

Economic Survey

January - September 2004

Economic Policy Division
Ministry of Finance
24th November, 2004

The following symbols have been used throughout this document:

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

National Accounts estimates and other statistics which appear in this Economic Survey are provisional and subject to revision. Figures may not add up due to rounding.

Contents

	page
1. State of the Economy	3
Local Scene	5
Economic Growth	5
Sectoral Contribution to Gross Value Added	6
Labour Market	6
Productive Activities	7
Services Activities	8
Prices and Incomes	9
Foreign Trade and Payments	9
Financial Developments	10
International Scene	11
Outlook for Industrialised Economies	12
Commodity Markets	18
Future Economic Prospects	19
2. Economic Growth	23
National Expenditure	23
Private Final Consumption Expenditure	26
General Government Final Consumption Expenditure	28
Gross Capital Formation	29
Foreign Demand and Supply	30
Sectoral Contribution to Gross Value Added	31
Gross National Income	37
Household Disposable Income	41
International Comparison	43
3. Employment	49
Labour Market Developments	53
Private Sector Employment	54
Public Sector Employment	56
Sectoral Employment	59
Direct Production	59
Food and Beverages	64
Textiles, Footwear and Clothing	64
Furniture and Fixtures	66

Paper Products and Printing	66
Chemical Products	67
Non-Metallics and Metal Products	67
Machinery, Electrical Machinery, Appliances and Supplies	67
Market Services	68
Wholesale and Retail Trades	70
Banks, Financial Institutions, Insurance and Real Estate	70
Transport	71
Storage, Warehousing, Communications, Community and Business	71
Recreation Services, Hotels, Catering Establishments and Others	72
Unemployment	73
Part-Time Activity	76
 4. Productive Activities	 81
Domestic Manufacturing Performance	83
Food and Beverages	88
Tobacco Products	89
Textiles and Textile Products	90
Wearing Apparel and Clothes	90
Publishing and Printing	92
Chemicals and Chemical Products	93
Rubber and Plastic Products	94
Electrical Machinery and Apparatus	94
Radio, TV and Communication Equipment	95
Medical, Precision and Optical Instruments	96
Other Transport Equipment	97
Furniture and Other Manufacturing	97
Value Added	99
Sector Analysis	105
Agriculture and Fisheries	107
Agriculture	108
Fisheries	112
Shipyards	114
 5. Services Activities	 125
Tourism	126
Monthly Distribution	129
Tourist Nationality	130

Cruise Passengers	132
Accommodation	133
Employment	135
Foreign Exchange Earnings	135
Malta Financial Services Authority	137
Malta Freeport Corporation Ltd	138
Malta Enterprise Corporation	140
 6. Prices and Incomes	 145
Inflation	147
International Comparison	152
Sectoral Wages	154
 7. Foreign Trade and Payments	 163
Foreign Trade	163
Exports	167
Geographical Distribution - Exports	170
Imports	172
Geographical Distribution - Imports	174
Geographical Distribution - Trade Balances	176
Balance of Payments	177
The Current Account	178
The Goods and Services Account	178
The Income Account and Current Transfers	180
The Capital and Financial Account	181
The International Investment Position	183
Foreign Reserves	185
 8. Financial Developments	 189
Public Finance	189
Revenue	190
Expenditure	193
Fiscal Performance	197
International Comparison	199
Monetary Developments	200
Monetary Aggregates	201
Counterparts of Monetary Expansion	203
The Money Market	205

The Capital Market	206
The Maltese Lira	208

Boxes

2.1 Gross Domestic Product based on the European System of Accounts (ESA95)	24
3.1 The Labour Force Survey for the Maltese Islands	51
4.1 Economic Accounts for Agriculture	111
6.1 Harmonised Index of Consumer Prices (HICP)	146
7.1 International Competitiveness	164
8.1 General Government Statistics based on the European System of Accounts	197

Tables

1.1 World GDP, Volume	13
1.2 Inflation: Harmonised Index of Consumer Prices	13
1.3 Unemployment Rate	14
1.4 Current Account Balance	14
1.5 Exports of Goods, Volume	16
1.6 Imports of Goods, Volume	16
1.7 EU 25 Projections	20
2.1 GDP by Category of Expenditure	25
2.2 GDP by Category of Expenditure - percentage changes	26
2.3 GNI, Private Final Consumption Expenditure and Expenditure by Tourists	28
2.4 Gross Fixed Capital Formation	29
2.5 Sectoral Contribution to Gross Value Added	33
2.6 Gross National Income	37
2.7 Average Weekly Compensation per Employee	39
2.8 Household Disposable Income	41
2.9 GDP at Constant Market Prices	44
2.10 GDP by Category of Expenditure at Constant Market Prices	44
3.1 Labour Market Performance	50
3.2 Public Sector Employment	57
3.3 Employment in Direct Production	60
3.4 Changes in Manufacturing Employment	62
3.5 Manufacturing Employment	63
3.6 Changes in Employment in Market Services	68
3.7 Employment in Market Services	69
3.8 Registered Unemployed by Age Distribution	74
3.9 Registered Unemployed by Duration of Registration	75

3.10	Registered Unemployed Classified by Occupation	75
3.11	Part-Time Employment	77
4.1	Value Added at Factor Cost per capita	100
4.2	Personnel Costs per capita	101
4.3	Gross Operating Surplus per capita	102
4.4	Value Added at Factor Cost per capita in real terms	103
4.5	Average Value Added at Factor Cost per capita in nominal and real terms	104
4.6	Composition of Value Added at Factor Cost	105
4.7	Slaughterings	108
4.8	Fresh Fruit and Vegetables Indices	109
4.9	Imports of Major Agricultural Commodities	110
4.10	Fresh Fish Indices	113
4.11	Exports of Fish	113
4.12	Government Assistance	114
4.13	Employment	115
5.1	Main Tourism Indicators	127
5.2	Monthly Tourist Departures	128
5.3	Quarterly Distribution of Tourist Departures	130
5.4	Tourist Departures by Nationality	131
5.5	Main Types of Tourist Accommodation	133
5.6	Monthly Accommodation Occupancy Levels - 2004	134
5.7	Earnings from Tourism	136
6.1	12-Month Moving Inflation Rate	148
6.2	Retail Price Index	148
6.3	Index by Commodity Group - Average for 12 months to September	150
6.4	European Union Inflation Rates	153
6.5	Average Weekly Wages - September 2003	156
6.6	Average Weekly Wages - September 2004	157
6.7	Changes in Average Weekly Wages	158
6.8	Proportion of Sampled Employees in Wage Ranges	159
7.1	Foreign Trade	165
7.2	Commodity Breakdown of Exports	167
7.3	Total Exports by Main Geographical Areas	170
7.4	Imports by Broad Economic Category	172
7.5	Imports by Main Geographical Areas	175
7.6	Trade Balances with Various Countries.....	176
7.7	Balance of Payments – Goods, Services and Income Account (Net)	178
7.8	Balance of Payments - Current Account	180
7.9	Current, Capital and Financial Flows	182
7.10	International Investment Position	183
7.11	Reserve Adequacy Ratios	184

8.1	Government Revenue and Expenditure	190
8.2	General Government Net Lending or Borrowing	198
8.3	General Government Gross Debt	199
8.4	Monetary Aggregates and Their Counterparts	201
8.5	Government Stocks	207
8.6	Selected Indicators of the Capital Market	208
8.7	Movements in the Exchange Rates of the Maltese Lira	209

Appendix Tables

4.1	Sampled Manufacturing Firms	117
8.1	Government Revenue	211
8.2	Government Recurrent Expenditure	212
8.3	Government Capital Expenditure	214

Charts

1.1	Inflation Rates	17
1.2	Unemployment Rates	17
2.1	Real GDP per capita	25
2.2	Gross Value Added	32
2.3	Compensation of Employees and GDP	38
2.4	Average Weekly Compensation per Employee	38
2.5	Households' Income and Consumption	42
3.1	Labour Force and Gainfully Occupied Population	53
3.2	Gainfully Occupied Population - Private and Public Sectors Percentage Shares	57
3.3	Public Sector Employment	58
3.4	Gainfully Occupied by Broad Sectors	58
3.5	Direct Production - Total Sector Employment	60
3.6	Manufacturing - Total Sector Employment	62
3.7	Food & Beverages - Total Sector Employment	65
3.8	Footwear & Clothing - Total Sector Employment	65
3.9	Furniture & Fixtures - Total Sector Employment	66
3.10	Electrical Machinery - Total Sector Employment	67
3.11	Market Services - Total Sector Employment	70
3.12	Wholesale and Retail Trades - Total Sector Employment	71
3.13	Community and Business - Total Sector Employment	72
3.14	Hotels and Catering Establishments - Total Sector Employment	73
4.1	Total Sales - Total Manufacturing	84
4.2	Earnings from Employment - Total Manufacturing	85
4.3	Net Investment - Total Manufacturing	85

