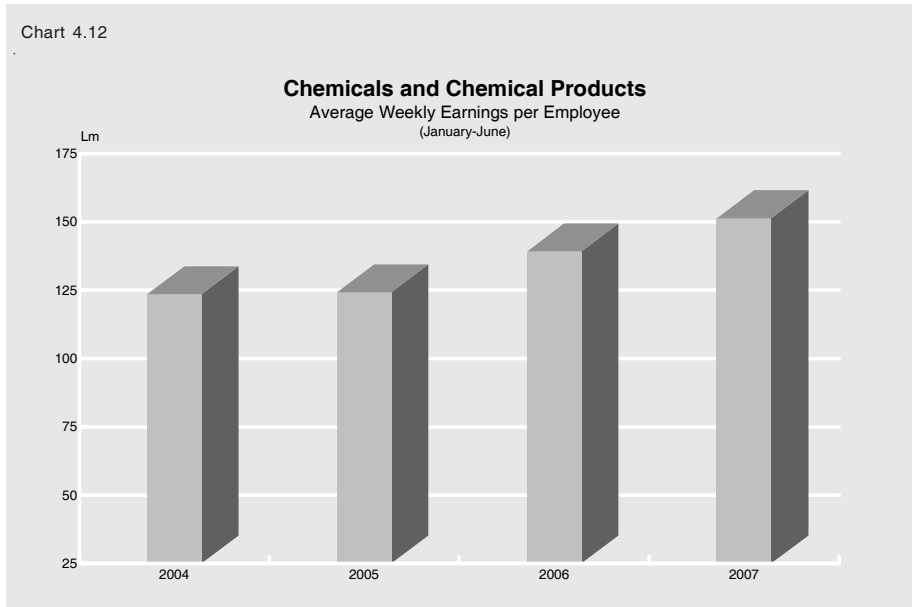
Both average weekly sales per employee and average weekly exports per employee rose considerably by Lm207 and Lm150, to reach Lm712 and Lm474 respectively. These increases were due to the positive performance in the turnover and exports of the sector in the period under review which outweighed the increase in employment levels of 2.1 per cent. In addition, average weekly earnings per employee increased as well by Lm4 to Lm148 standing above the average weekly earnings per employee for the total manufacturing industry by around 14 per cent.

Chemicals and Chemical Products

During the period under review, over 90 per cent of the chemicals and chemical products sector was directed towards the export market. This sector is one of the emerging growth sectors in the Maltese economy. The enterprises engaged in the chemicals and chemical products sector include pharmaceuticals and toiletries which are export-oriented whilst local-oriented firms produce products such as paint, detergents and insecticides. The turnover in this sector continued to increase significantly as it rose by 19.4 per cent to Lm35.1 million. Indeed, turnover has doubled since 2004. This increase was mainly underpinned by the pharmaceuticals sub-sector whose turnover continued to increase by Lm4.5 million to Lm28.8 million. There was a marginal increase in capital outlays of this sector of Lm0.7 million, mainly reflecting increases in investment in the



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



pharmaceutical sub-sector as a new export-oriented operator started to operate in this industry. The developments registered suggest that this sector is becoming increasingly oriented towards the pharmaceutical sub-sector.

As shown in Chart 4.11, average weekly sales per employee continued to grow as it increased by Lm96 to Lm1,367. Furthermore, average weekly exports per employee also registered an improvement as it increased by Lm116 to Lm1,232. Chart 4.12 presents average per capita weekly compensation which rose by Lm12 to Lm151, thus exceeding the average for the total industry by 17 per cent and surpassing the radio, TV and communication equipment sector with the highest weekly average earnings per employee.

Rubber and Plastic Products

Around 80 per cent of the rubber and plastic products sector was exported during the period under review. Total turnover of this sector increased by 4.8 per cent to Lm21.2 million. This reflects an increase in exports of Lm1.1 million to Lm16.9 million which was partly offset by a drop in local sales of 3.1 per cent to Lm4.2 million.

Average weekly sales per employee increased by Lm24 and stood at Lm507. Average weekly exports per employee rose by Lm27 and reached Lm405.

These developments were underpinned by the increase recorded in the turnover of this sector since employment levels remained stable in the period under review. The average weekly earnings increased by Lm5 to Lm129, being in line with the average weekly earnings for the total industry.

Electrical Machinery and Apparatus

The electrical machinery and apparatus is almost completely export-oriented as it directed 99 per cent of its turnover towards foreign markets in the period under review. Turnover in this sector grew by 19.5 per cent to Lm30.4 million when compared to the same period a year earlier. This increase is due to a rise in exports of 21.2 per cent to Lm30.0 million.

Despite a rise in the employment level of this sector, there were still significant increases in the average weekly sales per employee and average weekly exports per employee. In fact, average weekly sales per employee increased by Lm56 to Lm804 while average weekly exports per employee increased by Lm66 to Lm793. An increase of Lm6 in the average weekly earnings per capita was recorded at Lm134. This average is slightly higher than the average weekly earnings per capita for the total industry.

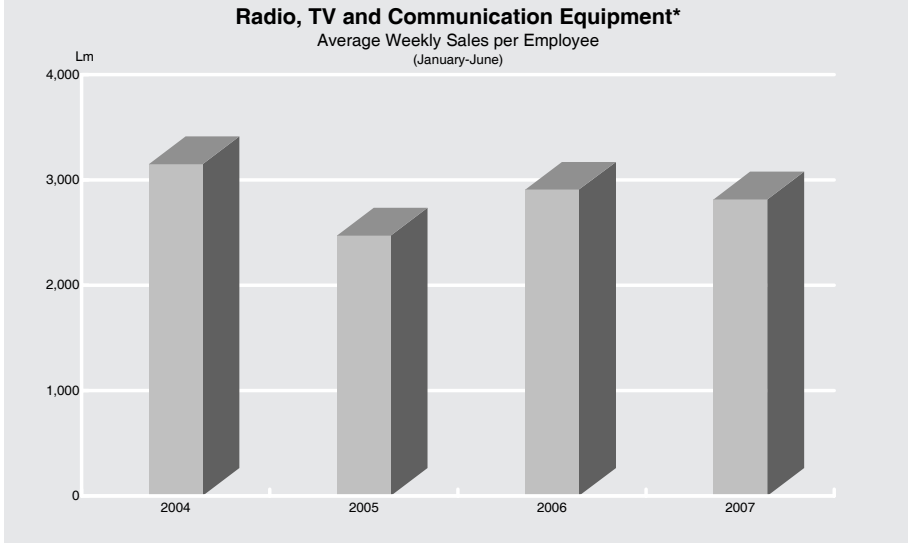
Radio, TV and Communication Equipment

Turnover in the radio, TV and communication equipment sector, which is wholly export-oriented, made up over 47 per cent of the total manufacturing turnover in the period under review, thus remaining the sector which contributes most towards output generated by the local manufacturing industry.

The main manufacturing activity in this industry consists of electronic components and other precision communication products. The turnover is mainly influenced by the performance of a small number of relatively large foreign subsidiaries, which in turn are affected by developments in the international market.

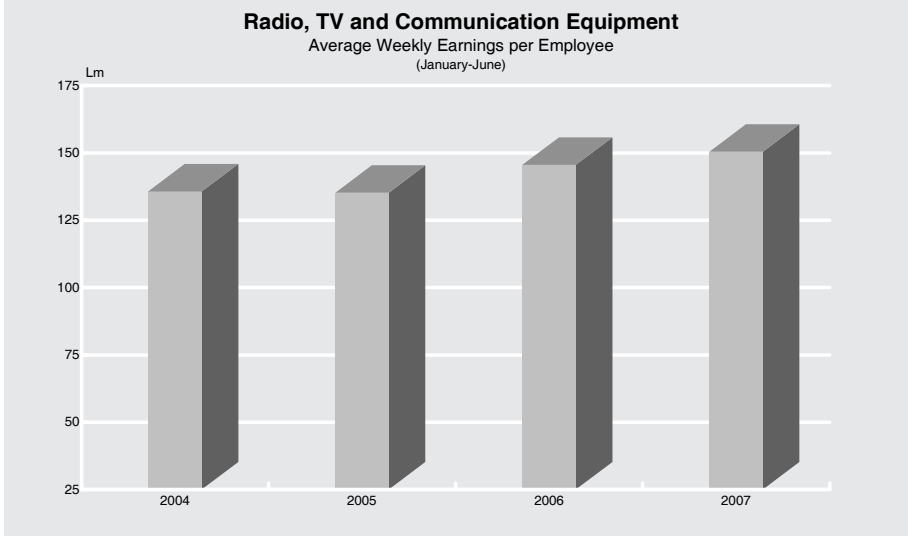
This sector has been affected negatively by the international market in the early 2000s, but its performance improved significantly in 2006. During the first six months of 2007, the radio, TV and communication equipment registered a marginal increase in its turnover of 0.4 per cent to reach Lm240.8 million. This was underpinned by an increase of the same magnitude in exports which stood at Lm240.5 million. During the period under review, average employment levels have increased by around 4 per cent. After strong investment levels being

Chart 4.13



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

Chart 4.14



registered in the same period of last year due to a restructuring process carried out by a major export-oriented subsidiary in the sector, capital outlays in the period January-June 2007 declined by Lm12 million to Lm8.7 million.

Both average weekly sales per employee and average weekly exports per employee recorded declines indicating a significant increase in the employment levels of this sector. Average weekly sales per employee dropped by Lm94 and reached Lm2,814 while average weekly exports per employee decreased by Lm100 and amounted to Lm2,810. Nonetheless, the average weekly sales per employee which is presented in Chart 4.13 and the average weekly exports per employee both remain much higher than the average for the whole industry. On the other hand, average weekly earnings per employee, which is illustrated in Chart 4.14, rose by Lm5 to Lm150, which is also higher, by about 16 per cent, than the average weekly earnings per employee registered for the total manufacturing industry.

Medical, Precision and Optical Instruments

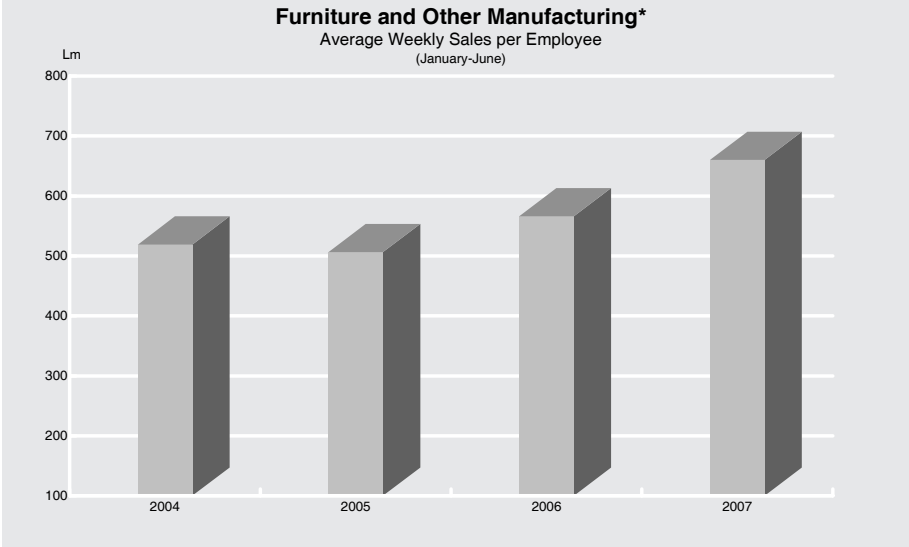
The medical, precision and optical instruments sector is largely export-oriented with over 77 per cent of its production being directed towards foreign markets. Turnover in this sector declined by Lm1 million to Lm9.5 million. This drop was mainly underpinned by lower exports whilst local sales also declined. Exports decreased by 10.3 per cent and amounted to Lm7.4 million while local sales declined by Lm0.2 million to Lm2.2 million. Furthermore, net investment remained practically the same level recorded in the same period in 2006 and stood at Lm0.4 million.

Given a substantial drop in employment levels, even though turnover declined in the period under review, there were increases in both average weekly sales per employee and average weekly exports per employee of Lm16 and Lm10 respectively. Furthermore, average weekly compensation per employee rose by Lm13 and stood at Lm132 which is slightly higher than the average for the total manufacturing industry.

Furniture and Other Manufacturing

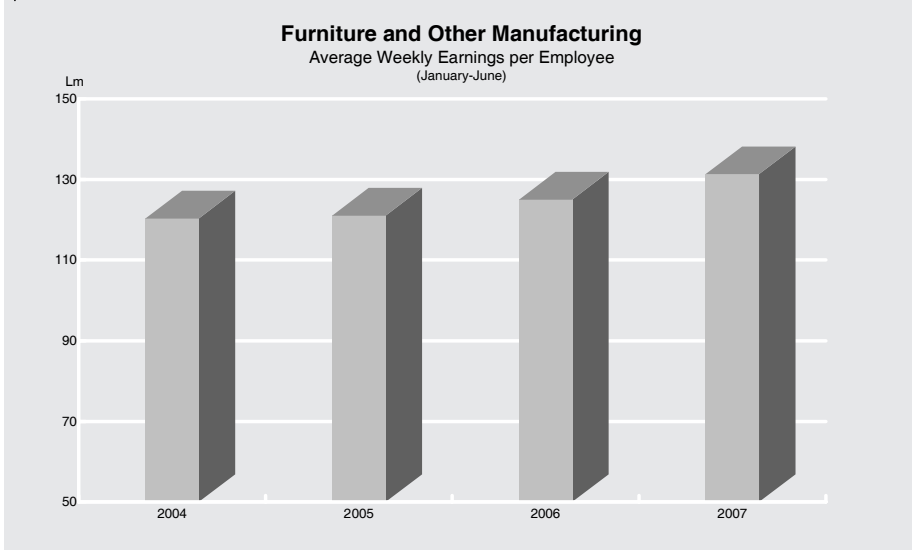
This sector comprises a cluster of primarily local-oriented manufacturers of furniture products, while a number of other firms are engaged in the manufacture of toys, games and jewellery items which are mainly directed towards the export market.

Chart 4.15



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

Chart 4.16



During the first half of 2007, turnover recorded an increase of 12.7 per cent and stood at Lm27.4 million. Exports in this sector increased by 21.4 per cent and reached Lm21.5 million. These rises were mainly due to a significant increase in exports of the games and toys sub-sector. On the other hand, there was a slight drop in local sales of Lm0.7 million to Lm5.9 million. This reflects a drop in the local sales of the furniture sub-sector, which after the improvement registered in the local sales in the same period of last year, decreased by 10.7 per cent. The furniture sub-sector has been facing competition from imported furniture products since the dismantling of levies in October 2002. Capital outlays have dropped by Lm0.4 million to Lm1.1 million. This drop in capital outlays mainly reflects lower investment by the games and toys sub-sector.

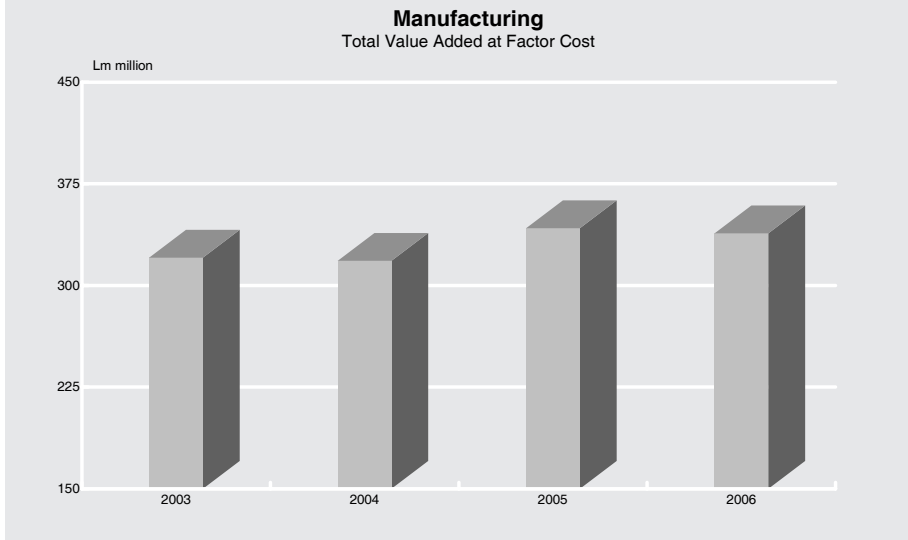
Chart 4.15 depicts average weekly sales per employee which rose by Lm94 and stood at Lm660. Average weekly exports per employee increased by Lm106 to Lm518. Both these rises reflect a drop in employment levels which was mainly due to a decline in the employment levels of the furniture sub-sector. In addition, Chart 4.16 illustrates that average weekly earnings per capita increased by Lm6 to reach Lm131 which is marginally higher than the average for the total manufacturing industry.

Value Added

A review of developments in value added of the manufacturing industry during the 2003-2006 period is presented below. The data compiled for this analysis is based on the manufacturers' responses to an annual business statistics questionnaire, in line with the Structural Business Statistics Council Regulation 58/97. According to this methodology, value added at factor cost comprises personnel costs and gross operating surplus. Personnel costs are made up of wages and salaries and employers' social security costs, whilst gross operating surplus is the surplus generated by operating activities net of labour cost.

Value added data provides an indication of the contribution of sectoral performance to developments in the total manufacturing industry. Chart 4.17 illustrates total manufacturing value added at factor cost during the 2003-2006 period. Total manufacturing value added at factor cost declined by 11.0 per cent in 2006 following an increase of 7.6 per cent registered in 2005. This was underpinned by a 4.8 per cent drop in personnel costs which more than outweighed the increase of 1.9 per cent in gross operating surplus during 2006 when compared to the levels recorded in 2005.

Chart 4.17



Value Added at Factor Cost per capita

Table 4.1

Lm

	2003	2004	2005	2006*
Food, Beverages and Tobacco Products	12,963	13,219	14,727	14,788
Textiles and Textile Products	10,860	11,232	11,425	9,501
Wearing Apparel and Clothes	6,206	6,765	9,288	7,271
Leather and Leather Products	6,485	6,669	6,000	5,415
Wood and Wood Products	6,235	6,361	7,135	6,518
Paper and Paper Products	10,253	10,677	8,971	9,215
Publishing and Printing	11,604	10,114	10,670	10,177
Chemicals and Chemical Products	13,535	11,398	23,854	29,783
Rubber and Plastic Products	11,950	12,530	11,781	12,095
Other Non-Metallic Mineral Products	8,594	8,272	9,128	9,264
Fabricated Metal Products	7,733	7,280	9,223	8,913
Machinery and Equipment n.e.c.	11,110	13,159	10,972	12,058
Electrical Machinery and Apparatus	14,470	16,566	16,292	15,909
Radio, TV and Communication Equipment	25,107	27,035	26,506	29,097
Medical, Precision and Optical Instruments	10,784	9,691	8,911	8,702
Motor Vehicles, Trailers and Semi-Trailers	6,497	6,844	7,439	6,453
Other Transport Equipment	3,399	2,832	7,897	6,699
Furniture and Other Manufacturing n.e.c.	10,159	11,331	11,900	11,893
Recycling	17,712	15,526	17,182	18,882
Total Manufacturing	11,485	11,687	13,380	14,153

* Provisional

Source: National Statistics Office

A sectoral analysis of the manufacturing industry, based on value added per capita, is provided in Table 4.1. Although total value added registered a decline in 2006, value added per capita increased in 2006 reflecting lower employment levels. However, the growth rate in value added per capita declined from 14.5 per cent in 2005 to 5.8 per cent in 2006.

As shown in Table 4.2, personnel costs per capita followed a gradual rising trend during the period under review. Growth rates of 0.7 per cent and 0.8 per cent were recorded in 2004 and 2005 respectively, whilst in 2006 personnel costs per capita increased further by 2.4 per cent. Gross operating surplus per capita have increased throughout the 2003-2006 period, as illustrated in Table 4.3. The growth rate of gross operating surplus per capita in 2004 stood at 3.0 per cent, but it rose significantly in 2005 to 30.6 per cent. In 2006, growth slowed down to 8.8 per cent.

Chart 4.18 illustrates the trend followed between 2003 and 2006 in the two components of value added at factor cost per capita.

	2003	2004	2005	2006*
Food, Beverages and Tobacco Products	5,370	5,625	5,740	5,666
Textiles and Textile Products	5,896	5,516	6,187	5,878
Wearing Apparel and Clothes	5,595	5,646	5,379	4,303
Leather and Leather Products	4,561	4,716	4,916	5,063
Wood and Wood Products	3,952	3,618	4,460	4,594
Paper and Paper Products	6,120	6,013	5,819	6,124
Publishing and Printing	6,898	7,171	6,569	6,960
Chemicals and Chemical Products	6,312	6,789	6,822	7,427
Rubber and Plastic Products	6,663	6,394	6,536	6,294
Other Non-Metallic Mineral Products	4,442	4,476	4,629	4,917
Fabricated Metal Products	4,954	5,415	5,419	5,034
Machinery and Equipment n.e.c.	5,704	6,495	5,731	5,667
Electrical Machinery and Apparatus	7,132	6,993	7,267	7,169
Radio, TV and Communication Equipment	7,707	7,852	8,002	8,585
Medical, Precision and Optical Instruments	6,199	5,970	5,697	5,665
Motor Vehicles, Trailers and Semi-Trailers	4,500	5,642	4,661	4,706
Other Transport Equipment	8,014	7,389	8,052	8,302
Furniture and Other Manufacturing n.e.c.	5,601	5,659	5,656	5,839
Recycling	5,221	3,908	4,587	4,549
Total Manufacturing	6,270	6,313	6,361	6,516

* Provisional

Source: National Statistics Office

Gross Operating Surplus per capita

Table 4.3

Lm

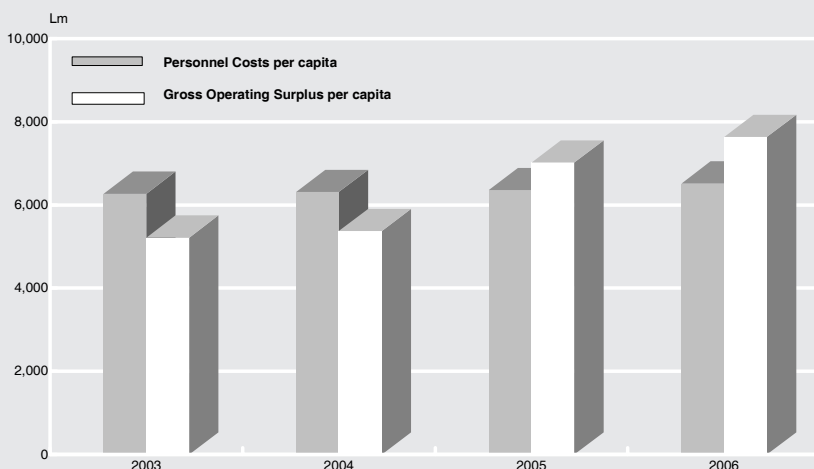
	2003	2004	2005	2006*
Food, Beverages and Tobacco Products	7,593	7,594	8,987	9,122
Textiles and Textile Products	4,965	5,715	5,238	3,624
Wearing Apparel and Clothes	611	1,120	3,909	2,968
Leather and Leather Products	1,924	1,953	1,084	352
Wood and Wood Products	2,283	2,743	2,674	1,924
Paper and Paper Products	4,133	4,665	3,152	3,091
Publishing and Printing	4,707	2,943	4,101	3,217
Chemicals and Chemical Products	7,223	4,609	17,032	22,356
Rubber and Plastic Products	5,286	6,136	5,245	5,801
Other Non-Metallic Mineral Products	4,152	3,796	4,499	4,347
Fabricated Metal Products	2,779	1,865	3,804	3,879
Machinery and Equipment n.e.c.	5,406	6,664	5,241	6,392
Electrical Machinery and Apparatus	7,338	9,573	9,025	8,740
Radio, TV and Communication Equipment	17,401	19,183	18,504	20,513
Medical, Precision and Optical Instruments	4,585	3,722	3,214	3,037
Motor Vehicles, Trailers and Semi-Trailers	1,998	1,203	2,778	1,747
Other Transport Equipment	-4,616	-4,557	-156	-1,604
Furniture and Other Manufacturing n.e.c.	4,558	5,672	6,244	6,055
Recycling	12,491	11,618	12,595	14,333
Total Manufacturing	5,215	5,374	7,019	7,637

* Provisional

Source: National Statistics Office

Chart 4.18

Composition of per capita Value Added at Factor Cost



Value Added at Factor Cost per capita
in real terms

Table 4.4

Lm

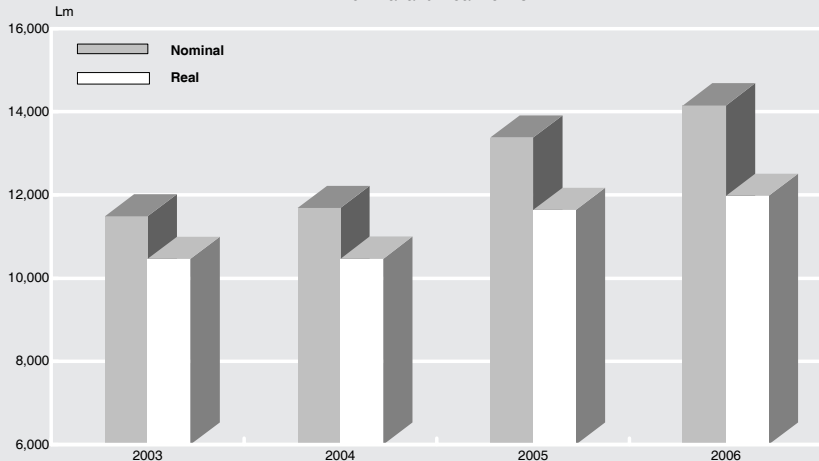
	2003	2004	2005	2006*
Food, Beverages and Tobacco Products	11,814	11,840	12,814	12,519
Textiles and Textile Products	9,897	10,059	9,941	8,044
Wearing Apparel and Clothes	5,656	6,059	8,082	6,156
Leather and Leather Products	5,910	5,973	5,220	4,584
Wood and Wood Products	5,682	5,697	6,208	5,518
Paper and Paper Products	9,344	9,563	7,806	7,801
Publishing and Printing	10,575	9,059	9,284	8,616
Chemicals and Chemical Products	12,334	10,209	20,756	25,213
Rubber and Plastic Products	10,890	11,223	10,251	10,239
Other Non-Metallic Mineral Products	7,832	7,408	7,943	7,843
Fabricated Metal Products	7,047	6,520	8,026	7,545
Machinery and Equipment n.e.c.	10,125	11,785	9,547	10,208
Electrical Machinery and Apparatus	13,187	14,837	14,176	13,468
Radio, TV and Communication Equipment	22,881	24,214	23,063	24,633
Medical, Precision and Optical Instruments	9,827	8,680	7,754	7,367
Motor Vehicles, Trailers and Semi-Trailers	5,921	6,130	6,473	5,463
Other Transport Equipment	3,097	2,537	6,871	5,671
Furniture and Other Manufacturing n.e.c.	9,258	10,149	10,354	10,068
Recycling	16,142	13,905	14,951	15,985
Total Manufacturing	10,466	10,467	11,642	11,981

* Provisional

Source: National Statistics Office

Chart 4.19

Average Value Added at Factor Cost per capita
Nominal and Real Terms



Average Value Added at Factor Cost per capita

nominal and real terms

Table 4.5

	2000	2001	2002	2003	2004	2005	2006*
Average Value Added at factor cost per capita (Lm) at current prices	12,140	9,862	10,666	11,485	11,687	13,380	14,153
Average Value Added at factor cost per capita (Lm) at constant prices	12,140	9,550	10,007	10,466	10,467	11,642	11,981
Percentage change	...	-21.3	4.8	4.6	0.0	11.2	2.9
Productivity Index 2000=100	100	79	82	86	86	96	99

* Provisional

Compiled from data provided by the National Statistics Office

Whereas in 2003 and 2004, personnel costs was the main component of value added at factor cost per capita, in 2005 and 2006 gross operating surplus had the larger share. Indeed, the share of personnel costs in value added at factor cost per capita fell by 0.6 percentage points in 2004 to 54.0 per cent and dropped substantially in 2005 by 6.5 percentage points to 47.5 per cent. In 2006, the share of personnel costs dropped further and stood at 46 per cent. Meanwhile, the share of gross operating surplus in value added at factor cost per capita increased from 45.4 per cent registered in 2003 to 46.0 per cent in 2004. It increased significantly to 52.5 per cent in 2005 and even further in 2006 to 54 per cent.

An analysis of productivity changes is carried out by netting the effects of prices in value added using the implicit Gross Domestic Product (GDP) deflator having 2000 as the base year, in line with the methodology applied by the NSO for national accounts data. Data on real value added at factor cost per capita is shown in Table 4.4 and Chart 4.19. In 2004, real value added per capita remained at the same level registered in 2003. Thereafter, it registered a considerable increase of 11.2 per cent in 2005. In 2006, real value added increased by 2.9 per cent and stood at Lm11,981.

Table 4.5 presents nominal and real average value added at factor cost per capita for the aggregate manufacturing industry. A productivity index with 2000 as a base year was compiled to reflect developments in real per capita value added for the 2000-2006 period. Following the notable decline in 2001, the

productivity index improved in 2002 and 2003 but was stable in 2004. Subsequently, it increased significantly by 11.7 per cent in 2005 and a further rise of 3.1 per cent was recorded in 2006. As a result of these developments, in 2006 the productivity index was around 1 per cent lower than the 2000 level.

Sector Analysis

The section below provides an analysis of the largest sectoral contributions to value added at factor cost generated within the manufacturing industry. The shares of the sectors within the manufacturing industry in total value added at factor cost are presented in Table 4.6. The restructuring of the manufacturing industry is reflected in the change in the composition of value added at factor cost. In particular, the share of the textiles and textile products, wearing apparel and clothes and leather and leather products sector has declined significantly, from an aggregate 8.7 per cent in 2003 to 3.1 per cent in 2006. On the other hand, notable growth was registered in the chemicals sector whose share rose from 3.7 per cent in 2003 to 9.6 per cent in 2006. The share of the radio, TV

Composition of Value Added at Factor Cost

Table 4.6 per cent

	2003	2004	2005	2006*
Food, Beverages and Tobacco Products	17.3	16.8	16.7	17.2
Textiles and Textile Products	3.7	4.1	3.5	1.4
Wearing Apparel and Clothes	3.8	3.8	3.9	1.3
Leather and Leather Products	1.2	1.0	0.6	0.4
Wood and Wood Products	0.4	0.2	0.6	0.4
Paper and Paper Products	0.9	1.0	0.8	0.8
Publishing and Printing	7.0	6.2	6.7	6.5
Chemicals and Chemical Products	3.7	3.2	6.8	9.6
Rubber and Plastic Products	6.7	7.3	6.2	5.6
Other Non-Metallic Mineral Products	3.4	3.3	2.9	3.1
Fabricated Metal Products	3.2	2.7	3.6	3.6
Machinery and Equipment n.e.c.	1.7	1.9	1.6	1.6
Electrical Machinery and Apparatus	5.3	6.2	5.5	5.5
Radio, TV and Communication Equipment	24.2	24.9	22.5	26.0
Medical, Precision and Optical Instruments	4.0	3.5	3.3	3.2
Motor Vehicles, Trailers and Semi-Trailers	0.1	0.2	0.1	0.1
Other Transport Equipment	3.2	2.9	5.1	3.9
Furniture and Other Manufacturing n.e.c.	9.5	10.2	9.0	9.6
Recycling	0.4	0.5	0.4	0.4
Total Manufacturing	100.0	100.0	100.0	100.0

* Provisional

Source: National Statistics Office

and communication equipment sector has also increased from 24.2 per cent in 2003 to 26.0 per cent in 2006.

The food, beverages and tobacco sector remained the second largest contributor to total value added in the manufacturing industry. The sector's share in total value added fell from 17.3 per cent in 2003 to 16.7 per cent in 2005. This decline was practically reversed in 2006 when the sector's share in total value added rose to 17.2 per cent. The sector's value added per capita registered an average annual growth rate of 6.6 per cent during 2004 and 2005, increasing marginally in the following year. Gross operating surplus per capita was stable in 2004 but registered an increase of 18.3 per cent in 2005 and 1.5 per cent in 2006. In 2006, it was around 19 per cent higher than the industry's average in 2006. Personnel costs per capita registered an annual average increase of 3.4 per cent between 2003 and 2005, and declined by 1.3 per cent in 2006. In 2006, the sector's value added per capita was 4.5 per cent higher than the average for the manufacturing industry. Personnel costs per capita were around 13 per cent lower than the average for the manufacturing industry.

