

2. Economic Growth

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During the first nine months of 2004 the Maltese economy expanded in nominal terms by 2.1 per cent. This corresponds to a real rate of growth of the Gross Domestic Product (GDP) of 0.6 per cent. A negative rate of growth in GDP during the second quarter of 2004, was counteracted by a significant increase in nominal terms in the first quarter of the year and another increase in the third quarter which however was of a smaller magnitude. In real terms, during the first three quarters of 2004, improvements were recorded within private and general Government final consumption expenditure, whilst a marginal increase was recorded in gross fixed capital formation. An advance was also registered in exports of goods and services in real terms, but the significant increase in imports of goods and services served to dampen the positive impact of the increase in exports on GDP growth.

National accounts data presented in this Chapter are based on the European System of Accounts (ESA95) methodology. This internationally compatible accounting framework provides for a systematic and detailed description of the total economy, its components and its relations with other economies. The level of GDP has changed due to the adoption of the new methodology which encapsulates previously unrecorded items of economic activity. The base year for GDP has also been changed from the previous 1995 base to the year 2000. Thus, data provided in this Chapter is not directly comparable to data published in previous Economic Surveys. In particular, the comparison of previously published growth rates with the new rates of growth based on ESA95 methodology should be dealt with caution.

National Expenditure

During the first three quarters of 2004, nominal GDP at market prices advanced by Lm28.5 million, or 2.1 per cent to Lm1,404.0 million. In real terms, GDP increased by 0.6 per cent, to reach Lm1,258.1 million. Real GDP per capita stood at Lm3,130.2, practically maintaining the same level as that recorded during the first nine months of 2003. Chart 2.1 illustrates real GDP per capita covering the period 2000 to September 2004. Table 2.1 provides information on GDP by category of expenditure at current and constant market prices, whilst the relevant percentage changes are presented in Table 2.2 to facilitate the analysis.

Box 2.1

Gross Domestic Product based on the European System of Accounts (ESA95)

Malta's National Statistics Office (NSO) issued its first estimates of GDP at market prices computed using the European System of National and Regional Accounts (ESA95) in December 2003. ESA95 is not conceptually different from SNA93 but is more focused on the circumstances and data needs of the EU. Eurostat describes its ESA95 methodology as 'an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is a region, country or group of countries), its components, and its relations with other total economies'. The NSO has been compiling national accounts data since 1954 and the system used until last year was the United Nation's System of National Accounts (SNA) 1953, which was revised in 1968 and 1993. The implementation of this new system of accounts involved a major change of the existing national accounts framework. In particular, the NSO, besides its own censuses and surveys, is now using broad and exhaustive databases as a base for its calculations, including those of the Employment and Training Corporation, the registry of companies, the Government's departmental accounting system (DAS) and the VAT office. Furthermore, 'new' nomenclatures and classifications were introduced, such as NACE, COICOP, COFOG, COPNI and CPA.

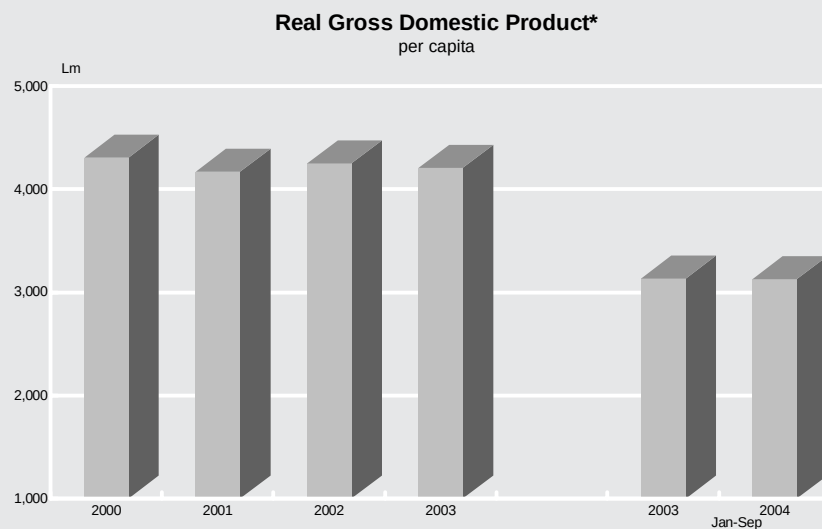
Following the introduction of the ESA95 methodology, Maltese national accounts are today published using three different approaches. The Production approach, published for the first time, under the ESA95 methodology, estimates GDP by looking at the contribution to production of economic units, that is the value of their total output less the value of the inputs used up in the production process. This account is drawn up for industries (NACE A60) and its resources include output whilst its uses include intermediate consumption. An important aggregate derived from this account is Gross Value Added (at basic prices), and this item measures the value generated by any unit engaged in a production process.

The Generation of Income account adds up all income earned by resident individuals or corporations in the production of goods and services. This account analyses the extent to which value added can cover compensation of employees, the self-employed, general Government and producing enterprises and other taxes less subsidies on production. This serves to indicate whether the production process results in any operating surplus.

The Expenditure approach measures total expenditure on final goods and services produced in the domestic economy. This is obtained by adding final consumption expenditure on goods and services by households, non-profit institutions serving households (NPISH) and general Government, gross capital formation and net exports of goods and services.

The change to the ESA95 system has resulted in an upward revision of Malta's nominal GDP of about 7 per cent when compared to the former method of calculating GDP. The release of ESA95 GDP data provides more statistical information on the various economic activities which comprise the Maltese economy, and so should constitute an improved statistical tool for analysts and policymakers to better understand and assess the performance of the Maltese economy. Furthermore, national accounts data for Malta is now comparable with that published by other EU Member States, thus facilitating the analysis of cross-country comparisons.