4.4	Average Weekly Sales per Employee - Total Manufacturing	86
4.5	Average Weekly Earnings per Employee - Total Manufacturing	87
4.6	Manufacturing – Percentage Average Growth Rate	87
4.7	Average Weekly Sales per Employee - Food and Beverages	88
4.8	Average Weekly Earnings per Employee - Food and Beverages	89
4.9	Average Weekly Sales per Employee - Wearing Apparel and Clothes	91
4.10	Average Weekly Earnings per Employee - Wearing Apparel and Clothes	91
4.11	Average Weekly Sales per Employee - Publishing and Printing	92
4.12	Average Weekly Earnings per Employee - Publishing and Printing	93
4.13	Average Weekly Sales per Employee - Radio, TV and Comm Equip	95
4.14	Average Weekly Earnings per Employee - Radio, TV and Comm Equip	96
4.15	Average Weekly Sales per Employee - Furniture and Other Manufacturing	98
4.16	Average Weekly Earnings per Employee - Furniture and Other Manufacturing	98
4.17	Manufacturing - Total Value Added at Factor Cost	100
4.18	Composition of per capita Value Added at Factor Cost	102
4.19	Average Value Added at Factor Cost per capita	104
5.1	Tourist Departures	129
5.2	Tourist Market Shares	131
5.3	Tourist Earnings Per Capita	136
5.4	Transshipment Throughput	139
5.5	Total Ship Calls	139
6.1	12-Month Moving Inflation Rate	149
7.1	Foreign Trade	165
7.2	Rate of Import Cover	166
7.3	Total Exports	168
7.4	Breakdown of Exports	168
7.5	Geographical Distribution – Exports to EU 25	171
7.6	Breakdown of Consumer Imports	173
7.7	Total Imports	173
7.8	Geographical Distribution – Imports from EU 25	175
7.9	Current Account Balance	177
7.10	Deficit in Goods and Services Account	179
8.1	Government Recurrent Revenue and Total Expenditure	189
8.2	Government Total Expenditure	193
8.3	Capital Expenditure	195
8.4	Monetary Assets	202
8.5	Net Foreign Assets	204
8.6	Exchange Rate Movements of the Maltese Lira	209

Statistical Annex

I. Population	217
II. Social Indicators	218
III. Factor Incomes in Gross National Income	219
IV. Gross National Income and Expenditure	220
V. Labour	221
VI. Tourism	222
VII. Foreign Trade	223
VIII. Balance of Payments	224
IX. Government Revenue and Expenditure	225
X. Monetary Aggregates and their Counterparts	226

1. State of the Economy

1. State of the Economy

The unfavourable global economic environment prevailing since 2001 has impinged significantly on domestic economic conditions, particularly in view of the high degree of openness of the Maltese economy. However, during 2004, some positive developments were recorded in the domestic sphere, even if, by historical growth rates, local economic activity remained relatively subdued.

Although the negative real growth registered in Gross Domestic Product (GDP) during 2003 was reversed, the increase in real GDP during the first nine months of 2004 remained low at 0.6 per cent. Domestic demand was relatively weak, with a marginal advance in gross fixed capital formation and relatively subdued growth in private final consumption expenditure, whilst general Government final consumption expenditure rose by 2.1 per cent. On the other hand, exports of goods and services increased in real terms, even if international pressures on prices pushed down the absolute nominal value of exports during the Survey period.

In the labour market, the drops registered in the labour supply and the gainfully occupied population in January-September 2003 were halted. However, it is notable that a sustained increase in part-time activity is also being registered. It is not surprising that, against the backdrop of a weak economic environment, the increase in labour supply was accompanied by an increase in the number of unemployed persons. The number of unemployed persons under Part I of the Register rose by 149 between September 2003 and the corresponding month in 2004, whilst the unemployment rate rose marginally to 5.1 per cent.

Despite the prevailing economic conditions, the Survey period was characterised by a gradual rise in the inflation rate, which stood at 2.57 per cent in September 2004, from 1.10 per cent a year earlier. This increase was primarily due to domestic factors, as the inflation rate in Malta exceeded that in the main trading partners during the period under review. Meanwhile, a review of collective agreements currently in force shows a relatively modest increase in average weekly wages between September 2003 and September 2004.

Exports by the manufacturing industry advanced by 1.2 per cent during the January-September 2004 period, being underpinned by the gradual recovery in the global market for electronic components as well as successful efforts by domestic based manufacturing concerns to exploit business opportunities abroad. On the other hand, local sales by the domestic manufacturing industry dropped

by 4.9 per cent, being affected by the dismantling of the remaining levies on imports and the prevailing general domestic economic conditions. As a result of these developments, total turnover by the manufacturing industry declined marginally by 0.2 per cent. Investment rose by 10.3 per cent, as a number of sectors increased their capital outlays. In contrast, employment income declined by 2.4 per cent, reflecting the job shedding being undertaken by specific sectors in the domestic manufacturing industry.

In the tourism industry, the declines registered since 2001 were reversed during the first nine months of 2004, when tourist departures advanced by 2.3 per cent. Nevertheless, the level of tourist departures remained below the 2001 level. Whilst gross earnings from tourism also improved, employment in hotels and catering establishments was stable, while the number of nights spent declined. As business operators re-assessed their operations in the Mediterranean region, a drop in cruise passenger arrivals was recorded.

Despite the improvement in merchandise exports as well as in gross foreign exchange earnings from tourism, the current account deficit deteriorated to 10.3 per cent of GDP during the first nine months of 2004, from 4.4 per cent in the corresponding 2003 period. This mainly reflected a deterioration in net re-invested earnings and an increase in merchandise imports. Lower net interest receipts from abroad and higher net outflows of current transfers also affected the current account deficit.

On the fiscal front, the Survey period was characterised by consolidation efforts with the Government's structural deficit amounting to Lm109.9 million during the Survey period, which is Lm25.9 million lower than that registered during the corresponding 2003 period. This outcome was underpinned by higher recurrent revenue, as well as by a contraction in capital expenditure and a slowdown in the rate of growth of recurrent expenditure. Nevertheless, further efforts need to be undertaken to meet Government's medium-term fiscal targets and to ensure a stable macroeconomic framework.

The developments in the domestic economy during the first nine months of 2004 continue to highlight the structural challenges which the Maltese economy is currently facing. In particular, the increasingly competitive global environment in which the economy is operating calls for increased efforts to improve competitiveness. This applies to all sectors of the economy. Domestic-oriented enterprises are now also operating within a liberalised and hence more competitive environment. The improvement in the competitiveness edge of domestic-based enterprises, together with the attainment of a stable

macroeconomic framework, particularly the adoption of the necessary structural reforms to Government's fiscal position, are crucial for the creation of more job opportunities and for the further improvement to the standard of living of the domestic population.

Local Scene

Economic Growth

Real Gross Domestic Product (GDP) increased marginally by 0.6 per cent during the Survey period. In nominal terms, GDP advanced by 2.1 per cent to reach Lm1,404.0 million. In real terms, improvements were recorded within private and general Government final consumption expenditure, whilst marginal increases were also recorded in gross fixed capital formation. Improvements were also registered in exports of goods and services, but the significant increase in imports of goods and services served to dampen the positive impact of the increase in exports on GDP growth. Consumers' expenditure advanced by Lm36.0 million or 4.3 per cent in nominal terms. In real terms, this component grew by 1.2 per cent. Household disposable income increased by Lm7.2 million, or 0.8 per cent. The growth registered in household disposable income was lower than that registered for private final consumption expenditure. As a result, during the Survey period the savings ratio stood at 2.4 per cent.

General Government final consumption expenditure advanced by Lm15.3 million, or 5.2 per cent during the Survey period to Lm309.0 million. In real terms, this category of expenditure increased by 2.1 per cent. Gross fixed capital formation, recorded an increase of 1.6 per cent in nominal terms and stood at Lm287.7 million. In real terms a marginal increase of 0.6 per cent in this category of expenditure was registered.

Exports of goods and services in nominal terms stood at Lm1,055.6 million, representing a marginal drop of 0.3 per cent over the comparable January-September 2003 period. In real terms, exports of goods and services increased by 3.6 per cent. However, it is pertinent to note that the recovery recorded in real exports of goods and services was underpinned by a drop in average export prices. Imports of goods and services in nominal terms registered an increase of 1.2 per cent, to reach Lm1,152.7 million. This increase was underpinned by an increase in imports of goods which more than offset the fall in imports of services. In real terms, imports of goods and services advanced by 3.2 per cent.

Sectoral Contribution to Gross Value Added

Gross Value Added (GVA) at basic prices rose by 1.8 per cent in nominal terms during the first nine months of 2004. The main contributors to economic growth as measured by GVA were the 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 rates registered in these sectors, together with other minor increases in other sectors, served to counteract the declines registered in manufacturing and electricity, gas and water supply sectors.

Gross national income (GNI) 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 institutions 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.

Furthermore, during the Survey period decreases were recorded in net property income from the rest of the world, in net compensation of employees from the rest of the world and also in subsidies less taxes to the rest of the EU.

Compensation of employees rose by 1.1 per cent to Lm647.4 million, when compared to the same period of 2003. 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. In real terms average weekly compensation per employee declined by 0.8 per cent. Gross operating surplus and mixed income registered a marginal decline of Lm0.3 million during the Survey period to reach Lm584.6 million. Taxes on products and imports increased by Lm16.1 million, whilst subsidies registered a decrease of Lm5.6 million. The developments in these components during the January-September 2004 period contributed to an increase in nominal GDP at market prices of 2.1 per cent.

Labour Market

The contraction in the labour supply and the gainfully occupied population registered in January-September 2003 were reversed during the Survey period, but unemployment continued to rise though at a slower rate than that recorded

last year. At the end of September 2004 the labour supply stood at 145,414, representing an increase of 492 persons over the same period last year, whilst the gainfully occupied population increased by 294 to 137,274. The number of unemployed persons registering under Part I of the Register increased by 149 to 7,382 at the end of September 2004. As a consequence, the unemployment rate stood at 5.1 per cent, a marginal increase of 0.1 percentage points over the same period of 2003.

In line with the trends noted over the recent years, the private sector, especially the private market services was the main source of employment creation in Malta during the Survey period. On the other hand, employment in manufacturing registered a further decrease during the period under review, albeit the decrease was significantly below that registered in the twelve months to September 2003. Additionally, employment in the public sector continued to decline and at the end of September 2004, the share of employment in the public sector in total employment stood at 34.0 per cent, 0.5 percentage points less than the level recorded during the same period last year. This development is attributed to the implementation of restructuring exercises and in particular, voluntary early retirement schemes in a number of public enterprises.