The publishing and printing sector's share in total value added fell from 7.0 per cent in 2003 to 6.2 per cent in 2004. This decline was reversed in 2005 when the sector's share in total value added rose to 6.7 per cent, whilst a marginal decline to 6.5 per cent was recorded in 2006. Value added at factor cost per capita declined by 12.8 per cent in 2004, but rose by 5.5 per cent in 2005. In 2006, a drop of 4.6 per cent was recorded. These developments reflect changes in gross operating surplus which fell by 37.5 per cent in 2004. This decline was reversed in the following year, when gross operating surplus per capita nearly doubled. However, a decline of 21.6 per cent was registered in 2006. In 2006, personnel costs per capita made up 68.4 per cent of the sector's value added per capita.

The share in total value added of the chemicals and chemical products sector more than doubled over the four years to 2006 and reached 9.6 per cent. It thus reached the level recorded by the furniture and other manufacturing sector, being the third largest contributor to total value added in the manufacturing industry. The sector's value added at factor cost per capita was more than double the average of the manufacturing industry in 2006 and it exceeded that of the radio, TV and communication equipment sector, which traditionally registered the highest value added at factor cost per capita in the industry. This reflects high profitability levels, whilst personnel costs per capita also exceeded the industry's average by 14.0 per cent. The rise in value added per capita during the period under review reflects a strong increase in gross operating

surplus per capita in 2005. The sector's gross operating surplus per capita registered a decline of 36.2 per cent in 2004 but this decline was reversed in the following year when gross operating surplus nearly quadrupled. A further rise of 31.3 per cent was recorded in 2006. On the other hand, personnel costs per capita were less volatile, registering an average annual growth rate of 4.0 per cent between 2003 and 2005, increasing further by 8.9 per cent in 2006.

The rubber and plastic products sector's share in total value added rose fluctuated during the period under review. It stood at 5.6 per cent in 2006 compared to 6.7 per cent in 2003. These variations were reflected in value added at factor cost per capita which in turn resulted from changes in both gross operating surplus and personnel costs per capita. In 2006, the sector's value added at factor cost per capita was 14.5 per cent lower than the average for the manufacturing industry. Gross operating surplus made up 48.0 per cent of the sector's value added per capita in 2006, whilst personnel costs per capita had a share of 52.0 per cent.

At 26.0 per cent, the radio, TV and communication equipment sector's share in total manufacturing value added remained the largest contributor towards total manufacturing value added at factor cost. Value added at factor cost per capita was nearly double the average for the manufacturing industry. In this capital intensive sector, gross operating surplus per capita made up 70.5 per cent of the sector's value added per capita in 2006. Value added per capita registered fluctuations during the period under review, reflecting changes in gross operating surplus per capita. Meanwhile, personnel costs per capita registered an average annual growth rate of 3.6 per cent during the 2003-2006 period. Personnel costs per capita were the highest in the manufacturing industry and about 31.7 per cent higher than the average for the industry.

At 9.6 per cent, the furniture and other manufacturing sector's contribution to total value added in the manufacturing industry was comparable to that recorded in 2003. However, this follows an increase in 2004 to 10.2 per cent and a decline to 9.0 per cent in 2005. In 2006, the sector's value added at factor cost per capita was 16.0 per cent less than the average for the manufacturing industry. This reflected both relatively low personnel costs and gross operating surplus per capita. It is noteworthy that an average annual growth rate of 8.2 per cent was recorded in value added per capita between 2003 and 2005, whilst this indicator was stable in 2006. The trend in value added at factor cost per capita reflected the developments in gross operating surplus per capita, which made up 50.9 per cent of the sector's value added per capita in 2006. Personnel costs

per capita registered a rise of 1.0 per cent in 2004, were stable in 2005 but declined by 3.2 per cent in 2006.

Agriculture and Fisheries

The agriculture and fisheries sector comprises a small share of the Maltese economy. Over the last four years the agricultural and fisheries sector has maintained a low but stable share in the Maltese economy. In the period January-June 2007 this sector's contribution to the total economy remained unchanged at 2.2 per cent of Gross Value Added. The importance of this sector, however, goes beyond its contribution to the Maltese economy. In fact, agriculture provides an integrated framework within the varied produce of its sector and in marketing and distribution. Agriculture serves the welfare of the farming community and also helps to enhance the islands' countryside as well as the rural landscape. In the meantime, fishing constitutes an integral part of the islands' heritage and social fabric. In fact, fishing also constitutes a typical tourist attraction characterising the local fishing villages. This section reviews developments in the agricultural and fisheries industry during the first six months of 2007.

Agriculture

Local agricultural production mainly comprises fruit and vegetables, livestock and dairy products. These constitute inputs for the domestic processing of produce such as meat and meat preparation, canning of fruit and vegetables, wines and beer, and animal feeds. Even though the small size of the agricultural industry may be unfavorable to its performance, this industry still bears an important role in the Maltese economy. The Maltese agricultural sector, however, faces the problems of water irrigation scarcity, a setting of fragmented land ownership as well as the absence of economies of scale.

The Special Market Programme for Maltese Agriculture provides financial assistance as well as incentive schemes with the aim of assisting the Maltese agricultural sector to adapt to the liberalized trade environment which resulted following the removal of levies on imported agricultural and agro-food products in 2004. During the first eight months of 2007, the total aid given by Government in agricultural support schemes totaled Lm3.9 million.

Table 4.7 shows the volume of beef, pork and broiler slaughtering in tonnes for the first two quarters of 2007 as compared to the same period in 2006. Total slaughtering increased by 3.7 per cent as the increase in the broiler sector

Slaughtering

Beef, Pork and Broilers

Table 4.7

tonnes

	Beef		Pork		Broilers	
	2006	2007	2006	2007	2006	2007
January	136	125	652	550	344	391
February	118	114	662	543	264	410
March	112	116	754	580	249	385
April	103	133	648	547	283	436
May	125	105	729	791	394	503
June	102	104	579	618	332	377
Total	696	697	4,024	3,629	1,866	2,502

Source: National Statistics Office

offset the contraction in the pork sector. Beef slaughtering remained practically stable during this period at 697 tonnes. Conversely, following the contractions in the previous two years the volume of pork slaughtering decreased by 9.8 per cent during the period January-June of this year. On the other hand, the downturn in the volume of broiler slaughtering registered in 2005 and 2006 was reversed during the first half of 2007, as an increase of around 34 per cent was registered.

During the first six months of 2007, 25.2 million kilograms of fruit and vegetables were sold, an 8.7 per cent increase from the volume registered in the same period last year. This increase reflected itself in an average price decrease of fruit and vegetables of 1.1 per cent. At the same time, the wholesale value of fruit and vegetables sold through organized markets from January to June 2007 increased by around 7.5 per cent to Lm4.38 million when compared to the same period last year thus indicating that demand for fresh fruit and vegetables is price elastic.

During the period January-June 2007, an increase of around 24 per cent was recorded in the price index for fresh fruit over the same period in the previous year. This was also accompanied with a decrease in the volume of fresh fruit products sold of around 25 per cent. The volume of strawberries increased considerably during the January-June 2007 period when compared to the same period in the previous year. In fact, the increase in the volume of strawberries sold contributed positively by 8.8 per cent to the total volume of fresh fruit sold. However, the decrease in volume of other fresh fruit products more than countered the increase in volume of strawberries. In particular, peaches

Fresh Fruit and Vegetables Indices

Table 4.8

2005=100

	Fresh Fruit Index		Fresh Vegetables Index	
	Price Index	Volume Index	Price Index	Volume Index
2006				
January	146.27	61.35	129.21	91.72
February	168.82	30.20	123.68	82.26
March	162.62	27.17	132.04	95.02
April	91.75	72.44	121.66	100.22
May	125.36	66.82	134.85	121.59
June	106.07	289.87	100.17	159.66
2007				
January	147.61	61.99	104.86	106.72
February	172.01	43.58	87.77	108.24
March	141.09	48.51	122.17	112.48
April	100.67	69.41	121.60	113.13
May	126.94	82.02	112.54	130.47
June	159.46	105.08	103.31	148.20

Source: National Statistics Office

Imports of Major Agricultural Commodities

Table 4.9

Lm million

	2004	2005	2006	2006	2007
				Jan-Jul	Jan-Jul
Live Animals	0.68	0.36	0.40	0.21	0.27
Meat and Edible Offals	14.30	14.48	16.96	9.26	10.27
Fish	10.36	10.84	15.85	13.49	4.58
Dairy Produce	13.36	13.02	13.06	7.59	7.66
Edible Fruits and Nuts	8.49	11.75	9.08	5.38	5.39
Cereals	6.46	9.37	8.34	4.88	7.98
Preparations of Meat, Fish	9.68	10.48	10.90	6.21	6.69
Sugar & Confectionery	6.95	6.31	7.50	2.77	4.18
Cereal Prep.	15.60	16.89	17.36	9.22	9.83
Veg. and Fruit Prep.	8.60	7.69	7.90	4.39	4.75
Misc. Edible Prep.	10.49	11.45	11.52	6.78	6.99
Beverages, Spirits, Vinegar	13.86	12.74	12.69	7.54	7.68
Feeds	7.57	8.08	7.82	4.41	5.47
Total	126.40	133.46	139.38	82.13	81.74

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.

As illustrated in Table 4.A, agricultural factor income at current market prices increased marginally by 0.6 per cent, reaching around Lm26.2 million in 2006 when compared to 2005. This mainly reflected higher total final production at producer prices. Subsidies on production increased by 2.8 per cent, nonetheless, their total contribution to the increase in factor income was rather low. In the same period, intermediate consumption also increased, thus partly countering the increases in total final production and subsidies on production. In conjunction, the decrease in other subsidies not directly linked with production also contributed negatively to the change in factor income. Fixed capital consumption contributed very minimally between 2005 and 2006.

	Lm thousand			
	2003	2004	2005	2006
Total final production at producer prices	49,857	48,542	47,637	48,243
add subsidies on production	4,051	4,950	5,394	5,544
Total final production at basic prices	53,908	53,491	53,031	53,787
less intermediate consumption	26,291	27,219	28,151	28,606
Gross value added at basic prices	27,617	26,272	24,880	25,181
less fixed capital consumption	1,735	1,722	1,707	1,731
Net value added at basic prices	25,882	24,550	23,173	23,449
add other subsidies not directly linked with production	268	3,086	2,813	2,702
Factor income at current prices	26,150	27,636	25,986	26,151

Source: National Statistics Office

Table 4.B displays data for the distribution of factor income at current market prices. Entrepreneurial income, which amounts for 92.5 per cent of factor income, increased by 0.5 per cent between 2005 and 2006. Over the same period, compensation of employees and interest levels increased by 2.8 per cent and 1.4 per cent respectively. In fact, compensation levels of employees stood at Lm1.2 million while interest levels reached Lm0.4 million during 2006. Rents have maintained the same level over the previous year, standing at Lm0.3 million.

Box 4.1 continued

**Distribution of Factor Income at
Current Prices**

Table 4.B Lm thousand

	2003	2004	2005	2006
Factor Income	26,150	27,636	25,986	26,151
Entrepreneurial income (profits)	24,261	25,768	24,070	24,198
Compensation of employees (wages)	1,140	1,161	1,186	1,219
Interest	458	415	437	443
Rents	292	292	292	292

Source: National Statistics Office

contributed negatively by around 7 per cent followed by early figs, cherry plums, nectarines as well as lemons and other fruit.

When compared to 2006, the fresh vegetables price index has been steadily decreasing from January till May 2007, the most marked decrease being of 29 per cent in February. The month of June did, however, record a small increase of around 3 per cent in the vegetables price index this year when compared to the same month in 2006. Average vegetable prices declined minimally by 0.6 per cent during the first two quarters of this year compared to the same period last year, whilst the volume of fresh vegetables increased by 10.6 per cent reflecting a price elastic demand for fresh vegetables. The value of vegetables sold also saw an increase of 9.9 per cent. Table 4.8 shows the price and volume indices for fresh fruit and vegetables for the period January-June in 2006 and 2007.

Table 4.9 presents data for imports of the major agricultural commodities. During the first seven months of 2007, the value of such imports decreased by 0.5 per cent over the same period last year reaching a level of Lm81.74 million. During this period, major increases in the value of imports of cereals, sugar and confectionery, feeds and meat and edible offals were recorded. This could reflect the effect of the recent increases in international prices of cereals. In particular, an increase in the value of imports of cereals of 63.5 per cent contributed positively by 3.8 per cent to the overall change in the value of total imports of main agricultural commodities. The value of fish imports, however,

decreased considerably in the period January-July 2007 when compared to the same period last year contributing negatively by around 11 per cent to the total decrease in import value of major agricultural products. The decrease in the value of fish imports, was the main reason for the decline in the value of total imports of the major agricultural commodities during the period January-July 2007 compared to the same time frame in 2006.

Fisheries

The Maltese fisheries sector comprises both traditional fishing methods as well as techniques involving fish farming aquaculture. While the traditional fishing methods cater for the supply of a variety of fish to the local market, primarily dolphin-fish (*lampuki*), blue fin tuna and swordfish, aquaculture fish farming techniques serve mainly for exportation purposes. Notwithstanding its small size, the local fishing industry still maintains its importance to the local community due to its social and environmental aspects.

Fresh fish price and volume indices for the first two quarters of 2006 and 2007 are displayed in Table 4.10. During the period January-June 2007, the volume of fresh fish landings decreased by around 22 per cent when compared to the same period last year, whilst average prices rose by 10.8 per cent. The relatively elastic demand for fresh fish led to a lower value of fish sold.

Fresh Fish Indices		
Table 4.10	2005=100	
	Fresh Fish Index	
	Price Index	Volume Index
2006		
January	103.37	38.89
February	116.17	15.94
March	111.06	19.96
April	121.65	26.86
May	112.53	156.04
June	114.48	131.66
2007		
January	125.62	26.22
February	114.91	20.90
March	112.57	32.88
April	135.27	31.75
May	129.84	87.65
June	121.57	105.47

Source: National Statistics Office

Exports of Fish
(January - July)

Table 4.11

	2006		2007	
	Qty (Kg)	Value Lm 000	Qty (Kg)	Value Lm 000
Sea-bream/Sea-bass	647,306	1,571	802,243	1,692
Tuna	66,655	306	147,811	427
Swordfish	2,465	17	0	0
Total	716,426	1,894	950,054	2,119

Source: National Statistics Office

Table 4.11 shows quantity and value data for exports of fish for the period January-July 2006 and 2007. The volume of exports of fish in the first seven months of 2007 increased by 32.6 per cent when compared to the same period in the previous year. The value of fish exports also increased by 11.9 per cent. While the higher volume of exports of sea-bream/sea-bass contributed the most to the total rise in volume of fish exports, increases in the value of sea-bream/sea-bass and tuna exports contributed by 6.4 per cent each to the total advance in value of fish exports for the period January-July 2007 when compared to the same period in 2006. No swordfish exports were recorded for the first seven months of this year.

The Shipyard Sector

In recent years, the local shipyard sector has been experiencing substantial competition from low cost shipyards. With the aim of increasing its productivity and transforming itself from a beneficiary of the state, the shipyard sector has been undergoing a restructuring process which would make the local shipyard company viable by the year 2008.

At the start of 2007 operations at the Malta Shipyards were primarily focused on the continuation of work on conversion of a heavy lift barge, as well as the construction of a power generation barge for international clients, both of which had been started during the previous year. While the power generation barge has already been completed, work on the first heavy lift barge is due to continue till the last quarter of this year. During the first seven months of 2007, the Malta Shipyards also managed to complete another two major repair jobs and a number

of other smaller repair jobs. In the meantime, work has also started on the conversion of another heavy lift barge and other ship repair jobs are scheduled for the rest of the year. Work has also been contracted for the Malta Super Yacht Services which is the super yacht division within the Malta Shipyards.

Turnover for the first seven months of this year reached Lm15.5 million which is Lm5.5 million higher than budgeted for this period and Lm1 million higher than the turnover registered during the same period in the previous year. Nonetheless, the work contracted has not translated itself fully in the shipyard's financial results. Indeed, losses for the period January-July 2007 amounted to Lm4.5 million, albeit lower than a target of losses of Lm4.9 million for the period.

Efforts continued to strive to improve productivity as well as safety performance, the shipyard's quality standards towards ISO accreditation and to address major environmental issues. Training has also continued in areas such as production and technology improvements and risk management. Succession issues within the workforce have also been addressed. Other major initiatives undertaken by the Malta Shipyards this year include the implementation of critical investment programs and apprenticeship programs.

Employment at Malta Shipyards Limited as at the end of June 2007 stood at 1,758, practically unaltered when compared to the same period in 2006. Contributions by Government to Malta Shipyards for the first eight months of the year amounted to around Lm6 million.

Sampled Manufacturing Firms^{*(1)}

(January-June)

Appendix Table 4.1

	2004	2005	2006**	2007**
MANUFACTURING TOTAL				
Sales (Lm 000)	484,707	441,447	486,677	506,399
Wages (Lm 000)	60,154	59,382	59,034	61,669
Net Investment (Lm 000)	30,388	24,183	33,809	33,249
Exports (Lm 000)	395,108	352,758	397,685	416,259
Local Sales (Lm 000)	89,598	88,689	88,992	90,140
Avg. Weekly Sales/Employee (Lm)	944.09	871.62	1,020.41	1,064.11
Avg. Weekly Earnings/Employee (Lm)	117.17	117.25	123.78	129.59
Avg. Weekly Exports/Employee (Lm)	769.58	696.51	833.82	874.69
FOOD AND BEVERAGES PRODUCTS				
Sales (Lm 000)	56,737	53,288	54,161	54,066
Wages (Lm 000)	8,457	8,216	8,027	8,061
Net Investment (Lm 000)	2,764	2,651	2,357	6,261
Exports (Lm 000)	9,987	10,914	13,313	12,636
Local Sales (Lm 000)	46,750	42,374	40,848	41,430
Avg. Weekly Sales/Employee (Lm)	702.35	693.11	700.44	736.88
Avg. Weekly Earnings/Employee (Lm)	104.69	106.87	103.81	109.87
Avg. Weekly Exports/Employee (Lm)	123.63	141.95	172.17	172.22
TEXTILES AND TEXTILE PRODUCTS				
Sales (Lm 000)	13,040	16,212	9,772	8,962
Wages (Lm 000)	2,408	2,948	1,485	1,368
Net Investment (Lm 000)	1,037	1,226	2,233	1,370
Exports (Lm 000)	12,592	16,011	9,666	8,858
Local Sales (Lm 000)	449	202	107	105
Avg. Weekly Sales/Employee (Lm)	526.01	583.30	867.05	808.22
Avg. Weekly Earnings/Employee (Lm)	97.11	106.08	131.75	123.36
Avg. Weekly Exports/Employee (Lm)	507.92	576.04	857.58	798.77
WEARING APPAREL AND CLOTHES				
Sales (Lm 000)	20,472	13,371	12,054	11,377
Wages (Lm 000)	4,052	3,737	2,766	2,643
Net Investment (Lm 000)	45	28	41	49
Exports (Lm 000)	18,188	11,990	10,937	10,147
Local Sales (Lm 000)	2,285	1,381	1,117	1,231
Avg. Weekly Sales/Employee (Lm)	456.33	330.83	403.66	417.74
Avg. Weekly Earnings/Employee (Lm)	90.31	92.46	92.62	97.03
Avg. Weekly Exports/Employee (Lm)	405.40	296.67	366.26	372.56

Sampled Manufacturing Firms⁽¹⁾
(January-June)

Appendix Table 4.1

continued

	2004	2005	2006**	2007**
LEATHER AND LEATHER PRODUCTS				
Sales (Lm 000)	4,149	3,080	1,870	1,055
Wages (Lm 000)	979	777	544	369
Net Investment (Lm 000)	38	7	—	48
Exports (Lm 000)	4,069	3,005	1,770	924
Local Sales (Lm 000)	80	74	99	132
Avg. Weekly Sales/Employee (Lm)	362.29	349.91	336.80	222.41
Avg. Weekly Earnings/Employee (Lm)	85.52	88.24	98.02	77.71
Avg. Weekly Exports/Employee (Lm)	355.27	341.47	318.88	194.67
WOOD AND WOOD PRODUCTS				
Sales (Lm 000)	155	324	290	269
Wages (Lm 000)	51	137	118	119
Net Investment (Lm 000)	0	—	18	1
Exports (Lm 000)	0	5	5	2
Local Sales (Lm 000)	155	318	285	267
Avg. Weekly Sales/Employee (Lm)	192.02	200.70	208.14	190.00
Avg. Weekly Earnings/Employee (Lm)	63.49	85.18	85.14	83.66
Avg. Weekly Exports/Employee (Lm)	0.00	3.31	3.44	1.35
PAPER AND PAPER PRODUCTS				
Sales (Lm 000)	3,585	3,252	3,748	3,268
Wages (Lm 000)	902	869	883	925
Net Investment (Lm 000)	401	68	86	17
Exports (Lm 000)	66	117	349	139
Local Sales (Lm 000)	3,518	3,135	3,399	3,129
Avg. Weekly Sales/Employee (Lm)	482.90	445.10	540.91	467.19
Avg. Weekly Earnings/Employee (Lm)	121.46	118.98	127.51	132.25
Avg. Weekly Exports/Employee (Lm)	8.95	16.01	50.37	19.86
PUBLISHING AND PRINTING				
Sales (Lm 000)	23,892	26,731	22,770	30,603
Wages (Lm 000)	6,109	5,537	6,076	6,367
Net Investment (Lm 000)	4,550	2,116	1,032	7,419
Exports (Lm 000)	15,684	17,957	13,646	20,378
Local Sales (Lm 000)	8,208	8,773	9,124	10,225
Avg. Weekly Sales/Employee (Lm)	562.03	644.78	504.59	711.64
Avg. Weekly Earnings/Employee (Lm)	143.72	133.56	144.25	148.06
Avg. Weekly Exports/Employee (Lm)	368.95	433.15	323.98	473.87

Sampled Manufacturing Firms*(1)

(January-June)

Appendix Table 4.1

continued

	2004	2005	2006**	2007**
CHEMICALS AND CHEMICAL PRODUCTS				
Sales (Lm 000)	16,570	18,530	29,387	35,074
Wages (Lm 000)	2,577	2,616	3,215	3,882
Net Investment (Lm 000)	6,708	3,850	3,944	4,614
Exports (Lm 000)	12,407	14,961	25,786	31,591
Local Sales (Lm 000)	4,163	3,569	3,602	3,483
Avg. Weekly Sales/Employee (Lm)	794.15	879.85	1,271.41	1,367.45
Avg. Weekly Earnings/Employee (Lm)	123.52	124.20	139.10	151.34
Avg. Weekly Exports/Employee (Lm)	594.65	710.40	1,115.59	1,231.65
RUBBER AND PLASTIC PRODUCTS				
Sales (Lm 000)	19,838	20,257	20,191	21,165
Wages (Lm 000)	5,817	5,581	5,138	5,377
Net Investment (Lm 000)	594	805	558	1,076
Exports (Lm 000)	15,885	16,145	15,808	16,918
Local Sales (Lm 000)	3,953	4,112	4,383	4,246
Avg. Weekly Sales/Employee (Lm)	434.38	428.43	483.09	506.71
Avg. Weekly Earnings/Employee (Lm)	127.37	118.04	122.94	128.74
Avg. Weekly Exports/Employee (Lm)	347.84	341.46	378.23	405.05
OTHER NON-METALLIC MINERAL PRODUCTS				
Sales (Lm 000)	6,952	9,888	10,240	10,326
Wages (Lm 000)	1,583	1,642	1,840	1,972
Net Investment (Lm 000)	48	298	268	519
Exports (Lm 000)	966	1,018	957	1,136
Local Sales (Lm 000)	5,986	8,870	9,284	9,191
Avg. Weekly Sales/Employee (Lm)	391.50	531.13	538.78	520.19
Avg. Weekly Earnings/Employee (Lm)	89.12	88.18	96.82	99.36
Avg. Weekly Exports/Employee (Lm)	54.39	54.66	50.33	57.21
FABRICATED METAL PRODUCTS				
Sales (Lm 000)	6,660	9,231	8,774	9,524
Wages (Lm 000)	2,031	1,956	1,858	1,810
Net Investment (Lm 000)	91	529	101	280
Exports (Lm 000)	3,058	3,875	2,915	2,970
Local Sales (Lm 000)	3,602	5,356	5,858	6,554
Avg. Weekly Sales/Employee (Lm)	384.89	545.79	520.75	609.49
Avg. Weekly Earnings/Employee (Lm)	117.36	115.66	110.26	115.82
Avg. Weekly Exports/Employee (Lm)	176.73	229.09	173.03	190.07

Sampled Manufacturing Firms^{*(1)}

(January-June)

Appendix Table 4.1

continued

	2004	2005	2006**	2007**
MACHINERY AND EQUIPMENT N.E.C.				
Sales (Lm 000)	6,463	7,256	6,675	6,680
Wages (Lm 000)	1,176	1,227	1,099	1,154
Net Investment (Lm 000)	130	52	30	85
Exports (Lm 000)	5,089	5,605	6,252	5,887
Local Sales (Lm 000)	1,347	1,651	423	793
Avg. Weekly Sales/Employee (Lm)	612.00	660.55	705.33	675.27
Avg. Weekly Earnings/Employee (Lm)	111.80	111.71	116.08	116.64
Avg. Weekly Exports/Employee (Lm)	483.92	510.27	660.65	595.08
ELECTRICAL MACHINERY AND APPARATUS				
Sales (Lm 000)	21,869	29,741	25,437	30,389
Wages (Lm 000)	4,036	4,162	4,347	5,070
Net Investment (Lm 000)	889	937	434	1,230
Exports (Lm 000)	21,488	29,516	24,730	29,963
Local Sales (Lm 000)	381	226	708	426
Avg. Weekly Sales/Employee (Lm)	660.99	916.21	747.69	803.85
Avg. Weekly Earnings/Employee (Lm)	122.00	128.21	127.78	134.11
Avg. Weekly Exports/Employee (Lm)	649.47	909.26	726.89	792.59
RADIO, TV AND COMMUNICATION EQUIPMENT				
Sales (Lm 000)	245,234	192,650	239,972	240,834
Wages (Lm 000)	10,568	10,537	12,010	12,879
Net Investment (Lm 000)	9,603	8,899	20,706	8,727
Exports (Lm 000)	244,632	192,358	239,620	240,506
Local Sales (Lm 000)	602	292	352	328
Avg. Weekly Sales/Employee (Lm)	3,148.75	2,471.94	2,907.91	2,814.17
Avg. Weekly Earnings/Employee (Lm)	135.69	135.20	145.54	150.49
Avg. Weekly Exports/Employee (Lm)	3,141.02	2,468.18	2,910.46	2,810.34
MEDICAL, PRECISION AND OPTICAL INSTRUMENTS				
Sales (Lm 000)	10,011	9,384	10,556	9,532
Wages (Lm 000)	3,336	3,245	3,118	2,995
Net Investment (Lm 000)	944	237	409	393
Exports (Lm 000)	7,947	6,782	8,220	7,371
Local Sales (Lm 000)	2,064	2,602	2,336	2,161
Avg. Weekly Sales/Employee (Lm)	352.61	344.73	405.19	421.41
Avg. Weekly Earnings/Employee (Lm)	117.49	119.22	119.69	132.40
Avg. Weekly Exports/Employee (Lm)	279.92	249.13	315.54	325.87

Sampled Manufacturing Firms⁽¹⁾
(January-June)

Appendix Table 4.1

continued

	2004	2005	2006**	2007**
MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS				
Sales (Lm 000)	316	304	365	211
Wages (Lm 000)	107	123	112	110
Net Investment (Lm 000)	—	24	—	1
Exports (Lm 000)	208	103	175	63
Local Sales (Lm 000)	108	201	191	148
Avg. Weekly Sales/Employee (Lm)	231.64	194.64	265.17	155.96
Avg. Weekly Earnings/Employee (Lm)	78.71	78.71	81.29	81.24
Avg. Weekly Exports/Employee (Lm)	152.70	65.91	126.76	46.71
OTHER TRANSPORT EQUIPMENT				
Sales (Lm 000)	7,050	6,647	6,119	5,687
Wages (Lm 000)	924	979	1,032	1,125
Net Investment (Lm 000)	34	90	14	28
Exports (Lm 000)	6,675	6,545	5,856	5,302
Local Sales (Lm 000)	375	102	263	385
Avg. Weekly Sales/Employee (Lm)	1,166.20	1,092.50	1,139.74	885.62
Avg. Weekly Earnings/Employee (Lm)	152.88	160.87	192.94	175.13
Avg. Weekly Exports/Employee (Lm)	1,104.23	1,075.78	1,090.78	825.63
FURNITURE AND OTHER MANUFACTURING N.E.C.				
Sales (Lm 000)	21,740	21,303	24,297	27,375
Wages (Lm 000)	5,041	5,093	5,365	5,444
Net Investment (Lm 000)	2,511	2,364	1,576	1,130
Exports (Lm 000)	16,165	15,852	17,680	21,468
Local Sales (Lm 000)	5,574	5,451	6,616	5,907
Avg. Weekly Sales/Employee (Lm)	518.86	506.23	566.01	660.11
Avg. Weekly Earnings/Employee (Lm)	120.32	121.03	124.98	131.28
Avg. Weekly Exports/Employee (Lm)	385.82	376.70	411.88	517.68

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

** Provisional

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

Source: National Statistics Office

5. Services Activities

5. Services Activities

The Maltese economy has been characterised by the growing importance of service activities over recent years. Within the services sector, tourism remains a major contributor to employment and foreign exchange earnings. Data for the first eight months of 2007 show a recovery in inbound tourism. The introduction of low cost airlines, intense marketing and advertising by the Malta Tourism Authority (MTA), efforts by the Government and the private sector to diversify the tourism market, as well as to offer an improved tourism product and a more price competitive package to the potential tourist have all contributed to this improvement.

During January-August 2007, tourist departures rose by 7.6 per cent over the corresponding 2006 period, to 825,874 visitors. This is a significant improvement over the 3.7 per cent decline recorded in January-August 2006 and the 1.7 per cent and 0.9 per cent growth registered in the corresponding periods of 2004 and 2005, respectively. Gross foreign exchange earnings from tourism increased by 7.1 per cent during the first half of 2007, to Lm108.7 million. Per capita earnings recorded a marginal increase of 0.7 per cent, to Lm216.7, whilst earnings per nights spent increased from Lm23.5 to Lm26.1. Meanwhile, the cruise liner industry continued to expand during January-August 2007, reaching 295,220, an increase of 26.6 per cent over the corresponding 2006 period. Nevertheless, there was a decrease of 307 or 3.5 per cent in employment in hotels and restaurants between June 2006 and June 2007.

The Malta Financial Services Authority (MFSA) is the single regulator and supervisory authority for the financial services sector in Malta. Moreover, the MFSA manages the Registry of Companies and has the responsibility of the Listing Authority. An important development during the first eight months of 2007 was the publication of the Act to amend Various Financial Services Laws. Furthermore, during this period, the MFSA launched a new class of Professional Investor Funds (PIF) and issued new licenses. It worked to bring Malta's financial sector more in line with EU legislation and also contributed to greater integration with international organisations.

Malta Enterprise is a Government agency focused on attracting inward investment and supporting enterprise in Malta. Its role is to act as a single point of contact for all enterprise support in Malta. It provides pre-investment advice and support, start-up assistance as well as post investment services and aftercare facilities. During this year, Malta Enterprise approved new and expansion projects,

granted assistance through soft loans and approved interest rate subsidies. Malta Enterprise also continued with its efforts to attract investment in high value added sectors and to assist local companies to internationalize. It is also coordinating a number of projects aimed at promoting innovation, technology transfers and providing more technological infrastructural support to businesses.

Tourism

The tourism industry is very sensitive to adverse geopolitical situation that characterise the international environment, as well as to the economic situation in major tourist source markets. Furthermore, the Maltese tourism industry is also facing increased international competition, both from traditional as well as from emerging tourist destinations. Indeed, marginal growth or even declines were recorded in tourist departures in recent years. However, despite these challenges, it is noteworthy that encouraging results were recorded during the first eight months of 2007 with tourist departures increasing by 7.6 per cent. Nights spent remained unchanged during the first eight months of 2007, and the average length of stay declined marginally to 9.1 nights, down by 0.7 nights. This implies shorter stays, which reflects what is happening throughout the Mediterranean region, whereby shorter and more frequent trips have gained increased preference.