Chart 2.1



*Based on total population

Table 2.1 GDP by Category of Expenditure

	Lm million				
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
At Current Market Prices					
Private Final Consumption Expenditure ⁽¹⁾	1,090.1	1,096.9	1,122.9	833.8	869.8
General Government Final Consumption Expenditure	354.0	372.9	388.0	293.7	309.0
Gross Fixed Capital Formation	360.5	263.6	375.0	283.3	287.7
Changes in Inventories	4.4	8.7	52.5	40.5	30.0
Acquisitions less Disposals of Valuables	7.0	6.2	6.0	4.5	4.5
Exports of Goods and Services	1,399.1	1,492.6	1,420.5	1,058.9	1,055.6
Total Final Expenditure	3,215.1	3,240.9	3,364.9	2,514.7	2,556.6
Less Imports of Goods and Services	1,487.6	1,473.6	1,518.8	1,139.1	1,152.7
Gross Domestic Product	1,727.6	1,767.3	1,846.1	1,375.5	1,404.0
At Constant 2000 Prices					
Private Final Consumption Expenditure ⁽¹⁾	1,056.8	1,052.2	1,069.4	796.2	805.6
General Government Final Consumption Expenditure	324.1	336.4	341.8	259.1	264.7
Gross Fixed Capital Formation	347.5	244.8	346.0	261.3	262.9
Changes in Inventories	4.5	8.1	48.3	37.3	27.1
Acquisitions less Disposals of Valuables	6.8	5.8	5.5	4.2	4.1
Exports of Goods and Services	1,495.0	1,593.2	1,533.1	1,140.7	1,181.4
Total Final Expenditure	3,234.7	3,240.5	3,344.1	2,498.8	2,545.8
Less Imports of Goods and Services	1,590.4	1,552.6	1,662.1	1,248.2	1,287.7
Gross Domestic Product	1,644.4	1,687.8	1,682.0	1,250.6	1,258.1

⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

GDP by Category of Expenditure
Percentage Changes

Table 2.2

	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
At Current Market Prices					
Private Final Consumption Expenditure ⁽¹⁾	2.3	0.6	2.4	1.0	4.3
General Government Final Consumption Expenditure	9.6	5.3	4.0	4.0	5.2
Gross Fixed Capital Formation	-5.0	-26.9	42.3	53.9	1.6
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-11.0	6.7	-4.8	-5.2	-0.3
Total Final Expenditure	-6.1	0.8	3.8	4.2	1.7
Less Imports of Goods and Services	-14.5	-0.9	3.1	4.6	1.2
Gross Domestic Product	2.5	2.3	4.5	3.9	2.1
At Constant 2000 Prices					
Private Final Consumption Expenditure ⁽¹⁾	-0.8	-0.4	1.6	0.2	1.2
General Government Final Consumption Expenditure	0.3	3.8	1.6	1.6	2.2
Gross Fixed Capital Formation	-8.5	-29.6	41.3	52.2	0.6
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	-4.9	6.6	-3.8	-4.4	3.6
Total Final Expenditure	-5.6	0.2	3.2	3.3	1.9
Less Imports of Goods and Services	-8.6	-2.4	7.1	8.6	3.2
Gross Domestic Product	-2.4	2.6	-0.3	-1.4	0.6

⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

Following the positive performance recorded in the year 2000, the Maltese economy has generally fared quite weakly. Indeed, although the negative growth rate of 2.4 per cent, was reversed in 2002, when the economy advanced by 2.6 per cent in real terms, GDP fell again in 2003 by a marginal 0.3 per cent. Given the high degree of openness of the Maltese economy, the unfavourable international economic environment persisting since 2001, has significantly impinged on the performance of the local economy. However, the constraints on local economic growth are not only international as there are also domestic structural weaknesses, and in particular competitiveness issues, which are also hampering growth in the Maltese economy.

Private Final Consumption Expenditure

This category of expenditure comprises household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption

expenditure. The latter comprises the expenditure by non-profit institutes such as universities, charities and trade unions. During the Survey period, private final consumption expenditure advanced by 4.3 per cent in nominal terms compared to a growth rate of 1.0 per cent recorded for the January-September 2003 period. In real terms, this category of private final consumption increased by a lower 1.2 per cent, reflecting the increase in average consumer prices registered during the period under review. The NPISH final consumption expenditure category registered a slight decrease of around 0.7 per cent in nominal terms when compared to the corresponding January-September period of 2003. The increase registered in nominal consumption during the first nine months of 2004 was larger than that recorded for nominal GDP and thus as a result the share of this component to GDP rose from 60.6 per cent to 62.0 per cent.

The increase recorded in private consumers' expenditure during the Survey period was broadly based among most of the components included in this category of expenditure. In particular, significant increases, in nominal terms, were registered in expenditure outlays on health, recreation and culture and clothing and footwear. Increases were recorded in all other components of private consumption expenditure, with the exception of the restaurants and hotels category where a minimal decline was registered.

Expenditure by Maltese tourists abroad, which is also included in private consumers' expenditure decreased by 0.7 per cent during the Survey period to reach Lm33.4 million. Expenditure by foreign tourists in Malta increased from Lm196.7 million to Lm203.5 million during the January-September 2004 period, representing a rise of 3.4 per cent. Since expenditure by foreign tourists is included in exports of goods and services, spending by foreign tourists in Malta is deducted from the computation of private final consumption expenditure, so as to avoid double counting in the computation of GDP.

Movements in disposable income are a prime determinant of changes in private final consumption expenditure. This measure of income increased by Lm7.2 million or 0.8 per cent to reach Lm890.9 million. The growth registered in household disposable income was lower than that registered for private final consumption expenditure. As a result, the savings ratio stood at 2.4 per cent during the Survey period compared to 5.7 per cent during the corresponding 2003 period.

Table 2.3 provides information in per capita terms on Gross National Income (GNI), private final consumption expenditure and expenditure by tourists in

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

Table 2.3

	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
Per Capita (Lm)					
GNI*	4,406	4,455	4,655	3,523	3,420
Private Final Consumption Expenditure*	2,762	2,761	2,808	2,089	2,164
Expenditure by Tourists	220.8	217.0	233.8	218.8	221.3
Per Capita (% change)					
GNI*	5.7	1.1	4.5	3.1	-2.9
Private Final Consumption Expenditure*	1.5	—	1.7	0.4	3.6
Expenditure by Tourists	...	-1.7	7.7	6.3	1.1

*Based on total population

Source: National Statistics Office

nominal terms. Improvements of 3.6 per cent and 1.1 per cent were recorded in private final consumption expenditure per head and in per capita expenditure by tourists, respectively. On the other hand, a decline of 2.9 per cent was registered in GNI per capita during the first three quarters of 2004.