Productive Activities

During the Survey period, the performance of the local manufacturing industry was affected on the one hand, by the trade liberalisation process as well as the increasingly competitive international environment, and on the other hand, by an improved global economic scenario, and in particular the continued recovery of the electronic components market. Within this context, exports increased by 1.2 per cent, reflecting an improved performance by the radio, TV and communication equipment sector, medical, precision and optical instruments sector and textiles and textile products sector. On the other hand, local sales declined by 4.9 per cent. As a result, the local manufacturing industry registered a 0.2 per cent decline in total turnover in the Survey period. Capital outlays continued to follow the upward trend registered in recent years, reaching Lm40.0 million in the nine months to September 2004. On the other hand, employment income dropped by 2.4 per cent, reflecting the job-shedding in a number of manufacturing sectors.

Average weekly sales per capita registered an increase of 4.9 per cent and stood at Lm982.06 in the period under review. Average weekly exports per capita rose by 6.4 per cent and reached Lm771.75. Per capita weekly

compensation levels advanced by 2.6 per cent to Lm116.63. These developments reflect the lower level of employment within the manufacturing industry.

The agriculture and fisheries sector is undergoing a reform programme aimed at enabling the sector to maintain a sustainable rate of economic activity. As from 1st May 2004, the remaining import levies on agricultural and agro-industrial products were dismantled. During the Survey period, a decline was registered in the volume of slaughtered livestock. Whilst the volume of fruit and vegetables sold through official markets rose by 8.5 per cent, the wholesale value of fruit and vegetables declined by 5.0 per cent. Fish landings increased by 1.8 per cent over the January-September 2003 period, whilst the wholesale value of fish remained at the same level registered a year earlier. Furthermore, the volume of exported fish rose by 3.2 per cent during the period under review, while the value of fish exports increased by 26.6 per cent to reach Lm3.3 million.

The ship repair and shipbuilding industry has undergone major changes since the unfolding of the restructuring plan which commenced in 2002. In November 2003 Malta Shipyards Ltd was set up and employed around 1,700 workers. The remaining shipyards employees either took up the voluntary early retirement or resignation schemes or were absorbed by Industrial Projects and Services Ltd and offered placements within the public sector. Malta Shipyards Ltd aims at strengthening the industry's competitiveness in order to change the industry from a net beneficiary of state aid into a commercially viable enterprise.

Services Activities

The services category is a major pillar in the Maltese economy. While the largest contributor is the tourism industry, financial service activities and transshipment related activities are growing in importance. Following the declines in tourist departures registered during 2002 and much smaller fall in 2003, an improvement of 2.3 per cent was registered in the first nine months of 2004. Nonetheless, at 919,728, tourist departures remain below the level recorded in 2001. On the other hand, total nights spent dropped by 3.9 per cent. Gross earnings from tourism increased by 3.5 per cent over the corresponding period of 2003, to Lm203.5 million. Per capita earnings increased to Lm221.3 during the first nine months of 2004, from Lm218.8 in the same period of 2003, whilst earnings per night spent increased from Lm20.9 to Lm22.5 during the same period. Employment in tourism related activities remained practically unchanged and amounted to 9,590 employees as at September 2004. Meanwhile, the number of cruise liner tourists declined by 31.7 per cent during the Survey period, to 196,358.

Throughout the Survey period, the Malta Financial Services Authority (MFSA) continued to promote Malta as a destination for financial services. A positive performance was registered with respect to Malta Freeport, as transhipment throughput increased by 10.7 per cent to 995,778 Twenty Equivalent Units (TEUs). Meanwhile, as from January 2004, Malta Enterprise Corporation assumed the responsibility previously carried out by Malta Development Corporation, Malta Export Trade Corporation and the Institute for the Promotion of Small Enterprises.

Prices and Incomes

Percentage changes in the 12-month moving average for the Retail Price Index (RPI) provide the official measure of inflation in Malta. During the period under review, the inflation rate increased gradually to reach 2.57 per cent in September 2004, from 1.10 per cent in September 2003. The upward trend followed by the 12-month moving average inflation rate was mainly due to higher prices registered within the Beverages and Tobacco sub-index and the Other Goods and Services sub-index. All the sub-indices that compose the RPI recorded percentage increases, with the exception of the Clothing and Footwear sub-index which declined during the twelve months to September 2004.

A study concerning average wage levels in 204 enterprises shows that the average weekly wage rate increased by Lm1.46 or by 1.6 per cent during the twelve months to September 2004. It is pertinent to note that the mandatory cost-of-living compensation stood at Lm0.75 for 2004. The analysis also shows that the highest wage rises in percentage terms were recorded in the Transport Equipment sub-sector, followed by the Machinery sub-sector. The largest share of employees for all firms (51.0 per cent) earned on average a weekly wage that fell within the over Lm92.25 wage bracket. Furthermore, 64.1 per cent of employees in market services earned an average weekly wage that exceeded Lm92.25, compared to 37.8 per cent of employees engaged in direct production.

Foreign Trade and Payments

During the first nine months of 2004, the current account deficit increased by Lm83.4 million to Lm144.4 million. A variety of factors underpinned this deterioration in the current account balance. In particular, a substantial increase in profits by foreign owned companies, particularly in the banking sector, led to a significant outflow of Lm37.2 million in the investment income account. Most of these earnings were however re-invested in the Maltese economy and will feature as an inflow of foreign direct investment in the capital and financial

account of the balance of payments. In addition, a decline of Lm24.2 million was recorded in net interest receipts from abroad during the Survey period. Net outflows of current transfers also increased by Lm10.2 million.

Furthermore, developments in the merchandise account have also contributed towards a higher current account imbalance. Imports of goods, as recorded in the balance of payments, registered a substantial increase of Lm18.1 million. In fact, higher imports of consumer and capital goods were recorded. This increase partly reflects the removal of the remaining levies on imports as well as higher capital outlays. Imports of fuel also increased as a result of the significant increase in international oil prices registered during the Survey period. The effect of higher oil prices was however partly mitigated by lower volumes of oil imports as a major company in the oil-bunkering services ceased operations. Meanwhile, a decline in imports of industrial supplies was registered during the Survey period. The sources of higher imports during the Survey period were the EU and the Asian continent whilst imports from America declined.

Export performance remained modest, registering an increase of Lm1.9 million. Higher exports to the EU and the American continent were recorded whilst exports to the Asian continent declined. The breakdown of exports by economic category indicates that the manufacturing base is still undergoing a period of structural change. Sectors that typically generate high value added per capita recorded an increase in exports. Such sectors included the machinery and transport equipment sector and the chemical and pharmaceutical sector. This positive development made up for the fall in exports by the clothing sector and the food, beverages and tobacco sector.

Moreover, tourist earnings increased by Lm6.8 million over the Survey period. This was partly offset by a Lm3.6 million increase in payments on transportation, partly reflecting the increase in imports and possibly higher transport costs due to the increase in international oil prices. Meanwhile net flows from other services improved by Lm1.3 million.

Financial Developments

The first nine months of 2004 were characterised by budgetary consolidation whereby the structural deficit declined from Lm135.8 million to Lm109.9 million. The decline in the fiscal imbalance was underpinned by an expansion of Lm41.6 million in recurrent revenue to reach Lm538.2 million. This was attributable to an increase in both tax and non-tax revenue. The implementation of various measures as announced in the Budget Speech for 2004 contributed to this result.

Meanwhile, total expenditure increased by Lm15.7 million to Lm648.1 million. Higher recurrent expenditure and interest on public debt more than offset the decline in capital outlays. However, the expansion in total expenditure, and in particular in recurrent expenditure, was significantly lower than that registered in previous years. Recurrent expenditure increased from Lm499.4 million to Lm518.2 million during the period first nine months of 2004. Meanwhile, capital outlays, which constitute around 12 per cent of total expenditure, declined from Lm84.2 million to Lm75.6 million. Interest on public debt accounted for around 8 per cent of total expenditure, rising by Lm5.5 million to Lm54.3 million. The decline in the structural deficit coupled with higher extraordinary receipts lowered the public sector borrowing requirement to Lm107.3 million as compared to Lm139.9 million during the corresponding 2003 period.

During the Survey period, broad money, (M3), continued to expand, mainly attributable to more rapid growth in domestic credit which is the main counterpart of broad money. A slower growth in net foreign assets of the banking system was partly offset by a similar slowdown in the growth of the other counterparts of broad money.

Following an easing of the Central Bank's monetary policy stance during 2003, the central intervention rate was left unchanged at 3.0 per cent during the first nine months of 2004. During the first nine months of 2004, the value of the Maltese lira vis-à-vis the Euro as well as against the US dollar remained practically unchanged from the level recorded at the end of 2003. Meanwhile, the Maltese lira weakened against the Sterling but appreciated against the Japanese yen.

International Scene

The pace of global economic growth in 2004 is anticipated to be brisker than that registered in the past two years. This is mainly driven by a stronger recovery in the United States (US), continued growth in China and acceleration in Japan.

Nevertheless, indicators are pointing towards moderating world trade growth and a slowdown in global growth in the near-term due to the negative supply shock caused by rising oil prices as costs of production increase. Furthermore, if oil price increases are fed into price inflation and eventually wages, monetary policy may have to be tightened. Thus, it remains uncertain to what extent a persistence of rising oil prices will further dent current projections of world GDP.

World GDP growth in real terms reached 3.5 per cent in 2003 surpassing growth in 2001 and 2002. This increased growth was reflected in the growth rates of the industrialised countries namely the US and Japan as well as other economies namely Russia and China as shown in Table 1.1. The table also shows that despite these positive results, growth in 2003 within the Euro Area and the European Union (EU) remained weak, even slowing down further from the growth rates attained during 2002 and 2001 especially for countries as Germany, France and Italy. Relevant macroeconomic indicators are displayed in Tables 1.1 to 1.6 and Charts 1.1 and 1.2.