The domestic cruise liner industry registered a sustained increase in arrivals during the first eight months of 2007, as Malta is increasingly becoming more attractive as a port of call as well as a home port where cruises start and end. During this period, cruise passenger arrivals increased by 26.6 per cent, reaching 295,220. On the other hand, full-time employment in hotels and restaurants amounted to 8,578 as at the end of June 2007, a decline of 307 jobs over June 2006. Table 5.1 presents selected tourism indicators.

At the international level, tourism has recovered strongly in 2007, in particular in Asia and the Pacific, followed by Africa, the Middle East and Europe. The Americas also recorded a positive outturn in tourism. Continuing world prosperity has been a main driver of tourism growth. Emerging markets and developing economies in general and especially those of Asia, maintained their strength. The strength of the Euro is one of the underlying reasons why there is a growing shift of travel from Europe to destinations in the Americas. However, the effect of exchange rate fluctuations is uncertain. Countries that see their currencies weaken become more attractive as destinations, while tourists from countries that see their currencies strengthen have an advantage when travelling abroad.

Main Tourism Indicators

Table 5.1

	2004	2005	2006	2006 Jan-Aug	2007 Jan-Aug
Tourist Departures*	1,157,684	1,170,598	1,124,231	767,836	825,874
Nights spent (000's)**	11,175	11,085	10,656	7,527	7,527
Cruise Passengers***	284,952	312,256	392,940	233,265	295,220
Total full-time employment in hotels and restaurants****	8,661	8,809	8,755	8,885 ⁽¹⁾	8,578 ⁽¹⁾

*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.

⁽¹⁾Data as at end of June

Source: National Statistics Office

Employment and Training Corporation

Accordingly, on balance, exchange rate fluctuations will redirect travel flows, but they will not necessarily reduce travel.

The continued higher oil prices seem to have been absorbed by the market and have had only a marginal effect on travel demand. Additionally, another consequence of 2007's healthy tourism start has been the underlying strength of the air transport market, due in turn to the economic stability in most of the world's leading source markets. The expansion of low-cost airline services around the world, including the emergence of long-haul low-cost airlines, has been a major factor in stimulating air transport, making it increasingly accessible to a constantly rising share of the world's population.

The opening of skies to low-cost airlines as from June 2006 has added Malta to the growing list of destinations serviced by such carriers, enabling it to tap into a traveller segment which is assuming larger shares of European air outbound travel year after year. Thus, this development has added Malta to the list of destinations to several European air travellers. Additionally, this development is leading to shorter lengths of stay thereby commencing a trend of higher throughput and turnaround, whilst also encouraging early purchase as against the traditional tour operator driven model, which left bargains to the very end. Short breaks, culture and off-peak are all segments that benefit from low-cost

airlines given the frequency of flights that enable a variety of length of stay combinations. Besides, the introduction of low-cost carriers has stimulated the legacy airlines to also increase their routes and offer more competitive prices, thus further improving accessibility to Malta.

The improvement in the Maltese tourism industry during the January-August 2007 period also reflects the efforts of the MTA, mainly its activities aimed at promoting Malta as an all year round tourism destination and in developing a sustainable tourism industry. During the period under review, MTA continued with its active marketing efforts. Furthermore, the MTA launched an e-tourism portal in January 2007, which is designed to be the prime destination marketing tool for Malta, whilst providing a channel for facilitating online presence and potential e-commerce benefits for local stakeholders interested in exploiting e-tourism. The development of this one-stop shop functionality provides online booking facilities for a range of services including accommodation and flights and other useful services.

Moreover, in the first eight months of 2007, 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. The impact of EU funding opportunities is beneficial for the stimulation of both public and private investment in the sector.

Monthly Distribution

During the period January-August 2007, tourist departures increased to 825,874, from 767,836 in the previous comparable period. Increases in tourist departures were evident throughout the first eight months of 2007. This recovery in tourism is evident as from November 2006 whereby tourist departures increased by 2.7 per cent in November 2006 and by 15.0 per cent in December 2006. These consecutive increases are partly attributable to the introduction of low-cost airlines and an increase in the number of flights to Malta during 2006. Significant increases were registered in the first eight months of 2007, particularly in March, June, July and August. The notable increase in March and June of 10.8 per cent and 7.7 per cent respectively, is in part attributable to the fact that these months comprised, unlike the others, five weekends, which generally generate a larger volume of traffic. August remained the peak month accounting for 21.4 per cent of total departures during the first eight months of 2007, followed by July, with a share of 17.9 per cent. Furthermore, the level registered in April, June and July, is the highest level for these months during the 2004-2007 period. The

Monthly Tourist Departures*

Table 5.2

	2004	2005	2006	2007
January	49,262	53,124	50,523	51,736
February	51,132	44,393	47,302	50,546
March	65,999	71,276	64,343	71,281
April	92,166	88,279	97,785	101,792
May	105,402	112,559	102,737	109,027
June	114,879	113,922	109,038	117,421
July	134,366	135,750	131,806	147,699
August	177,097	178,308	164,302	176,372
January/August	790,303	797,611	767,836	825,874
% change	1.7	0.9	-3.7	7.6
September	129,425	133,591	121,950	
October	129,027	129,332	116,427	
November	67,744	69,652	71,535	
December	41,185	40,412	46,483	
Total	1,157,684	1,170,598	1,124,231	
% change	3.5	1.1	-4.0	

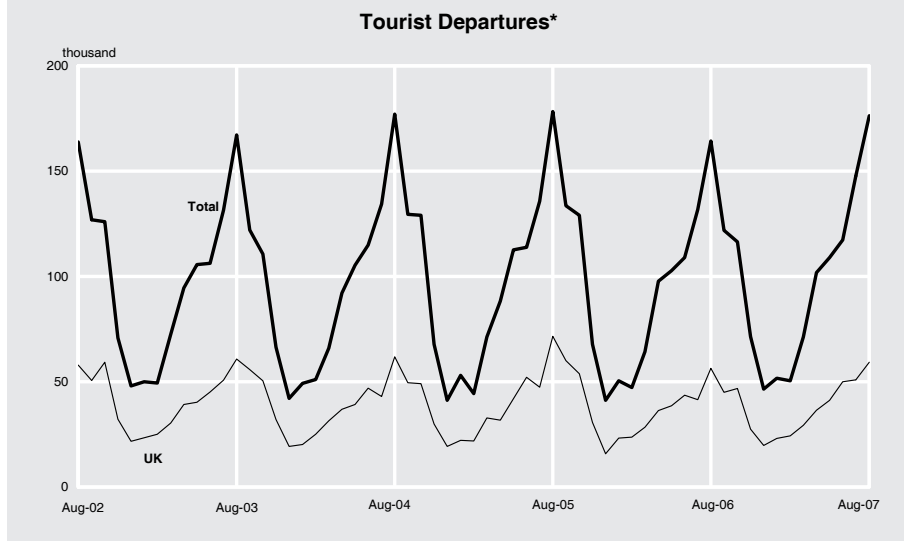
*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

Source: National Statistics Office

increase in April of 4.1 per cent is mainly attributable to the rather late Easter recess. Data on the monthly distribution of tourist departures is shown in Table 5.2.

Chart 5.1 highlights the prevailing seasonality in Malta's tourism trends, with a high concentration of tourists in the spring and summer months of the year, particularly in the peak month of August, 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. Furthermore, profits made in summer have to make up for winter losses or reduced profits. All this highlights the importance of investment in marketing efforts in order to achieve a better seasonal distribution.

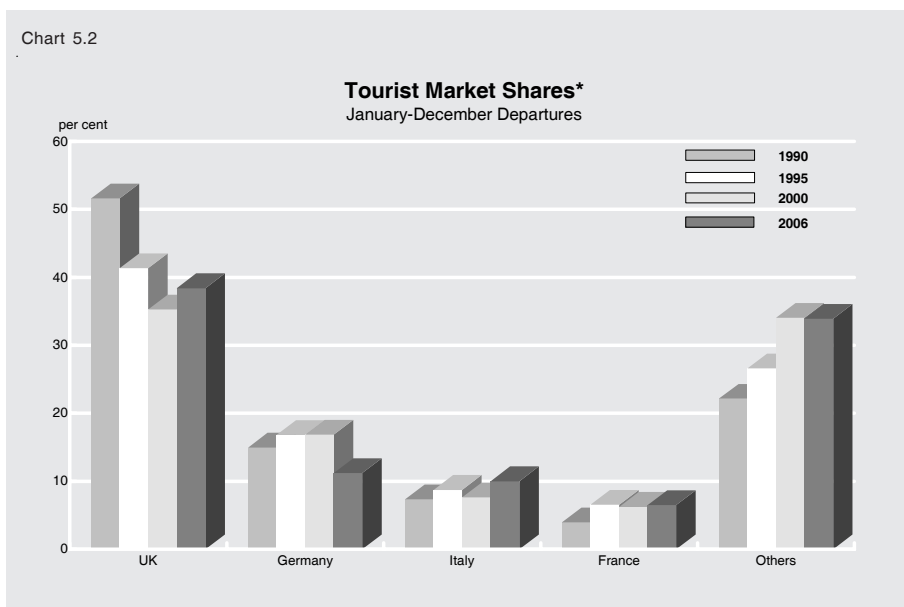
Chart 5.1



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

Tourist Nationality

Chart 5.2 illustrates the market share of Malta's main source markets over the January-December 1990-2006 period. UK represents the major market in the Maltese tourism sector. However, its relative share has declined from 51.6 per cent in 1990 to 35.3 per cent in 2000 but edged up to 38.4 per cent by 2006. Meanwhile, the share of the German market in 2000 remained stable at the share recorded in 1995 of 16.8 per cent. However, by 2006 the German's market share registered a drop to 11.2 per cent, which is below the 1990 ratio. The share of the Italian market fluctuated from 7.3 per cent in 1990, to 10.0 per cent in 2006. The French market retained a share of around 6.5 per cent between 1995 and 2006 compared to a share of 3.9 per cent in 1990, while the share of the other markets category increased from 22.2 per cent in 1990 to 33.9 per cent in 2006. The latest available data for tourist departures covering the period January-August 2007 indicates that the distribution of the market share amongst the main source markets remained relatively the same when compared to that prevailing in 2006. UK tourist flows to Malta accounted for 38.1 per cent, whilst 10.3 per cent came from the Italian market, 6.5 per cent from the French market and 35.6 per cent from the other markets category. Meanwhile, the German market share fell to 9.5 per cent in the first eight months of 2007.



*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.

A detailed breakdown of tourist departures by nationality is presented in Table 5.3. During January-August 2007 a relatively high improvement was recorded in the UK source market. Arrivals from the UK market increased by 22,749 or 7.8 per cent over the previous comparable period, reflecting the introduction of additional airlines and an increase in the number of flights to Malta. Similarly, the Italian market also reported positive results together with the Swiss, Scandinavian and US market. Arrivals from the Italian market increased by 358 or 0.4 per cent over the previous comparable period. Inflows from the Italian market are expected to continue to be positively affected given expected additional flights from Italy. The Scandinavian market registered a significant growth of 19.5 per cent during the period under review. Between January-August 2007 tourists from the USA market increased by 3,226 or 27.6 per cent, while tourists from the Swiss market increased by 620 or 4.8 per cent over the previous comparable period. Tourists from Libya rose by 8.2 per cent during the first eight months of 2007.

Meanwhile, decreases were recorded with respect to the German, Dutch, French, Austrian and Belgian markets. Between January-August 2007, the German market recorded a decline of 1,431 or 1.8 per cent, while tourists from the French market recorded a decline of 3,127 or 5.5 per cent. The negative German performance is mostly attributable to a lack of adequate airline seat

Tourist Departures by Nationality*

Table 5.3

	2004	2005	2006	2006 Jan-Aug	2007 Jan-Aug
United Kingdom	453,021	482,642	431,340	292,106	314,855
Germany	135,201	138,215	125,811	79,738	78,307
Italy	102,640	92,405	112,549	84,996	85,354
France	87,147	82,606	73,400	56,877	53,750
Netherlands	38,460	37,101	37,832	26,843	23,318
Scandinavia**	68,899	72,581	71,210	46,969	56,124
Libya	12,832	10,665	9,198	6,154	6,657
Belgium	31,437	28,730	29,077	20,823	18,012
Austria	24,078	26,394	23,540	17,013	14,165
Switzerland	22,874	20,274	21,403	13,011	13,631
USA	18,897	18,108	16,969	11,674	14,900
Others	162,198	160,877	171,902	111,632	146,801
TOTAL	1,157,684	1,170,598	1,124,231	767,836	825,874

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

**Includes Denmark, Finland, Norway, Sweden

Source: National Statistics Office

capacity following the withdrawal of a number of charter operations in 2006. However, as from March 2007 a new German low-cost airline commenced its operations to Malta, which opens up the possibility of an increased inflow from the German market.

Cruise Passengers

During the period January-August 2007, the cruise liner industry continued to expand. The Mediterranean cruise market is a growing phenomenon and Malta's investment and promotion in the Valletta cruise terminal coupled with its strategic central Mediterranean location have proved instrumental in generating the volume increases to make Valletta one of Europe's top cruise harbours. In fact, during the first eight months of 2007 cruise passenger arrivals increased by 26.6 per cent, reaching 295,220. More cruise travel increases visitor arrivals given that visitors are equivalent to tourists together with excursionists. Excursionists have a much shorter length of stay and spend less money but they do increase the visit turnover in the destination. Furthermore, the exposure to the country offered through cruise travel may subsequently translate into higher tourist numbers. In addition, 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.

Accommodation

Table 5.4 provides data concerning Malta's accommodation capacity by category of units and beds. It is pertinent to point out that the changes in accommodation levels in Table 5.4 reflect new accommodation, closure of existing accommodation as well as reclassifications. Additionally, it should be noted that in 2007 there were extensions to 5-Star hotels and hostels.

By the end of July 2007 the number of hotels declined by 9 when compared with December 2006 levels. The 5-Star category remained unchanged, while the 4-Star, 3-Star and 2-Star accommodation categories declined by 3 units, 5 units and 1 unit respectively. In terms of bed-stock capacity, in July 2007, there was an increase of 907 from the December 2006 levels. This increase is mainly from the 5-Star and 3-Star category that recorded an increase in bed-stock capacity of 441 beds and 612 beds respectively. Meanwhile, the 4-Star and 2-Star categories recorded a decline of 132 beds and 14 beds respectively.

The total number of guesthouses as at the end of July 2007 declined by 3 to 25 units, and similarly, the bed-stock level decreased by 68 beds, over December

Main Types of Tourist Accommodation

Table 5.4

	2005 (Dec)		2006 (Dec)		2007 (Jul)	
	Establishments	Bed-Places	Establishments	Bed-Places	Establishments	Bed-Places
Hotels						
Five Star	13	5,376	13	5,608	13	6,049
Four Star	42	15,580	43	15,446	40	15,314
Three Star	49	11,552	48	10,902	43	11,514
Two Star	12	792	11	731	10	717
Total	116	33,300	115	32,687	106	33,594
Other N.E.C.						
Guesthouses	29	791	28	757	25	689
Holiday Complex	30	5,368	30	5,366	32	7,271
Hostels	6	684	6	684	6	844
Other N.E.C. Total	65	6,843	64	6,807	63	8,804

Source: National Statistics Office

2006. The number of holiday complexes and their respective bed-stock level increased by 2 units and 1,905 beds respectively. The number of hostels remained stable at the December 2006 level, while the bed-stock level increased by 160 beds.

The occupancy rates for various types of accommodation, which are illustrated in Table 5.5, are another important element of consideration in the analysis of the tourism industry. During the period January-July 2007, all the categories reached their peak inflow in July. The 4-Star accommodation category recorded the highest level of occupancy of 92 per cent, closely followed by that of the 3-Star category of 90 per cent. The 5-Star accommodation category registered an occupancy rate of 87 per cent in July 2007.

Another important indicator of the performance of the tourism industry is related to the average length of stay by tourists. During January-August 2007, the average length of nights spent stood at 9.1, from the corresponding 2006 level of 9.8. This is in line with a declining European average length of outbound-trips as tourists are opting for shorter but more frequent holiday trips.

Monthly Accommodation Occupancy Rates - 2007*

Table 5.5 per cent

	Hotels				Tourist Villages & Aparthotels Hostels & Guesthouses
	5 Star	4 Star	3 Star	2 Star	
January	27	40	30	16	31
February	39	54	33	20	37
March	46	62	39	36	41
April	67	66	48	33	43
May	70	66	45	45	51
June	75	79	51	43	56
July	87	92	90	66	79
Average	59	66	51	39	50

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

Source: National Statistics Office

Employment

Data for employment in hotels and restaurants is based on 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 8,578 persons in June 2007, a decline of 307 jobs over the previous comparable period. This reflected the closure of two hotels. Employment in this sector corresponded to 6.1 per cent of the gainfully occupied population in June 2007. Private sector employment in hotels and restaurants amounted to 8,463 persons, or 13.2 per cent of the persons employed in private market services.

Foreign Exchange Earnings

The generation of foreign exchange earnings is an important indicator of the performance of the domestic tourism industry. Tourism earnings are one of the most important forms of foreign exchange generation in the local economy, helping to bridge the gap in the domestic merchandise account. The tourism industry thus provides an important contribution to the external payments position of the domestic economy.

Data on foreign exchange earnings from tourism are provided in Table 5.6, while Chart 5.3 depicts tourism earnings per capita. During January-June 2007, gross foreign exchange earnings reached Lm108.7 million, an increase of 7.1 per cent over the previous comparable period. This increase in tourism earnings

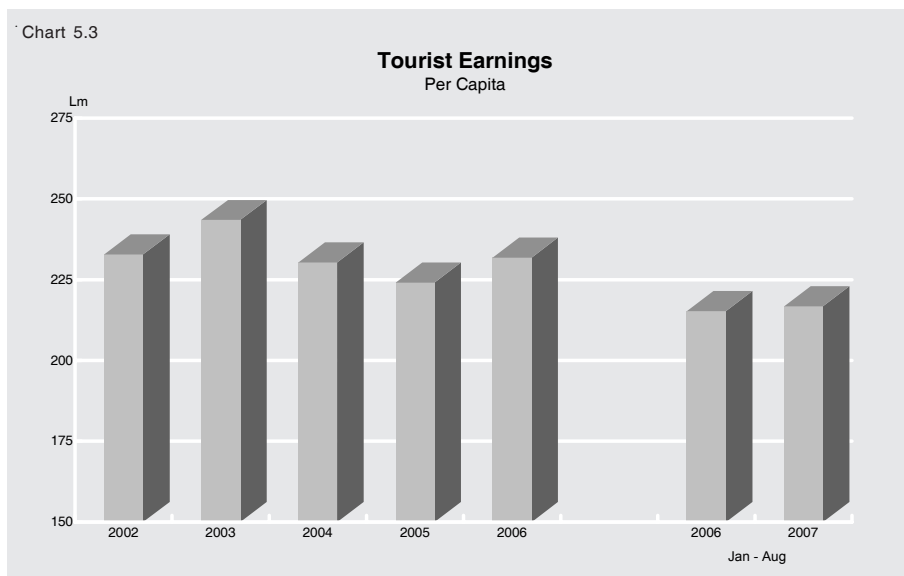
Earnings from Tourism

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 (%)
2004	266.6	230.3	23.9	17.5	29.9
2005	262.3	224.1	23.7	16.5	32.2
2006	260.6	231.8	24.5	13.8	28.4
2006 (Jan-Jun)	101.5	215.2	23.5	11.7	22.8
2007 (Jan-Jun)	108.7	216.7	26.1	12.2	23.3

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

Source: National Statistics Office



is mainly due to a higher number of tourist departures. Per capita earnings increased marginally by 0.7 per cent to Lm216.7. Earnings per nights spent increased to Lm26.1 during the first six months of 2007 from Lm23.5 for the corresponding 2006 period.

During the period January-June 2007, gross earnings from tourism accounted for 12.2 per cent of exports of goods and services. This compares with 11.7 per cent registered in the first six months of 2006. Similarly, the ratio of foreign exchange earnings from tourism to exports of manufactured goods increased from 22.8 per cent to 23.3 per cent during January-June 2007.

Malta Financial Services Authority

The Malta Financial Services Authority (MFSA) is the single regulator and supervisory authority for the financial services sector in Malta. This sector incorporates all financial activity including banking, investment and insurance. The MFSA also manages the Registry of Companies and has the responsibility of the Listing Authority.

On 3 August 2007, an Act was published to amend Various Financial Services Laws whereby the European Directive on Capital Adequacy of Investment Firms and Credit Institutions will be fully adopted together with the Markets in Financial Instruments Directive ('MiFID'). These laws will further consolidate

Malta's position as a financial services jurisdiction inside the European single market. Various Acts will be affected by such changes including the Malta Financial Services Authority Act, the Financial Markets Act, the Investment Services Act, the Banking Act, the Insurance Business Act and the Insurance Intermediaries Act.

The main amendments to the Financial Markets Act (FMA) relate to the transposition of MiFID. Under MiFID, the stock exchanges will be authorised as a regulated market. The conditions for authorisation, functions and responsibilities of central securities depositories has also been introduced into this Act.

The MFSA, as the competent authority, has assumed the regulatory responsibilities of the Malta Stock Exchange following the application of the FMA in 2002 and the repeal of the Malta Stock Exchange Act. The Exchange was authorised in terms of the Act to become an operator of the capital market. The new provisions give the central securities depository a more robust legal and regulatory framework and provide for an expansion of services.

The majority of the changes introduced by the Act to amend Various Financial Services Laws have entered into force upon its publication. However, the amendments to the Financial Markets Act and those to the Investment Services Act will come into force on November 1, 2007.

Developments in the field of occupational pensions during the past four years have prompted the need to review the Special Funds Act (SFA) and the regulations that have been issued under its provisions. The revisions required the drafting of new legislation. A draft Bill entitled the Retirement Pensions Act (RPA), which would replace the current SFA has been issued during the course of 2007. This would provide a regulatory framework for the regulation of retirement schemes, retirement funds and service-providers related thereto.

In July 2007, the MFSA launched a new class of Professional Investor Funds (PIF) targeting Extraordinary Investors. These new PIF funds will be distinguished by lighter regulatory requirements and Extraordinary Investors will be subject to more onerous eligibility requirements when compared to those applicable to Experienced or Qualifying Investors under current PIFs. The new PIFs are subject to a higher minimum investment amount of EUR 750,000 with no investment or borrowing restrictions. Leverage can also be used for investment

purposes. In the case of an umbrella fund comprising a number of sub-funds established as PIFs the threshold is applicable on a per scheme basis.

On 24 July 2007, following an evaluation of Malta's regulatory regime for investment funds, Malta was designated as a state with adequate supervision for the purposes of the Netherlands Investment Institutions Supervision Act (IISA). As a result of this new development, Maltese Professional Investor Funds and other non-UCITS funds can be marketed in Netherlands by fund managers licensed and regulated by the MFSA without the need for the fund manager to be licensed under Netherlands' IISA.

The MFSA launched on its website a Supervisory Disclosure Framework issued by the Committee of European Banking Supervisors (CEBS), in relation to Malta's transposition of the Capital Requirements Directive 2006/48/EC (the CRD). The aim of the Supervisory Disclosure Framework is to allow comparisons of supervisory rules and practices across EU Member States and to enhance the effectiveness of supervision.

In the first eight months of 2007, one credit institution licence was issued resulting in 19 credit institutions licensed under the Banking Act (1994). During this period, the number of financial institutions licensed under the Financial Institutions Act rose from 13 as at the end of December 2006 to 15 by August 2007.

During the first eight months of this year the MFSA issued one new Investment Services Licence which increased the total number of licences as at the end of August to 61. The MFSA has also issued 85 new Collective Investment Scheme (CIS) Licences including: 47 retail schemes, 25 professional investor funds and 13 locally based UCITS. During this period, 1 fund administration recognition has also been issued. The total number of CIS licences as at the end of August was 266.

During the first eight months of 2007 the MFSA has licensed one new insurance manager bringing the total number of insurance managers to 10. The MFSA has also licensed 3 general insurance companies and 1 life insurance company. During the period under review the MFSA has also enrolled 3 companies in the Brokers List and 15 individuals in the Brokers register. The MFSA has also licensed 70 new tied insurance intermediaries.

During the first eight months of 2007, the Registry of Companies registered 1,740 new companies, 1,707 of which represent local companies whereas 33 are partnerships.

Malta Enterprise Corporation

Malta Enterprise (ME) is a Government agency focused on attracting inward investment and supporting enterprise in Malta. It provides pre-investment advice and support, start-up assistance as well as post investment services and aftercare facilities. Malta Enterprise also offers trade promotion services aimed at introducing foreign companies to suitable manufacturers, service providers, suppliers and potential strategic partners in Malta.

During January-September 2007, the Corporation approved 11 new projects, 8 of which originated from abroad and 11 expansion projects, 6 of which originated from locally-owned concerns. There were a further 6 new foreign projects that ME has concluded discussions with to set up in Malta and benefit from ME assistance.

Furthermore, Malta Enterprise is currently negotiating on several projects, originating from different EU countries, mainly in ICT. There are also other interesting prospects coming from the healthcare sector including two new pharmaceutical projects.

During 2007, the Corporation approved soft loan assistance to 6 companies. The Corporation also approved interest rate subsidies to six companies and loan guarantees to another six companies. Such measures involved operators in the electronics sector and in the automotive sector, amongst others.

During the period January to August 2007, Lm0.2 million in the Loan Interest Subsidy Scheme were granted to six companies, this amount being the interest rate differential paid to clients on commercial rates from banks.

The main aim of ME's investment promotion strategy is to target higher value added activities with a strong emphasis on the knowledge base. A mix of high value added manufacturing and services sectors are targeted including Healthcare and pharmaceuticals, Electrical and electronic engineering, Mechanical and precision instruments, Maritime and custom built structures, Aviation maintenance, Software development and information communication technology, Back office operations and Logistics. It is recognised that while

Malta as an industrial location has a competence on the operations/manufacturing aspect of the value chain it needs to migrate upwards to incorporate elements such as R&D. Some of the new foreign companies being attracted to Malta, as well as existing foreign companies, are also transferring to Malta some elements of R&D, thus enhancing the desired shift.

In seeking to attract foreign direct investment and to undertake joint investment promotion activities, Malta Enterprise participated in various activities abroad. Malta Enterprise has also signed various agreements with other countries in order to enable information sharing on investment opportunities, promote investment promotion visits as well as investment workshops between the two parties and to promote commercial and investment relations between companies coming from these countries. In addition, between January and September 2007, Malta Enterprise organised more than 109 company delegations whose aim is that of exploring the possibility of investing in Malta. The main sectors involved were pharmaceuticals, ICT, back office operations, plastics, renewable energy, mechanical engineering, electronics, education, logistics and R&D.

Malta Enterprise regularly organizes events to assist local companies to internationalize mainly through participation in international sectoral fairs whereby local companies have the opportunity to meet with potential trade buyers of goods and services. During the period under review, participation in a number of specialised international fairs in foodstuffs, building materials, education and training, hotel supplies, healthcare services, ICT and household goods was undertaken. SMEs are being encouraged to collaborate for internationalisation by sharing resources. The Expo-Coach Scheme, which is in operation, provides guidance to those companies that could reach the export readiness stage. In addition, ME organised various workshops under the European Social Funds schemes to further educate SMEs on various relevant topics.

The Corporation is also coordinating the MARIS project which is sponsored by the EU Commission to help increase the innovation potential of the region by promoting a favourable 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. Throughout 2007, the IRC, has succeeded in assisting a number of Maltese companies in collaborating with other European companies in technology related activities. A project was launched referred to as METTTES or More Efficient Transnational Technology Transfers in the Environmental Sector. Waste Management in the Electronics Industry is one of the main issues for METTTES.

The Kordin Business Incubation Center (KBIC) aims to nurture, grow and launch technology oriented business by providing the physical space and technology infrastructure required by incubating businesses. During 2007, the KBIC housed 4 new clients operating in biotech, engineering systems and innovative areas. This year the KBIC was very active in local and international networking events for the benefit of the clients to further assist them in their development. Meanwhile, the Business Technology Network pursues the creation, development and growth of technology-based ventures in Malta and also assists local businesses in discovering technologies available locally that would be of benefit to their competitiveness.

6. Prices and Incomes

6. Prices and Incomes

This Chapter reviews domestic inflationary developments during the twelve months to September 2007. A comparison to inflation rates in the EU Member States is also provided. Subsequently, changes in domestic sectoral wages occurring between September 2006 and September 2007 are examined.

The inflation rate has followed a consistent downward trend since October 2006. In September 2007, the 12-month moving inflation rate (as measured by the Retail Price Index) fell to 0.81 per cent, from 3.42 per cent in September 2006. It is pertinent to highlight that the low inflation rates registered in August and September are the lowest recorded in recent years.

The second part of this Chapter reviews the study of average weekly wages derived from collective agreements of 200 companies with a total workforce of 27,727 employees, where 13,251 employees are engaged in direct production and 14,476 employees in the market services sector. The overall rate of wage increase resulted to be Lm2.11 or 2.0 per cent. This was above the cost of living increase granted for 2007 of Lm1.75 per week. Moreover, the highest percentage wage rise was registered in the Metal products sub-sector, at 3.9 per cent. Around 57 per cent of all employees in the sample earned an average weekly wage of more than Lm98.00.

Inflation

The Retail Price Index (RPI) measures the relative change in the level of prices paid for by an average household for a representative basket of consumer goods and services, as presented in the Household Budgetary Survey (HBS) which was 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 had started to compile it since January 2002.

The official measure of inflation in Malta is calculated using 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 2004 and September 2007 are presented in Table 6.2. Chart 6.1 depicts the trend of the domestic 12-

Box 6.1

Harmonised Index of Consumer Prices (HICP)

The Harmonised Index of Consumer Prices (HICP) measures consumer price movements and is compiled according to a harmonised approach and a single set of definitions developed by Eurostat in conjunction with EU Member States. Thus it provides comparable measures of inflation in the EU. Among other purposes, it is used to provide the official measure of consumer price inflation in the euro-zone for the purposes of monetary policy and for assessing inflation convergence as required under the Maastricht criteria.

The Table presents inflation rates as measured by the 12-month moving average HICP for the period January 2004 to September 2007. The HICP inflation rate was on an upward trend, during most of 2006, peaking in September at 3.2 per cent. Subsequently, it declined significantly, reaching a low of 0.4 per cent in September 2007.

The relatively low twelve month moving average inflation in September 2007 mainly reflects negative contributions by the Clothing and Footwear, Transport and Restaurants and Hotels sub-indices. On the other hand, positive contributions were mainly recorded by the Food and Non-Alcoholic Beverages, Housing, Water, Electricity, Gas and Other fuels and Recreation and Culture sub-indices.

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

	per cent			
	2004	2005	2006	2007
January	2.1	2.6	2.6	2.5
February	2.1	2.7	2.6	2.4
March	2.1	2.7	2.6	2.2
April	2.3	2.6	2.7	1.8
May	2.4	2.5	2.8	1.4
June	2.4	2.4	2.9	1.1
July	2.6	2.3	3.1	0.7
August	2.6	2.3	3.1	0.5
September	2.8	2.2	3.2	0.4
October	2.8	2.2	3.1	
November	2.8	2.4	2.8	
December	2.7	2.5	2.6	

Source: National Statistics Office

12-Month Moving Inflation Rate

Table 6.1

per cent

	2004	2005	2006	2007
January	1.57	2.74	2.99	2.70
February	1.70	2.77	2.92	2.60
March	1.75	2.83	2.92	2.37
April	1.86	2.83	3.00	2.04
May	1.95	2.92	3.05	1.67
June	2.03	2.94	3.11	1.37
July	2.23	2.77	3.30	1.10
August	2.41	2.74	3.38	0.93
September	2.57	2.76	3.42	0.81
October	2.63	2.89	3.27	
November	2.75	2.95	3.01	
December	2.79	3.01	2.77	

Source: National Statistics Office

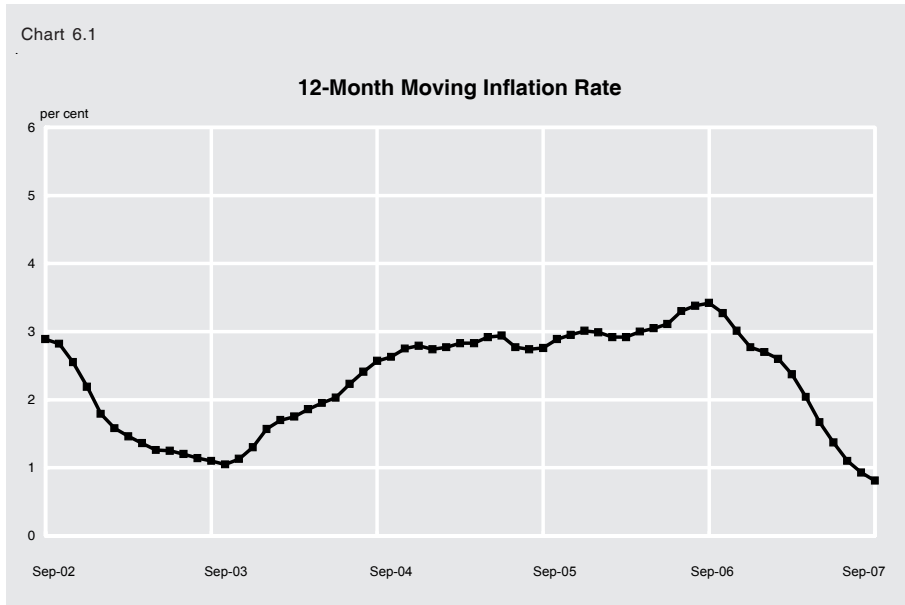
Retail Prices Index

Table 6.2

December 2002=100

	2004	2005	2006	2007
January	102.20	104.70	107.06	108.58
February	102.23	105.33	107.70	108.86
March	102.66	105.82	109.05	109.40
April	103.32	106.27	110.32	110.16
May	103.13	106.69	110.89	110.44
June	103.62	106.65	110.52	110.53
July	104.14	105.77	109.95	110.67
August	103.25	105.83	109.50	110.98
September	103.56	106.59	110.19	112.21
October	104.36	108.40	110.64	
November	104.96	109.01	109.88	
December	105.27	109.02	109.88	
Average Jan-Dec	103.56	106.67	109.63	

Source: National Statistics Office



month moving inflation rate for the period covering September 2002 to September 2007.