General Government Final Consumption Expenditure

General Government final consumption expenditure includes expenditure by the central Government and the local councils. During the first nine months of 2004, final consumption expenditure by general Government increased by Lm15.3 million in nominal terms, or 5.2 per cent. In real terms, this component of final expenditure advanced by 2.2 per cent. In nominal terms, increases were recorded in all categories that comprise this item of expenditure. In particular, the increase in expenditure related to health and social protection is notable.

It is important to note that for GDP purposes, general Government final consumption expenditure excludes outlays which finance transfer payments, such as National Insurance benefits, subsidies and grants. Since such items of expenditure do not reflect the production of goods and services, but merely involve the redistribution of funds between different sections of the population, they do not contribute to the generation of domestic economic activity and hence should not be included in the computation of GDP.

Gross Capital Formation

Within gross capital formation the ESA95 methodology distinguishes between gross fixed capital formation, changes in inventories and acquisitions less disposals of valuables. Changes in inventories covers the change in value of inventories over the period under review. Acquisitions less disposals of valuables essentially relates to goods which are not used in the production process, and which are generally held as a store of value. The main item within the gross capital formation category of expenditure is gross fixed capital formation. During the Survey period, gross fixed capital formation reached Lm287.7 million, representing an increase of Lm4.4 million or 1.6 per cent in nominal terms. In real terms, gross investment registered a marginal improvement of 0.6 per cent. Growth rates for gross fixed capital formation have fluctuated significantly over the recent years, primarily due to significant one-off exceptional transactions which materialised during particular years. In particular, the significant decline in investment figures in 2002 reflect the disposal of aircraft, which amounted to Lm65.4 million in nominal terms. This one-off item included in 2002 figures also explains the notable increase in investment in 2003. For analysis purposes, if this exceptional item is excluded, gross fixed capital formation would have increased by around 14 per cent in nominal terms for the January-September 2003 period.

Data on gross fixed capital formation at current market prices and constant market prices is presented in Table 2.4. The ratio of investment to GDP practically maintained the same level as in the previous January-September comparable

Gross Fixed Capital Formation					
Table 2.4					
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
At Current Market Prices					
Gross Fixed Capital Formation (Lm million)	360.5	263.6	375.0	283.3	287.7
% change	-5.0	-26.9	42.3	53.9	1.6
GDP (Lm million)	1,727.6	1,767.3	1,846.1	1,375.5	1,404.0
(GFCF/GDP) %	20.9	14.9	20.3	20.6	20.5
At Constant 2000 Prices					
Gross Fixed Capital Formation (Lm million)	347.5	244.8	346.0	261.3	262.9
% change	-8.5	-29.6	41.3	52.2	0.6
GDP (Lm million)	1,644.4	1,687.8	1,682.0	1,250.6	1,258.1
(GFCF/GDP) %	21.1	14.5	20.6	20.9	20.9
Source: National Statistics Office					

period, amounting to 20.5 per cent in nominal terms and 20.9 per cent in real terms.

Gross fixed capital formation is subdivided into three main categories: metal products and machinery, transport equipment category, construction category and other products category. Reductions were recorded in the metal products and machinery, transport equipment and in the construction categories of investments. These decreases were though more than offset by increases within the other products category of gross fixed capital formation. A further subdivision of gross fixed capital formation shows that investment undertaken by the private sector during the Survey period, increased by 6.9 per cent in nominal terms. On the other hand, a significant decrease was recorded in investment undertaken by Government, falling by 14.8 per cent when compared to the nine months ending September 2003. This primarily reflects lower capital outlays on social development and productive investment which more than offset the increase in expenditure on infrastructural facilities.

Foreign Demand and Supply

Of significant importance to the performance of the Maltese economy is its external sector. In recent years, the export-oriented sectors of the economy have been particularly vulnerable to the generally unfavourable international economic environment as well as to the increasingly competitive global scenario. Indeed significant downward pressures have been reported for export and import prices within particular industries of the local manufacturing sector.

During the Survey period, exports of goods and services in nominal terms decreased marginally by Lm3.3 million, or 0.3 per cent. In real terms, exports of goods and services increased by 3.6 per cent as average export prices declined. Exports of goods and services primarily consist of merchandise exports and foreign exchange earnings from tourism. A decrease was recorded in exports of goods of 0.5 per cent, whilst the services component practically maintained the same level as at the January-September 2003 period. The developments in the services component reflect higher foreign exchange earnings from tourism which were offset by lower receipts from other services.

Imports of goods and services in nominal terms advanced by Lm13.6 million, or 1.2 per cent during the January-September 2004 period. In real terms, imports of goods and services rose by 3.2 per cent, being underpinned by lower average import prices. The nominal increase in imports of goods and services was the result of an increase in imports of goods which more than offset the fall in

imports of services. Increases were recorded in imports of consumer goods, fuels and capital goods which more than offset the fall in imports of industrial supplies. The fall recorded in imports of services primarily reflects a deterioration in transportation services partly due to the increase in imports of goods. On the other hand, other services improved whilst payments by Maltese tourists abroad remained practically unchanged.