Growth in the first quarter of 2004 was much stronger than earlier expected. Thereafter, growth fell below expectations in several major economies, notably the US, Japan and China, mainly in the wake of a sharp rise in oil prices.

Outlook for Industrialised Economies

Growth in industrialised countries should reach 3.5 per cent in 2004 representing the fastest growth since 2001. The low level of interest rates has helped in sustaining growth. Average valuations in the equity markets are close to historical averages, though there is a downside risk of growth vacillating. Following the record peaks of the Euro against the dollar in February and monetary policy tightening in the US, major currencies have been relatively stable and currency volatility has diminished. Charts 1.1 and 1.2 indicate stable or falling unemployment rates for the EU 25, US and Japan between 2003 and 2004 and higher inflation rates in 2004 than 2003 for the US but lower inflation in the EU.

The European Commission anticipates growth in the EU 25 to increase from 1.0 per cent in 2003 to 2.5 per cent in 2004. A stronger growth rate in 2004 as compared to 2003 is also foreseen for the Euro Area. This growth will be mainly driven by increased exports.

Inflation is expected to increase above 2.0 per cent in 2004 in the EU 25 and Euro Area mainly due to the developments in the oil and energy prices.

The increased exports for the EU 25 will not have a significant impact on the unemployment rate, as this is projected to remain stable at the 2003 level of 9.1 per cent also in 2004. A similar development is expected in the Euro Area.

The increased world imports of 7.4 per cent in 2003 and a projected 9.9 per cent increase in 2004, have had a positive impact on EU exports being projected

World GDP, Volume
annual percentage change

Table 1.1

	2001	2002	2003	2004*
World	2.4	2.7	3.5	5.0
Industrialised Countries	1.2	1.4	2.1	3.5
EU 25	1.8	1.1	1.0	2.5
Euro Area	1.6	0.9	0.6	2.1
Germany	0.8	0.1	-0.1	1.9
France	2.1	1.2	0.5	2.4
Italy	1.8	0.4	0.3	1.3
United Kingdom	2.3	1.8	2.2	3.3
United States	0.8	1.9	3.1	4.4
Japan	0.4	-0.3	2.4	4.2
Canada	1.9	3.3	2.0	3.0
Others	3.9	4.2	5.2	6.8
Russia	5.1	4.7	7.3	7.4
China	7.5	8.3	9.1	9.2

*Projections

Source: European Commission

Inflation: Harmonised Index of Consumer Prices*
percentage change on preceeding year

Table 1.2

	2001	2002	2003	2004**
EU 25	2.5	2.1	1.9	2.2
Euro Area	2.4	2.3	2.1	2.1
Germany	1.9	1.3	1.0	1.7
France	1.8	1.9	2.2	2.3
Italy	2.3	2.6	2.8	2.3
United Kingdom	1.2	1.3	1.4	1.4
United States	2.8	1.6	2.3	2.6
Japan	-0.6	-0.9	-0.3	-0.2

*National index if not available

**Projections

Source: European Commission

Unemployment Rate*

percent of labour force

Table 1.3

	2001	2002	2003	2004**
EU 25	8.5	8.9	9.1	9.1
Euro Area	8.0	8.4	8.9	8.9
Germany	7.8	8.7	9.6	9.7
France	8.4	8.9	9.4	9.6
Italy	9.4	9.0	8.6	8.3
United Kingdom	5.0	5.1	5.0	4.9
USA	4.8	5.8	6.0	5.5
Japan	5.0	5.4	5.3	4.8

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

**Projections

Source: European Commission

Current Account Balance

percent of GDP

Table 1.4

	2001	2002	2003	2004*
EU 25	0.6	1.1	0.9	0.8
Euro Area	1.8	2.5	2.0	2.2
Germany	4.9	6.5	6.3	7.9
France	0.2	0.5	0.2	-0.6
Italy	1.8	1.6	1.1	0.8
United Kingdom	-4.1	-4.5	-4.3	-4.8
USA	-4.3	-4.7	-5.1	-5.7
Japan	1.7	2.4	2.7	2.8

*Projections

Source: European Commission

to increase by a record 7.4 per cent in 2004. Notwithstanding the increased exports for 2004, the EU 25 current account balance as a percentage of GDP is projected to remain at similar levels as at 2003.

Germany's growth is expected to reach 1.9 per cent in 2004 following anemic growth since 2001 and negative growth in 2003. As in the EU 25 and Euro Area growth will be mainly driven by increased exports. Inflation is expected to increase in Germany mirroring development in the EU 25 and Euro Area during 2004 due to higher oil prices. Unemployment figures for Germany indicate a projected marginally increased unemployment rate in 2004 though this increase is attributable to the tightening of social benefit eligibility criteria which will force persons to register as unemployed in order to continue receiving social benefits. The main contributor towards the EU 25 and Euro Area increased exports are Germany's exports which are projected to increase by a notable 11.9 per cent in 2004. This led to projecting even higher surplus on current account for Germany in 2004 than 2003.

Growth in France during 2004 should also be the best growth rate recorded since 2001 reaching 2.4 per cent. Contrary to what was observed in the Euro Area as a whole, the French recovery was supported by domestic demand, especially by private consumption. The improvement in equity markets and the increase in housing prices may have encouraged households to free up some savings. Inflation in France should increase marginally over 2003 again due to higher energy prices. The latest surveys in the manufacturing and service sectors reveal that hiring intentions remain at a relatively low level thus a higher unemployment rate is expected in France in 2004 than 2003. A worsening of the current account balance as a percentage of GDP is expected in France during 2004.

Growth in Italy should be faster than that recorded since 2002 reaching 1.3 per cent. Gross fixed capital formation seems to have been the main motor for increased growth. Despite weak economic performance inflation remained over 2 per cent in Italy. As a reaction the Government decided to freeze a series of controlled prices in 2004 and reached agreement with large retailers to keep prices of certain products unchanged until the end of the year. The labour market improved, with a decrease in the unemployment rate to reach 8.3 per cent in 2004. Though Italy's exports is expected to increase after decreases in 2002 and 2003, the growth in imports in 2004 should outpace the growth in exports during the year leading to a decline in the current account surplus as a percentage of GDP.

Exports of Goods, Volume
percentage change on preceeding year

Table 1.5

	2001	2002	2003	2004*
EU 25	3.3	2.0	1.5	7.4
Euro Area	3.1	1.9	0.6	7.6
Germany	5.4	3.2	2.6	11.9
France	2.1	2.3	-1.5	4.5
Italy	1.5	-2.9	-4.3	4.5
United Kingdom	2.7	-1.7	-0.5	1.0
USA	-6.1	-4.1	2.2	8.8
Japan	-6.2	8.1	10.1	15.7

*Projections

Source: European Commission

Imports of Goods, Volume
percentage change on preceeding year

Table 1.6

	2001	2002	2003	2004*
EU 25	1.6	1.4	3.0	7.4
Euro Area	0.8	0.6	2.6	7.1
Germany	-0.2	-1.5	5.8	8.1
France	1.0	3.2	-0.1	8.2
Italy	0.0	-1.1	-1.3	6.3
United Kingdom	5.4	4.1	1.5	5.5
USA	-3.2	3.7	4.7	10.5
Japan	0.1	1.1	5.0	8.9

*Projections

Source: European Commission

Chart 1.1

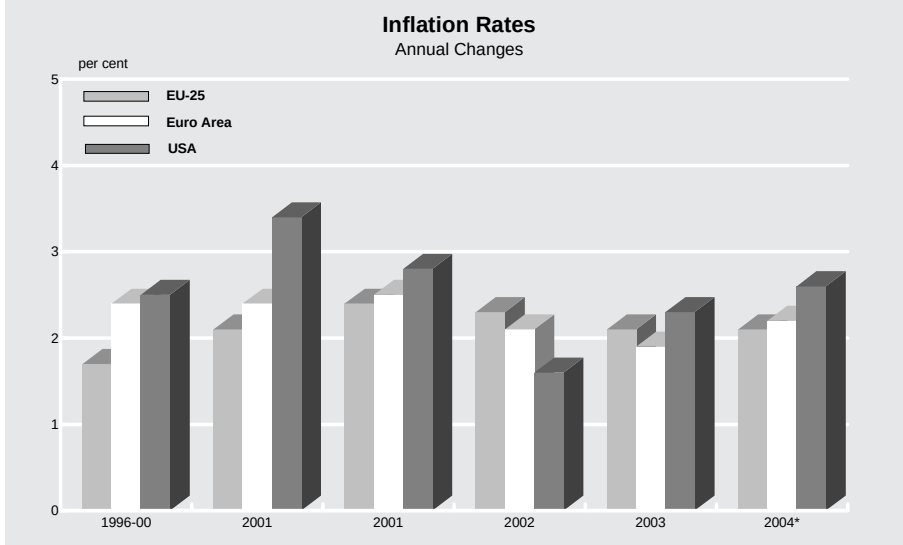
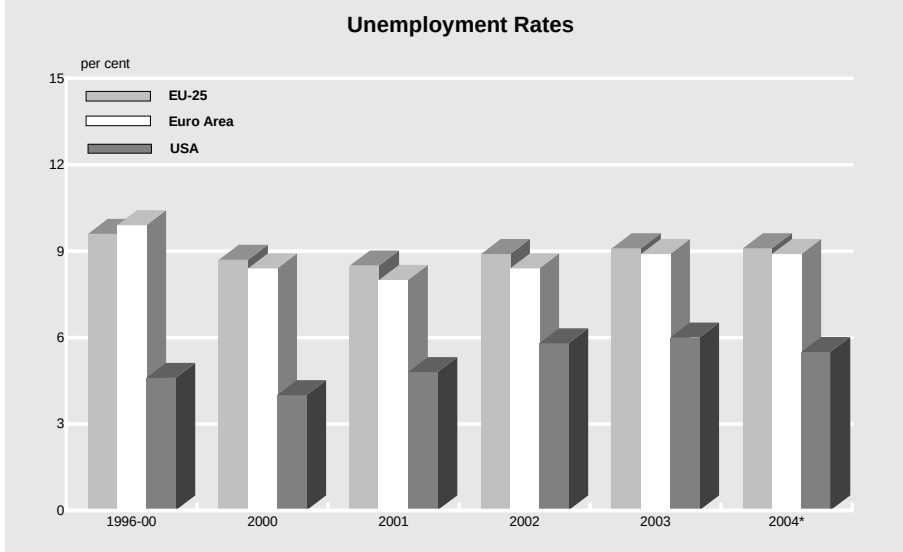