Chart 6.1 shows that the inflation rate followed a declining trend since September 2002, when it stood at 2.89 per cent to reach a low of 1.05 per cent in October 2003. Subsequently, the inflation rate generally increased gradually until September 2006 when it reached 3.42 per cent. Thereafter, the inflation rate followed a relatively steep downward path, falling to a low 0.81 per cent in September 2007.

Analysing the trend of each sub-index of the RPI provides an understanding of the underlying inflationary movements in the overall rate. The average for the twelve months to September 2007 for the 2005-2007 period for the sub-indices composing the RPI, grouped by commodities are illustrated in Table 6.3. During the period under review, the Clothing and Footwear, the Transport and Communications and the Water, Electricity, Gas and Other Fuels sub-indices have contributed to the overall drop of the 12-month moving average inflation rate occurring during 2007. Cheaper imports are likely to have underpinned the negative contribution to inflation of clothing and footwear. In addition, the negative contribution of the energy related sub-indices reflects a substantial base effect as well as the generally lower water and electricity surcharge in 2007 when compared to 2006. On the other hand, positive contributions were mainly

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

Table 6.3

December 2002=100

Commodity Group	Weight	2005	2006	2007
Food	23.82	103.79	105.65	108.99
Beverages and Tobacco	6.11	113.70	116.45	118.56
Clothing and Footwear	8.24	89.24	89.52	86.38
Housing	7.57	110.13	115.20	119.06
Water, Electricity, Gas and Fuels	2.25	115.08	153.24	148.70
Transport and Communications	23.13	108.00	113.18	111.73
Recreation and Culture	8.84	101.26	101.29	102.50
Household Equipment & House Maintenance Costs	7.65	102.97	104.78	105.62
Personal Care and Health	6.22	110.72	114.34	116.50
Other Goods and Services	6.17	114.11	116.92	117.78

Source: National Statistics Office

attributed to the Food sub-index, followed by the Housing and the Personal Care and Health sub-indices.

The Food sub-index, which carries the largest weighting within the RPI, recorded an increase of 3.16 per cent. Fruit, fish and vegetables were the major contributors to the overall fluctuations in the food sub-index. Higher price increases were registered towards the end of the period under review with the annual rate reaching 7.05 per cent in September 2007. This was mainly attributed to the increase in the prices of fish and vegetables. Moreover, the recent increase in international prices of cereals has also contributed to higher average domestic food prices.

The increase of 1.81 per cent in the Beverages and Tobacco sub-index was mainly due to higher average prices of non-alcoholic beverages with the highest increase being recorded during August 2007. However, it is also worth noting that the increase registered under this sub-index and its contribution to the overall inflation rate has decreased considerably since January 2005.

Since the last quarter of 2006, the Clothing and Footwear sub-index sustained declines in average prices, with the largest drop in the 12-month moving average rate of 4.02 per cent recorded in August 2007 followed by 3.51 per cent in September 2007. The contribution of this sub-index to the overall inflation rate has been negative since October 2006 and amounted to -0.29 in September 2007.

The Housing sub-index has increased by 3.35 per cent with a contribution of 0.25 percentage points to the overall 12-month moving inflation rate. Major fluctuations in dwelling maintenance and repair followed by slight variations in the materials for plastering, cement rendering and rentals underpinned this increase. It is pertinent to note that, since the beginning of this year, this sub-index has been rising at a decreasing rate.

Following last year's increase of 33.2 per cent recorded in the 12-month average of the Water, Electricity, Gas and Fuels sub-index, a decline of 3.0 per cent was recorded in the 12-month average in September 2007. Growth in this sub-index has been decelerating since October 2006. Furthermore, the sub-index decreased by 0.09 per cent and 2.69 per cent in August and September 2007 respectively. As a result the Water, Electricity, Gas and Fuel sub-index registered a negligible contribution in August and a negative contribution of 0.07 percentage points in September 2007. These developments reflect the substantial base effect as well as the generally lower fuel surcharge prevailing in 2007. Indeed, the fuel surcharge dropped from 63.5 per cent during September 2006 and October 2006 to 45 per cent in March 2007, and rose slightly to 50 per cent in August and September 2007.

The Household Equipment and House Maintenance Cost sub-index has increased by 0.80 per cent and its contribution to the 12-month moving average resulted to be 0.06 percentage points. Declines were mainly recorded in average prices of household textiled articles during January 2007 and in average prices of furniture during March 2007. On the other hand, the largest average price increase was attributed to furniture in December 2006.

In contrast to the rise of 4.80 per cent recorded last year, the Transport and Communications sub-index declined by 1.28 per cent, with a negative contribution of 0.30 percentage points to the overall inflation rate. Since July 2007, the Transport and Communications sub-index has been recording negative contributions to the 12-month moving average inflation rate. In August and September 2007 the index decreased by 0.70 per cent and 1.29 per cent respectively. The developments in this sub-index mainly reflect developments in air transport services and fuels. Changes in the international fuel prices impact on developments in this sub-index. Furthermore, an important factor was the introduction of low cost airlines operating in Malta as from November 2006 and the availability of lower priced air travel by other airlines.

The 12-month moving average rate for the Personal Care and Health sub-index has increased by 1.89 per cent in September 2007, being the lowest growth

since January 2005. Accordingly, its contribution to the overall inflation rate amounted to 0.12 percentage points. Slight variations were recorded in items included in this sub-index, with a marginal increase in medical services in February 2007 and decreases in medicines and hygienic articles in November 2006 and January 2007 respectively.

The Recreation and Culture sub-index increased by 1.19 per cent with a total contribution of 0.11 percentage points to the overall RPI inflation rate. Increases were mainly attributed to education expenses in April 2007 and stationery goods in September 2007. On the other hand, slight price fluctuations were recorded in audio visual and sports equipment.

The Other Goods and Services sub-index has increased by 0.74 per cent with a marginal contribution of 0.05 percentage points to the inflation rate. Minor increases were recorded in the insurance index.

International Comparison

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 2007 are illustrated in Table 6.4. The common estimation used to calculate the HICP index enables comparability among Member States.

Inflationary developments in the European Union in August 2007 show that Latvia and Hungary registered the highest inflation rate of 7.7 per cent, followed by Bulgaria at 5.7 per cent, Estonia at 5.2 per cent, Lithuania at 4.6 per cent and Romania at 4.3 per cent. On the other hand, the lowest inflation rate was attributed to Malta at 0.5 per cent, followed by France and Finland at 1.3 per cent. The average inflation rate in the EU 27 Member states declined slightly to 2.1 per cent from 2.3 per cent recorded in 2006. This was mainly driven by declines in the 12-month moving average inflation rate in Communications (-2.0 per cent) and Recreation and Culture (-0.1 per cent) sub-indices. On the other hand, Education (7.3 per cent), Housing, water, electricity, gas and other fuels (4.1 per cent) and Alcoholic beverages, Tobacco and narcotics (3.9 per cent) sub-indices contributed positively to the overall inflation rate in the EU Member States.

Malta's inflation rate continued to fall during 2007, reaching a low rate of 0.5 per cent in August 2007. This represents a significant decline when compared to 3.1 per cent in August 2006. Malta's inflation rate has been below the reference

European Union Inflation Rates
(Harmonised Index of Consumer Prices)

Table 6.4

per cent

	2004	2005	2006	2007 ⁽¹⁾
Austria*	2.0	2.1	1.7	1.7
Belgium	1.9	2.5	2.3	1.7
Bulgaria	6.1	6.0	7.4	5.7
Cyprus	1.9	2.0	2.2	1.7
Czech Republic	2.6	1.6	2.1	2.0
Denmark	0.9	1.7	1.9	1.5
Estonia	3.0	4.1	4.4	5.2
Finland	0.1	0.8	1.3	1.3
France	2.3	1.9	1.9	1.3
Germany	1.8	1.9	1.8	1.7
Greece	3.0	3.5	3.3	2.9
Hungary	6.8	3.5	4.0	7.7
Ireland	2.3	2.2	2.7	2.6
Italy	2.3	2.2	2.2	1.9
Latvia	6.2	6.9	6.6	7.7
Lithuania	1.2	2.7	3.8	4.6
Luxembourg	3.2	3.8	3.0	2.0
Netherlands*	1.4	1.5	1.7	1.6
Poland	3.6	2.2	1.3	1.9
Portugal	2.5	2.1	3.0	2.5
Romania	11.9	9.1	6.6	4.3
Slovakia	7.5	2.8	4.3	2.4
Slovenia	3.7	2.5	2.5	2.9
Spain	3.1	3.4	3.6	2.5
Sweden	1.0	0.8	1.5	1.4
United Kingdom	1.3	2.1	2.3	...
EU 27*	2.1	2.2	2.3	2.1
Malta	2.7	2.5	2.6	0.5

* Provisional for August 2007

⁽¹⁾ For 2007, figures relate to August

Source: Eurostat
National Statistics Office

value of the Maastricht stability criterion since December 2006. Furthermore, Malta's inflation rate has been the lowest amongst the EU Member States in June, July and August 2007.

Sectoral Wages

On the basis of collective agreements deposited within the Department of Industrial and Employment Relations, this section analyses changes and developments in sectoral average weekly wage rates recorded between

September 2006 and September 2007. The collective agreements cover different periods with average weekly wages including or excluding the cost of living increase. The sample under review is made up of 200 firms employing 27,727 employees, where 93 firms are engaged in direct production and employ 13,251 employees while the remaining 107 firms operate in the market services with 14,476 employees. The data for weekly wages is divided into four major employment categories namely labourers, skilled tradesmen, clerical and managerial grades. Definite contracts of employment are not considered in this analysis. The data also excludes employment benefits over and above the basic wage, such as production bonuses, overtime payments, social security and allowances, and other non-wage income. These non-wage income can be quite significant for some categories of employment. Hence the employees' actual average weekly remuneration might be higher than that reported in this study. Moreover, since the information in this Chapter is based on a sample of collective agreements and includes only the basic weekly wage, the results shown in the following tables cannot be directly compared to data based on the gainfully occupied population included in other Chapters of this Economic Survey.

It is also to be noted that the tables and data presented in this Chapter are not directly comparable to those published in previous Economic Surveys. Indeed, direct comparability is hampered by the methodology and sampling procedure adopted, mainly the inclusion of additional firms and exclusion of others. This means that the individual firms' weighting in each category would change as well as changes in employment levels. The reported average wage rates may also change either when a new collective agreement results in a reclassification of grades or when new trainees are paid the entry level pay wage.

Collective agreements included in the sample are grouped according to their respective sub-sector of economic activity. The average of the minimum and maximum wage scales for each individual collective agreement is then calculated. This gives the sub-sectoral mean wage. The figures obtained are then increased by the cost of living adjustments accordingly, which stood at Lm2.25 and Lm1.75 for 2006 and 2007 respectively.

It should be noted that although a company included in the tobacco sector has changed its nature of operations from manufacturing to trading in 2007, it has been retained in this sector in September 2007 so as to enable comparison with September 2006.

Sectoral average weekly wages as at September 2006 are shown in Table 6.5. The overall weighted average wage of all firms stood at Lm102.94. Whereas

the weighted average wage for those employed in direct production stood at Lm90.08, the average wage for those employed in services stood at Lm114.69, implying a wage gap of Lm24.61. The highest average weekly wage rates were recorded in the Banking and Other Financial Institutions sub-sector (Lm144.04) and the Transport sub-sector (Lm119.60). Sub-sectors like Tobacco, Paper & Printing, Insurance & Real Estate, Storage & Warehousing, Communications, Community & Business, Recreation Services and Electricity & Gas Services also reported relatively high weighted average wage rates ranging between Lm100 and Lm110. On the other hand the lowest paid sub-sectors were the Leather & Leather Goods sub-sector (Lm64.82), the Textiles, Footwear and Clothing sub-sector (Lm81.69), and the Machinery sub-sector (Lm81.71). The lowest weekly average wage rate in September 2006 amounted

Average Weekly Wages - September 2006

Table 6.5

Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	91.50	92.00	88.50	97.50	91.52
Food	92.32	92.86	93.39	104.38	93.76
Beverages	88.30	107.13	100.39	109.78	96.16
Tobacco	95.40	120.27	107.52	113.18	103.17
Textiles, Footwear and Clothing	78.01	97.45	93.48	89.94	81.69
Furniture & Fixtures	85.09	104.53	104.00	107.58	96.05
Paper & Printing	91.98	106.10	98.84	114.00	103.90
Leather & Leather Goods	63.13	71.60	78.25	89.00	64.82
Chemicals	90.09	109.03	108.07	118.31	96.56
Non-Metallic Products	76.25	95.75	-	99.50	84.61
Metal Products	95.89	91.20	87.73	110.83	94.74
Machinery	79.03	82.72	77.98	95.68	81.71
Electrical Machinery	78.04	103.68	89.78	117.22	90.09
Transport Equipment	86.90	94.61	98.30	115.67	99.16
Miscellaneous	89.60	112.72	103.74	116.21	97.50
Electricity & Gas Services	91.66	105.60	103.87	117.12	100.15
Construction	81.12	102.77	105.31	-	88.21
Wholesale & Retail Trade	82.33	101.85	88.36	115.52	93.53
Banking & OFI	106.13	113.45	136.37	193.77	144.04
Insurance & Real Estate	106.43	-	112.73	-	109.58
Transport	100.45	115.53	107.32	174.49	119.60
Storage and Warehousing	98.48	107.67	104.23	122.80	103.91
Communications	101.50	112.97	94.87	133.49	105.01
Community & Business	85.66	106.74	92.10	121.37	103.67
Recreation Services	94.81	102.70	104.11	116.39	100.71
Hotels & Catering Ests	91.04	100.95	96.54	99.58	94.71
All Firms	84.34	102.78	110.93	129.83	102.94
Direct Production	81.03	98.71	94.20	112.07	90.08
Market Services	92.45	109.10	113.24	140.59	114.69

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

to Lm63.13 and was earned by the Labourer grade in the Leather and Leather Goods sub-sector. This was Lm5.25 or 9.1 per cent higher than the 2006 National Minimum Wage which stood at Lm57.88. On the other hand the highest weekly average wage rate was earned by the Banking and OFI Managerial grade (Lm193.77).

Table 6.6 shows the average weekly wage rates for the various employment categories in the sampled firms as at September 2007. The fact that both Table 6.5 and Table 6.6 use the same employment weighting structure and the same sample of firms makes them directly comparable. Thus, the differences in the

Average Weekly Wages - September 2007

Table 6.6 Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	93.25	93.75	90.25	99.25	93.27
Food	94.07	94.61	98.78	106.13	95.92
Beverages	91.86	108.94	102.14	111.53	98.92
Tobacco	97.15	122.02	109.27	118.72	105.84
Textiles, Footwear and Clothing	79.76	99.20	95.23	92.03	83.46
Furniture & Fixtures	87.25	106.48	105.75	109.77	98.10
Paper & Printing	94.23	107.86	100.90	115.88	105.90
Leather & Leather Goods	64.88	73.35	80.00	90.75	66.57
Chemicals	91.86	110.89	109.82	120.06	98.33
Non-Metallic Products	78.00	97.50	-	101.25	86.36
Metal Products	99.68	94.76	90.91	114.64	98.42
Machinery	80.78	84.47	79.73	97.43	83.46
Electrical Machinery	79.81	105.70	92.22	118.94	91.92
Transport Equipment	89.09	96.86	100.59	118.26	101.48
Miscellaneous	91.33	114.47	105.49	117.96	99.24
Electricity & Gas Services	93.41	107.35	105.62	118.87	101.90
Construction	82.87	104.52	107.06	-	89.96
Wholesale & Retail Trade	84.15	103.60	90.59	117.27	95.38
Banking & OFI	107.88	115.20	138.12	195.52	145.79
Insurance & Real Estate	108.18	-	114.48	-	111.33
Transport	102.27	119.91	110.95	183.22	123.92
Storage and Warehousing	100.42	109.87	106.30	125.15	105.96
Communications	103.36	114.89	96.70	136.99	107.04
Community & Business	87.55	108.71	93.92	123.20	105.52
Recreation Services	96.56	104.45	105.86	118.14	102.46
Hotels & Catering Ests	93.12	103.29	98.43	101.36	96.76
All Firms	86.19	104.81	113.05	132.58	105.05
Direct Production	82.86	100.56	96.48	114.59	92.03
Market Services	94.34	111.46	115.35	143.42	116.95

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

corresponding wage rates represent the actual change in wages occurring during the period under observation.

The weighted average weekly wage for all firms as at September 2007 stood at Lm105.05. The best performing sub-sectors as at September 2007 remained unchanged from those in September 2006, namely the Banking and Other Financial Institutions sub-sector which had a weekly average weighted remuneration of Lm145.79, and the Transport sub-sector with Lm123.92. Similarly, the least remunerated sub-sectors in the sample were the Leather and Leather Goods sub-sector (Lm66.57), the Textile, Footwear and Clothing sub-sector and the Machinery sub-sector (Lm83.46). The lowest reported wage,

Changes in Average Weekly Wages

September 2007 - September 2006

Table 6.7

per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	1.9	1.9	2.0	1.8	1.9
Food	1.9	1.9	5.8	1.7	2.3
Beverages	4.0	1.7	1.7	1.6	2.9
Tobacco	1.8	1.5	1.6	4.9	2.6
Textiles, Footwear and Clothing	2.2	1.8	1.9	2.3	2.2
Furniture & Fixtures	2.5	1.9	1.7	2.0	2.1
Paper & Printing	2.4	1.7	2.1	1.6	1.9
Leather & Leather Goods	2.8	2.4	2.2	2.0	2.7
Chemicals	2.0	1.7	1.6	1.5	1.8
Non-Metallic Products	2.3	1.8	-	1.8	2.1
Metal Products	4.0	3.9	3.6	3.4	3.9
Machinery	2.2	2.1	2.2	1.8	2.1
Electrical Machinery	2.3	2.0	2.7	1.5	2.0
Transport Equipment	2.5	2.4	2.3	2.2	2.3
Miscellaneous	1.9	1.6	1.7	1.5	1.8
Electricity & Gas Services	1.9	1.7	1.7	1.5	1.7
Construction	2.2	1.7	1.7	-	2.0
Wholesale & Retail Trade	2.2	1.7	2.5	1.5	2.0
Banking & OFI	1.6	1.5	1.3	0.9	1.2
Insurance & Real Estate	1.6	-	1.6	-	1.6
Transport	1.8	3.8	3.4	5.0	3.6
Storage and Warehousing	2.0	2.0	2.0	1.9	2.0
Communications	1.8	1.7	1.9	2.6	1.9
Community & Business	2.2	1.8	2.0	1.5	1.8
Recreation Services	1.8	1.7	1.7	1.5	1.7
Hotels & Catering Ests	2.3	2.3	2.0	1.8	2.2
All Firms	2.2	2.0	1.9	2.1	2.0
Direct Production	2.3	1.9	2.4	2.3	2.2
Market Services	2.0	2.2	1.9	2.0	2.0

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

that is the Labourer grade under the Leather & Leather Goods sub-sector (Lm64.88), was still Lm5.25 or 8.8 per cent over the National Minimum Wage for 2007 which stood at Lm59.63. The highest average wage remained that of the Managerial grade in the Banking and other Financial Institutions sub-sector at Lm195.52, while other relatively high wages were those for the Managerial grade in the Transport sub-sector (Lm183.22) and the Communications sub-sector (Lm136.99).

Table 6.7 shows percentage changes in average weekly wage occurring between September 2006 and September 2007. The weighted average increase for all firms stood at 2.0 per cent. During this period, at 2.2 per cent, the wage

Proportion of Sampled Employees in Wage Ranges

Table 6.8 per cent

Sector \ Wage Range	Up to Lm67.99	Lm68.00- Lm77.99	Lm78.00- Lm87.99	Lm88.00- Lm97.99	Over Lm98.00
Oil Drilling	0.0	0.0	0.0	94.7	5.3
Food	0.0	11.2	2.6	21.7	64.5
Beverages	0.0	0.0	38.3	3.5	58.2
Tobacco	6.5	0.8	0.0	0.0	92.7
Textiles, Footwear & Clothing	1.1	36.6	13.1	33.1	16.1
Furniture & Fixtures	2.7	2.1	0.0	42.5	52.7
Paper & Printing	0.0	0.0	6.5	24.7	68.8
Leather & Leather Goods	86.3	8.4	1.1	4.2	0.0
Chemicals	0.0	3.3	0.1	68.8	27.9
Non-Metallic Products	0.0	0.0	59.3	29.6	11.1
Metal Products	0.0	7.4	16.0	0.6	76.1
Machinery	4.2	5.9	71.2	11.5	7.3
Electrical Machinery	3.9	4.9	54.8	0.6	35.7
Transport Equipment	0.0	0.0	5.8	40.3	54.0
Miscellaneous	2.2	5.0	0.9	43.0	48.9
Electricity & Gas	0.0	0.0	0.0	47.8	52.2
Construction	0.0	0.0	67.6	0.0	32.4
Wholesale & Retail Trade	5.7	5.9	6.1	47.6	34.7
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	2.3	0.6	0.6	5.0	91.5
Storage and Warehousing	0.0	0.0	0.0	17.5	82.5
Communications	0.0	2.4	6.9	32.1	58.5
Community & Business	0.4	4.9	19.9	17.1	57.8
Recreation Services	0.0	0.0	14.0	18.6	67.4
Hotels & Catering Ests	0.2	2.3	16.5	47.4	33.6
All Firms	1.6	3.9	16.9	20.5	57.1
Direct Production	2.4	5.5	25.7	23.9	42.4
Market Services	0.8	2.5	9.2	17.4	70.2

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

increase registered in the direct production was slightly higher than that recorded in the market services sector (2.0 per cent). Whilst the average wage in the direct production increased by Lm1.95 or 2.2 per cent to reach Lm92.03 in September 2007, the average weekly wage rate in the market services sector increased by Lm2.26 or 2.0 per cent, thus reaching Lm116.95 in September 2007. Furthermore, the sub-sectors which recorded the highest percentage increases were the Metal Products sub-sector which registered an increase of 3.9 per cent, the Transport sub-sector with an increase of 3.6 per cent, and the Beverages sub-sector with an increase of 2.9 per cent. More specifically, the Clerical grade under the Food sub-sector registered the highest percentage increase (5.8 per cent), followed by the Managerial grade under the Transport (5.0 per cent) and the Tobacco sub-sectors (4.9 per cent) and the Labourer grade under the Beverages and Metal products sub-sectors (4.0 per cent).

Table 6.8 provides information about the distribution of average weekly wages along different brackets as at September 2007. The largest share of employees (57.1 per cent) for all firms earned on average a weekly wage that fell within the highest weekly wage bracket of Lm98.00 and above. The second largest proportion (20.5 per cent) fell within the Lm88.00 – Lm97.99 bracket. Moreover, while 70.2 per cent of those employed in the services sector fell in the highest wage bracket, only 42.4 per cent of those employed in the direct production earned more than Lm98.00 weekly. The percentage of employees earning up to Lm67.99 per week stood at 1.6 per cent, the majority of which were engaged in the Leather and Leather sub-sector (86.3 per cent). On the other hand, practically all employees in the Banking and OFI and Insurance and Real Estate sub-sectors earned more than Lm98.00 per week.

While Table 6.8 is indicative of the differences in average weekly wage rates between the different sub-sectors and between firms arising from the different levels of skills and expertise, it should also be noted that the take home pay of those employed in direct production might be significantly higher due to production bonuses and allowances.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

In the first six months of 2007, the current account deficit improved by Lm30.2 million to reach Lm81.2 million or 7.4 per cent of GDP. The improvement in the current account balance was primarily linked to a decline in imports of goods and services equivalent to 8.4 percentage points of GDP. On the other hand, although exports of goods and services increased by Lm20.1 million, its ratio to GDP declined by 3.0 percentage points.

The improvement in the balance on goods and services was underpinned by an improvement in the goods account. The deficit in the goods account stood at 15.4 per cent of GDP during the January-June 2007 period, compared to 22.9 per cent of GDP a year earlier.

Trade data for the January-July 2007 period, suggests that the first seven months of 2007 were characterised by higher exports particularly in the chemicals and printed matter sectors as well as in the machinery and transport equipment sector, and fuels. These positive developments compensated for the continuous decline in exports of clothing. Despite the increase in exports, imports of industrial supplies registered a decline. Imports of capital goods also registered a decrease partly reflecting a substantial amount of exceptional items imported last year. Imports of consumer goods increased marginally by Lm5.1 million primarily due to higher imports of food and beverages. The rise in the fuel import bill continued in the first seven months of 2007, in line with developments in international oil prices.

Higher tourism earnings and net receipts on transport services were recorded during the first six months of 2007. On the other hand, net payments on other services deteriorated, whilst expenditure by Maltese tourists abroad continued to increase. As a result, the services balance deteriorated by Lm15.2 million, or 2.2 percentage points to reach 11.4 per cent of GDP.

The imbalance in the income account increased further by Lm5.4 million in the first half of 2007 to an outflow of 3.5 per cent of GDP. The deterioration in the income account was mainly due to higher net income payment from direct investment, reflecting higher profits registered by foreign owned companies. Meanwhile, net interest receipts on portfolio investment and net income payment on other investments improved.

Box 7.1

International Competitiveness

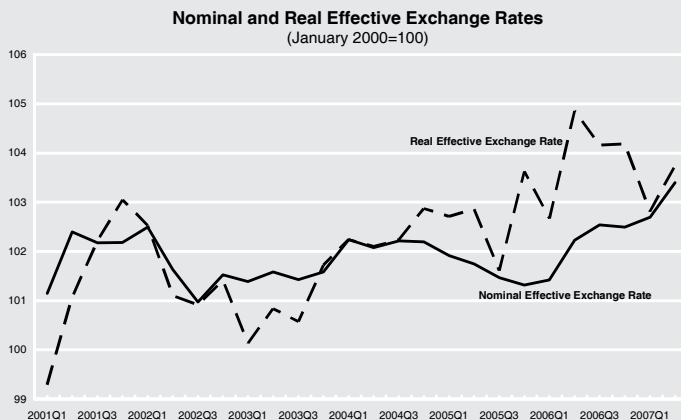
The real effective exchange rate (REER), provides an indication of a country's international price competitiveness, and is defined as the product of the nominal effective exchange rate (NEER) and the relative price of domestic to foreign goods and services. A decline in the REER implies that domestic 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 most of 2001, both the nominal and the real effective exchange rate appreciated, with the REER appreciating in excess of the NEER implying an increasing relative price differential. Nominal effective exchange rates depreciated in late 2001 and early 2002 and then remained relatively stable between 2002 and the end of 2004. However, given that domestic inflation continued to exceed inflationary developments abroad, the gap between the NEER and the REER widened further by 0.6 percentage points. In 2005, the NEER depreciated but the REER generally appreciated. Throughout the year 2006, the REER appreciated further by 1.5 per cent, partly as a result of an appreciation of the NEER by 1.1 per cent and partly due to adverse domestic inflationary developments relative to inflation abroad.

By mid 2006, the REER reached a peak after which it embarked on a decline. As a result, during the 9 months until the first quarter of 2007, the gap between the NEER and the REER closed rapidly, marked by a downward trend in relative inflationary developments which offset a continued appreciation of the NEER.

In the second quarter of 2007, the NEER continued on an increasing trend whereas the REER appreciated again. As a result, the gap between the NEER and the REER, despite the relatively low domestic inflation, was again widening.

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.



Source: Central Bank of Malta

Net inflows by way of current transfers were Lm17.1 million less in the period under review when compared with the same period in 2006. This reflects lower net transfer receipts by Government and higher net payments on private transfers.

An outflow in the capital and financial account excluding reserve assets was recorded during the period under review. The capital and financial account (excluding reserves) deteriorated from a net inflow of 12.3 per cent of GDP in the first half of 2006 to a net outflow of 1.2 per cent of GDP in the comparable period of 2007. As a result a loss in reserves equivalent to 8.7 per cent of GDP was registered during the January-June 2007 period.

It should be noted that as regards the treatment of lotteries and gaming activities the difference between the amounts played/betted and the wins paid out are now being treated as a service in the BOP statement. Previously, these were treated as transfers. For this reason, a revision from the current transfers account to the services account has been affected and this revision has been extended back for consistency.

Foreign Trade

Trade developments are significantly influenced by international events, including international oil prices, competitive price pressures from low-cost countries, as well as the economic situation in Malta's trading partners. During the January-July 2007 period, the economic performance in Malta's main trading partners was positive. On the other hand, international competitive price pressures continued particularly in certain manufacturing sectors such as clothing.

Nevertheless, the first seven months of 2007 were characterised by an increase in total exports mainly reflecting a substantial increase in exports of chemicals as well as in printed matter.

Following last year's significant recovery, exports of machinery and transport equipment recorded a marginal improvement. Meanwhile, in January-July 2007, a fall in imports was registered. Coupled with the increase in exports, this resulted in a narrower negative trade gap of Lm276.3 million compared to Lm334.2 million in the same period last year. Further details are provided in Table 7.1 and Chart 7.1. As illustrated in Chart 7.2, the rate of import cover has followed a downward trend since 2002, but recovered in 2006. The rate of import cover

Foreign Trade

Table 7.1

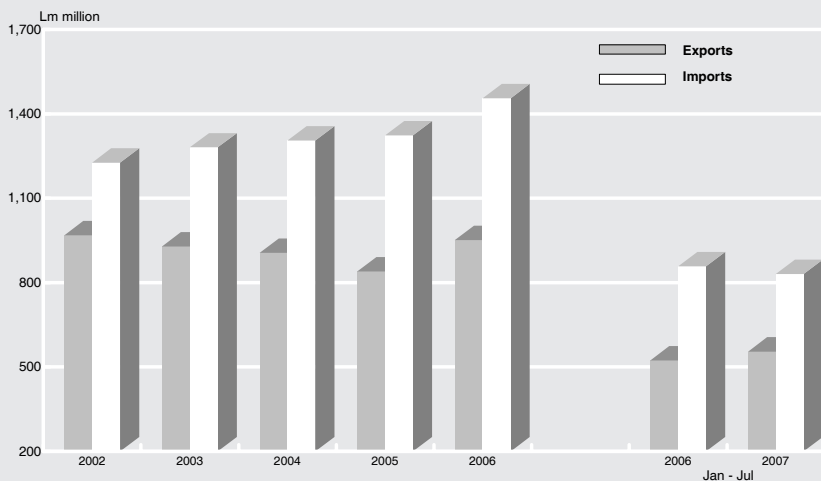
Lm million

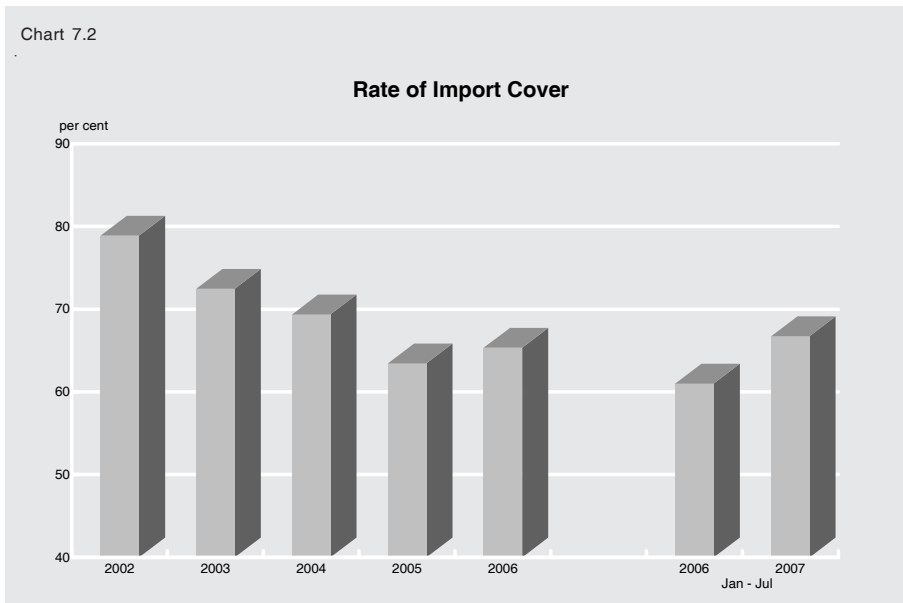
	2003	2004	2005	2006	2006 Jan-Jul	2007 Jan-Jul
Imports (c.i.f.)	1,281.2	1,305.4	1,324.2	1,456.0	857.7	830.9
Total Exports (f.o.b.)	928.3	905.5	840.2	951.5	523.5	554.6
Trade Gap	-352.9	-399.9	-484.0	-504.5	-334.2	-276.3
of which:						
Exceptional Item (Exports)	-	-	-	-	-	-
Exceptional Item (Imports)	2.1	-	-	32.0	15.0	-

Source: National Statistics Office

Chart 7.1

Foreign Trade





increased further from 61.0 per cent in the January-July period of 2006 to 66.7 per cent in the comparable period of 2007.