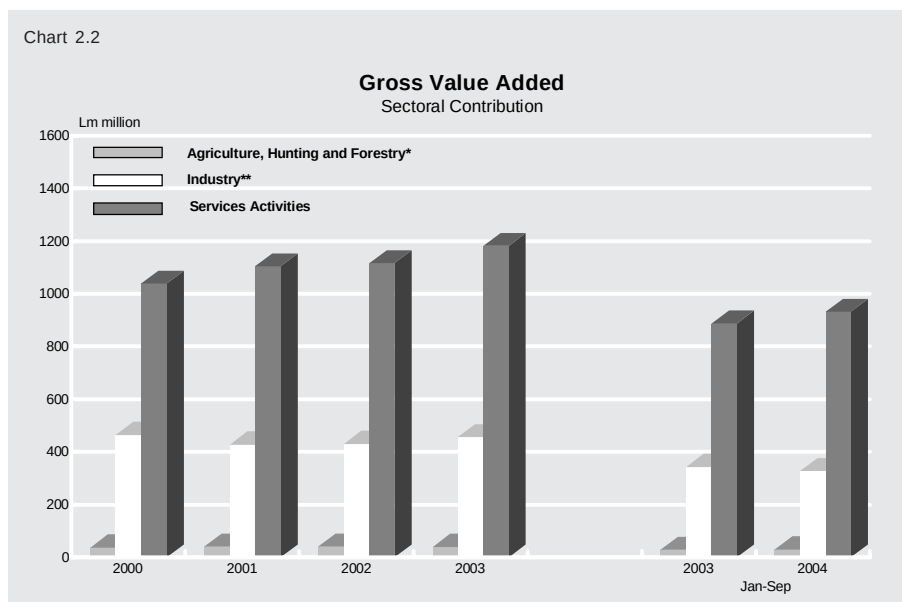
The increase recorded in imports of goods and services and the decrease in receipts with respect to exports of goods and services in nominal terms led to a deterioration in the current account deficit for the January-September 2004 period as compared to the same nine months of 2003.

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 of output over intermediate consumption. On the other hand, 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. It is pertinent to note that GVA of each sector is inclusive of FISIM. The latter stands for financial intermediation services indirectly measured and is subtracted from the sum of value added in the different sectors in order to obtain the GVA at basic prices.

During the first nine months of 2004, GVA at basic prices rose by 1.8 per cent in nominal terms over the same period last year, and stood at Lm1,230.7 million. Economic growth as measured by GVA at basic prices was mainly attributable to financial intermediation, wholesale and retail trade (including repair of motor vehicles, motorcycles and personal and household goods), real estate, renting and business activities, public administration and defence (including compulsory social security), health and social work and education. The growth registered in these sectors as well as minor increases in other sectors offset the decline registered in manufacturing and electricity, gas and water supply sectors.

A better understanding of the developments recorded in GVA at basic prices during the Survey period can be obtained by analysing the sectoral composition of the Maltese economy. Chart 2.2 depicts the sectoral contribution of agriculture, hunting and forestry, industry and services activities to GVA at basic prices.



*Includes fishing and operation of fish hatcheries and fish farms

**Includes energy and construction

Over the period 2000 to 2004, the Maltese economy became more services-oriented and less dependent on industry and agriculture. Services activities, which include wholesale and retail trade (including repair of motor vehicles), hotels and restaurants, transport, storage and communication, financial intermediation, real estate, renting and business activity, public administration and defence (including compulsory social security), education, health and social work and other community, social and personal services, stood at 72.3 per cent of GVA at basic prices during the first nine months of September 2004, up from 70.4 per cent recorded during the same period of 2003. The share of industry - which comprises mining and quarrying, manufacturing, electricity, gas and water supply, and construction - stood at 25.4 per cent. This was 1.9 percentage points below that recorded during the comparable period of 2003. Meanwhile, the share of agriculture, hunting and forestry, which includes also fishing was unchanged from 2.3 per cent recorded during the nine months to September 2003. Table 2.5 presents a sectoral contribution to GVA at basic prices for the 2001 to September 2004 period. For analysis purpose the contribution of each sector to GVA is calculated after adjusting for the FISIM category.

GVA at basic prices in agriculture, hunting and forestry, fishing and operation of fish hatcheries and fish farms increased by Lm1.2 million, to Lm30.1 million during the Survey period. This was mainly due to an increase of Lm0.9 million recorded in the agriculture, hunting and forestry. The fishing sub-sector also

Sectoral Contribution to Gross Value Added
(at basic prices)

Table 2.5

Lm million

	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Agriculture, Hunting and Forestry	27.6	9.0	28.5	8.7	26.4	8.6	27.3
Fishing	2.9	1.1	2.3	1.9	2.5	1.6	2.8
Mining and Quarrying	3.4	1.2	4.0	1.3	4.7	1.4	4.8
Manufacturing	246.3	81.4	243.1	81.5	260.1	88.6	249.5
Electricity, Gas and Water Supply	23.7	4.3	24.4	6.1	21.7	4.7	15.0
Construction	51.0	17.2	52.8	17.4	56.5	18.8	57.6
Wholesale and Retail Trade ⁽¹⁾	126.5	43.7	132.5	44.9	136.5	47.8	143.3
Hotels and Restaurants	87.1	22.9	84.4	24.3	85.4	25.0	86.8
Transport, Storage and Communication	138.6	43.0	118.4	42.0	128.3	39.5	129.5
Financial Intermediation	56.8	21.3	51.5	20.3	60.9	21.7	73.1
Real Estate, Renting and Business Activities	142.8	47.2	150.7	49.1	162.2	54.6	172.1
Public Administration and Defence ⁽²⁾	87.7	29.6	90.3	29.9	94.9	32.5	100.5
Education	76.2	24.9	82.4	26.1	87.1	27.7	90.9
Health and Social Work	62.5	20.9	66.7	22.4	70.0	23.6	74.0
Other Community, Social and Personal Service Activities ⁽³⁾	53.5	18.2	59.8	20.8	61.1	22.5	62.1
Financial Intermediation Services Indirectly Measured (FISIM)	-38.8	-16.1	-38.4	-15.7	-49.0	-19.6	-58.5
Gross Value Added	1,147.8	369.9	1,153.2	380.8	1,209.3	399.1	1,230.7

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

⁽²⁾Includes Compulsary Social Security

⁽³⁾Includes Private Households with Employed Persons

Source: National Statistics Office

registered an increase of Lm0.3 million. GVA at basic prices in the industry category declined by Lm16.1 million or 4.7 per cent reaching Lm326.9 million during January-September 2004. The sectors contributing to this decline were the manufacturing and electricity, gas and water supply sectors. This decline was partly mitigated by increases registered in construction, mining and quarrying. It is pertinent to note that the decline in GVA at basic prices in manufacturing partly reflects the restructuring exercise carried out at the shipyards, in particular lower outlays on employee compensation following lower employment as a result of the implementation of early retirement schemes as well as the transfer of workers to Industrial Projects and Services Ltd (IPSL), which is classified under services activities. During the Survey period, GVA at basic prices in the services activities category, rose by Lm45.9 million or 5.2 per cent over the corresponding 2003 period, reaching Lm932.3 million. All the categories falling

under services activities registered increases in GVA at basic prices with the highest being in financial intermediation, wholesale and retail trade (including repair of motor vehicles, motorcycles and personal and household goods), real estate, renting and business activities and public administration and defence (including compulsory social security).