Chart 1.2



Growth in the United Kingdom (UK) should reach 3.3 per cent in 2004 representing the highest growth rate since 2001. Domestic demand is the main driver of this performance. Inflation in the UK should remain at 1.4 per cent during 2004, the same level as 2003. The effect of improved average earnings is expected to be offset by the tightening of monetary policy. Unemployment in 2004 should remain at relatively low levels of 4.9 per cent. A sustained appreciation of the Sterling dented the export growth leading to lower growth rates than most other European counterparts. The continued increase in imports led to a worsening of the current account balance as a percentage of GDP.

Growth in the US is expected to reach 4.4 per cent in 2004 from 3.1 per cent in 2003. Notwithstanding the current expansion in investment, consumption growth is expected to slowdown, as fiscal policy may not accommodate any further stimulus to growth while monetary policy becomes more neutral. Inflation is expected to increase to 2.6 per cent in 2004 due to higher energy prices. The unemployment rate should fall to 5.5 per cent in 2004, from 6.0 per cent in 2003. The current account deficit is expected to continue worsening in 2004 as the growth in exports is outpaced by the growth in imports.

The Japanese economy is projected to grow by a significant 4.2 per cent in 2004. This growth is underpinned not only by external demand but also by structural improvements in the corporate and financial sectors. It seems very likely however, that the growth will slow down as the peak of the upturn seems to be over. Deflation in Japan is expected to continue also in 2004, but to diminish marginally due to increased energy prices. The unemployment rate in Japan is expected to fall to 4.8 per cent in 2004. The current account balance as a per cent of GDP should remain very close to the level registered in 2003 in 2004 as export increases continue to outpace import increases.

Growth figures in Russia and China are expected to remain high in 2004, the latter driven by strong fixed investment and exports. Meanwhile, the Russian economy is expected to gain from sustained high prices for hydrocarbons while consumption and investment are also expected to underpin growth in 2004.

Commodity Markets

Oil prices have risen by more than 50 per cent both in US dollar and Euro terms since the beginning of the year. This was due to surging demand and concerns over political developments in major oil exporting countries that have adversely affected supply conditions. Stronger than expected demand for oil, mainly in the United States and China, has eliminated most of the excess oil production

capacity. Moreover, oil producing countries, including OPEC, are unable to increase capacity in the short -term, whilst stock levels in industrial countries remain low by historical standards.

The situation in Iraq, terrorist attacks in Saudia Arabia, political tensions and instability in Russia, Nigeria and Venezuela have contributed to the risks of a possible further shortage in oil supply further increasing the risk premium in oil prices.

As a result of the above developments, oil prices are expected to remain high over the medium term. The European Commission is expecting oil prices to be 38 per cent higher in 2004 than 2003.

Following the substantial increases in non-energy commodity prices during the second half of 2003, further but more modest gains were experienced in the first eight months of 2004. The slower increases coincided with China's move to cool down the pace of its economic expansion and the tightening of US monetary policy. Non-energy prices are expected to remain flat or decline marginally in the coming months as world growth is expected to slow down.

Sales in the semiconductor markets strengthened further during the first half of 2004, following the recovery in 2003. Experts expect 2004 to be a very strong year for semiconductor sales in terms of higher sales volumes rather than increased prices as demand for wireless goods continues to increase. Some analysts are expressing reservations about the market's prospects after 2004 as extra investment and higher production, that is outpacing demand, will lead to increased inventories and lower prices.

Future Economic Prospects

World economic activity is expected to remain strong as despite the tightening of highly expansionary monetary policies in some countries, real interest rates remain very low. The main downside risks to the robust growth are uncertainties about the impact of the higher oil prices on the world economy, worsening of external and internal imbalances in the United States, as well as the risk of a slowdown in China. Household indebtedness in the US is still at record levels, while the current account deficit continued to widen. Correction of these imbalances may imply a slowdown of the US economy with significant negative implications for the world economy.

EU 25 Projections

Table 1.7

	2003	2004*	2005*
Real GDP (% change)	1.0	2.5	2.3
Inflation (% change)	1.9	2.2	2.1
Unemployment Rate (% of labour force)	9.1	9.1	9.1

*Projections

Source: European Commission

As shown in Table 1.7, the European Commission anticipates growth within the EU 25 to slow marginally during 2005 to reach 2.3 per cent. This is mainly due to slower world increase in imports in 2005 which is expected to be translated in more modest increased exports for the EU 25 and Euro Area in 2005. Oil prices are expected to increase again by 15 per cent in 2005 maintaining pressure on inflation. Thus, this is projected to remain above 2 per cent in the EU 25 also in 2005. The unemployment rate should remain at 9.1 per cent for the EU 25 during 2005, that is, at the same level since 2003.

2. Economic Growth

2. Economic Growth

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.

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.

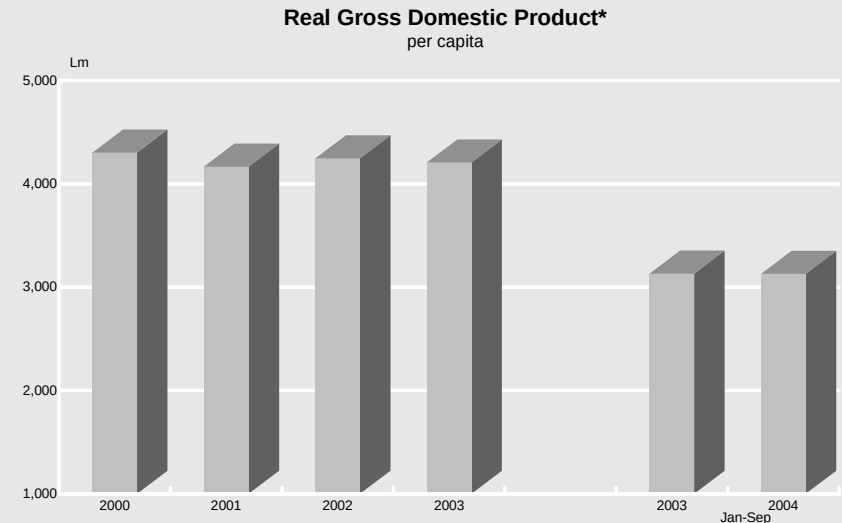
Following the introduction of the ESA95 methodology, Maltese national accounts are today published using three different approaches. The Production approach, published for the first time, under the ESA95 methodology, estimates GDP by looking at the contribution to production of economic units, that is 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

GDP by Category of Expenditure

Table 2.1

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.

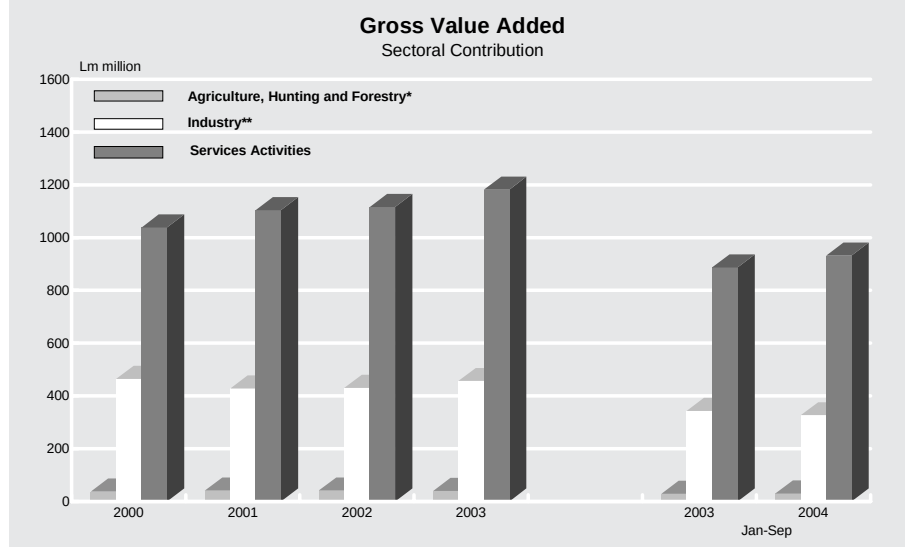
Sectoral Contribution to Gross Value Added

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.