Exports

In the first seven months of 2007, exports registered an increase of 5.9 per cent from Lm523.5 million to Lm554.6 million. The major contributor to this increase was the chemicals industry, which has further increased by 39.3 per cent to Lm43.6 million in January-July 2007. The clothing sector has continued on a declining trend whereas other manufactures have remained at the same level recorded last year. Following the notable recovery registered in 2006, exports of machinery and transport equipment rose by Lm2.7 million. Printed matter has also been one of the major contributors to the increase in total exports during the period under review, as it registered an increase of Lm6.9 million. Higher exports were also registered by the toys and games and scientific instruments sectors by Lm2.4 million and Lm2.3 million respectively. Semi-manufactures and food, beverages and tobacco both recorded an increase of Lm1.6 million. Other improvements have been registered for fuels, which increased from Lm5.7 million in January-July period of 2006 to Lm9.7 million in the comparable period of 2007. The commodity breakdown of exports is provided in Table 7.2.

Commodity Breakdown of Exports

Table 7.2

Lm million

	2003	2004	2005	2006	2006 Jan-Jul	2007 Jan-Jul
Total Exports						
Food, Beverages and Tobacco	50.7	39.2	46.8	52.6	16.6	18.2
Chemicals	19.0	24.0	41.0	59.4	31.3	43.6
Semi-manufactures	48.8	50.6	54.1	49.2	28.9	30.5
Machinery and Transport						
Equipment	576.7	576.8	512.7	602.9	348.8	351.5
Clothing	62.0	46.7	40.3	27.0	17.1	14.4
Fuels	51.6	29.2	9.2	13.1	5.7	9.7
Printed Matter	31.8	32.4	34.4	35.3	16.8	23.7
Toys and Games	28.2	29.6	28.5	30.2	17.2	19.6
Scientific Instruments	27.9	25.1	26.8	34.3	14.5	16.8
Other Manufactures	31.6	51.9	46.4	47.5	26.6	26.6
Total Exports	928.3	905.5	840.2	951.5	523.5	554.6

Source: National Statistics Office

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 operates from Malta. Locally, following the restructuring efforts by this company, exports by the machinery and transport equipment sector advanced by 17.6 per cent during 2006. In January-July 2007, an increase of Lm2.7 million or 0.8 per cent was recorded which contributed 8.7 per cent to the increase in total exports.

A major development during the period under review was the sustained growth in exports of chemicals, which contributed 39.5 per cent to the increase in total exports. Between 2003 and 2006, exports of chemicals increased by an annual average growth of around 47 per cent. This positive trend continued throughout the period under review with exports of chemicals increasing further by Lm12.3 million. The increase in chemicals exports includes growth in exports of pharmaceutical products by 44.1 per cent in the period under review reflecting an increase in the number of operators in the sector.

On the other hand, in recent years, the clothing sector has been negatively affected by significant competitive price pressures from low-cost centres. During

Chart 7.3

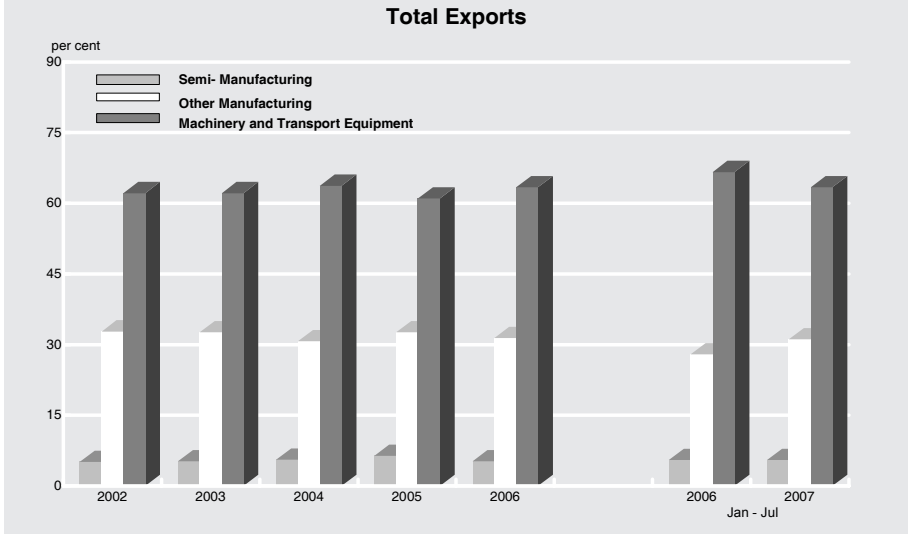
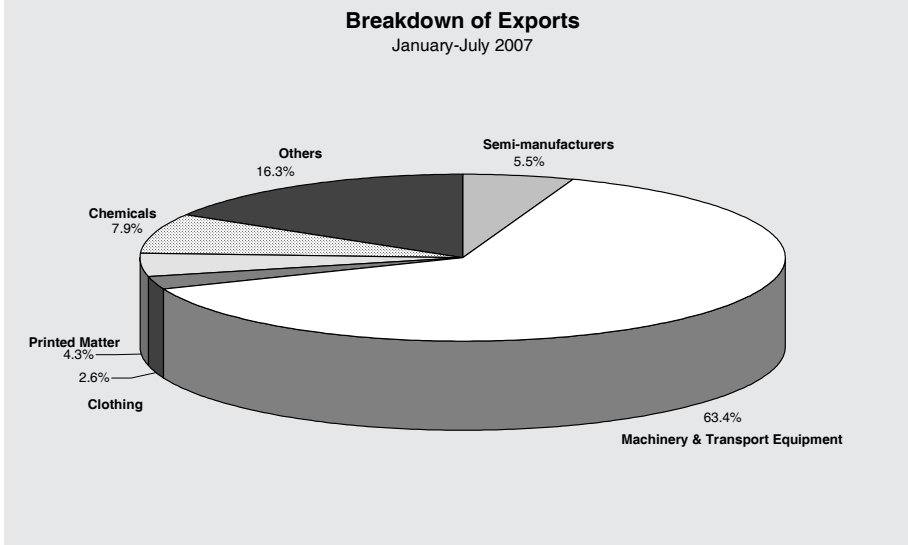


Chart 7.4



the period under review, exports of clothing were Lm2.7 million less than last year.

A substantial amount of shipping visiting Malta uses local bunkering facilities. Following investment in 2005 in this sector, exports of fuels regained momentum in 2006 and continued increasing during the first seven months of 2007 reaching Lm9.7 million.

The machinery and transport equipment sector represents a share of 63.4 per cent of total exports whereas the chemicals sector represents 7.9 per cent, thus constituting the second major export commodity. The share of the chemicals sector in total exports has increased significantly in recent years, from the 2.0 per cent registered in 2003. On the other hand, the share of clothing fell from the second highest share at 6.7 per cent in 2003 to 2.6 per cent during the period under review. This is indicative of the restructuring in the manufacturing sector with declining exports from traditional sectors being compensated by higher exports in both emerging and certain other established sectors, including printed matter, toys and games and scientific instruments. Further details are provided in Chart 7.3 and Chart 7.4.

Geographical Distribution – Exports

Higher exports to Germany (+Lm10.7 million), Italy (+Lm2.7 million) and to the UK (+Lm2.6 million) were registered during January-July 2007 when compared to the same period last year. However, these increases were partly offset by lower exports to other EU countries mainly to France, Netherlands and Belgium. As a result, EU exports increased by 1.7 per cent from Lm278.6 million to Lm283.2 million in the period under review. In January-July 2007, exports to the EU represented a share of 51.1 per cent of total exports. Chart 7.5 illustrates the share of Maltese exports to the EU directed to the four main trading partners. Table 7.3 provides a detailed analysis of the geographical distribution of exports.

In the first seven months of 2007, exports to the American continent declined by Lm4.9 million, following a fall of Lm5.4 million in USA exports which was only partly compensated for by an increase of Lm0.5 million in exports to other American countries.

Exports to Africa regained momentum after last year's decline and increased by Lm7.4 million in January-July 2007. Moreover, exports to Oceania have been on an increasing trend since 2003 and increased further by Lm1.1 million in the period analysed.

Chart 7.5

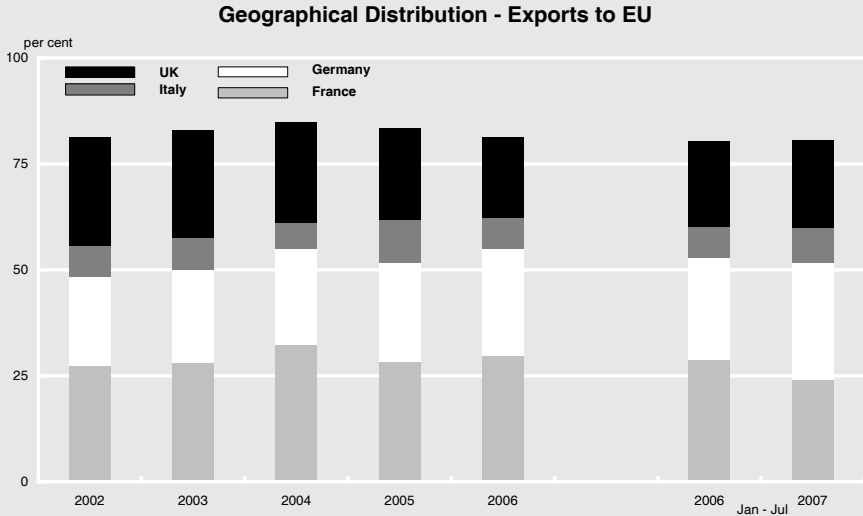


Table 7.3 Total Exports by Main Geographical Areas

Lm million

	2003	2004*	2005*	2006*	2006* Jan-Jul	2007* Jan-Jul
Europe	435.5	442.7	440.1	491.2	286.0	289.4
EU*	429.9	435.5	430.4	478.7	278.6	283.2
Italy	31.5	27.8	43.1	34.9	20.7	23.4
Germany	95.2	98.0	101.2	121.3	67.5	78.2
France	120.2	140.6	121.8	142.5	80.0	68.3
U.K.	109.0	103.0	92.5	91.1	56.0	58.6
Netherlands	6.8	7.4	7.5	8.6	6.5	2.8
Belgium	25.6	11.6	18.5	10.0	6.6	4.6
Others	41.6	47.1	45.8	70.3	41.3	47.3
Euro Area	296.1	303.0	305.5	351.8	202.8	201.9
Other European countries	5.5	7.2	9.7	12.5	7.4	6.2
Africa	35.1	46.9	61.5	51.7	27.6	35.0
America	143.2	150.7	129.5	128.3	73.8	68.9
USA	134.2	141.8	113.3	118.3	67.7	62.3
Others	9.0	8.9	16.2	10.0	6.1	6.6
Oceania	0.5	0.9	1.5	1.8	1.0	2.1
Asia	255.2	233.7	198.0	269.1	130.1	153.1
Japan	37.1	34.0	34.0	50.3	14.2	19.9
Singapore	155.9	131.4	96.9	120.2	65.3	67.2
Others	62.2	68.3	67.0	98.6	50.6	66.0
Ships & Aircraft	58.8	30.6	9.6	9.4	5.0	6.1
Total Exports	928.3	905.5	840.2	951.5	523.5	554.6
EU Exports as % of Total	46.3	48.1	51.2	50.3	53.2	51.1

*As from 2004 considered by country of consignment

Source: National Statistics Office

Exports to Asia increased substantially by Lm23.0 million from Lm130.1 million in January-July 2006 to Lm153.1 million in the comparable period of 2007. This reflected major increases in exports to Hong Kong by Lm16.2 million and to Japan by Lm5.7 million. On the other hand, a fall in exports to China was registered from Lm11.9 million in January-July 2006 to Lm7.9 million in the comparable 2007 period.

Imports

During the first seven months of 2007, imports declined by Lm26.8 million, or 3.1 per cent to Lm830.9 million. Table 7.4 provides a detailed analysis of imports by broad economic category. The major contributors to the decline in total imports were capital and others and industrial supplies with a contribution of 73.9 per cent and 45.1 per cent respectively. In contrast, consumer goods imports increased by 2.4 per cent.

Following the notable increase registered in 2006, industrial supplies declined by 3.0 per cent from Lm400.4 million in January-July of 2006 to Lm388.3 million in the same period in 2007. Contrary to the increasing trend observed in previous years, both primary and finished supplies registered a decline of 34.7 per cent

	2003	2004	2005	2006	2006 Jan-Jul	2007 Jan-Jul
Consumer Goods						
Food and Beverages	104.1	116.7	121.6	125.2	68.7	72.4
Durable Goods	127.3	136.0	151.2	157.2	93.3	92.5
Others	79.7	87.1	82.9	87.5	50.6	52.8
Total	311.1	339.8	355.7	369.9	212.6	217.7
Industrial Supplies						
Primary	17.5	19.6	23.6	27.7	19.0	12.4
Semi-finished	612.3	577.4	532.5	629.8	352.8	354.9
Finished	21.1	23.6	35.7	43.3	28.6	21.0
Total	650.9	620.6	591.8	700.8	400.4	388.3
Capital and Others						
Capital Goods	205.9	235.9	228.2	242.9	155.5	125.0
Fuel	101.9	101.7	140.5	130.9	82.4	93.3
Non-specified and Gold	11.4	7.2	8.0	11.5	6.8	6.6
Total	319.2	344.8	376.7	385.3	244.7	224.9
Total Imports	1,281.2	1,305.4	1,324.2	1,456.0	857.7	830.9

Source: National Statistics Office

and 26.6 per cent respectively, whereas semi-finished supplies remained roughly at the same level recorded last year.

Imports of capital goods and others stood at Lm224.9 million during the first seven months of 2007. Capital goods registered a decline of 19.6 per cent or Lm30.5 million, reflecting an amount of Lm15.0 million exceptional items imported last year, as well as developments in investment activity.

Contrary to the increasing trend in imports of durable goods in the previous four years, in January-July 2007 this category of imports declined slightly by Lm0.8 million. On the other hand, food and beverages imports increased by 5.4 per cent from Lm68.7 million in January-July 2006 to Lm72.4 million in January-July of 2007. Imports of food and beverages have been on an increasing trend in recent years, reflecting the trade liberalisation implemented especially in 2004. Moreover, imports of other consumer goods increased by Lm2.2 million to Lm52.8 million in the period under review. 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.

In the period under review, imports of fuel increased by Lm10.9 million to Lm93.3 million. It is pertinent to note that developments in oil prices on the international market are an important factor affecting the fuel import bill.

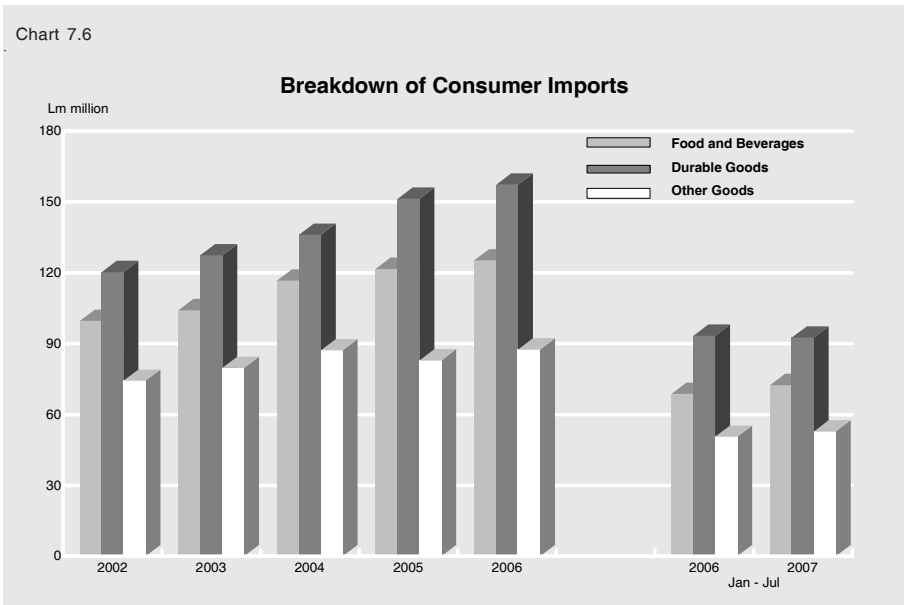
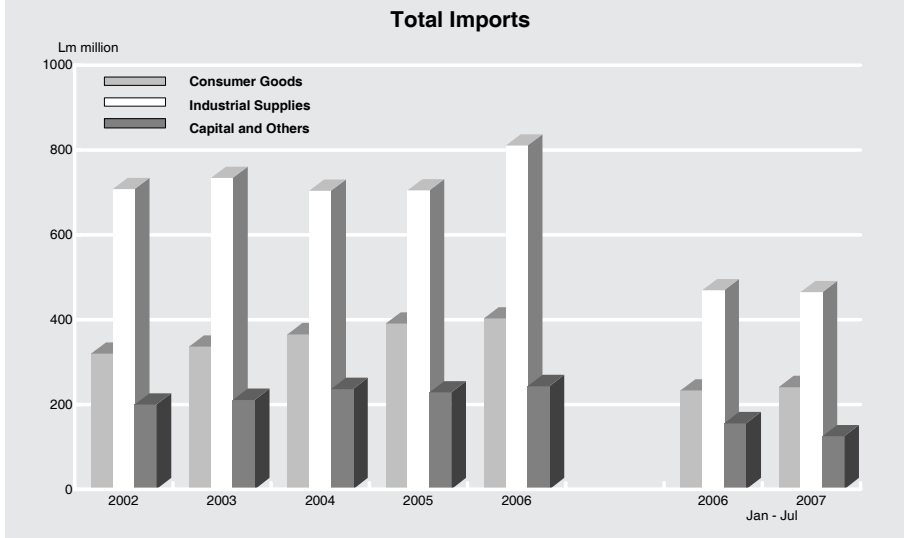


Chart 7.7



Geographical Distribution – Imports

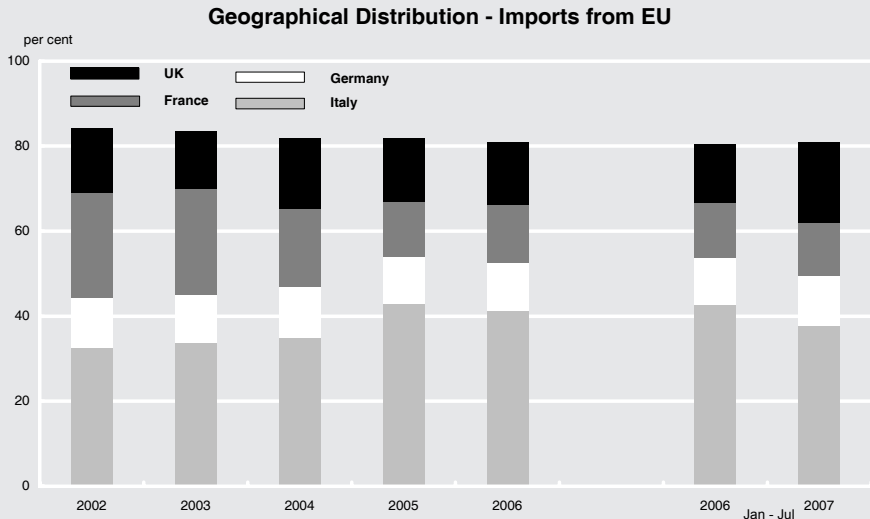
Imports from the EU declined by 2.7 per cent during the period under review. Substantial falls were recorded from Netherlands (-22.4 per cent), Italy (-13.9 per cent) and France (-7.0 per cent) whereas a 34.1 per cent or Lm27.8 million increase in imports was registered from the UK. Imports from Germany increased by a smaller magnitude of 3.6 per cent.

Imports from the American continent fell by 9.3 per cent. This was underpinned by a decline of Lm5.7 million in imports from the USA to Lm44.9 million in the first seven months of 2007, from Lm50.6 million in the same period last year.

Imports from Oceania had a remarkable decline of Lm11.8 million from Lm14.2 million in the first seven months of 2006 to Lm2.4 million in the same period in 2007. However, this reflects the inclusion in last year's figure of an exceptional import of a sea-vessel amounting to Lm10.8 million.

Imports from Asia increased by Lm16.5 million to Lm153.5 million between January-July 2006 and the corresponding 2007 period. The fall in imports from Japan of Lm2.5 million was outweighed by higher imports from Singapore and other Asian countries. Despite the exceptional import of items from China in January-July 2006, during the period under review imports from China remained constant at last year's level.

Chart 7.8



Imports by Main Geographical Areas

Table 7.5

Lm million

	2003	2004*	2005*	2006*	2006* Jan-Jul	2007* Jan-Jul
Europe	937.5	994.9	1,006.1	1,052.1	630.5	615.8
EU*	877.0	948.4	958.8	998.5	596.6	580.4
Italy	294.4	330.7	410.4	412.4	254.1	218.9
U.K.	118.6	157.5	144.1	147.2	81.5	109.3
Germany	101.0	113.9	107.0	112.3	66.9	69.3
France	218.9	175.0	125.0	137.9	77.4	72.0
Netherlands	29.7	46.0	43.9	51.0	31.2	24.2
Others	114.4	125.3	128.4	137.7	85.5	86.7
Euro Area	732.5	759.4	785.0	997.3	497.2	449.5
Other European Countries	60.5	46.5	47.3	53.6	33.9	35.4
Africa	10.8	25.7	53.8	21.6	16.9	5.6
America	115.9	84.9	81.4	93.8	59.1	53.6
USA	103.9	69.9	69.7	77.1	50.6	44.9
Others	12.0	15.0	11.7	16.7	8.5	8.7
Oceania	6.8	3.3	3.6	15.8	14.2	2.4
Asia	210.2	196.6	179.3	272.7	137.0	153.5
Japan	29.3	26.7	24.5	30.3	17.3	14.8
Singapore	59.6	53.4	51.2	91.7	37.8	44.2
Others	121.3	116.5	103.5	150.7	81.9	94.5
Total Imports	1,281.2	1,305.4	1,324.2	1,456.0	857.7	830.9
EU Imports as % of Total	68.5	72.7	72.4	68.6	69.6	69.9

*As from 2004 considered by country of consignment

Source: National Statistics Office

Imports from the African continent increased from Lm10.8 million in 2003 to Lm53.8 million in 2005. However, in 2006 imports from Africa experienced a significant fall of 60 per cent. During the period under review, imports from the African market declined further from Lm16.9 million in January-July 2006 to Lm5.6 million in the same period this year. Chart 7.8 and Table 7.5 analyse imports by main geographical areas in more detail.

Geographical Distribution – Trade Balances

In the first seven months of 2007, the trade deficit with the EU improved by Lm47.3 million from Lm344.5 million in January-July 2006 to Lm297.2 million in the comparable period of 2007. This is attributed to a lower deficit with Italy and Belgium, and a higher surplus with Germany. Other improvements were recorded with Netherlands whilst the trade deficit with other EU countries has declined by Lm19.2 million. On the other hand, a higher deficit was recorded in January-July 2007 with the UK by Lm25.2 million. The trade surplus with France of Lm2.6 million recorded in January-July 2006 turned into a deficit of Lm3.7 million by January-July 2007.

Malta registered an improvement in its trade balances with a number of other countries outside the EU during the period January-July 2007. The negative trade balance of Lm3.1 million with Japan turned into a surplus of Lm5.1 million. Moreover, Malta improved its trade balance with Libya and the USA by Lm1.3 million and Lm0.3 million respectively. On the other hand, the negative trade

	Lm million					
	2003	2004*	2005*	2006*	2006* Jan-Jul	2007* Jan-Jul
EU*	-447.1	-512.9	-528.4	-519.8	-344.5	-297.2
Belgium	3.8	-9.9	-6.5	-15.2	-21.2	-11.1
France	-98.7	-34.4	-3.2	4.6	2.6	-3.7
Germany	-5.8	-15.9	5.8	9.0	0.6	8.9
Italy	-262.9	-302.9	-367.3	-377.5	-233.4	-195.5
Netherlands	-22.9	-38.6	-36.4	-42.4	-24.7	-21.4
United Kingdom	-96.2	-54.5	-51.6	-56.1	-25.5	-50.7
Other EU	35.6	-56.7	-57.6	-42.2	-42.9	-23.7
Other Countries						
USA	30.3	71.9	43.6	41.2	17.1	17.4
Japan	7.8	7.3	9.5	20.0	-3.1	5.1
Singapore	96.3	78.0	45.7	28.5	27.5	23.0
Libya	20.9	28.7	34.9	25.5	15.6	16.9
China	-33.5	-20.0	-17.4	-21.9	-10.2	-15.4

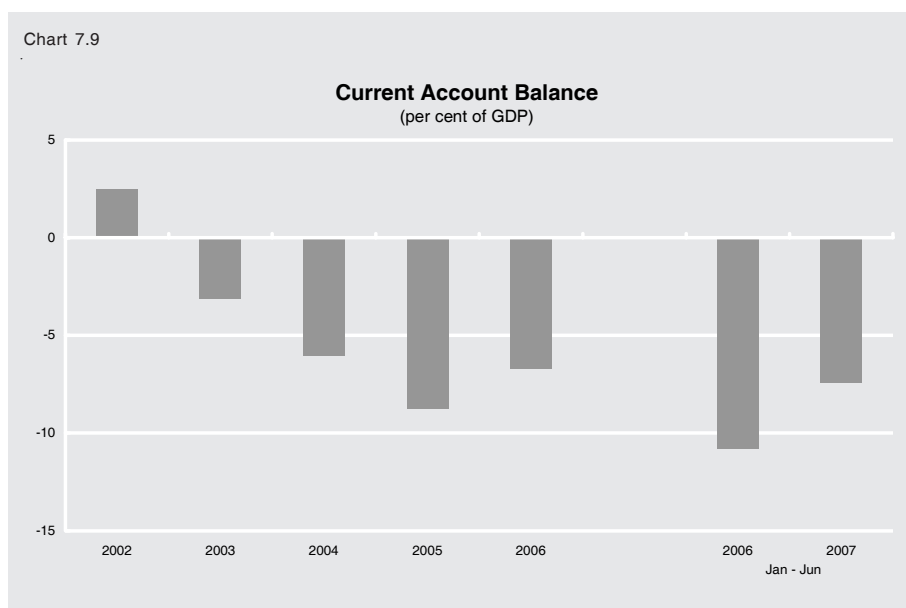
*As from 2004 considered by country of consignment

Source: National Statistics Office

balance with China widened further by Lm5.2 million, whilst a decrease of Lm4.5 million was registered in the trade surplus with Singapore. Further details are provided in Table 7.6.

Balance of Payments

The balance of payments is generally used as a major indicator of a country's external position since it summarizes all international economic transactions. Due to their limited market size and resources, small open economies tend to register a deficit in their current account. It is noteworthy that current account deficits tend to increase when the economy is going through a catching-up process. Indeed, most new Member States in the EU are experiencing such a reality. This is generally attributed to the fact that domestic savings are not sufficient to finance the increased investment activity, hence, foreign borrowing primarily in the form of Foreign Direct Investment (FDI) is necessary. Generally, a persistent current account deficit is considered to be sustainable as long as it reflects productive investment in the economy which is necessary to increase the long term growth potential in the economy, and as long as the rate of long term growth in the economy eventually exceeds the rate of domestic absorption generating enough savings in order to finance the external debt and debt servicing costs accumulated over the years.



In Malta, a deficit in the current account has been recorded consistently in the balance of payments during the recent years, with the only exception being 2002 when there was a one-off export item. Recent developments in the current account balance expressed as a proportion of GDP are shown in Chart 7.9. The current account deficit showed an improvement from 10.8 per cent of GDP in the first half of 2006 to 7.4 per cent of GDP in the same period of 2007. These developments were underpinned by a notable decrease of almost 30 per cent in the imbalance in the general merchandise transactions during the first six months of 2007.

The Current Account

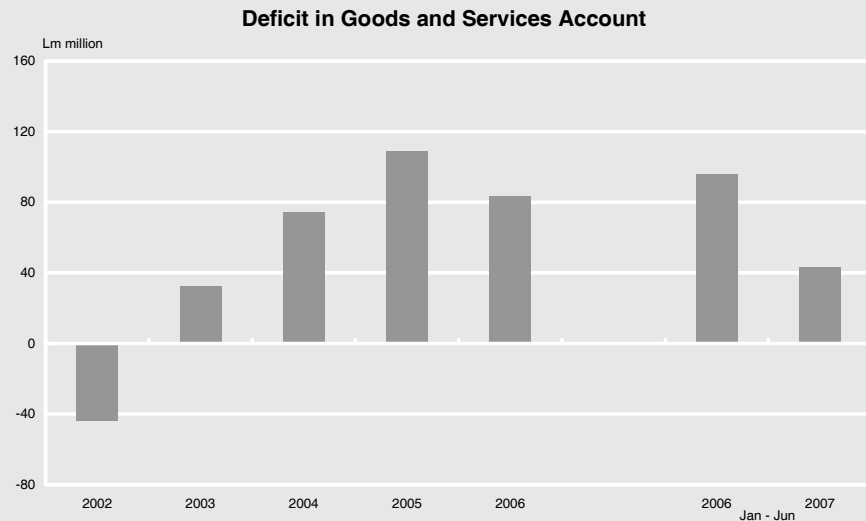
During the first half of 2007, the current account deficit amounted to Lm81.2 million, an improvement of Lm30.2 million from the same period of the previous year when the deficit stood at Lm111.4 million. This improvement can be attributed mainly to a reduction in the goods accounts deficit. Indeed, imports of goods registered a decline of 7.2 per cent while with a growth of 3.6 per cent the good export performance continued to improve albeit at a relatively slower rate than that recorded in 2006.

The Goods and Services Account

During the first half of 2007 the good account imbalance improved by Lm68 million, mainly reflecting lower outlays (Lm51.1 million) whilst higher receipts (Lm16.8 million) were also recorded. This was mainly due to an improvement in the general merchandise balance which improved by Lm69.6 million or 28.0 per cent. Deficits in the goods and services accounts are shown in Chart 7.10. Further details on the development of international trade are provided in the corresponding section in this Chapter.

The positive balance in the services account registered a decline of Lm15.3 million from Lm139.7 million in the first six months of 2006 to Lm124.4 million for the same period of 2007. This fall in the services account took place despite the recovery of tourism earnings. Indeed, earnings from tourism increased by 7.1 per cent in the first half of 2007 when compared with the same period last year. However, the net balance in the travel account advanced by 3.1 per cent to Lm61.9 million as a 12.9 per cent increase in expenditure by Maltese tourists abroad partly offset the higher tourism earnings. Moreover, net inflows from transport services improved by Lm5.3 million. This implies that the deterioration in the services balance was primarily a reflection of higher net payments, particularly the decline in net inflows of Lm22.4 million in other services.