At Lm27.3 million, GVA at basic prices in agriculture, hunting and forestry advanced by Lm0.9 million or 3.4 per cent reflecting an increase in output of Lm1.7 million which exceeded the rise in intermediate consumption of Lm0.8 million. During the period under review, the contribution of agriculture, hunting and forestry to GVA stood at 2.1 per cent, unchanged from the level recorded during the comparable period of 2003.

GVA at basic prices in manufacturing declined by Lm10.6 million or 4.1 per cent, to Lm249.5 million during the first nine months of 2004. This outcome was due to a fall of Lm17.2 million in manufacturing output which was partly offset by a fall in intermediate consumption amounting to Lm6.7 million. The main sub-sectors that reported declines in GVA at basic prices were the other transport equipment (Lm8.1 million), manufacturing of wearing apparel (including dressing and dyeing of fur) (Lm2.8 million) and manufacturing of food products and beverages (Lm2.3 million). The decline in GVA at basic prices in the other transport equipment sub-sector partly reflects a decline in employee compensation as a result of lower employment following the implementation of reforms at the shipyards. On the other hand, a number of sub-sectors posted higher GVA at basic prices namely in the manufacturing of chemicals and chemical products (Lm2.6 million), manufacture of radio, television and communication equipment and apparatus (Lm1.8 million) and in the manufacture of medical, precision and optical instruments, watches and clocks (Lm1.2 million). The contribution of manufacturing to GVA at basic prices stood at 19.4 per cent, 1.3 percentage points lower than the share recorded during the nine months to September 2003.

GVA at basic prices in construction increased by Lm1.1 million, or 1.9 per cent to Lm57.6 million during the Survey period. This was due to an increase in output by Lm3.7 million, which was partially offset by a Lm2.5 million increase in intermediate consumption. The increase in employment recorded in this sector may have reflected on GVA at basic prices for construction. The contribution of construction to GVA stood at 4.5 per cent, unchanged from the share recorded during first nine months of 2003.

The GVA at basic prices for the wholesale and retail trade sector (including repair and motor vehicles, motorcycles and personal and household goods), rose by Lm6.8 million or 5.0 per cent to Lm143.3 million during the Survey period. This was a result of sectoral output increasing by Lm8.8 million which was partly outweighed by a Lm2.0 million rise in intermediate consumption. Higher employment within this sector may have accounted for this outcome. This sector's contribution to total GVA at basic prices stood at 11.1 per cent, practically unchanged from that recorded during the first nine months of 2003.

During the period under review, output in the hotels and restaurants sector advanced by Lm4.4 million when compared with the same period of 2003. However, intermediate consumption also increased by Lm3.0 million. As a result GVA at basic prices for the hotels and restaurants sector increased by Lm1.4 million or 1.6 per cent, and amounted to Lm86.8 million. The share of this sector in GVA at basic prices stood at 6.7 per cent practically unchanged from the level recorded during the corresponding period of the previous year.

During the Survey period, the financial intermediation sector's output increased by Lm12.8 million compared to a marginal rise of Lm0.5 million in intermediate consumption. Consequently, the sector's GVA at basic prices advanced by Lm12.2 million or 20.0 per cent during the nine months to September 2004, ending the period at a level of Lm73.1 million. All sub-sectors within this sector recorded higher GVA at basic prices with the highest being in respect of financial intermediation services (except insurance and pension funds services) (Lm11.3 million). During the nine months to September 2004, the contribution of financial intermediation to GVA at basic prices stood at 5.7 per cent, up from 4.8 per cent recorded during the comparable period of 2003.

In the first nine months of 2004, output of the real estate, renting and business activities sector was Lm19.1 million higher than that recorded in the same period of 2003. An increase of Lm9.2 million was also registered in intermediate consumption. As a result, GVA at basic prices advanced by Lm9.9 million or 6.1 per cent to Lm172.1 million during the nine months to September 2004. This was mainly due to higher GVA at basic prices recorded in the real estate services (Lm 9.7 million) and computer and related services (Lm0.7 million). On the other hand, GVA at basic prices of the other business services declined marginally (Lm0.6 million). During the first nine months of 2004, the contribution of this sector to GVA at basic prices rose by 0.5 percentage points to 13.3 per cent.

GVA at basic prices within the public administration and defence (including compulsory social security) sector rose by 5.9 per cent or Lm5.6 million to

Lm100.5 million when compared to the same period last year. This increase reflected a rise in output of Lm6.5 million which was partly offset by an increase in intermediate consumption of Lm0.9 million. The increase in GVA at basic prices is partly due to higher compensation of employees following the transfer of employees, previously classified under the other transport sub-sector in manufacturing to IPSL. The share of the public administration and defence sector stood at 7.8 per cent, slightly above the share of 7.5 per cent recorded during January-September 2003.

The GVA at basic prices of the education sector advanced by Lm3.8 million or 4.4 per cent to Lm90.9 million. The increase recorded in this sector was a result of higher output which rose by Lm4.9 million, while intermediate consumption rose by Lm1.1 million. The contribution of education to GVA at basic prices was 7.1 per cent during the first nine months of 2004, practically unchanged from that recorded during January-September 2003.

At Lm74.0 million, GVA at basic prices of the health and social work sector increased by 5.7 per cent or Lm4.0 million when compared to January-September 2003. This was mainly due to an increase in output of Lm6.2 million as intermediate consumption rose by Lm2.3 million during the same period. This sector's contribution to GVA at basic prices rose marginally by 0.2 percentage points to 5.7 per cent at end of the Survey period.