Chart 2.2



*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 Compulsory 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

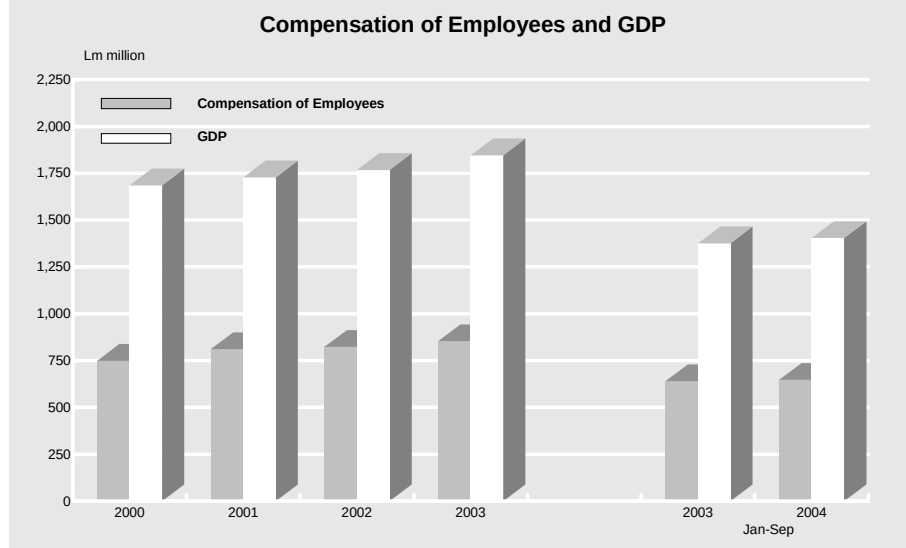
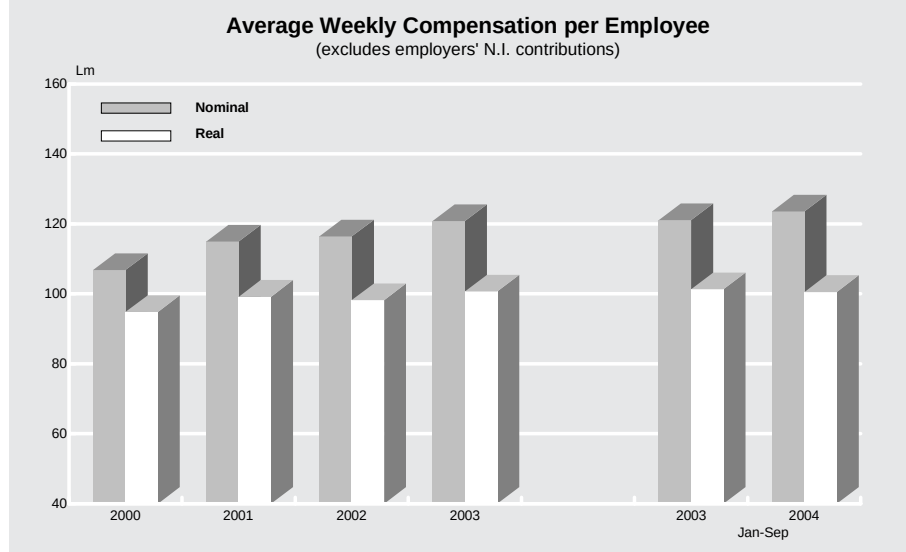


Chart 2.4



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*					
	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.

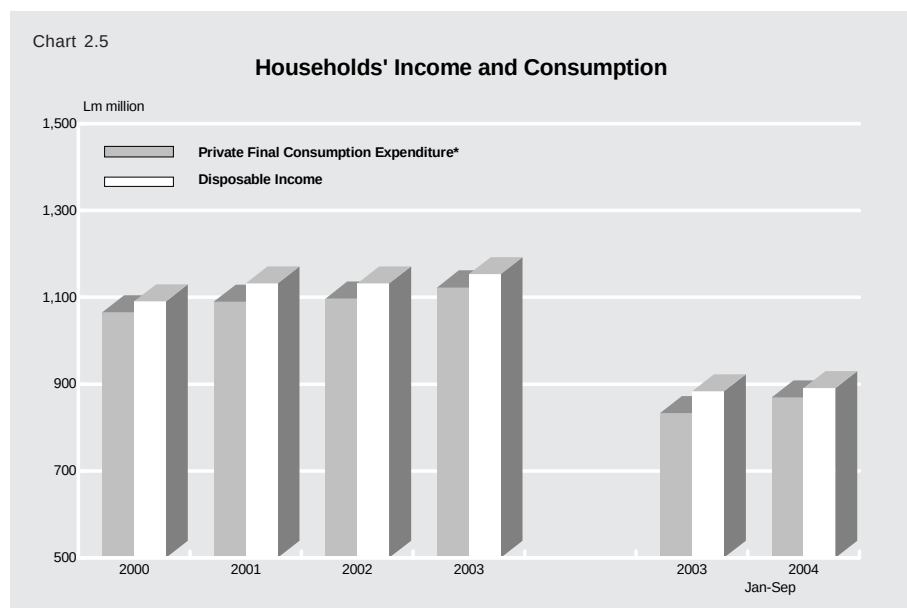
Household Disposable Income*					
Table 2.8	Lm million				
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
Compensation of Employees ⁽¹⁾	811.2	823.6	854.1	640.4	647.4
Non wage income ⁽²⁾	366.6	357.4	361.6	274.6	271.2
Net transfers from Government including social benefit payments	175.9	185.9	187.9	141.1	151.3
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.

3. Employment

3. Employment

The twelve months to September 2004 presented a number of challenges to the economy, as a combination of domestic and international factors affected the domestic labour market. Whilst the gainfully occupied population increased, the restructuring initiatives as well as the subdued performance of the domestic economy and slow growth in Malta's main trading partners may have contributed to the rise in the number of unemployed persons. However, the increase in unemployment was lower than that registered in the previous two years.

The labour supply stood at 145,414 at the end of September 2004, reflecting an increase of 492 over September 2003. The gainfully occupied population increased by 294 reaching 137,274 at the end of September 2004. The number of unemployed persons registering under Part I of the Register increased by 149, reaching a level of 7,382 at the end of the Survey period. As shown in Table 3.1, the unemployment rate edged up marginally by 0.1 percentage points, thus rising to 5.1 per cent.

Employment trends in Malta point towards increased reliance on the private sector and particularly market services as the main generator of employment. Employment in the private sector, inclusive of temporary employment, stood at 90,625, an increase of 938 or 1.0 per cent over September 2003. This was mainly due to an expansion of 1,135 jobs in the private market services category which was slightly offset by a decline of 132 in private direct production. As a result of these developments, the share of total private sector in the gainfully occupied population increased by 0.5 percentage points, reaching 66.0 per cent at the end of September 2004. Employment in the public sector, inclusive of temporary employees, declined by 644 or 1.4 per cent over the same period last year. Consequently, the share of public sector in the gainfully occupied population declined by 0.5 percentage points to 34.0 per cent. This decline was mainly due to restructuring efforts at Malta Shipyards Ltd, Public Broadcasting Services Ltd, Maltapost plc and Malta Enterprise Corporation.

The analysis on labour market developments contained in this Chapter is based on the latest employment statistics compiled by the Employment and Training Corporation (ETC). During 2004 the ETC, in line with its policy for the revision of provisional data, has revised employment statistics published earlier, with the aim of attaining a continuous update of labour market data. As a result, the data in this Chapter are not directly comparable to those presented in previous issues of the Economic Survey.

Labour Market Performance

Table 3.1

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Labour Supply	144,246	145,236	145,241	144,922	145,414
Males	103,911	104,172	103,854	103,233	103,197
Females	40,335	41,064	41,387	41,689	42,217
Gainfully Occupied	136,993	138,252	137,721	136,980	137,274
Males	97,776	98,402	97,780	96,968	96,692
Females	39,217	39,850	39,941	40,012	40,582
Total Private Sector	88,831	89,304	89,750	89,687	90,625
Private Direct Production	37,438	37,855	38,025	36,818	36,686
Private Market Services	50,622	50,700	50,954	52,177	53,312
Temporary Employment	771	749	771	692	627
Total Public Sector	48,162	48,948	47,971	47,293	46,649
Public Sector	47,915	48,694	47,692	47,000	46,386
Temporary Employment	247	254	279	293	263
Registered Unemployed*	7,253	6,984	7,520	7,942	8,140
Males	6,594	5,770	6,074	6,265	6,505
Females	659	1,214	1,446	1,677	1,635
% of Labour Supply	5.0	4.8	5.2	5.5	5.6
of which unemployment under Part I (%)	4.6	4.3	4.7	5.0	5.1
Self-Employed**	15,926	15,342	15,472	15,645	15,907
Males	13,969	13,402	13,465	13,568	13,752
Females	1,957	1,940	2,007	2,077	2,155
% of Gainfully Occupied	11.6	11.1	11.2	11.4	11.6
Memorandum:					
Total Direct Production***	38,482	38,881	38,923	37,715	36,865
Total Market Services****	60,337	61,308	61,905	62,747	64,346
Total Private Sector Share	64.8%	64.6%	65.2%	65.5%	66.0%
Total Public Sector Share	35.2%	35.4%	34.8%	34.5%	34.0%

*Includes both Parts I and II of the registered unemployed

**Included in the Private Sector

***Excluding temporary employees and public sector employees in the electricity and gas sector

****Excluding temporary employees and Malta Drydocks Corporation up to 2003 and Malta Shipyards Ltd in 2004

Source: Employment and Training Corporation

Box 3.1

The Labour Force Survey for the Maltese Islands

The Labour Force Survey (LFS) is a study carried out by the National Statistics Office (NSO) in accordance with the methodologies of the International Labour Organisation and Eurostat. The LFS provides detailed information on a range of labour market indicators, however it is not directly comparable to statistics emanating from the Employment and Training Corporation (ETC) mainly due to differences in definitions and methodologies of the two datasets.

As from the beginning of this year, the LFS published by NSO are not comparable on a like-with-like basis to those published earlier. This is because the data is based on a survey extended over the thirteen weeks of the quarter, in contrast with the methodology previously in place that referred to a single reference week. In this context, this section will focus on the LFS covering December 2003. Additionally, one must express caution in comparing Survey results over time as changes in employment of 1,800 or less may be the result of sampling error.