Chart 7.10



Balance of Payments

Goods, Services and Income Account (Net)

Table 7.7

Lm million

	2003	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
GOODS						
General Merchandise Transactions	-278.4	-336.8	-416.7	-429.8	-248.8	-179.2
Nonmonetary Gold	-8.8	-6.6	-7.3	-10.4	-4.8	-5.2
Others	44.6	40.3	39.8	31.8	17.7	16.5
Total Goods	-242.6	-303.1	-384.2	-408.4	-235.9	-167.9
SERVICES						
Transportation	-9.4	32.1	24.6	33.4	15.0	20.3
Travel	191.2	178.5	169.4	152.0	60.1	61.9
Other Services	28.3	17.8	81.0	139.5	64.6	42.2
Total Services	210.2	228.4	275.0	324.9	139.7	124.4
Total Goods and Services	-32.4	-74.7	-109.2	-83.5	-96.2	-43.4
INCOME						
Compensation to employees	5.6	5.8	4.1	3.2	1.8	1.7
Investment Income	-15.2	-22.9	-89.0	-62.0	-34.5	-39.8
Total Income	-9.6	-17.1	-84.9	-58.8	-32.7	-38.2
Total Goods, Services and Income	-42.0	-91.7	-194.1	-142.3	-128.9	-81.6

Source: National Statistics Office

In the other services account, of particular note is the decline of Lm15.8 million in net inflows in other business services. Furthermore, net inflows from communication services decreased from Lm3.2 million in the first half of 2006 to Lm1.5 million in the same period of current year. This was primarily a reflection in the developments in the telecommunication services. The imbalance in insurance services improved by Lm5.1 million when compared to the same period of the previous year mainly due to both higher receipts (Lm1.7 million) and lower payments (Lm3.3 million). Government services registered a negative balance of Lm2.1 million in the first half of 2007 compared to a positive balance of Lm2.8 million registered in the same period of 2006. Net receipts on personal, cultural and recreation (which includes the net earnings from remote gaming activities) also declined by Lm1.5 million. Table 7.7 shows the developments in the goods and services account.

The Income Account and Current Transfers

Table 7.8 shows both the income account and the current transfers account. The income account is primarily made up of the earnings on direct investment of foreign-owned companies which operate in Malta. Hence, such 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 be reflected into a higher current account deficit. However, when these earnings are re-invested into the local economy, then the outflow of funds in the current account is neutralised by an inflow of funds in the financial account as FDI. The current transfers account consists mainly of general Government transfers including Malta's contribution of the EU budget and any EU recurrent funds but funds spent on to capital projects are not included under this heading.

Income received increased by Lm73 million in the first six months of 2007. This amounts to an increase of 25.6 per cent when compared to the same period of the previous year. Income paid also increased by Lm78.5 million or 24.6 per cent. This resulted in an imbalance in the income account of Lm38.2 million in the first half of 2007 compared to an imbalance of Lm32.7 million in the same period of 2006. The deterioration in the income account is mainly due to higher net income from direct investment, reflecting higher profits registered by foreign owned companies. It is notable that 56 per cent of the income on equity was re-invested in the Maltese economy in the first half of 2007 compared to 21 per cent a year ago. This is recorded as an inflow of foreign capital in the financial account, and contributes directly to the financing of the current account deficit. Meanwhile, interest receipts on portfolio investment improved by Lm24.5 million whilst net income payment on other investments improved by Lm4.2 million.

Balance of Payments
Current Account

Table 7.8

Lm million

	2003	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
GOODS AND SERVICES						
Exports of Goods and Services	1,522.4	1,525.2	1,586.8	1,890.1	870.3	890.4
Imports of Goods and Services	1,554.8	1,599.8	1,696.0	1,973.6	966.5	933.9
Goods and Services Account	-32.4	-74.7	-109.2	-83.5	-96.2	-43.4
INCOME						
Income Received	340.8	336.2	418.1	629.2	285.9	358.9
Income Paid	350.4	353.3	503.0	688.0	318.6	397.1
Income Account	-9.6	-17.1	-84.9	-58.8	-32.7	-38.2
CURRENT TRANSFERS (Net)						
General Government Transfers	8.9	3.0	9.3	17.0	24.2	13.4
Private Transfers	-25.6	-27.2	6.1	-19.3	-6.7	-13.1
Total Net Current Transfers	-16.7	-24.2	15.4	-2.3	17.5	0.4
Balance on Current Account	-58.6	-115.9	-178.7	-144.6	-111.4	-81.2

Source: National Statistics Office

Compensation to employees decreased minimally from Lm1.8 million to Lm1.7 million.

Net outflows by way of current transfers were Lm17.1 million less in the period under review when compared with the same period in the previous year. During the first half of 2007, there was a considerable increase in both Government transfers inflows and outflows. Indeed, Government received Lm116.5 million in the first six months of 2007 compared to Lm61.0 million in the same period of 2006. Current outflows of Government transfers also increased substantially from Lm36.8 million in the first half of 2006 to Lm103.1 million in the same period in 2007. This resulted in a net inflow of Lm13.4 million being registered in the January-June 2007 period compared with a net inflow of Lm24.2 million in the first six months of 2006. It is noteworthy that recorded under Government transfers are tax revenues on International Trading Companies (ITCs). These tend to exhibit variations due to tax refunds. As a result the current transfers balance is susceptible to the timing of tax returns and claims.

When compared to the same period of last year, workers' remittances' net outflow decreased from Lm0.8 million to Lm0.5 million. However, net outflows of other transfers increased from Lm5.9 million to Lm12.6 million, resulting in a

net outflows increase in private transfers of Lm6.3 million for the first half of 2007.

The Capital and Financial Account

The capital and financial account tracks all transactions taking place between a domestic and foreign resident that involve a change of ownership of an asset. From a domestic point of view, a foreign investor acquiring a domestic asset is considered as a capital inflow, while a domestic resident acquiring a foreign asset is considered as a capital outflow.

By definition, the capital and financial account mirrors the current account. Indeed, the capital and financial account provides the financing of the current account. The following provides an analysis of capital and financial flows and the composition of such flows in Malta, as reflected in the balance of payments.

During the January-June 2007 period, the net balance in the capital account amounted to Lm2.2 million compared to Lm23.5 million for the comparable period of the previous year. Expressed as a per cent of GDP, the capital account stood at 0.2 for the first half of 2007, from 2.3 per cent a year earlier, as shown in Table 7.9. This largely reflected lower capital transfers to General Government, as the temporary compensation grant associated with Malta's EU accession was terminated with the commencement of the Financial Framework for the 2007-2013 period.

Net foreign direct investment declined from Lm424.0 million to Lm117.5 million in the period covering January to June 2006 to the same period of 2007 or from 41.2 per cent of GDP to 10.8 per cent of GDP. However, figures in 2006 included privatisation proceeds from the sale of shares in Maltacom plc and a capital injection in the financial intermediation sector. These specificities imply that similar trends for foreign direct investment do not point to a deterioration in Malta's attractiveness as a host for capital flows.

Portfolio investments are typically made up of assets in the form of bonds and notes and equity securities held by banks registered in Malta. The purchase of new portfolio assets in the form of debt securities declined in the first six months of 2007. The purchase of new equity securities also declined in the same period of 2007. As a result, net outflows by way of portfolio assets abroad declined by Lm600.7 million to a net outflow of 22.7 per cent of GDP.

Current, Capital and Financial Flows*
(per cent of GDP)

Table 7.9

	2003	2004	2005	2006	2006 Jan-Jun	2007 Jan-Jun
Current Account	-3.1	6.0	-8.8	-6.7	-10.8	-7.4
Capital Account	0.4	1.5	3.3	3.0	2.3	0.2
Financial Account excl. Reserves	5.1	-0.4	10.1	7.1	10.6	-4.4
Net Foreign Direct Investment	8.4	7.0	11.6	28.2	41.2	10.8
Net Portfolio Investment Equity Flows	-0.5	-0.8	-1.1	-1.4	-16.2	-3.2
Net Portfolio Debt Flows	-31.3	-36.9	-44.0	-38.2	-67.3	-19.6
Net Financial Derivatives	0.5	-0.3	-0.4	-4.3	-8.6	1.2
Net Other Investment Flows	28.0	30.6	44.0	22.8	61.5	6.4
Reserve Assets	-2.9	3.6	-4.0	-1.7	-1.5	8.7
Net Errors and Omissions	0.6	1.4	-0.6	-1.8	-0.6	3.0

* 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

The net outflow of Lm88.5 million on financial derivatives registered in the first six months of 2006 was reversed into a net inflow of Lm12.9 million or 1.2 per cent of GDP.

On the other hand, other investment assets, primarily long term loans issued by banks, increased by Lm2,082.2 million compared to Lm1,313.0 million in the first half of 2006. Other investment liabilities also increased by Lm2,151.9 million compared to Lm1,945.6 million in 2006. This primarily reflected a higher income in currency and deposits held by foreign residents in domestic banks and other liabilities which offset the decline in loans and trade credits held by domestic residents. Inflows of other investments declined from 61.5 per cent of GDP in the first half of 2006 to 6.4 per cent of GDP during the period under review.

Net errors and omissions were recorded at Lm32.5 million or 3.0 per cent of GDP compared to an outflow of 0.6 per cent of GDP in 2006.

As a result of these developments, the current account deficit of 7.4 per cent of GDP, and a net outflow in the capital and financial account (including errors but excluding reserves) of 1.2 per cent of GDP, led to a fall in reserves of 8.7 per cent of GDP during the first six months of 2007. This can partly be attributed to

cash hoarding and bank deposits being converted into euro in anticipation of the currency changeover.

8. Financial Developments

8. Financial Developments

During the first nine months of 2007, the structural deficit reached Lm73.3 million from Lm72.9 million recorded during the corresponding period a year earlier. This development reflected an increase in expenditure outlays that marginally offset the rise in recurrent revenue. Notwithstanding these developments, the downward path in the fiscal deficit registered in recent years is expected to be maintained as the current year unfolds in line with Government's fiscal consolidation programme.

During the first eight months of 2007, growth in broad money accelerated, driven by a significant expansion in domestic credit and the slowdown in growth of other counterparts of M3, which more than offset a slower growth in net foreign assets. Meanwhile, the Central Bank of Malta, in order to provide support to the currency, pursues interest rate policies followed by other currencies, in particular the Euro. In an environment of rising interest rates abroad, the Central Bank of Malta has tightened its monetary policy stance raising the central intervention rate by 25 basis points in January 2007 and a further 25 basis points to 4.25 per cent in May 2007. Since then, the Central Bank of Malta left the central intervention rate unchanged. In line with developments in international foreign exchange markets between the Euro and other major currencies, the Maltese Lira appreciated against the US Dollar, the Japanese Yen and the Sterling during the first nine months of 2007. No fluctuations from the central parity rate of the Maltese Lira with the Euro were recorded since entry into ERM II in May 2005. In July 2007, the Council of the EU on Economic and Financial Affairs took the final formal decision allowing Malta to adopt the Euro from 1 January 2008 and irrevocably set the conversion rate for the Maltese lira to the Euro at the central rate of the Maltese Lira within the ERM II, i.e. EUR/MTL 0.4293.

Public Finance

Unless otherwise indicated, the analysis in this Chapter is based on Government finance data as classified in the statement of the Consolidated Fund and is thus defined on a cash basis rather than on an accruals basis. Consequently, developments in the Government's net financial position may not reflect actual spending and revenue collection, and thus such data should be interpreted with caution. Government's fiscal position during the January-September 2004-2007 period is presented in Table 8.1, whilst Chart 8.1 illustrates recent trends in total expenditure and recurrent revenue.

Government Revenue and Expenditure

(January-September)

Table 8.1

Lm million

	2004	2005	2006	2007
Recurrent Revenue	538.2	606.9	629.9	645.7
Tax Revenue	472.0	500.0	537.3	569.0
Direct Tax Revenue	258.7	265.7	287.5	312.6
Indirect Tax Revenue	213.3	234.3	249.8	256.4
Non-Tax Revenue	66.2	106.9	92.5	76.7
Total Expenditure	648.0	692.3	702.7	719.0
Recurrent Expenditure	518.1	543.5	560.1	582.7
Interest on Public Debt	54.3	55.8	62.9	63.0
Capital Expenditure	75.6	93.1	79.7	73.3
Productive	17.9	23.3	22.9	11.4
Infrastructure	27.2	32.9	20.7	31.5
Social	30.6	36.9	36.1	30.4
Structural Balance	-109.8	-85.4	-72.9	-73.3
Financed by:				
Extraordinary Receipts	8.9	4.9	79.5	1.4
Receipts from sale of shares	0.0	1.1	74.2	0.0
Sinking Funds of Converted Loans	8.9	3.8	5.3	1.4
Sinking Fund Contribution and Direct Loan Repayments	-6.3	-6.0	-6.7	-4.7
Public Sector Borrowing Requirement	-107.2	-86.5	—	-76.6
Local Loans	70.4	110.0	10.0	28.9

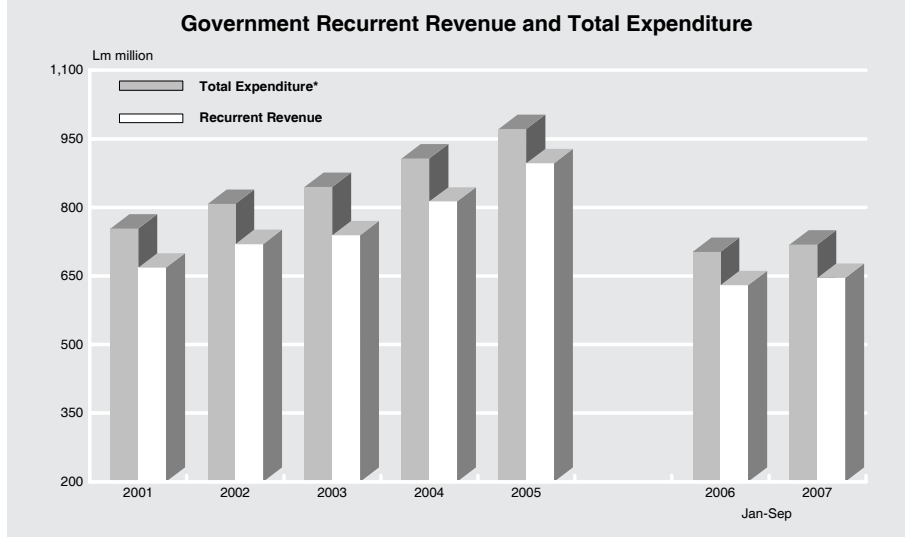
Source: *The Treasury*
Ministry of Finance

Revenue

During the nine months up to September 2007, Government recurrent revenue increased by Lm15.8 million to Lm645.7 million. This expansion reflected the rise in tax revenue which more than outweighed the decline recorded in non-tax revenue. Developments in the components comprising Government revenue are presented in Appendix Table 8.1.

During the period under review, tax revenue, which comprises the main source of Government revenue, advanced by Lm31.7 million to Lm569.0 million. This increase in tax receipts was mainly underpinned by higher direct tax revenue, whilst an increase was also recorded in indirect tax revenue. During the first nine months of 2007, direct tax revenue increased by Lm25.1 million to Lm312.6 million mainly underpinned by higher income tax receipts, whilst social security

Chart 8.1



*excluding contributions to Sinking Fund and Direct Loan Repayments

contributions also advanced. Meanwhile, indirect tax revenue rose by Lm6.6 million to Lm256.4 million. This expansion reflected higher revenue from all three different categories of indirect tax revenue, namely Value Added Tax (VAT), customs and excise duties and licences, taxes and fines.

During the January-September 2007 period, income tax revenue advanced by Lm21.2 million to Lm176.5 million. Improved tax collection efficiency and the economic upturn recorded during this year contributed towards the increase in income tax revenue. It is pertinent to note that a change in accounting treatment of repayments in terms of the Income Tax Act (Cap.123) was undertaken as from 2007 whereby such repayments are being netted from income tax revenue rather than included as a recurrent expenditure item as in previous years. Social security contributions increased by Lm3.9 million to Lm136.2 million during the period under review, being mainly attributable to higher private sector employment.

Revenue generated from customs and excise duties rose by Lm1.1 million and stood at Lm55.0 million during the January-September 2007 period. This increase mainly reflected higher receipts from excise duties on petroleum which more than offset lower receipts from import duties as well as lower revenue from excise duties on cigarettes.

Receipts from licences, taxes and fines rose by Lm1.2 million to Lm71.9 million in the nine months to September 2007, when compared to the same period last year. This increase was mainly underpinned by higher tax receipts from duty on documents, reflecting developments in the property market. Meanwhile, higher revenue was also recorded from gaming taxes. On the other hand, lower revenue was generated from the passenger departure tax payable on outgoing fares reflecting the decrease in departure tax which came into effect as from 1st June 2007. Meanwhile, Value added Tax (VAT) receipts increased by Lm4.3 million to Lm129.4 million during the first nine months of 2007. This advance reflected higher consumption expenditure.

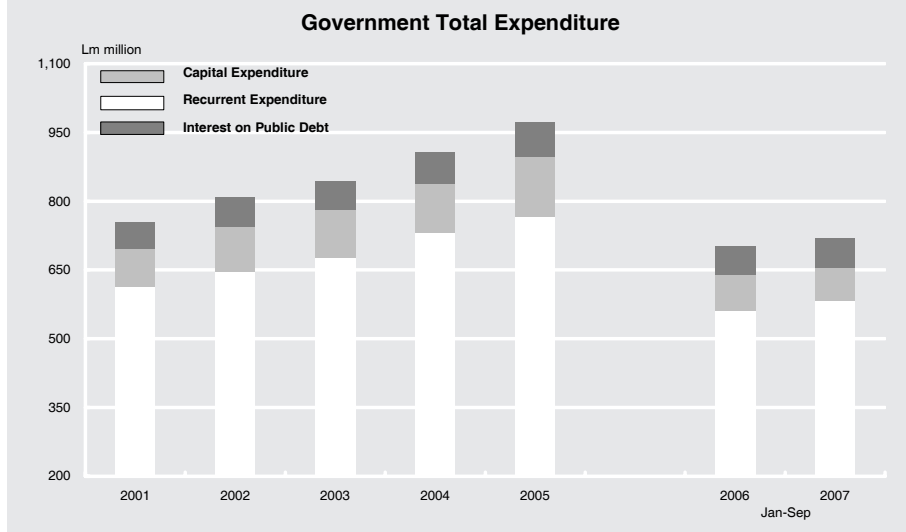
During the nine months to September 2007, non-tax revenue declined by Lm15.9 million to Lm76.7 million. The main categories of non-tax revenue include fees of office, the transfer of profits generated by the Central Bank of Malta, grants and miscellaneous receipts. Revenue from fees of office increased by Lm4.8 million to Lm17.7 million during January-September 2007. This increase mainly reflected the implementation of the Currency and Bank Deposits Registration Scheme in anticipation of Euro adoption whereby residents had the opportunity to regularise their position in respect of their holdings of eligible assets.

Revenue resulting from the transfer of profits generated by the Central Bank of Malta increased by Lm0.9 million to Lm10.9 million. During the first nine months of 2007, revenue from grants fell by Lm22.9 million to Lm15.0 million, mainly reflecting the commencement of the Financial Framework for the period 2007-2013 which brought about the termination of temporary compensating grants associated with Malta's accession to the EU. However, increases were recorded in other categories of EU Funds, namely EU Structural and Cohesion Funds and EU Transition Facility. Meanwhile, miscellaneous receipts declined by Lm0.6 million to Lm9.5 million reflecting lower revenue generated from the sale of property.

Expenditure

During the first nine months of 2007, total Government expenditure, that is made up of recurrent expenditure, capital expenditure and interest on public debt increased by Lm16.3 million to reach Lm719.0 million. This rise reflected higher recurrent expenditure that outweighed the decline recorded in capital expenditure, while interest on public debt remained at the level recorded during the same period last year. Total Government expenditure excludes the contribution to the Sinking Fund in respect of local and foreign loans and direct loan repayment. Recurrent expenditure, which accounted for around 81 per cent of total

Chart 8.2



expenditure rose to Lm582.7 million from Lm560.1 million recorded in the same period a year earlier. This increase was mainly underpinned by higher payments in social security benefits and higher expenditure in respect of energy support measures. Moreover, higher expenditure outlays were also recorded under the Ministry of Health, the Elderly and Community Care in respect of medicines and surgical materials. During the period under review, capital outlays, which constituted around 10 per cent of total expenditure, declined by Lm6.4 million to Lm73.3 million. Meanwhile, interest on public debt, which accounted for around 9 per cent of total expenditure stood at Lm63.0 million. Trends in Government expenditure over recent years are presented in Chart 8.2.

Recurrent Expenditure

Recurrent expenditure is made up of four categories, namely Personal Emoluments, Operational and Maintenance expenses, Programmes and Initiatives and Contributions to Government Entities. Around 86 per cent of the increase in recurrent expenditure related to higher outlays on Programmes and Initiatives. This category of recurrent expenditure, which accounts for around 62 per cent of total recurrent expenditure, 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, but excludes operational costs of Government departments. Recurrent

expenditure under Programmes and Initiatives increased by Lm19.3 million, and stood at Lm360.4 million for January-September 2007. This increase mainly reflected higher expenditure outlays in respect of social security benefits and the new programme related to the energy support measures which more than outweighed a reduction in expenditure by the Inland Revenue Department. The latter reflects the change in the accounting treatment of refunds whereby these are being netted from income tax receipts.

During January-September 2007, Personal Emoluments, which accounted for around 25 per cent of total recurrent expenditure, increased by Lm2.5 million to Lm143.7 million. This relatively low increase in Personal Emoluments reflected Government's policy adopted in recent years to restrict recruitment in non-essential categories in Government Departments. The share of Contributions to Government Entities stood at around 9 per cent of total recurrent expenditure. This component of expenditure decreased by Lm1.3 million to Lm50.8 million during the period under review, mainly reflecting lower expenditure by Government entities falling under the Ministry for Investment, Industry and Information Technology and the Ministry for Rural Affairs and the Environment. Operational and Maintenance expenditure mainly consists of expenditure on utilities consumption across Ministries and Government departments, contractual services mainly on education and outlays towards the national health system. This category of expenditure, which rose by Lm2.0 million to Lm27.8 million, constituted around 5 per cent of total recurrent expenditure.

A detailed breakdown of recurrent expenditure on a cost centre basis for the January-September 2004-2007 period is presented in Appendix Table 8.2. The main developments recorded in the separate expenditure cost centres are reviewed below.

During the January-September 2007 period, Government welfare payments increased by Lm9.5 million to Lm183.9 million, being mainly underpinned by an increase in retirement pensions. Expenditure under this cost centre, which besides retirement pensions, comprises children's allowance, social assistance and other benefits, is affected by developments in compensation of employees, inflation as well as demographic changes. Expenditure by the Department of Social Security mainly consists of the State contribution in terms of the Social Security Act, 1987 (Cap. 318). This item of expenditure, which thus reflects revenue yielded from social security contributions, increased by Lm2.2 million to Lm44.0 million during the period under review.

Recurrent expenditure incurred by the Ministry of Health, the Elderly and Community Care increased by Lm3.6 million to Lm63.9 million, mainly attributed to higher expenditure under the programmes and initiatives category in respect of medicines and surgical materials. Recurrent expenditure by the Ministry of Education, Youth and Employment increased by Lm1.9 million to Lm34.7 million mainly reflecting higher contributions to Church schools, the University of Malta and the Malta College for Arts, Science and Technology as well as financing of training programmes organised by the Employment and Training Corporation (ETC). Furthermore, expenditure under the Education Division increased by a further Lm1.0 million mainly reflecting an increase in personal emoluments.

During the first nine months of 2007, recurrent expenditure incurred by the Ministry of Finance rose by Lm0.9 million to Lm21.9 million, mainly reflecting increased expenditure in respect of the Euro awareness programme under the responsibility of the National Euro Changeover Committee. Recurrent expenditure incurred by the Inland Revenue Department fell by Lm6.2 million to Lm1.9 million during the period under review. This decline was mainly due to the change in the accounting treatment of the repayments in terms of the Income Tax Act (Cap.123) whereby such repayments are being netted from income tax revenue rather than included as a recurrent expenditure item as in previous years.

Recurrent expenditure incurred by the Ministry for Investment, Industry and Information Technology rose by Lm4.2 million to Lm32.2 million. This increase in expenditure mainly reflected outlays in respect of energy support measures which are featuring in 2007.

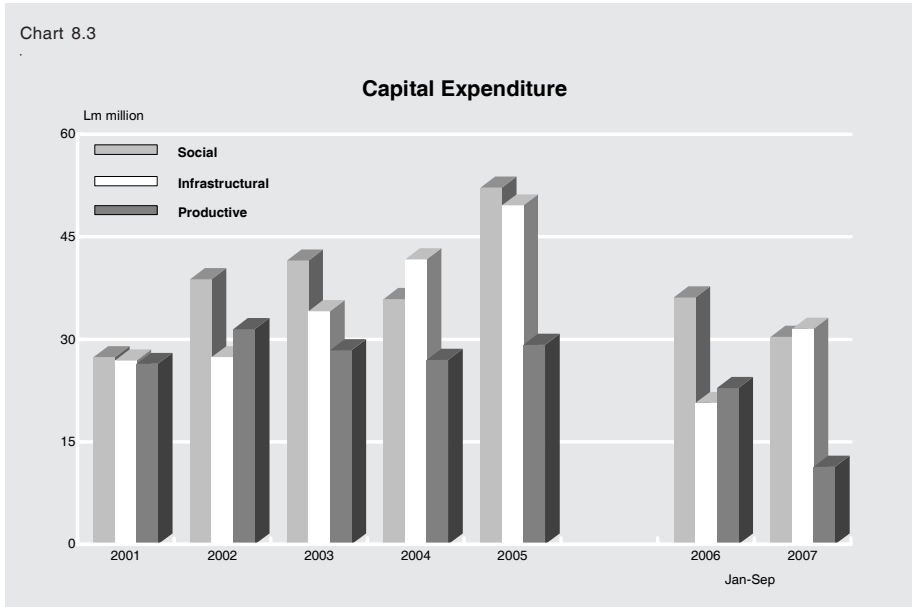
During the first nine months of 2007, recurrent expenditure incurred by the Ministry for the Family and Social Solidarity rose by Lm1.8 million to Lm7.2 million. This increase in expenditure mainly reflected outlays to finance part of the energy support measures falling under this Ministry. Furthermore, higher expenditure outlays were also allocated towards the Refugee Fund as well as other organisations providing social services.

Capital Expenditure

Capital expenditure is classified under three categories, namely, capital outlays on social development, investment directed towards infrastructural facilities and productive investment. It is pertinent to note that capital expenditure is being classified on a Ministry basis as per the Departmental Accounting System (DAS). Hence it is not comparable to that published in previous Economic Surveys.

However, this has not affected the figures for total capital expenditure. The capital expenditure programme stood at Lm73.3 million during January-September 2007, that is, Lm6.5 million lower than the level recorded during the same period in the previous year. This decline resulted from lower capital outlays on productive and social investment which more than offset increases in infrastructural investment. These developments were reflected in a fall in the share of productive investment to 15.5 per cent during January-September 2007, from 28.7 per cent recorded during the first nine months of 2006. The share of social investment in the total capital programme declined from 45.3 per cent recorded in January-September 2006 to 41.5 per cent in the same period in 2007. Meanwhile, the share of investment directed towards infrastructural capital expenditure rose from 26.0 per cent to 43.0 per cent in the first nine months of 2007. Appendix Table 8.3 presents a breakdown of Government’s capital expenditure programme for the January-September 2004-2007 period. Meanwhile Chart 8.3 presents developments in capital expenditure.

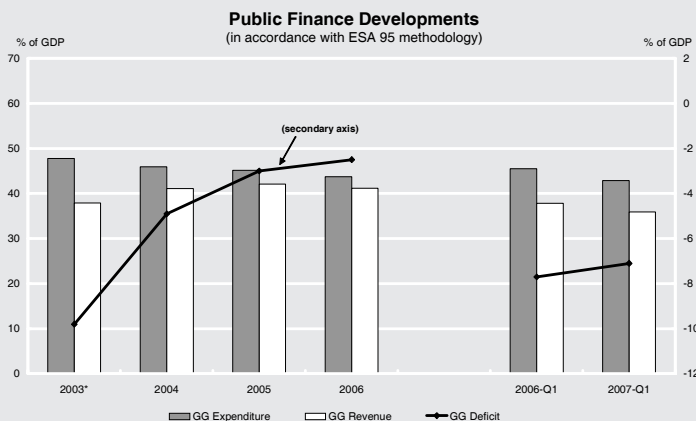
During the period under review, Government’s capital programme for productive investment fell to Lm11.4 million, being around half the level registered in the same period a year earlier. This was largely underpinned by a Lm5.5 million decline in capital outlays allocated under the Ministry of Finance. Moreover, capital outlays by the Ministry for Rural Affairs and the Environment also declined by Lm2.7 million to Lm0.9 million. This decline followed the relatively high outlays incurred during the first nine months of 2006 for works implemented and equipment procured by the Ministry of Rural Affairs and the Environment



Box 8.1

General Government Budgetary Components

The Quarterly Accounts for General Government published by the National Statistics Office (NSO) capture Government's fiscal position based on the methodology according to the European System of Accounts 1995 (ESA 95). The following analysis is based on latest general Government finance data available in accordance with ESA 95 which pertains to the first quarter of 2007. It is pertinent to note that such data is not comparable to data based on the statement of the Consolidated Fund provided in other sections of this Chapter.



*The 2003 deficit includes the effect of a one-off operation related to the restructuring of the Shipyards. This effect is of about 3.1 percentage points of GDP.

As illustrated in the Chart, the deficit-to-GDP ratio for the first quarter of 2007 declined by 0.6 percentage points when compared to the corresponding period a year earlier and stood at 7.1 per cent. This decline was underpinned by a lower expenditure to GDP ratio that outweighed the decline in the revenue ratio. The revenue-to-GDP ratio fell from 37.8 per cent to 35.9 per cent mainly underpinned by lower ratios of current and capital transfers. This mainly reflected the termination of temporary compensating grants associated with the accession to the EU following the commencement of the 2007-2013 financial framework. Meanwhile, declines were also registered in the ratio of taxes on production and imports, market output and social contributions. On the other hand, increases were recorded in the ratio of property income and current taxes on income and wealth. During the first quarter of 2007, the expenditure ratio declined to 42.9 per cent from 45.5 per cent registered in the same quarter of the previous year. This decline was mainly underpinned by lower ratios of gross capital formation and compensation of employees that more than outweighed the increase in the ratio of the 'other' component of expenditure and social benefits and social transfers in kind.

which were financed through the Fifth Italian Financial Protocol. Moreover, capital outlays under the Ministry for Investment, Industry and Information Technology fell by Lm2.9 million.

Capital outlays on infrastructural investment increased by Lm10.8 million to Lm31.5 million during the nine months to September 2007. Higher capital outlays were allocated under the Ministry for Gozo, the Ministry for Rural Affairs and the Environment, the Ministry for Urban Development and Roads and the Ministry for Investment, Industry and Information Technology. These developments mainly reflect the implementation of capital projects financed from EU Structural and Cohesion Funds. Moreover, the latter Ministry also registered an increase of Lm2.3 million in respect of capital outlays financed through the Fifth Italian Financial Protocol whilst outlays directed towards the sewage infrastructure registered an increase of Lm0.4 million, to Lm1.4 million. It is also noteworthy that the Ministry for Urban Development and Roads allocated higher capital outlays earmarked for the upgrading and restoration of the road networks.

During the nine months to September 2007, investment directed towards the development of social capital declined by Lm5.8 million to Lm30.4 million. This mainly reflected developments in capital expenditure related to the new hospital under the Ministry of Finance. At Lm22.5 million, these capital outlays made up nearly 75 per cent of social investment expenditure. Capital outlays allocated under the Ministry for Rural Affairs and the Environment increased by Lm1.0 million to Lm3.1 million, mainly through higher outlays allocated for waste management services. Capital expenditure by the Ministry for Education, Youth and Employment rose marginally to Lm2.7 million mainly reflecting investment earmarked for the development of the Malta College for Arts, Science and Technology.

Fiscal Performance

As highlighted above, during the first nine months of 2007 the structural deficit registered a marginal increase when compared to the corresponding period a year earlier. Meanwhile, extraordinary receipts declined significantly reflecting the sale of Government's stake in Maltacom plc in May 2006. As a result, the public sector borrowing requirement for the first nine months of 2007 stood at Lm76.6 million.