In spite of an increase in output of the other community, social and personal services activities sector by Lm11.1 million, intermediate consumption rose by Lm10.0 million. As a result, GVA at basic prices in the other community, social and personal services activities sector increased by 1.6 per cent or Lm1.0 million during the first nine months of 2004, to Lm 62.1 million. This was underpinned by an increase in recreational, cultural and sporting services (Lm4.0 million) and to a lesser extent by the other services sub-sector (Lm0.4 million). The rise in GVA at basic prices within the recreational, cultural and sporting services sub-sector is mainly due to the improved performance of international internet betting companies located in Malta. On the other hand, the GVA at basic prices of the sewage and refuse disposal services sub-sector declined by Lm3.0 million. Other declines were recorded in the membership organisation services and private households with employed persons. The contribution of this sector to GVA at basic prices stood at 4.8 per cent, practically unchanged from the share recorded during the comparable period of 2003.

Gross National Income

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

During the nine months to September 2004, GNI at market prices declined by Lm31.6 million or 2.2 per cent to Lm1,374.7 million. This decline was mainly due to lower net property income received from the rest of the world, since GDP at market prices increased by 2.1 per cent during the same period. Table 2.6 provides information on the components of GNI at market prices during the 2001-2004 period.

During the January-September 2004 period, compensation of employees rose by 1.1 per cent or Lm7.0 million to Lm647.4 million, when compared to the same period of 2003. This increase partly reflects the higher gainfully occupied population recorded during the twelve months ending September 2004. The contribution of compensation of employees to GDP at market prices stood at 46.1 per cent during the first nine months of 2004, slightly below the share

Gross National Income							
Table 2.6	Lm million						
	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Compensation of employees	609.6	201.6	616.6	207.0	640.4	213.7	647.4
Gross operating surplus and mixed income	537.9	176.0	549.1	182.0	584.9	189.6	584.6
Taxes on production and imports	160.2	69.6	183.0	66.9	179.6	77.5	195.7
Less Subsidies	14.4	13.0	24.5	12.8	29.4	10.3	23.8
Gross Domestic Product at current market prices	1,293.3	434.2	1,324.2	443.1	1,375.5	470.6	1,404.0
Net compensation of employees from the rest of the world	-0.5	-0.2	0.1	-0.1	1.3	0.2	0.8
Subsidies less Taxes on products from/to the rest of the EU	0.0	0.0	0.0	0.0	0.0	0.0	-3.6
Net property income from the rest of the world	16.2	-4.4	30.6	-28.0	29.4	-15.5	-26.4
Gross National Income at current market prices	1,309.1	429.6	1,354.8	415.0	1,406.3	455.2	1,374.7
Source: National Statistics Office							

Chart 2.3

Compensation of Employees and GDP

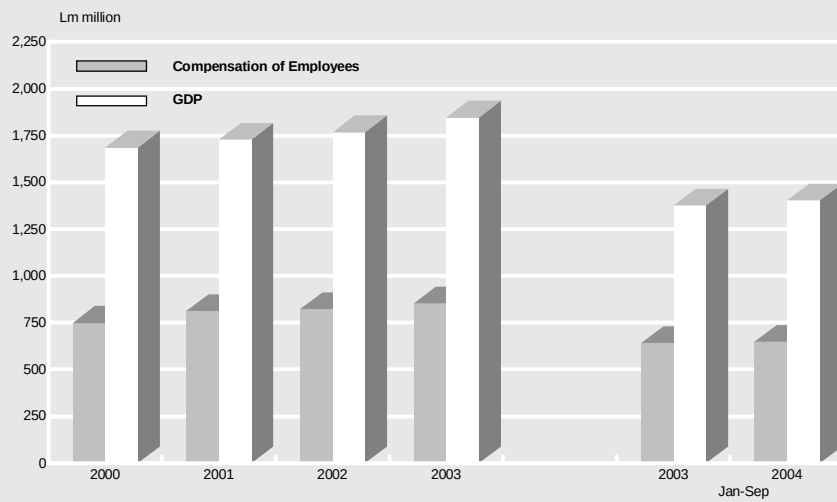
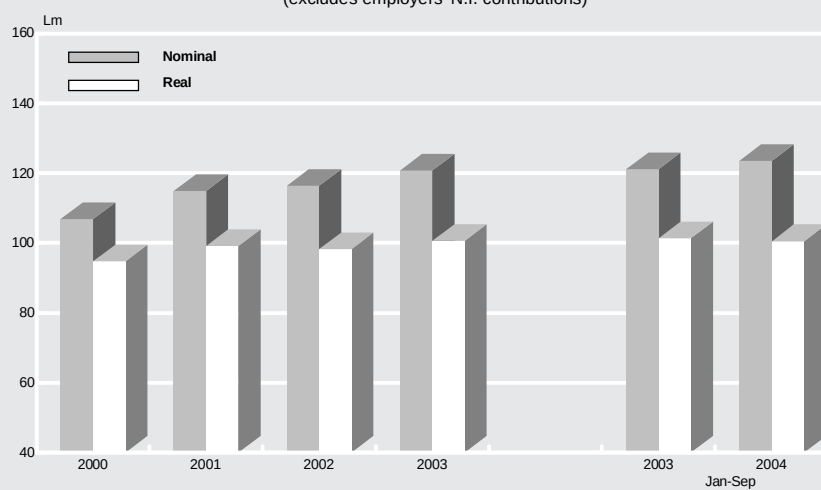


Chart 2.4

Average Weekly Compensation per Employee (excludes employers' N.I. contributions)



recorded during the comparable period of 2003. Chart 2.3 describes the developments in compensation of employees and GDP at market prices over the period covering 2000 to 2004.

On a sectoral basis, compensation of employees increased in all sectors apart from manufacturing and other community, social and personal service activities. The highest increases in compensation of employees were recorded in transport, storage and communication (Lm4.7 million), financial intermediation (Lm4.1 million) and public administration and defence (including compulsory social security) (Lm4.0 million). These increases were partially offset by decreases recorded in other community, social and personal service activities (Lm3.9 million) and manufacturing (Lm13.2 million). The decline in compensation of employees in manufacturing partly reflects the restructuring exercise carried out at the shipyards, as the implementation of early retirement schemes and the re-classification of employees from the other transport equipment sub-sector to the public administration and defence (including compulsory social security) sector resulted in a lower outlay on compensation of employees.