At the end of December 2003, the number of employed persons (inclusive of self-employed and part-timers) stood at 147,042, reflecting a decrease of 1,361 or 0.9 per cent over December 2002. At the end of December 2003, the total employment rate declined by 0.8 percentage points, and stood at 53.7 per cent. The number of male employees stood at 101,159, a decline of 961 or 0.9 per cent over the same period last year. Female employment declined by 1.0 per cent and amounted to 45,883 at the end of December 2003.

At 53.7 per cent, the total employment rate in Malta was 9.3 percentage points below the EU 25 average. As shown in the Table, at the end of December 2003, the male employment rate stood at 73.3 per cent, 2.4 percentage points higher than the EU 25 average. Meanwhile, at 33.7 per cent the female employment rate was 21.4 percentage points below the EU 25 average. Interestingly the employment gender gap, defined as the difference in the employment rates between females and males is the lowest for the 15-24 years cohort at 1.0 percentage points, rising to 52.7 percentage points and 40.1 percentage points for the 25-54 years cohort and 55-64 years cohorts, respectively.

According to the LFS, during December 2003, the number of unemployed persons stood at 12,596, an increase of 1,721 over the corresponding month of 2002. Males made up 67.5 per cent of total unemployed persons. This corresponds to an unemployment rate of 7.9 per cent, 1.2 percentage points below the EU 25 average. It is pertinent to note that in December 2003 the unemployment rate in EU 25 rose by 0.3 percentage points to 9.1 per cent.

The LFS provides also an interesting insight into gender differences in relation to work and pay. At the end of December 2003, the number of persons in full time job stood at 133,750, of which 72.7 per cent were males and 27.3 per cent females. Full-time employment with reduced hours and part-time employment were more prevalent among females. In fact females made up 68.7 per cent and 70.5 per cent of all persons in full-time employment with reduced hours and part-time employees respectively.

Box 3.1 continued

On an occupational basis, female clerks exceed the number of males by 1.4 per cent, however they are under-represented in all other categories. In particular, among the occupations having the highest average salary, the number of males exceeds females. In the case of legislators, senior officials and managers and professionals, males exceed females by 5.9 per cent whilst for professionals the corresponding figure is 0.8 per cent.

These gender differences in occupation are reflected in the average salary. The gender pay gap, defined as the average gross weekly earnings of males and females as a percentage of male average gross hourly earnings stood at 10.3 per cent. Furthermore, females tend to work shorter hours compared to males, as at the end of December 2003 the average number of hours worked by females stood at 38.5, or 1.8 hours less than males. This working pattern may also be reflected in the gender pay gap.

**Selection of Labour Force Survey
Indicators - December 2003**

	per cent	
	Malta	EU-25
Total Employment Rate	53.7	63.0
Male	73.3	70.9
Female	33.7	55.1
Total Unemployment Rate	7.9	9.1

Source: National Statistics Office, Eurostat

It is important to note that the data on registered unemployment is composed of both Part I and Part II of the Register. Part I of the Register includes those people who are eligible for work and registering with the ETC as unemployed while Part II incorporates other categories of persons searching for work but who are not eligible to register under Part I. Such categories include those who were dismissed from work due to disciplinary action or who left employment at their free will, those who refused work and training opportunities, those who failed to submit the necessary documents required for registration under Part I and those who were struck off after an inspection by the Law Enforcement Personnel. In this context, unemployment under Part I of the Register is used as the measure of economic developments in the domestic labour market.

Labour Market Developments

This section provides an overview of the salient labour market developments that occurred during the period covering September 2000 to September 2004. As shown in Chart 3.1, the labour supply rose by 1,168 or 0.8 per cent between September 2000 and September 2004, reaching a level of 145,414 at the end of September 2004. During this period, the labour supply registered a general upward trend, except for the twelve months to September 2003, mainly due to the economic restructuring.

On a gender basis, the increase in the labour supply recorded over the recent years was driven by a higher number of females, as the males category recorded a decline. In fact the male component in the labour force declined by 714 or 0.7 per cent between September 2000 and September 2004, with drops recorded during every year except in 2001. The number of females in the labour force stood at 42,217 in September 2004 thus reflecting an increase of 1,882 or 4.7 per cent over September 2000. As a consequence, the share of males in the labour force declined by a percentage point to 71.0 per cent while the share of females in the labour force rose from 28.0 to 29.0 per cent at the end of September 2004. Raising the employment rate, especially among females is one of the objectives of the Maltese Government, which is also highlighted in the draft National Action Plan for Employment published recently.



At the end of the Survey period, the gainfully occupied population stood at 137,274 reflecting an increase of 281 or 0.2 per cent over September 2000. This reflects increases recorded in the twelve months to September 2001 and September 2004 of 1,259 and 294, respectively that countered the drops of 531 and 741 in the year ending September 2002 and 2003, respectively.

The number of males in the gainfully occupied population declined by 1,084 over the period under review, reaching 96,692 at the end of September 2004. In contrast, the number of females in the gainfully occupied population stood at 40,582 at the end of September 2004, representing an increase of 1,365 or 3.5 per cent over September 2000.

As a result of these developments, the number of unemployed persons under Part I of the Register in the four years to September 2004 rose by 788. The number of unemployed persons declined by 379 between September 2000 and September 2001, however increases were recorded over the subsequent years. Nevertheless one should note that the increase in unemployment under Part I recorded during September 2004 was the lowest in the three years to September 2004 and that the increase in the number of unemployed persons appears to have decelerated. Hence the unemployment rate under Part I stood at 5.1 per cent at the end of September 2004, an increase of 0.5 percentage points over September 2000, whilst compared to September 2003, the unemployment rate rose marginally by 0.1 percentage points.

Private Sector Employment

Private sector employment, inclusive of temporary employment, registered increases over the period from September 2000 to September 2004, except for the twelve months to September 2003. Over the four-year period to September 2004, private sector employment increased by 1,794 or 2.0 per cent, reaching 90,625 at the end of September 2004. This increase was driven by higher employment in both private market services throughout this period and private direct production between September 2000 and September 2002. However, declines in private direct production were recorded in both the twelve months to September 2003 and September 2004.

Private direct production stood at 36,686, a decrease of 752 or 2.0 per cent over September 2000. Although an increase of 587 was recorded over the twenty-four months to September 2002, this increase was offset by declines of 1,207 and 132 during the years ending September 2003 and September 2004, respectively. These developments reflect mainly restructuring especially in the

local manufacturing industry. As a result, the share of private direct production in total employment declined from 27.3 per cent in September 2000 to 26.7 per cent in September 2004. The decline in private direct production was more than offset by the strong job creation registered in private market services over the period under review. Private market services stood at 53,312 at the end of September 2004, representing an increase of 2,690 or 5.3 per cent over the period September 2000 to September 2004. This increase registered over the four years to September 2004 was mainly concentrated in the community and business sub-sector. Consequently the share of private market services in the gainfully occupied population stood at 38.8 per cent at the end of September 2004, 1.8 percentage points higher than that for September 2000.

As a share of total private sector employment, private direct production stood at 40.5 per cent at the end of September 2004, around 1.7 percentage points less than September 2000. Conversely, the share of private market services out of total private sector employment stood at 58.8 per cent in September 2004, up from 57.0 per cent recorded at the end of September 2000. These figures are consistent with the long-term trend towards greater reliance on private market services that is being experienced by the Maltese economy.

The number of temporary employed in the private sector was on a downward trend over the period September 2000 to September 2004, except for an increase in the twelve months to September 2002. Temporary employment in the private sector stood at 627 at the end of September 2004, a decline of 144 over September 2000.

After a drop in the twelve months to September 2001, the number of self-employed increased consistently in the subsequent years although ending at almost the same level recorded in September 2000. In fact the number of self-employed at the end of September 2004 stood at 15,907. The share of self-employment in the gainfully occupied population in September 2004 continued to follow an upward trend, following the drop in 2001. This reached 11.6 per cent in September 2004.

On a gender basis, the number of male self-employed stood at 13,752 at the end of September 2004, a decline of 217 when compared to September 2000. Meanwhile the number of female self-employed stood at 2,155 representing an increase of 10.1 per cent over September 2000. Consequently, the share of female self-employed in total self-employed stood at 13.5 per cent at the end of September 2004, up from 12.3 per cent recorded four years earlier, but still

relatively low when compared to the share of females in the gainfully occupied population.

Public Sector Employment

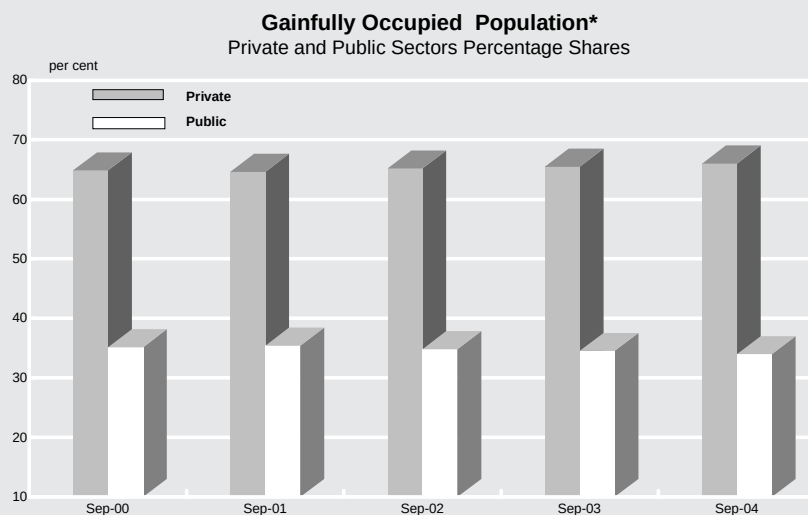
During the period September 2001 to September 2004, public sector employment was generally on a downward trend. At the end of September 2004 total employment in the public sector, inclusive of temporary employment, stood at 46,649, representing a decrease of 1,513 over the same period in 2000. Consequently, as shown in Chart 3.2, the share of total public sector employment in the gainfully occupied population stood at 34.0 per cent, 1.2 percentage points below the share recorded in September 2000. This drop was mainly due to privatisation as well as restructuring initiatives in public sector entities carried out during this period. As shown in Table 3.2, during September 2004 public sector employment declined by 644 when compared to the same period in 2003. Employment in Government Departments stood at 30,022, a marginal decline of 60 over September 2003 but some 700 persons less than in 2000.