International Comparison

The budgetary position of the EU Member States for the three year period to 2006 is presented in Table 8.2, whilst the General Government debt position of the EU Member States is presented in Table 8.3. General Government fiscal data presented in this Section is according to the ESA95 methodology and is thus not comparable with data based on the statement of the Consolidated Fund presented in other sections of this Chapter. Moreover, it is pertinent to note that while data for the EU Member States is that presented in the European Commission Services Spring 2007 Forecasts, data for Malta is according to the report of the Government deficit and debt levels transmitted by Malta in September 2007 for the excessive deficit procedure according to Council Regulation (EC) No. 3605/93.

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

as a percentage of GDP

Table 8.2	per cent		
	2004	2005	2006
Austria	-1.2	-1.6	-1.1
Belgium	0.0	-2.3	0.2
Bulgaria	2.2	1.9	3.3
Cyprus	-4.1	-2.3	-1.5
Czech Republic	-2.9	-3.5	-2.9
Denmark	2.0	4.7	4.2
Estonia	2.3	2.3	3.8
Finland	2.3	2.7	3.9
France	-3.6	-3.0	-2.5
Germany	-3.7	-3.2	-1.7
Greece	-7.9	-5.5	-2.6
Hungary	-6.5	-7.8	-9.2
Ireland	1.4	1.0	2.9
Italy	-3.5	-4.2	-4.4
Latvia	-1.0	-0.2	0.4
Lithuania	-1.5	-0.5	-0.3
Luxembourg	-1.2	-0.3	0.1
Netherlands	-1.8	-0.3	0.6
Poland	-5.7	-4.3	-3.9
Portugal	-3.3	-6.1	-3.9
Romania	-1.5	-1.4	-1.9
Slovakia	-2.4	-2.8	-3.4
Slovenia	-2.3	-1.5	-1.4
Spain	-0.2	1.1	1.8
Sweden	0.8	2.1	2.2
United Kingdom	-3.1	-3.1	-2.8
EU 27	-2.7	-2.4	-1.7
Malta	-4.9	-3.1	-2.5

Source: European Commission
National Statistics Office
Ministry of Finance

General Government Gross Debt
as a percentage of GDP

Table 8.3 per cent

	2004	2005	2006
Austria	63.9	63.5	62.2
Belgium	94.3	93.2	89.1
Bulgaria	37.9	29.2	22.8
Cyprus	70.3	69.2	65.3
Czech Republic	30.7	30.4	30.4
Denmark	44.0	36.3	30.2
Estonia	5.2	4.4	4.1
Finland	44.1	41.4	39.1
France	64.3	66.2	63.9
Germany	65.7	67.9	67.9
Greece	108.5	107.5	104.6
Hungary	59.4	61.7	66.0
Ireland	29.7	27.4	24.9
Italy	103.8	106.2	106.8
Latvia	14.5	12.0	10.0
Lithuania	19.4	18.6	18.2
Luxembourg	6.6	6.1	6.8
Netherlands	52.6	52.7	48.7
Poland	45.7	47.1	47.8
Portugal	58.2	63.6	64.7
Romania	18.8	15.8	12.4
Slovakia	41.5	34.5	30.7
Slovenia	28.9	28.4	27.8
Spain	46.2	43.2	39.9
Sweden	52.4	52.2	46.9
United Kingdom	40.3	42.2	43.5
EU 27	62.2	62.9	61.7
Malta	72.7	70.8	64.7

Source: European Commission
National Statistics Office
Ministry of Finance

In 2006, the pace of fiscal consolidation accelerated substantially in the EU benefiting from positive economic developments as well as higher-than expected revenues. Indeed, the average general Government budget deficit for the EU27 fell from 2.4 per cent in 2005 to 1.7 per cent in 2006. As a result of considerable fiscal consolidation efforts, a number of Member States registered improvements in their budgetary position. The Czech Republic, France, Germany, Greece, the United Kingdom and Malta brought their deficits below the 3 per cent of GDP threshold in 2006. As a result of these fiscal improvements and also in view of the Commission Services Spring 2007 forecast, amongst these Member States, in June 2007, the Council abrogated the decision on the existence of an excessive

deficit for Germany, Greece and Malta following the abrogation of the same decision for France in January 2007. Seven Member States, namely, Bulgaria, Denmark, Estonia, Finland, Ireland, Spain and Sweden, sustained general Government surpluses registered over the recent years. Austria, Cyprus, Lithuania and Slovenia recorded declining negative balances, while Belgium, Latvia, Luxembourg and the Netherlands turned the deficit recorded in 2005 into a surplus in 2006.

During 2006, Hungary, Italy, Poland, Portugal and Slovakia remained with deficits above the 3 per cent benchmark. The deficit in Portugal exceeded the 3 per cent benchmark despite a significant fiscal adjustment of 2.2 percentage points.

The average general Government debt-to-GDP ratio for the EU 27 reflects the fiscal stance and declined from 62.9 per cent in 2005 to 61.7 per cent in 2006. The majority of Member States registered a downward trend in Government debt with the exception of Hungary, Italy, Luxembourg, Poland, Portugal and the United Kingdom. Greece and Italy continued to register debt levels above the 100 per cent mark, while Austria, Belgium, Cyprus, France, Germany, Hungary, Portugal and Malta exceeded the 60 per cent threshold. Although still exceeding the reference value, the debt-to-GDP ratio for Malta declined from 70.8 per cent at the end of 2005 to 64.7 per cent at the end of 2006.

Monetary Developments

During the first eight months of 2007, growth in total monetary assets, or broad money, accelerated when compared to the first eight months of 2006. This more rapid monetary expansion was driven by a significant acceleration in domestic credit and the slowdown in growth of other counterparts of M3 which more than offset a slower growth in net foreign assets.

Monetary Aggregates

During the eight months to August 2007, broad money (M3), which consists of money in circulation and residents' deposits with the banking system, increased by 9.7 per cent to Lm3,509.4 million, compared to a growth of 3.3 per cent registered during the commensurate period in 2006. The acceleration in monetary growth was mainly underpinned by a significant increase in Maltese Lira denominated time deposits with an agreed maturity of up to two years. Developments in the main monetary indicators are presented in Table 8.4 and Chart 8.4.

Monetary Aggregates and Their Counterparts

Table 8.4

Lm million

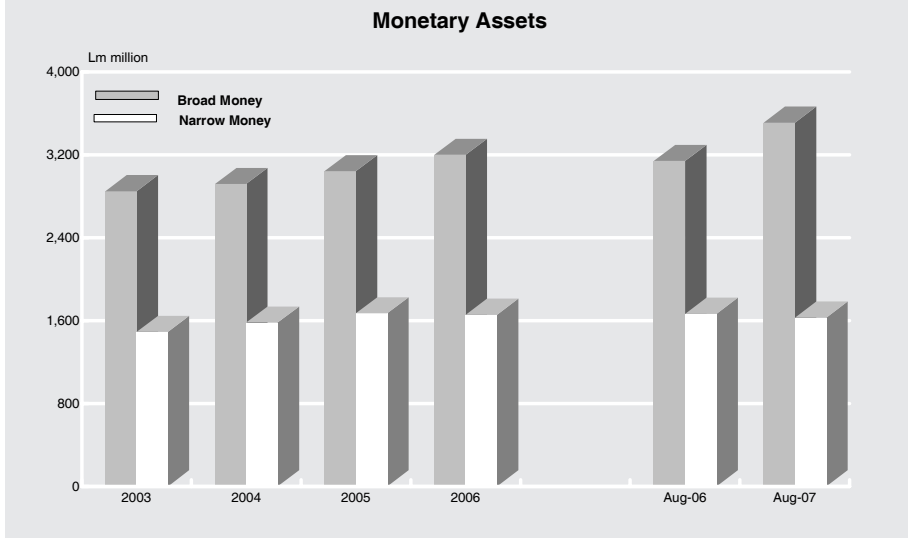
	2005 (Dec)	2006 (Aug)	Aug-06 - Dec-05 % Change	2006 (Dec)	2007 (Aug)	Aug-07 - Dec-06 % Change
Monetary Aggregates						
Narrow Money (M1)	1,670.1	1,664.6	-0.3	1,656.8	1,628.3	-1.7
Currency in Circulation	498.9	487.4	-2.3	477.8	382.2	-20.0
Deposits withdrawable on demand	1,171.1	1,177.2	0.5	1,179.1	1,246.0	5.7
Intermediate Money (M2)	3,041.6	3,140.7	3.3	3,199.0	3,509.4	9.7
Narrow Money (M1)	1,670.1	1,664.6	-0.3	1,656.8	1,628.3	-1.7
Savings Deposits redeemable at notice up to 3 months	31.4	31.1	-1.1	30.8	38.2	24.0
Time Deposits with agreed maturity up to 2 years	1,340.1	1,445.0	7.8	1,511.4	1,842.9	21.9
Broad Money (M3)	3,041.6	3,140.7	3.3	3,199.0	3,509.4	9.7
Counterparts of M3						
Domestic Credit	2,636.7	2,723.4	3.3	2,878.9	3,082.5	7.1
Net Claims on central government	442.7	359.4	-18.8	365.0	446.8	22.4
Claims on other residents	2,194.0	2,364.0	7.8	2,513.9	2,635.7	4.8
Net Foreign Assets	1,809.5	2,049.9	13.3	2,062.7	2,223.9	7.8
Central Bank of Malta	932.6	961.6	3.1	950.8	868.5	-8.7
Other Monetary Financial Institutions	876.9	1,088.3	24.1	1,111.9	1,355.4	21.9
Less other counterparts of M3⁽¹⁾	1,404.6	1,632.6	16.2	1,742.6	1,797.0	3.1

⁽¹⁾ 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

The decline in narrow money (M1), recorded during the first eight months of 2006, was sustained during the period under review. In fact, narrow money, which reflects demand for liquid balances, declined by 1.7 per cent to Lm1,628.3 million, reflecting a significant contraction in currency in circulation, which more than offset the more rapid growth in deposits withdrawable on demand. Currency in circulation declined by Lm95.6 million, or 20 per cent, as compared to a contraction of 2.3 per cent during the first eight months of 2006. This drop in currency in circulation is related to Malta's adoption of the Euro on 1 January 2008 and more specifically a premature conversion by the personal sector of cash balances from Maltese Lira into Euro. Furthermore, there was also an increase in placing currency in Maltese Lira bank deposits. Deposits withdrawable on demand increased by 5.7 per cent to Lm1,246.0 million, as compared to the

Chart 8.4



0.5 per cent growth rate registered during the first eight months of 2006. Demand deposits increased by Lm36.6 million to Lm348.5 million, while savings deposits withdrawable on demand increased by Lm30.3 million to Lm897.5 million during the first eight months of 2007.

Intermediate money (M2), which consists of narrow money and short-term deposits not withdrawable on demand, increased significantly in the eight months to August 2007, mainly underpinned by a significantly higher growth in time deposits with agreed maturity up to two years, which more than offset the contraction in narrow money. In fact, intermediate money increased by 9.7 per cent to Lm3,509.4 million, compared to the 3.3 per cent growth rate registered during the corresponding period in 2006. Time deposits increased by Lm331.5 million or 21.9 per cent to Lm1,842.9 million as at the end of August 2007. Higher interest rates offered by banks, in response to increases in the Central Bank of Malta's central intervention rate, contributed to the increase in Maltese Lira denominated deposits with an agreed maturity of up to two years. Meanwhile, savings deposits redeemable at notice up to three months increased by Lm7.4 million or 24.0 per cent during the first eight months of 2007.

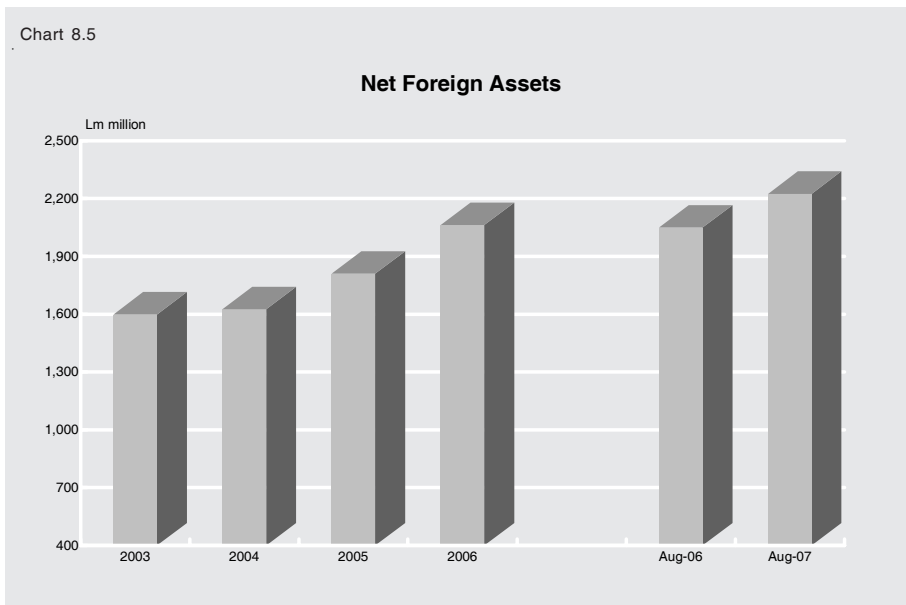
Since currently the amount of marketable instruments, mainly repurchase agreements and debt securities with maturity up to two years, is negligible, M3 is in effect equal to M2.

Counterparts of Monetary Expansion

The faster pace in monetary growth registered during the first eight months of 2007 was attributable to a more rapid growth in domestic credit which more than outweighed the slowdown in the rate of growth of net foreign assets. Moreover, the significant deceleration in the other counterparts of M3 category, which is deducted from broad money, contributed further to the higher pace of monetary growth.

Domestic credit expanded by Lm203.6 million or 7.1 per cent to Lm3,082.5 million. This growth was attributable to both higher net claims on central Government as well as higher claims on other residents. Net claims on central Government increased by Lm81.8 million to Lm446.8 million, reflecting an increase in banks' holdings of outstanding Treasury Bills, as well as a rise in the Central Bank of Malta's holdings of Government securities. Moreover, it is pertinent to note that claims on central Government during the first eight months of 2006 were dampened by privatisation receipts.

Meanwhile, claims on other residents, which mainly consist of loans and advances and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies, increased by 4.8 per cent to Lm2,635.7 million during the eight months to August 2007. The slowdown in the rate of growth of claims on other residents was mainly attributable to a slowdown in the growth of loans and advances by the non-bank private sector, which at



the end of August 2007 constituted over 92 per cent of claims on other residents. During the period under review, increases in lending to finance house purchases by households, to the real estate, renting and business activities sector, and to construction activities were partly offset by declines in loans to hotels and restaurants and to the transport, storage and communications sector.

During the first eight months of 2007, as highlighted in Chart 8.5, net foreign assets of the banking system continued to expand albeit at a slower pace than in the commensurate 2006 period. In fact, net foreign assets increased by 7.8 per cent to Lm2,223.9 million, compared to a growth of 13.3 per cent registered between January and August 2006. The expansion in net foreign assets was mainly attributable to a rise in holdings of monetary financial institutions which more than offset the decline in the Central Bank's net holdings. The 8.7 per cent decline in the net foreign assets of the Central Bank of Malta partly reflects sales of foreign currency to deposit money banks. Meanwhile, the net foreign assets of the rest of the banking system increased by 21.9 per cent mainly reflecting increases in revaluation reserves, purchases of foreign currency from the Central Bank, as well as foreign currency inflows related to the sale to non-residents of shares in a private corporation.

The other counterparts of M3 increased by 3.1 per cent to Lm1,797.0 million, dampening monetary growth. The 'other counterparts of M3' category 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.

The Money Market

Monetary policy in Malta is geared towards maintaining price stability, an objective considered essential to encourage sustainable economic growth. The Central Bank pursues this objective by using the exchange rate as its intermediate target and the external reserves as its operational target. By setting the conditions at which banks borrow from the Central Bank and at which banks trade with each other, the Central Bank affects the money market conditions and thereby steers money interest rates. In the context of a liberalised capital account, the Central Bank of Malta, in order to provide support to the currency, pursues interest rate policies followed by other currencies, in particular the Euro.

In an environment of rising interest rates abroad, domestic rates also have to rise in order to maintain a premium over Euro rates, and thus protect the Maltese Lira by making domestic financial assets more attractive. Hence, the Central

Bank of Malta has been tightening its monetary policy stance echoing closely the monetary policy stance taken by the European Central Bank. During the first month of 2007, the Central Bank of Malta raised the central intervention rate by 25 basis points to 4.00 per cent, in order to adequately support the exchange rate peg. Moreover, the central intervention rate was raised by a further 25 basis points to 4.25 per cent in May 2007 against the background of a further narrowing of interest rate differentials amid growing expectations of continued monetary policy tightening in the Euro area and reductions in the external reserves. Since then, the Central Bank of Malta left the central intervention rate unchanged as both short-term and long-term interest rate differentials in favour of the Maltese lira were broadly unchanged.

The Central Bank of Malta uses open market operations to steer short-term money market rates and influence the level of liquidity in the banking system. The Bank conducts these operations mainly through weekly auctions of funds with an auction tenor of seven days. During the eight months to August 2007, the Central Bank of Malta continued to absorb liquidity from the rest of the banking system through weekly auctions of 7-day term deposits. In fact, in the first eight months of 2007 the Central Bank absorbed Lm3,703.6 million. The interest rate paid on these deposits increased from 3.70 per cent in December 2006 to 4.20 per cent in August 2007, reflecting increases in the central intervention rate. Meanwhile, in the first eight months of 2007, the Central Bank has not injected any further liquidity in the market through reverse repo agreements.

Activity in the inter-bank market during the first eight months of 2007 was relatively subdued, as the value of inter-bank loans declined to Lm98.1 million. A total of 19 overnight inter-bank deals (including deals between 1 and 3 days) were conducted between January and August 2007, while 18 deals and 6 deals were transacted on the 7-day and 14-day tenor, respectively. Meanwhile, the 7-day inter-bank lending rate also increased from 3.78 per cent at the end of 2006 to 4.28 per cent in August 2007.

Government continued to resort to short-term debt issues to finance its short-term financing requirements. As from 1 April 2007, the Malta Treasury Bills were dematerialised and were admitted to listing and trading on the Malta Stock Exchange. Furthermore, prior to dematerialisation date, Treasury Bill yields were computed on Actual/365 day basis. As from 1 April 2007 such yields started to be computed on an Actual/360 day basis. During the first eight months of 2007, Lm338.5 million worth of Treasury Bills were issued on the primary market, significantly higher than the amount issued between January and August

last year. Out of the amount issued in Treasury Bills on the primary market, approximately 63 per cent had a maturity period of 91 days. The primary market yield for Treasury Bills has followed an upward trend since the beginning of the year, in line with rising interest rates. The 91-day Treasury Bill rate increased from 3.91 per cent in December 2006 to 4.36 per cent in August 2007. Likewise, the 6-month Treasury Bill rate increased from 4.00 per cent to 4.49 per cent in August 2007.

Turnover in the secondary market for Treasury Bills amounted to Lm39.9 million, with the value of transactions involving the Central Bank amounting to Lm23.5 million. As in the primary market, yields in the secondary market increased, such that the yield for three-month Treasury Bills increased from 3.9 per cent at the end of last year to 4.36 per cent in August 2007. Moreover, the rates for six-month and one-year Treasury Bills increased from 4.00 per cent and 4.20 per cent in December 2006 to 4.49 per cent and 4.61 per cent in August 2007, respectively.

The Capital Market

During the eight months to August 2007, the Government issued a total of Lm78.8 million worth of stocks on the primary market, with maturities ranging between five and thirteen years. Four stocks, with a total value of Lm80.8 million, were redeemed, two of which were followed by a re-issue. In fact, two bonds worth Lm35.5 million were issued to replace former maturing stock.

In January 2007, MGS 2014 (III) FI with a value of Lm19.3 million was redeemed and re-issued on the same date as MGS 2014 (III). In February Government issued Lm0.3 million MGS 2017 with a coupon rate of 7 per cent. Subsequently, in April, MGS 2007 (II) worth Lm10 million was redeemed. In May there were two new issues worth Lm26.3 million, namely MGS 2012 (III) FI and MGS 2014 (III) FI with a coupon rate of 5.7 per cent and 5.1 per cent respectively. In the following month, MGS 2007 (III) worth Lm35.3 million was redeemed. During the same month, Lm4.4 million MGS 2017 (II) was issued, with a coupon rate of 7 per cent. In July there were three new issues with a total value of Lm47.9 million with respect to MGS 2012 (III) FI, MGS 2015 (II) FI and MGS 2020. The coupon rates of these new stocks varied between 5.2 per cent and 5.9 per cent. During the same month, MGS 2014 (III) worth Lm16.3 million was issued as a roll-over to MGS 2014 (III) FI.

Issuance activity in the primary corporate bond market during the first eight months of 2007 was characterised by six new issues. In January, AX Investments

plc issued a total of Lm5.9 million worth of bonds in two issues: the 4% AX Investment Bonds 2013 and the 6.7% AX Investments plc 2014/16. In February, HSBC Bank Malta plc issued a total of Lm25 million worth of bonds, of which more than one third were denominated in Euro. These carried a coupon rate of 4.6 per cent and are redeemable in 2017. In May, GAP Development plc issued Lm15 million worth of bonds, namely 7% GAP Development plc 2011/13, of which around one third were denominated in Euro. In January and February 2007, 8.25% Suncrest Hotels Bonds 2005/7 experienced significant deductions until it was fully redeemed in March. Between May and August 2007, the primary corporate bond market was characterised by several deductions, mainly in 5% International Hotel Investments plc 2010, 6.4% Gasan Finance Company plc Bonds 2008/11, 6.7% Corinthia Finance Bonds 2009 and 6.75% Corinthia Finance Bonds 2012.

Turnover of Government securities in the secondary market during the period January-August 2007 more than doubled compared with the commensurate period last year. In fact, turnover in Government stocks increased from Lm55.9 million to Lm116.3 million during the first eight months of 2007. As shown in Table 8.5, a total of 2,102 deals were registered at the Malta Stock Exchange during the first eight months of this year, resulting in an average value per transaction of Lm51,767 (based on the nominal value of bonds). The highest

Government Stocks
Activity on the Secondary Market

Table 8.5

	2007 Jan-Mar	2007 Apr-Jun	2007 Jul-Aug	2007 Jan-Aug
Turnover in Government Stocks:				
Nominal Value (Lm million)	18.2	61.6	29.0	108.8
Market Value (Lm million)	20.0	66.1	30.3	116.3
Number of Transactions	695	932	475	2,102
Average Value per Transaction (Lm)*	26,119	66,146	61,082	51,767
Amount sold by CBM (Lm million)**	-	7.4	4.4	11.8
Amount bought by CBM (Lm million)**	7.4	53.0	20.2	80.6

* Based on Nominal Values

** Based on Market Values

Source: Central Bank of Malta

Selected Indicators of the Capital Market

Table 8.6

	2007 Jan-Mar	2007 Apr-Jun	2007 Jul-Aug	2007 Jan-Aug
Corporate Bonds*				
Number of Listings**	27	29	29	29
Turnover (Lm million)	1.4	1.6	0.7	3.6
Equities*				
Number of Issues Outstanding**	16	15	15	15
Turnover (Lm million)	7.5	6.7	4.1	18.3
Total Listed Securities*				
Total Turnover (Lm million)***	29.1	81.2	38.3	148.5
Market Capitalisation (Lm million)**	2,874.8	3,083.6	3,157.1	3,157.1
MSE Ord. Share Index**	4,815.4	4,809.1	4,907.8	4,907.8

*Including the Alternative Companies listing

**As at end of period

***Including Malta Government Stocks and Treasury Bills

Source: Malta Stock Exchange

turnover was registered in 5.75% MGS 2010 (II), 7.8% MGS 2018 and 5.4 per cent MGS 2010 (IV). Meanwhile, the highest volume of transactions in Government securities at the Stock Exchange was registered in the 5.75% MGS 2010 (II) with a volume of 21.4 million in 8 deals. The value transacted by the Central Bank amounted to Lm92.4 million, while investors took up the remainder.

Turnover in the secondary market for corporate bonds increased from Lm3.0 million during the first eight months of 2006 to Lm3.6 million between January and August 2007. Table 8.6 shows selected indicators of activity in the secondary market. The highest market value of stock transacted was that of the International Hotels Investment plc bond maturing between 2012 and 2014, followed by the newly listed 4.6 per cent HSBC Bank Malta plc 2017. Total listings of corporate bonds reached 29 by the end of August 2007.

The market turnover of equities traded during the first eight months of 2007 declined to Lm18.3 million from Lm76.6 million during the commensurate 2006 period. The bulk of the trading activity took place in the shares of HSBC Bank Malta plc and Bank of Valletta plc.

The Malta Stock Exchange Share Index, which captures price movements of ordinary shares listed on the Stock Exchange, declined by 7.8 per cent to 4907.8 on 31 August 2007 over the same month in the previous year. This reflected the marginal decline in market capitalisation in the equity market from Lm1,588.0 million at the end of August 2006 to Lm1,561.5 million.

The Maltese Lira

Malta entered the Exchange Rate Mechanism on 2 May 2005, implying the re-pegging of the Maltese Lira solely to the Euro, and since then no fluctuations from the central parity rate of the Maltese Lira with the Euro of 0.4293 were recorded. On 10 July 2007 the Council of the EU on Economic and Financial Affairs took the final formal decision allowing Malta to adopt the Euro from 1 January 2008 and irrevocably set the conversion rate for the Maltese lira to the Euro at the central rate of the Maltese Lira within the ERM II.

Movements in the Exchange Rates of the Maltese Lira

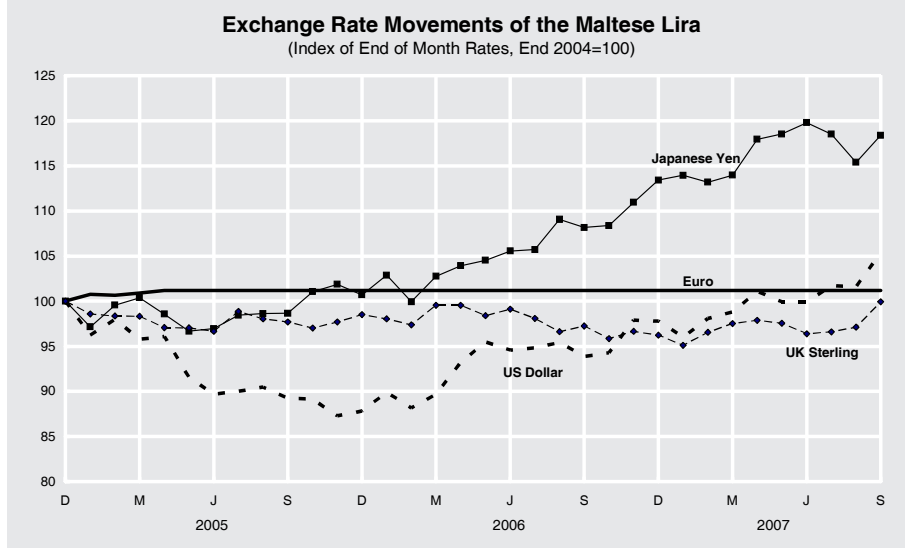
Table 8.7

Currency	End of Period	Closing Middle Exchange Rate	% change over Previous Period
US Dollar (MTL/USD)	Dec-04	3.1393	7.52
	Dec-05	2.7570	-12.18
	Dec-06	3.0699	11.35
	Sep-07	3.3075	7.74
UK Sterling (MTL/GBP)	Dec-04	1.6252	-0.61
	Dec-05	1.6012	-1.48
	Dec-06	1.5639	-2.33
	Sep-07	1.6243	3.86
Japanese Yen (MTL/JPY)	Dec-04	321.710	3.06
	Dec-05	323.950	0.70
	Dec-06	364.890	12.64
	Sep-07	380.899	4.39
Euro (EUR/MTL)	Dec-04	0.4343	0.61
	Dec-05	0.4293	-1.16
	Dec-06	0.4293	0.00
	Sep-07	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, a decrease in the EUR/MTL exchange rate implies a depreciation of the Maltese lira against the euro and vice versa.

Source: Central Bank of Malta

Chart 8.6



In line with developments in international foreign exchange markets between the Euro and other major currencies, the Maltese Lira appreciated against the US Dollar, the Japanese Yen and the Sterling during the first nine months of 2007. Table 8.7 and Chart 8.6 illustrate the movements of the Maltese Lira against the major currencies.

During the nine months to September 2007, the US Dollar continued to weaken against the Euro, especially towards the end of the period, reflecting the recent market turmoil triggered by problems in the US sub-prime mortgage sector. In fact, in September 2007, the Euro surged to its highest mark against the Dollar since its debut in 1999. These developments also partly reflected the Federal Reserve interest rate cut in September by half percentage point to 4.75 per cent. Consequently, the Maltese Lira strengthened by 7.4 per cent against the US Dollar. The Maltese Lira fell to a low of USD3.0064 on January 12 but attained a high of USD3.3075 on September 28.

The depreciation of the Maltese Lira against the British Pound registered during 2006 was reversed as the Maltese Lira gained 3.7 per cent against the Sterling during the first nine months of 2007. The Maltese Lira appreciated against the Sterling during the first five months of the year, from a low of GBP1.5256 on January 22 to a high of GBP1.5963 on May 15. Subsequently, the Lira lost

ground but by the end of September the trend was reversed and reached a high of GBP1.631 on September 25 to end the third quarter at GBP1.6243.

During the first nine months of 2007, the value of the Maltese Lira vis-à-vis the Japanese Yen increased by 4.4 per cent. The Maltese Lira depreciated against the Japanese Yen in the first couple of months to a low of Yen352.1081 on March 5. Thereafter, the Maltese Lira strengthened to a high of Yen392.8139 on July 13. Subsequently, the Maltese Lira depreciated, however by the end of September, the Maltese Lira recovered slightly to a closing value of Yen380.899.