The developments in compensation of employees and in total employment were reflected in the average weekly compensation per employee as shown in Chart 2.4 and Table 2.7. The data on compensation of employees includes the earnings of both full-time and part-time employees. Since a full-time equivalents measure of the number of employees is not available, use was made of the data for total employment emanating from the Labour Force Survey, which covers both full-time and part-time employees.

Average Weekly Compensation per Employee*					
Table 2.7					
	Nominal		Real		
	Value Lm	Change %	Value Lm		Change %
2001	114.95	7.64	99.13		4.58
2002	116.37	1.24	98.21		-0.93
2003	120.82	3.82	100.66		2.49
2003 (Jan/Sep)	121.08	3.63	101.30		2.49
2004 (Jan/Sep)	123.51	2.01	100.53		-0.76
*Excludes employers' National Insurance contributions					
Source: National Statistics Office					

During the Survey period, the average weekly compensation per employee in nominal terms stood at Lm123.51, an increase of 2.0 per cent or Lm2.43 over January-September 2003. Real average weekly compensation was obtained by deflating nominal figures by the Retail Price Index using the base year 1995=100. During the nine months to September 2004, real average compensation of employees stood at Lm100.53, a decline of 0.8 per cent over the comparable period of 2003.

Gross operation surplus and mixed income stood at Lm584.6 million, a marginal decline of Lm0.3 million over January-September 2003. The contribution of gross operating surplus and mixed income to GDP at market prices declined by 0.9 percentage points to 41.6 per cent during the Survey period. An analysis of the sectoral distribution of gross operating surplus and mixed income reveals a mixed picture. Decreases were recorded in electricity, gas and water supply (Lm7.8 million), manufacturing (Lm3.5 million), transport, storage and communication (Lm3.4 million) and other community, social and personal service activities (Lm3.0 million). These declines were almost offset by increases registered in some sectors mainly real estate, renting and business activity (Lm8.7 million), financial intermediation (Lm8.1 million) and wholesale and retail trade (including repair of motor vehicles, hotels and restaurants) (Lm6.2 million).

Taxes on products and imports increased by Lm16.1 million to Lm195.7 million partly owing to an increase in the standard VAT rate as from January 2004. Meanwhile, subsidies stood at Lm23.8 million during the first nine months of 2004, a decrease of Lm5.6 million. The developments described above in compensation of employees, gross operation surplus and mixed income, taxes on products and imports and subsidies contributed to an increase in GDP of 2.1 per cent.

During the Survey period, net property income from the rest of the world defined as the difference between income receivable by Maltese owners of financial assets held abroad and income receivable by foreign residents from Maltese financial assets, fell by Lm55.8 million over the same period last year. This decline is attributable to higher reinvested earnings and lower interest receipts. 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, declined by Lm0.5 million. Meanwhile, taxes paid to the rest of the EU amounted to Lm3.6 million.

Household Disposable Income

Household disposable income is computed by deducting direct taxation, including social security contributions, from compensation of employees and other forms of income and transfers received by households over a period of time. During the Survey period, household disposable income stood at Lm890.9 million, an increase of Lm7.2 million or 0.8 per cent over the comparable period of 2003. Table 2.8 provides detailed information on developments in the components of household disposable income during the 2001-2004 period.

The level of compensation of employees (inclusive of employers' social security contribution) reached Lm647.4 million during the nine months to September 2004, an increase of Lm7.0 million or 1.1 per cent over the same period in 2003. This increase was due to a higher gainfully occupied population during the Survey period. The contribution of compensation of employees to gross household income stood at 60.3 per cent, practically unchanged from the share recorded during January-September 2003. This suggests that compensation of employees remains the most important source of income for households.

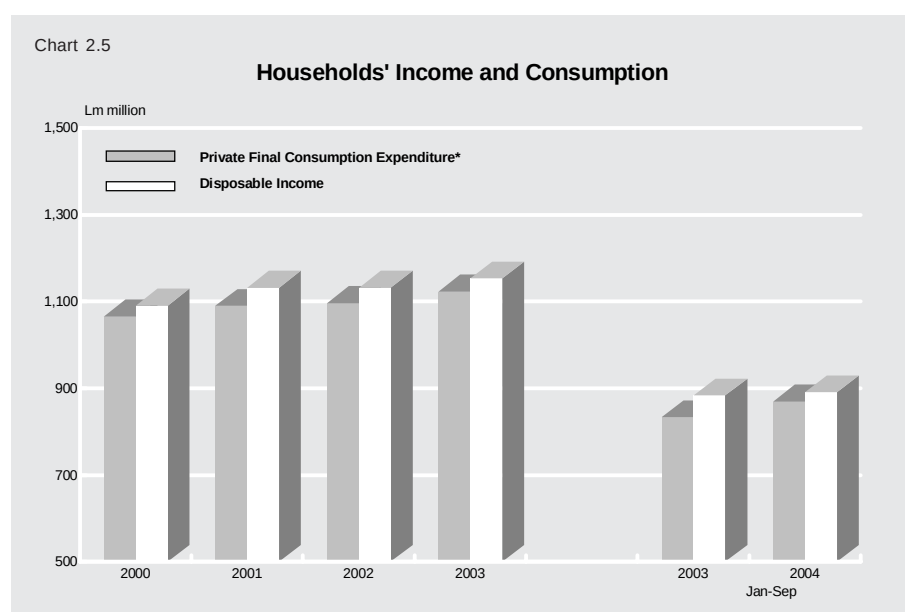
Household Disposable Income*					
Table 2.8	Lm million				
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
Compensation of Employees ⁽¹⁾	811.2	823.6	854.1	640.4	647.4
Non wage income ⁽²⁾	366.6	357.4	361.6	274.6	271.2
Net transfers from Government including social benefit payments	175.9	185.9	187.9	141.1	151.3
Net transfer from abroad	8.0	4.9	3.9	3.2	3.6
Gross household income	1,361.7	1,371.8	1,407.5	1,059.3	1,073.5
Less: direct taxes, incl. social security contributions	229.6	239.7	254.1	175.5	182.7
Disposable income	1,132.1	1,132.1	1,153.4	883.7	890.9
Private consumption	1,090.1	1,096.9	1,122.9	833.8	869.8
Household savings ⁽³⁾	42.0	35.2	30.5	49.9	21.0
Savings ratio (in per cent of disposable income)	3.7	3.1	2.6	5.7	2.4
*Provisional due to ongoing conversion to ESA95					
⁽¹⁾ Includes employers social security contributions					
⁽²⁾ Includes income of self-employed persons, rents, dividends and interest					
⁽³⁾ Excludes depreciation					
Source: National Statistics Office					

Non-wage income, which includes income of self-employed persons, rents, dividends and interest stood at Lm271.2 million, representing a decline of Lm3.4 million over January-September 2003. Non-wage income accounted for 25.3 per cent of gross household income, 0.7 percentage points below the share recorded during the nine months to September 2003.

Net transfers from Government, which includes social benefit payments rose by Lm10.2 million during January-September 2004, to Lm151.3 million. The share of net transfers from Government in gross household income stood at 14.1 per cent, up from 13.3 per cent recorded during the same period of 2003, thus representing an important component in gross household income.

Net transfers from abroad increased by Lm0.4 million during the Survey period, to Lm3.6 million. This item primarily includes pension payments and funds remitted from abroad. The contribution of this category of household income to gross household income amounted to 0.3 per cent, unchanged from the level recorded during 2003.

Direct taxes, inclusive of social security contribution advanced by Lm7.2 million to Lm182.7 million during the first nine months of 2004. This increase mainly reflected changes introduced during the period under review in the way tax on



*Includes NPISH final consumption expenditure

property is charged as well as efforts to improve efficiency in tax collection. The share of direct taxes in gross household income stood at 17.0 per cent, up from 16.6 per cent recorded during January-September 2003.

Chart 2.5 illustrates the relationship between household disposable income and private consumption expenditure during the period 2000 to 2004. Private consumption stood at Lm869.8 million, an increase of Lm36.0 million, or 4.3 per cent, over the first nine months of 2003. On the other hand, household disposable income increased by Lm7.2 million, or 0.8 per cent. Despite higher disposable income, private consumption expenditure increased by a larger amount with the consequence that household savings declined to Lm21.0 million. This represented a significant drop of Lm28.9 million over the nine months to September 2003. As a result the savings ratio declined to 2.4 per cent. The savings ratio followed a downward trend over the recent years reflecting changes in the consumption patterns of the Maltese as well as increased availability of consumer credit.

International Comparison

Developments within the international environment impact significantly on the Maltese economy in particular due to the high degree of openness that characterizes the local economy. Of particular interest is the performance of Malta's main trading partners over the recent years. Table 2.9 shows the growth rates of real GDP for the EU 25 Member States for the four years to 2004, whilst Table 2.10 illustrates the composition of economic growth in real terms for the EU 25 countries.

After registering a turnaround during the second half of 2003, the recovery in both the Euro Area and the rest of the EU 25 picked up further speed in the first half of 2004. Supported by these developments, the growth rates of GDP for 2004 are projected to reach 2.1 per cent in the Euro Area and 2.5 per cent in the EU 25. However, following the sharp rise in oil prices since the first quarter of this year, world growth for 2004 has already been dented. The persistence of higher oil prices and their increased volatility have adverse implications for the growth outlook over the forecast horizon.

The recovery in the Euro Area has been driven by growth in exports, while the growth-contribution of domestic demand has remained relatively weak. In particular, one notes the behaviour of investment which has been particularly disappointing in the first half of 2004. However, over the forecast horizon investment should be supported by a recovery in productivity, enhanced by

Gross Domestic Product
at constant market prices

Table 2.9 % change

	2001	2002	2003	2004*
Austria	0.7	1.2	0.8	1.9
Belgium	0.7	0.9	1.3	2.5
Cyprus	4.0	2.0	2.0	3.5
Czech Republic	2.6	1.5	3.1	3.8
Denmark	1.6	1.0	0.5	2.3
Estonia	6.4	7.2	5.1	5.9
Finland	1.1	2.3	1.9	3.0
France	2.1	1.2	0.5	2.4
Germany	0.8	0.1	-0.1	1.9
Greece	4.3	3.6	4.5	3.8
Hungary	3.8	3.5	3.0	3.9
Ireland	6.0	6.1	3.7	5.2
Italy	1.8	0.4	0.3	1.3
Latvia	8.0	6.4	7.5	7.5
Lithuania	6.4	6.8	9.7	7.1
Luxembourg	1.5	2.5	2.9	4.0
Netherlands	1.4	0.6	-0.9	1.4
Poland	1.0	1.4	3.8	5.8
Portugal	1.6	0.4	-1.2	1.3
Slovakia	3.8	4.6	4.0	4.9
Slovenia	2.7	3.3	2.5	4.0
Spain	2.8	2.2	2.5	2.6
Sweden	0.9	2.1	1.6	3.7
United Kingdom	2.3	1.8	2.2	3.3
EU 25	1.8	1.1	1.0	2.5
Euro Area	1.6	0.9	0.6	2.1
Malta	-2.4	2.6	-0.3	0.6

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

Source: European Commission
National Statistics Office

GDP by Category of Expenditure
at constant market prices

Table 2.10 % change

	2001	2002	2003	2004*
EU 25				
Private Consumption	2.0	1.4	1.5	2.0
Government Consumption	2.5	3.1	1.9	1.8
Gross Fixed Capital Formation	0.3	-1.4	—	3.2
Exports of Goods and Services	3.3	1.8	0.9	6.5
Imports of Goods and Services	2.1	1.4	2.3	6.3
Gross Domestic Product	1.8	1.1	1.0	2.5

*Forecast

Source: European Commission

appropriate reforms in product and labour markets. The outcome for the EU 25 reveals a similar picture in terms of the composition of growth, although the relative contribution of domestic demand was stronger than that of external demand in the second quarter. In the EU 25, consumption expenditure is expected to grow by 2.0 per cent in 2004. After registering a subdued growth rate of 0.9 per cent in 2003, exports of goods and services are expected to grow by 6.5 per cent in 2004. On the other hand, after recording a growth rate of 2.3 per cent in 2003, imports of goods and services for the EU 25 are expected to grow by 6.3 per cent.