Government Revenue

(January-September)

Appendix Table 8.1

Lm thousand

	2004	2005	2006	2007
Tax Revenue	472,009	499,994	537,318	568,999
Direct Tax Revenue	258,690	265,698	287,522	312,629
Income Tax	133,894	139,733	155,259	176,453
Social Security	124,796	125,965	132,263	136,176
Indirect Tax Revenue	213,318	234,297	249,796	256,370
Customs and Excise Duties	42,420	47,153	53,968	55,047
Licences, Taxes and Fines	73,325	65,618	70,663	71,886
Value Added Tax	97,573	121,526	125,165	129,437
Non-Tax Revenue	66,208	106,938	92,533	76,657
Fees of Office	4,144	18,380	12,921	17,739
Reimbursements	5,802	5,410	7,568	7,627
Rents	6,354	7,410	7,767	7,407
Dividends on Investments	3,637	2,847	4,356	6,598
Repayment of, and Interest on Loans made by Government	14	13	11	10
Miscellaneous Receipts	10,197	16,670	10,106	9,512
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	18,233	14,001	10,001	10,902
Grants	15,944	40,324	37,920	14,979
Recurrent Revenue	538,217	606,932	629,851	645,656
Extraordinary Receipts	8,899	4,929	79,512	1,426
Loans	70,448	110,000	10,000	28,859
Total Revenue	617,565	721,861	719,363	675,941

Source: The Treasury
Ministry of Finance

Government Recurrent Expenditure
(January-September)

Appendix Table 8.2

Lm thousand

	2004	2005	2006	2007
Office of the President	597	439	444	513
House of Representatives	824	831	853	906
Office of the Ombudsman	130	130	140	140
National Audit Office	650	575	660	500
Office of the Prime Minister	3,712	3,493	4,925	4,719
Public Service Commission	98	96	104	105
Armed Forces of Malta	9,016	9,307	10,126	10,267
Information	389	333	367	329
Government Printing Press	400	371	370	378
Electoral Office	1,143	940	1,009	1,149
Ministry for the Family and Social Solidarity	3,893	4,661	5,429	7,191
Social Security	39,949	39,877	41,807	43,988
Social Security Benefits	155,561	163,686	174,438	183,913
Family and Social Welfare	486	412	278	281
Elderly and Community Care	10,273	9,289	12,043	12,255
Housing	807	917	860	812
Industrial and Employment Relations	421	398	382	379
Ministry of Education, Youth and Employment	27,843	33,572	32,848	34,710
Education	35,406	35,714	36,565	37,536
Libraries and Archives	472	447	449	458
Ministry of Finance	14,374	23,064	21,039	21,934
Treasury	7,826	1,214	919	860
Pensions	21,528	23,736	24,013	24,984
Inland Revenue	3,798	4,867	8,055	1,861
Customs	3,648	3,785	3,542	3,243
V.A.T.	2,465	2,381	2,221	2,227
Contracts	270	298	300	317
Ministry for Resources and Infrastructure	15,582	12,053	11,743	11,862
Ministry for Tourism and Culture	1,896	3,575	3,200	3,108
Civil Aviation	403	371	396	390
Economic Policy	466	228	256	311
Commerce	2,132	1,444	1,396	1,168
Consumer and Competition	327	376	344	879

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 continued

Lm thousand

	2004	2005	2006	2007
Ministry for Justice and Home Affairs	1,936	1,908	2,254	2,616
Police	11,735	11,191	11,702	12,077
Correctional Services	1,821	2,059	2,121	2,464
Civil Protection	1,027	1,026	939	1,051
Government Property Division	951	1,012	1,039	1,472
Registration	629	743	689	854
Ministry for Rural Affairs and the Environment	13,021	21,051	16,805	16,353
Ministry for Gozo	13,531	14,107	14,557	14,653
Ministry of Health, the Elderly and Community Care	55,410	54,149	60,301	63,889
Local Councils	5,371	5,615	5,981	6,128
Judicial	2,922	2,797	2,682	2,698
Ministry of Foreign Affairs	5,467	6,079	6,339	6,377
Ministry for Investment, Industry and IT	29,630	32,870	28,030	32,220
[Ministry for Competitiveness and Communications]	0	2,113	2,281	2,342
[Ministry for Urban Development and Roads]	0	3,854	2,866	3,821
[Ministry for Transport and Communications]	4,416	0	0	0
[Ministry for Youth and the Arts]	3,481	0	0	0
Recurrent Expenditure	518,133	543,451	560,107	582,687

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

	2004	2005	2006	2007
Productive Investment	17,858	23,310	22,883	11,363
Ministry of Finance	2,298	5,500	5,563	49
Ministry for Tourism and Culture	8,628	7,936	7,347	6,877
Ministry for Investment, Industry and IT	3,965	5,516	6,034	3,175
Ministry for Rural Affairs and the Environment	2,844	3,630	3,569	884
Other Ministries	124	727	370	378
Infrastructure	27,190	32,889	20,700	31,524
Office of the Prime Minister	1,573	4,770	524	348
Ministry for Justice and Home Affairs	4,264	4,432	1,556	1,251
Ministry of Finance	1,270	1,175	368	713
Ministry for Resources and Infrastructure	1,607	1,077	1,362	956
Ministry for Gozo	513	490	954	3,295
Ministry for Investment, Industry and IT	4,556	5,054	7,352	10,690
Ministry for Rural Affairs and the Environment	134	186	64	3,862
Ministry for Urban Development and Roads	0	13,776	6,749	8,038
Ministry of Foreign Affairs	6,958	142	65	211
[Ministry for Transport and Communication]	4,798	0	0	0
Other Ministries	1,517	1,788	1,707	2,160
Social	30,584	36,905	36,140	30,375
Ministry of Finance	0	30,070	29,183	22,486
Ministry of Education, Youth and Employment	0	3,105	2,328	2,650
Ministry for Resources and Infrastructure	1,603	607	320	132
Ministry for Rural Affairs and the Environment	120	1,781	2,137	3,123
[Ministry for Social Policy]	1,783	0	0	0
[Ministry of Education]	4,063	0	0	0
[Ministry of Health]	22,174	0	0	0
Other Ministries	841	1,343	2,172	1,985
Total Capital Expenditure	75,633	93,104	79,723	73,262

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

Source: *The Treasury*

Ministry of Finance

Statistical Annex

Population

	1999	2000	2001	2002	2003	2004	2005	2006	2005 Jan-Jun	2006 Jan-Jun	2007 Jan-Jun
Total Population (000's)	388.8	391.4	394.6	397.3	399.9	402.7	405.0	407.8	403.9	406.5	408.9
Males (000's)	192.4	193.7	195.4	196.8	198.1	199.6	200.8	202.6	200.2	201.8	203.2
Females (000's)	196.3	197.7	199.3	200.5	201.8	203.1	204.2	205.2	203.7	204.7	205.7
% Increase per annum	0.6	0.7	0.8	0.7	0.6	0.7	0.4	0.7	...	...	...
Natural Increase per annum	1,306	1,435	1,022	887	886	888	728	669	...	...	...
Crude Birth Rate (per 1000 population)	11.4	11.3	10.1	9.9	10.2	9.7	9.6	9.6	...	...	...
Crude Mortality Rate (per 1000 population)	8.0	7.6	7.5	7.7	7.9	7.5	7.7	7.9	...	...	...
Crude Marriage Rate (per 1000 population)	6.2	6.5	5.6	5.7	5.9	6.0	5.9	6.2	...	...	...
Infant Mortality Rate (per 1000 births)	7.2	6.1	4.4	6.0	5.9	5.9	6.0	3.6	...	...	...
Life Expectancy (at birth)											
Males	75.1	74.3	76.1	75.7	76.4	76.7	77.7	76.8	...	...	...
Females	79.3	80.2	80.9	80.5	80.4	80.5	81.4	81.2	...	...	...
Life Expectancy (at age 65)											
Males	15.1	15.0	15.4	15.0	15.7	16.4	16.7	16.1	...	...	...
Females	17.6	18.4	18.6	19.0	18.7	18.8	19.8	19.5	...	...	...

Source: National Statistics Office

Social Indicators

Table II

	1999	2000	2001	2002	2003	2004	2005	2006
GDP at current market prices per capita (Lm)	4,023	4,374	4,409	4,636	4,728	4,781	5,044	5,319
Quality of Life								
Motor Vehicle Licences per 1000 population	614.5	630.6	643.9	657.8	673.9	673.4	671.1	686.4
Internet Subscriptions per 1000 population	63.8	83.1	130.1	168.6	195.7	218.2	219.0	234.0
Mobile Phone Subscriptions per 1000 population	62.5	289.8	559.0	696.9	725.0	765.8	802.0	851.4
Fixed Telephone Lines per 1000 population	508.7	521.7	526.5	521.7	520.9	523.3	517.0	515.0
Education								
Number of schools	350	331	319	303	303	289	295	342
Number of teachers (000)	7.9	8.2	8.4	8.5	8.7	8.9	9.0	9.0
Number of pupils/students (000)	100.5	99.5	99.5	97.8	102.6	103.3	106.6	106.8
of which:								
University students (Day Courses)	6,064	5,554	6,281	5,852	6,692	6,617	7,310	6,925
Electricity								
Total Generated (000 MWh)*	1,840.3	1,916.6	1,943.4	2,055.1	2,208.0	2,216.1	2,263.1	2,260.7
Number of Consumers (000)*	217.6	226.9	213.8	220.0	234.5	236.0	241.0	243.0
Domestic Consumption (million kwh)*	463.7	539.8	540.3	561.9	623.7	623.7	669.5	657.6
Water								
Total annual production (million m ³)	37.3	32.7	33.6	34.1	34.2	32.8	31.3	30.5
Average daily consumption (000 m ³)	102	90	92	93	94	90	88	90
Social Security								
Total Payments (Lm million)	237.3	251.9	266.7	275.4	292.2	308.4	321.7	342.0
Total Contributions (Lm million)	144.3	162.0	179.1	181.1	188.4	189.7	195.6	202.4
Welfare Gap (Lm million)	93.0	89.9	87.7	94.2	103.8	118.7	126.1	139.6

*Refer to Financial Year

Source: National Statistics Office
The Treasury

Factor Incomes in Gross National Income

	Lm million										
	1999	2000	2001	2002	2003	2004	2005	2006	2005 Jan-Jun	2006 Jan-Jun	2007 Jan-Jun
Compensation of employees	713.1	747.2	807.2	836.9	880.9	884.5	913.5	946.6	452.6	470.2	487.0
Gross operating surplus and mixed income	682.1	768.2	724.6	787.4	801.1	785.2	854.7	916.1	398.6	418.3	462.2
Taxes on production and imports	193.2	214.4	229.8	249.9	243.0	285.4	309.0	335.3	141.5	159.4	164.9
Subsidies	29.5	24.1	28.5	38.7	41.0	36.9	42.4	40.6	22.4	19.0	22.5
Gross Domestic Product at market prices	1,558.9	1,705.7	1,733.1	1,835.5	1,883.9	1,918.2	2,034.8	2,157.4	970.4	1,028.9	1,091.6
Net Income from Abroad	15.5	-43.5	17.6	11.9	-9.6	-21.7	-92.8	-64.2	-41.3	-36.7	-41.4
Gross National Income at market prices	1,574.3	1,662.3	1,750.6	1,847.4	1,874.3	1,896.5	1,942.0	2,093.1	929.1	992.2	1,050.2
Sectoral Contribution to Gross Value Added (at basic prices)											
Agriculture, hunting and forestry ⁽¹⁾	2.7	2.3	2.8	2.8	2.9	2.9	2.8	2.6	2.5	2.2	2.2
Industry ⁽²⁾	26.2	28.5	24.6	25.4	24.8	23.1	22.3	21.5	22.8	21.9	21.9
Services Activities	71.1	69.1	72.7	71.8	72.3	74.0	75.0	75.9	74.7	75.9	75.9

⁽¹⁾ Includes fishing and operation of fish hatcheries and fish farms

⁽²⁾ Includes energy and construction

Source: National Statistics Office

Gross National Income and Expenditure

Lm million

	2000	2001	2002	2003	2004	2005	2006	2005	2006	2007
								Jan-Jun	Jan-Jun	Jan-Jun
GNI at current market prices	1,662.3	1,750.6	1,847.4	1,874.3	1,896.5	1,942.0	2,093.1	929.1	992.2	1,050.2
% annual increase of GNI	5.6	5.3	5.5	1.5	1.2	2.4	7.8	2.3	6.8	5.8
GDP at current market prices	1,705.7	1,733.1	1,835.5	1,883.9	1,918.2	2,034.8	2,157.4	970.4	1,028.9	1,091.6
% annual increase of GDP	9.4	1.6	5.9	2.6	1.8	6.1	6.0	4.7	6.0	6.1
GDP at constant prices	1,705.7	1,678.2	1,722.1	1,716.9	1,718.1	1,770.6	1,826.4	848.9	876.4	907.8
Total Final Consumption Expenditure										
current market prices	1,439.8	1,509.1	1,529.7	1,605.3	1,678.4	1,748.9	1,822.7	837.7	861.8	886.9
constant prices	1,439.8	1,450.1	1,444.6	1,498.4	1,529.2	1,557.6	1,586.8	749.6	748.5	771.7
Ratio (%) of consumption to GDP at m.p.	84.4	87.1	83.3	85.2	87.5	85.9	84.5	86.3	83.8	81.2
General Government Final Consumption Expenditure										
current market prices	316.2	348.0	366.5	387.2	401.2	408.9	432.0	200.5	208.4	213.6
constant prices	316.2	317.8	329.6	340.4	342.2	343.1	356.0	169.2	171.4	173.0
Ratio (%) of Government consumption to GDP at m.p.	18.5	20.1	20.0	20.6	20.9	20.1	20.0	20.7	20.3	19.6
Private Final Consumption Expenditure⁽¹⁾										
current market prices	1,123.6	1,161.1	1,163.2	1,218.1	1,277.1	1,340.0	1,390.7	637.2	653.4	673.3
constant prices	1,123.6	1,132.4	1,115.0	1,158.1	1,187.0	1,214.5	1,230.8	580.3	577.0	598.7
Ratio (%) of private consumption to GDP at m.p.	65.9	67.0	63.4	64.7	66.6	65.9	64.5	65.7	63.5	61.7
Gross Fixed Capital Formation										
current market prices	391.3	357.4	298.5	369.8	371.3	395.7	418.6	201.4	263.3	248.2
constant prices	391.3	345.0	277.7	341.8	339.9	356.5	364.5	176.2	184.4	173.3
Ratio (%) fixed investment to GDP at m.p.	22.9	20.6	16.3	19.6	19.4	19.4	19.4	20.8	25.6	22.7

⁽¹⁾ including NPISH final consumption expenditure

Source: National Statistics Office

Table V

Labour

	1999	2000	2001	2002	2003	2004	2005	2006	2005 Jun	2006 Jun	2007 Jun
Labour Supply	142,489	143,947	145,095	145,104	145,086	145,496	145,279	145,827	145,329	146,541	146,404
Gainfully Occupied	134,193	136,759	137,662	137,588	136,911	137,393	137,900	138,666	138,399	139,480	140,067
Males	96,607	97,856	98,174	97,834	103,494	96,850	96,702	96,376	97,416	97,509	96,971
Females	37,586	38,903	39,488	39,754	41,592	40,543	41,198	42,290	40,983	41,971	43,096
Private Direct Production	33,559	34,332	34,677	34,451	33,271	33,178	32,784	32,669	33,366	33,167	33,002
of which:											
Construction	6,200	6,710	7,088	7,269	7,145	7,351	7,861	8,097	7,631	8,236	8,394
Manufacturing	24,857	25,093	25,102	24,672	23,558	23,274	22,339	21,988	23,143	22,331	21,985
Others	2,502	2,529	2,487	2,510	2,568	2,553	2,584	2,584	2,592	2,600	2,623
Private Market Services	52,111	53,190	53,322	54,909	55,834	57,542	59,581	62,713	58,878	62,719	64,126
of which:											
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	19,615	19,850	19,721	19,981	20,371	20,841	21,178	21,100	20,902	21,160	21,171
Hotels and Restaurants	8,196	8,420	8,324	8,435	8,514	8,372	8,541	8,525	8,852	8,645	8,463
Transport Storage and Communications	5,742	5,475	5,392	5,843	5,796	6,517	6,684	7,866	6,639	8,175	7,919
Financial Intermediation	4,713	4,702	4,643	4,557	4,560	4,515	4,606	4,734	4,565	4,693	4,629
Others	13,845	14,743	15,242	16,093	16,593	17,297	18,572	20,468	17,900	20,046	21,744
Public Sector	47,455	48,031	48,487	47,154	46,826	45,747	44,970	42,827	45,288	43,070	42,489
of which:											
Government Departments	32,097	32,142	32,379	31,921	31,960	31,564	30,969	30,532	31,106	30,658	30,377
Independent Statutory Bodies	8,165	8,173	8,333	7,975	8,562	8,699	8,686	8,917	8,662	8,821	8,920
Companies with Public Sector majority shld of which:	7,193	7,716	7,775	7,258	6,284	5,484	5,315	3,378	5,500	3,591	3,192
Direct Production	1,124	1,097	1,084	960	260	246	221	150	239	152	139
Market Services	6,069	6,619	6,691	6,298	6,024	5,238	5,094	3,228	5,261	3,439	3,053
Temporary Employment	1,068	1,206	1,176	1,074	980	926	965	457	867	524	450
Registered Unemployed*	8,306	7,188	7,433	7,516	8,175	8,103	7,379	7,161	6,930	7,061	6,337
Males	7,090	6,142	6,161	6,174	6,606	6,511	5,715	5,544	5,504	5,512	4,974
Females	1,216	1,046	1,272	1,342	1,569	1,592	1,664	1,617	1,426	1,549	1,363
Per cent of Labour Supply	5.8%	5.0%	5.1%	5.2%	5.6%	5.6%	5.1%	4.9%	4.8%	4.8%	4.3%
of which unemployment under Part I (%)	5.4%	4.6%	4.7%	4.7%	5.2%	5.1%	4.6%	4.4%	4.3%	4.5%	3.9%
Self Employed	15,862	15,569	15,469	15,674	15,860	16,163	16,328	16,420	16,319	16,509	16,632

Note: Employment data has been revised

* Includes both Part I and II of the registered unemployed

Source: Employment and Training Corporation

Tourism

Table VI

	1999	2000	2001	2002	2003	2004	2005	2006	2005 Jan-Aug	2006 Jan-Aug	2007 Jan-Aug
Tourist Arrivals/Departures⁽¹⁾⁽²⁾ (000's)	1,214.2	1,215.7	1,180.8	1,132.3	1,118.2	1,157.7	1,170.6	1,124.2	797.6	767.8	825.9
of which from:											
United Kingdom	422.4	428.8	466.8	467.4	473.1	453.0	482.6	431.3	322.0	292.1	314.9
Italy	92.7	95.3	95.3	88.2	92.7	102.6	92.4	112.5	72.1	85.0	85.4
Germany	212.4	204.7	166.4	148.5	125.4	135.2	138.2	125.8	86.1	79.7	78.3
Libya	45.0	43.3	32.4	25.0	17.5	12.8	10.7	7.8	7.8	6.2	6.7
Scandinavian Countries	50.6	52.1	50.4	40.0	47.0	68.9	72.6	71.2	47.3	47.0	56.1
Other	391.1	394.3	369.5	363.2	362.5	385.2	374.1	374.2	262.3	257.8	284.5
Cruise Passengers (000's)	187.8	170.8	259.4	341.6	383.6	285.0	312.3	392.9	177.4	233.3	295.2
Gross Income (Lm million)	267.0	285.4	253.0	263.6	272.2	266.6	262.3	260.6	101.2 ⁽³⁾	101.5 ⁽³⁾	108.7 ⁽³⁾
as ratio (%) of exports of goods and services	20.7	18.2	17.8	17.0	17.9	17.5	16.5	13.8	13.8 ⁽³⁾	11.7 ⁽³⁾	12.2 ⁽³⁾
Total Sector Employment in Hotels and Restaurants	8,549	8,758	8,625	8,749	8,826	8,661	8,809	8,755	9,131 ⁽⁴⁾	8,885 ⁽⁴⁾	8,578 ⁽⁴⁾
% of Gainfully Occupied	6.4	6.4	6.3	6.4	6.4	6.3	6.4	6.3	6.3 ⁽⁴⁾	6.4 ⁽⁴⁾	6.1 ⁽⁴⁾
Travel Abroad (000's)	175.8	194.8	164.9	156.7	174.4	220.2	224.9	257.2	156.7	167.9	188.2
Estimated Expenditure (Lm million)	80.1	88.0	81.2	66.4	80.9	88.1	92.9	108.6	39.0 ⁽⁵⁾	41.4 ⁽⁵⁾	46.8 ⁽⁵⁾
Days Stayed / Nights Spent⁽⁶⁾ (000's)	11,658	10,287	11,067	10,599	11,293	11,175	11,085	10,656	7,726	7,527	7,527
% of which spent in :											
5 star	6.2	8.6	8.2	8.5	8.4	9.4	10.6	11.8	9.9	11.0	13.7
4 star	26.1	23.8	26.2	29.6	27.9	32.7	34.0	35.3	33.1	34.4	33.4
3 star	12.9	12.5	14.8	16.4	15.6	18.0	19.7	16.6	19.9	17.5	15.1
2 star	2.5	2.1	1.8	1.7	1.8	1.3	0.9	1.9	0.9	1.7	2.2
1 star	0.1	0.1	-	-	-	-	-	-	-	-	-
Unclassified	0.7	0.4	0.2	0.1	0.2	0.1	0.1	-	0.1	0.1	-
Guest Houses	0.6	0.6	0.6	0.5	0.6	0.7	0.8	0.5	1.0	0.5	-
Flats/Private Residences	29.4	31.7	32.4	33.8	33.1	29.7	26.9	27.2	27.8	27.9	28.3
Complexes/Tourist Village/Aparthotels	21.5	20.4	15.8	9.4	12.6	8.1	7.0	6.7	7.3	6.9	6.8

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

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

⁽³⁾Data for January-June period

⁽⁴⁾Data as at end of June

⁽⁵⁾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

	Lm million																	
	1999		2000		2001		2002		2003		2004		2005		2006		2007	
	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	Jan-Jul	
Imports and Exports																		
Imports (Gf)	1,135.8	1,492.4	1,225.2	1,227.5	1,281.2	1,305.4	1,324.2	1,456.0	741.3	857.7	830.9							
Consumer goods	276.8	304.2	304.3	319.7	336.6	365.2	390.8	402.6	217.6	233.1	241.0							
Industrial supplies	690.9	950.1	720.4	707.7	794.0	703.9	704.6	810.2	390.6	468.9	464.6							
Capital goods and others	168.0	236.0	200.5	200.0	210.7	236.3	228.8	243.2	133.1	155.7	125.3							
Total Exports	791.0	1,072.4	880.7	968.4	928.3	905.5	840.2	951.5	461.5	523.5	554.6							
of which manufactures	779.6	1,065.7	871.3	887.1	911.3	882.2	814.9	918.5	457.3	519.1	551.1							
Trade Gap	-344.8	-420.0	-344.5	-259.1	-352.9	-399.9	-484.0	-504.5	-279.8	-334.2	-276.3							
as % of GDP at current market prices	-22.1	-24.6	-19.9	-14.1	-18.7	-20.8	-23.8	-23.4	-28.8*	-27.7*	-19.9*							
Selected Groupings																		
EU																		
Imports	750.5	902.8	788.5	833.3	877.0	948.4	958.8	998.5	533.2	596.6	580.4							
Exports	388.1	364.3	483.9	440.8	430.1	435.5	430.4	478.7	244.0	278.6	283.2							
United Kingdom:																		
Imports	123.8	119.7	123.1	127.7	118.6	157.5	144.1	147.2	81.6	81.5	109.3							
Exports	73.2	78.0	76.2	112.2	109.0	103.0	92.5	91.1	56.1	56.0	58.6							
Italy:																		
Imports	189.9	249.7	243.5	271.7	294.4	330.7	410.4	412.4	214.2	254.1	218.9							
Exports	39.0	36.1	30.2	32.7	31.5	27.8	43.1	34.9	18.8	20.7	23.4							
Germany																		
Imports	113.6	122.1	107.4	98.5	101.0	113.9	107.0	112.3	64.3	66.9	69.3							
Exports	99.4	102.9	114.8	93.6	95.2	98.0	101.2	121.3	57.2	67.5	78.2							
France:																		
Imports	217.1	281.9	184.1	205.1	218.9	175.0	125.0	137.9	72.9	77.4	72.0							
Exports	120.4	85.9	140.2	120.0	120.2	140.6	121.8	142.5	69.5	60.0	66.3							
America:																		
Imports	104.8	171.1	157.4	127.4	115.9	84.9	81.4	93.8	39.4	59.1	53.6							
Exports	172.7	306.7	178.3	163.7	143.2	150.7	129.5	128.3	77.1	73.8	68.9							
Africa:																		
Imports	32.1	24.0	28.6	17.3	10.8	25.7	53.8	21.6	35.4	16.9	5.6							
Exports	26.9	24.9	33.0	44.8	35.1	46.9	61.5	51.7	32.4	27.6	35.0							
Asia:																		
Imports	205.2	343.8	197.3	185.0	210.2	196.6	179.3	272.7	104.1	137.0	153.5							
Exports	164.8	246.8	174.2	247.7	255.2	233.7	198.0	269.1	98.4	130.1	153.1							

*Data for January - June.

Source: National Statistics Office

Balance of Payments

Table VIII

	1999	2000	2001	2002	2003	2004	2005	2006	2005	2006	2007
									Jan-Jun	Jan-Jun	Jan-Jun
Goods Balance⁽¹⁾ (Lm million)	-265.2	-331.0	-248.5	-147.5	-242.6	-303.1	-384.2	-408.4	-184.0	-235.9	-167.9
Imports (f.o.b.) (Lm million)	1,070.3	1,418.7	1,158.5	1,217.6	1,240.6	1,410.7	1,276.8	1,410.7	606.6	708.1	657.9
Exports (f.o.b.) (Lm million)	805.0	1,087.7	909.9	1,011.8	975.0	937.5	892.5	1,002.3	422.6	473.2	490.0
Services-Net (Lm million)	182.8	149.3	166.7	191.6	210.2	228.4	275.0	324.9	115.4	139.7	124.4
Transport-net (Lm million)	0.5	-8.4	4.6	-6.1	-9.4	32.1	24.6	33.4	16.0	15.0	20.3
Travel-net (Lm million)	186.9	170.5	171.7	197.2	191.2	178.5	169.4	152.0	62.2	60.1	61.9
Other Services-net (Lm million)	-4.5	-12.8	-9.7	0.5	28.4	17.8	80.9	139.5	37.2	64.6	42.2
Income-Net (Lm million)	15.5	-43.5	17.6	11.9	-9.6	-17.1	-84.9	-58.8	-38.0	-32.7	-38.2
Compensation of Employees-net (Lm million)	3.0	-3.9	2.5	5.6	5.6	5.8	4.1	3.2	2.1	1.8	1.7
Investment Income-net (Lm million)	12.4	-47.4	15.1	6.3	-15.2	-22.9	-89.0	-62.0	-40.1	-34.5	-39.8
Current Transfers-Net (Lm million)	12.9	11.7	-2.4	-11.0	-16.7	-24.2	15.4	-2.3	2.0	17.5	0.4
General Government-net (Lm million)	-3.5	0.3	3.6	3.2	8.9	3.0	9.3	17.0	-3.0	24.2	13.4
Private-net (Lm million)	16.4	11.3	-6.0	-14.1	-25.6	-27.2	6.1	-19.3	5.0	-6.7	-13.1
Current A/C-Net (Lm million)	-54.0	-213.5	-66.7	45.0	-58.6	-115.9	-178.7	-144.6	-104.6	-111.4	-81.2
Goods Balance ⁽¹⁾ as % of GDP at m.p.	-17.0	-19.4	-14.3	-8.0	-12.9	-15.8	-18.9	-18.9	-19.0	-22.9	-15.4
Invisible Balance as % of GDP at m.p.	11.7	8.8	9.6	10.4	11.2	11.9	13.5	15.1	11.9	13.6	11.4
Investment Income as % of GDP at m.p.	1.0	-2.6	1.0	0.7	-0.5	-0.9	-4.2	-2.7	-3.9	-3.2	-3.5
Current a/c Balance as % of GDP at m.p.	-3.5	-12.5	-3.8	2.5	-3.1	-6.0	-8.8	-6.7	-10.8	-10.8	-7.4
Capital A/C-Net (Lm million)	10.4	8.3	0.7	2.9	6.6	28.6	66.8	64.5	31.0	23.5	2.2
Financial A/C-Net (Lm million)	78.0	198.6	-51.0	-21.6	41.2	61.4	124.7	119.5	162.0	93.8	46.5
Direct Investment-net (Lm million)	321.7	261.7	108.7	-179.0	157.9	133.8	236.4	608.7	148.6	424.0	117.5
Portfolio Investment-net (Lm million)	-201.5	-324.9	-220.1	-159.4	-598.8	-721.7	-917.6	-832.5	-44.2	-839.0	-246.4
Financial Derivatives-net (Lm million)	-	-	-	-	9.0	-6.1	-7.9	-92.6	-7.0	-88.5	12.9
Other Investment-net (Lm million)	54.2	164.2	175.8	438.6	527.8	586.1	894.3	491.5	11.7	632.7	69.7
Reserve Assets (Lm million)	-96.3	97.6	-115.3	-121.8	-54.7	69.2	-80.6	-35.7	53.0	-15.3	94.8

⁽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.

Source: National Statistics Office

Government Revenue and Expenditure

Table IX

	1998	1999	2000	2001	2002	2003	2004	2005	2005 Jan-Sep	2006 Jan-Sep	2007 Jan-Sep
Government Recurrent Revenue (Lm million)	513.7	562.3	617.7	668.6	719.8	739.2	813.0	896.4	606.9	629.9	645.7
Increase/(Decrease) % per annum	-0.1	9.5	9.8	8.2	7.7	2.7	10.0	10.3	12.8	3.8	2.5
of which:											
Tax Revenue (Lm million)	432.2	481.0	541.2	593.7	634.7	668.3	702.0	740.3	500.0	537.3	569.0
Direct Tax Revenue (Lm million)	246.2	272.6	311.5	345.4	371.3	393.6	400.8	417.3	265.7	287.5	312.6
Indirect Tax Revenue (Lm million)	186.0	208.4	229.7	248.4	263.4	274.6	301.2	323.0	234.3	249.8	256.4
Non-Tax Revenue (Lm million)	81.5	81.3	76.5	74.9	85.1	70.9	111.0	156.1	106.9	92.5	76.7
Total Government Expenditure (Lm million)	653.7	676.2	702.8	753.9	807.5	844.7	907.0	971.7	692.3	702.7	719.0
Increase/(Decrease) % per annum	3.3	3.4	3.9	7.3	7.1	4.6	7.4	7.1	6.8	1.5	2.3
of which:											
Recurrent Expenditure (Lm million)	516.4	520.0	549.8	614.6	646.0	677.7	732.8	766.0	543.5	560.1	582.7
Capital Expenditure (Lm million)	96.8	106.1	98.6	80.6	97.7	104.0	104.6	131.0	93.1	79.7	73.3
% of Total Government Expenditure	14.8	15.7	14.0	10.7	12.1	12.3	11.5	13.5	13.4	11.3	10.2
Interest on Public Debt (Lm million)	40.5	50.1	54.4	58.7	63.8	63.0	69.6	74.8	55.8	62.9	63.0
Structural Deficit (Lm million)	-140.0	-113.9	-85.1	-85.3	-87.7	-105.5	-94.0	-75.3	-85.4	-72.9	-73.3
Financed by:											
Extraordinary Receipts (Lm million)	35.4	75.5	24.7	22.0	40.6	2.1	8.9	25.6	4.9	79.5	1.4
Receipts from sale of shares (Lm million)	35.4	73.3	12.0	0.0	27.3	0.0	0.0	21.8	1.1	74.2	0.0
Sinking Funds of Converted Loans (Lm million)	0.0	2.2	12.7	22.0	13.3	2.1	8.9	3.8	3.8	5.3	1.4
Sinking Fund Contribution & Direct Loan Repayment (Lm million)	-12.2	-14.7	-13.4	-12.7	-11.8	-12.7	-26.9	-13.8	-6.0	-6.7	-4.7
Public Sector Borrowing Requirement (Lm million)	-116.8	-53.1	-73.8	-76.0	-58.9	-116.1	-112.0	-63.5	-86.5	—	-76.6
Loans (Lm million)	110.0	84.0	0.0	106.8	10.6	132.1	99.9	110.0	110.0	10.0	28.9

Source: The Treasury/Ministry of Finance

Monetary Aggregates and Their Counterparts*

Table X

	2000	2001	2002	2003	2004	2005	2006	2005	2006	2007
								Aug		Aug
Broad Money (M3) (Lm million)	2,256.3	2,481.1	2,781.5	2,849.2	2,918.3	3,041.6	3,199.0	2,988.6	3,140.7	3,509.4
Intermediate Money (M2)	2,256.3	2,481.1	2,781.5	2,849.2	2,918.3	3,041.6	3,199.0	2,988.6	3,140.7	3,509.4
% Increase per annum	...	10.0	12.1	2.4	2.4	4.2	5.2	2.4	5.1	11.7
of which:										
Narrow Money (M1)	1,201.6	1,282.9	1,367.4	1,490.9	1,580.9	1,670.1	1,656.8	1,634.7	1,664.6	1,628.3
Currency in Circulation	396.3	418.9	436.8	460.4	486.0	498.9	477.8	497.8	487.4	382.2
% Increase/ (Decrease) per annum	...	5.7	4.3	5.4	5.6	2.7	-4.2	2.4	-2.1	-21.6
Deposits withdrawals on demand	805.3	864.0	930.5	1,030.5	1,094.9	1,171.1	1,179.1	1,136.9	1,177.2	1,246.0
Deposits redeemable at notice up to 3 months	24.7	26.3	27.9	28.8	30.0	31.4	30.8	30.3	31.1	38.2
Deposits with agreed maturity up to 2 years	1,030.0	1,171.9	1,386.2	1,329.5	1,307.3	1,340.1	1,511.4	1,323.6	1,445.0	1,842.9
Domestic Credit	2,180.0	2,324.1	2,401.4	2,467.4	2,603.1	2,636.7	2,878.9	2,606.9	2,723.4	3,082.5
of which:										
Net Claims of Central Government	446.4	512.0	539.5	568.4	545.1	442.7	365.0	519.4	359.4	446.8
Claims on other residents	1,733.5	1,812.1	1,862.0	1,899.0	2,058.0	2,194.0	2,513.9	2,087.5	2,364.0	2,635.7
Net Foreign Assets	979.5	1,089.6	1,301.3	1,598.3	1,625.7	1,809.5	2,062.7	1,696.0	2,049.9	2,223.9
Increase/(Decrease) % per annum	...	11.2	19.4	22.8	1.7	11.3	14.0	4.3	20.9	8.5
of which:										
Central Bank of Malta	649.3	766.5	881.6	919.8	870.3	932.6	950.8	893.0	961.6	868.5
Other Monetary Financial Institutions	330.3	323.1	419.7	678.5	755.4	876.9	1,111.9	803.0	1,088.3	1,355.4
Other Counterparts to Broad Money	903.2	932.6	921.3	1,216.5	1,310.6	1,404.6	1,742.6	1,314.3	1,632.6	1,797.0

* 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