As mentioned earlier, several restructuring programmes were implemented during the Survey period in a number of state-owned enterprises. Early retirement schemes as well as redeployment of surplus staff with the Public Sector were implemented at Maltapost plc and in Public Broadcasting Services Ltd. Additionally during the first quarter of 2004, Malta Enterprise Corporation took over the functions previously held by the Malta Development Corporation, the Institute for the Promotion of Small Enterprises and the Malta External Trade Corporation. A voluntary early retirement scheme was introduced and subsequently, employees who were not recruited by Malta Enterprise Corporation or Malta Industrial Parks Ltd and who did not take up early retirement were retained in the Public Sector for eventual re-deployment.

Moreover, the setting up of Malta Shipyards Ltd during the fourth quarter of 2003 absorbed around 1,700 employees out of approximately 2,600 previously employed with the Malta Shipbuilding Co Ltd and Malta Drydocks Corporation. The remaining employees were either transferred to a new company, Industrial Project and Services Ltd (IPSL), or opted for early retirement schemes, some of which allowed those eligible to register for unemployment.

The developments described above had a considerable impact on employment in companies with public sector majority shareholding and Independent Statutory Bodies. Indeed, employment with public sector majority shareholding companies dropped by 974 during the twelve months to September 2003 mainly due reforms

Chart 3.2



*including temporary employees

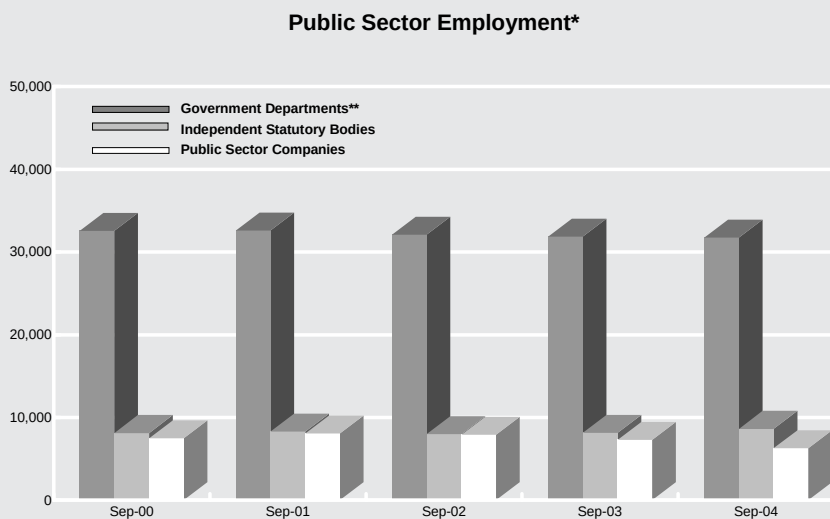
Public Sector Employment

Table 3.2

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Government Departments	30,714	30,825	30,349	30,082	30,022
Companies with public sector majority shareholding	7,457	7,990	7,841	7,199	6,225
Independent Statutory Bodies	8,085	8,267	7,895	8,066	8,510
Armed Forces & Revenue Security Corps.	1,659	1,612	1,607	1,653	1,629
Temporary Employees	247	254	279	293	263
Total	48,162	48,948	47,971	47,293	46,649

Source: Employment and Training Corporation

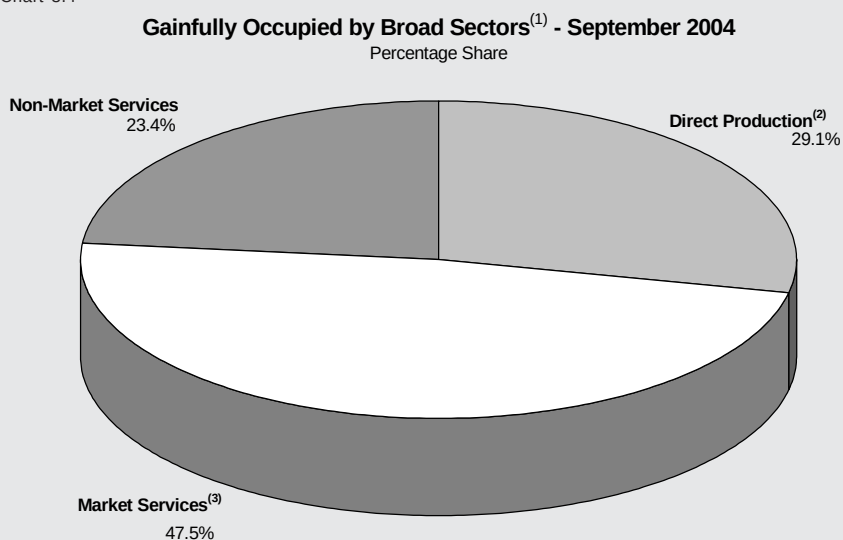
Chart 3.3



*including temporary employees

**Government Departments include Armed Forces and Revenue Security Corps

Chart 3.4



(1) excluding temporary employees

(2) including electricity and gas services

(3) including Malta Shipyards Ltd

carried out in Malta Shipyards Ltd, restructuring reforms in Maltapost plc and Public Broadcasting Services Ltd and changes related to the establishment of Malta Enterprise Corporation. Consequently, the share in the public sector accounted for by public sector majority shareholding companies stood at 13.3 per cent, 1.9 percentage points lower than September 2003.

At the end of September 2004, employment with Independent Statutory Bodies stood at 8,510, an increase of 444 over the same period last year. These changes were attributed to recruitment at the Malta College for Arts Science and Technology (MCAST) as well as the establishment of Malta Shipyards Ltd and IPSL that resulted in a re-classification of workers from the companies with public sector majority shareholding category. Consequently, the share of Independent Statutory Bodies in public sector employment rose by 1.1 percentage point to 18.2 per cent. These developments are highlighted in Chart 3.3. During the twelve months to September 2004, a drop of 30 was recorded in the number of temporary employees engaged in the public sector, ending the period at a level of 263.

Sectoral Employment

Chart 3.4 highlights the share of market services, direct production and non-market services in the gainfully occupied population as at September 2004. As shown in the Chart, the share of the market services category, stood at 47.5 per cent, and at the end of Survey period it was the major contributor to employment in Malta. Moreover, the share of employment in direct production and non-market services stood at 29.1 and 23.4 per cent respectively.

The following analysis gives a detailed overview of the main employment developments in clusters of economic activity in both direct production and market services categories recorded during the twelve months ending September 2004.

Direct Production

As highlighted in Table 3.3, total employment in direct production stood at 36,865 at the end of September 2004, a decline of 850 or 2.3 per cent over the same period last year. Employment in direct production is almost entirely provided by the private sector with a share in total employment in direct production of 99.5 per cent at the end of September 2004, an increase of 1.9 percentage points over September 2003. The decline in total direct production employment is

Employment in Direct Production*

Table 3.3

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Agriculture & Fisheries	2,199	2,162	2,219	2,292	2,278
Private	2,199	2,162	2,219	2,292	2,278
Public	-	-	-	-	-
Stone and non-Metallic Quarrying, Construction & Oil Drilling	6,433	6,759	6,986	6,977	7,144
Private	6,297	6,624	6,853	6,844	7,016
Public	136	135	133	133	128
Manufacturing	29,850	29,960	29,718	28,446	27,443
Private	28,942	29,069	28,953	27,682	27,392
Public	908	891	765	764	51
Total Employment in Direct Production	38,482	38,881	38,923	37,715	36,865
Private	37,438	37,855	38,025	36,818	36,686
Public	1,044	1,026	898	897	179

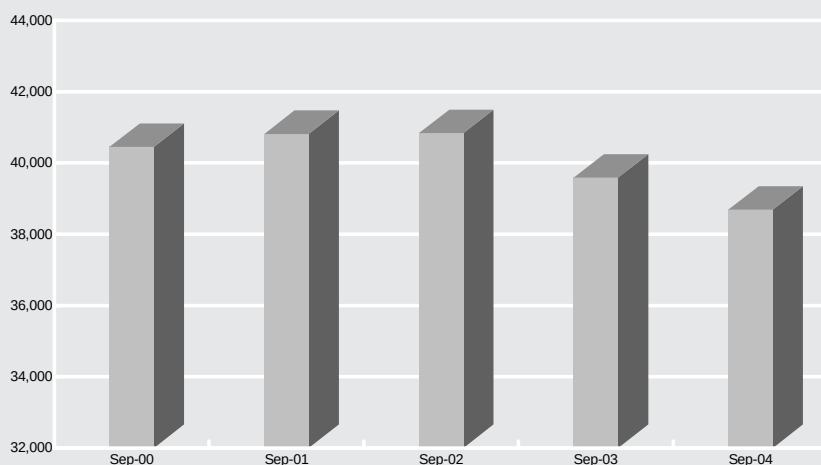
* Excluding temporary employees and public sector employees in the electricity and gas sector

Source: Employment and Training Corporation

Chart 3.5

Direct Production*

Total Sector Employment



*including electricity and gas services

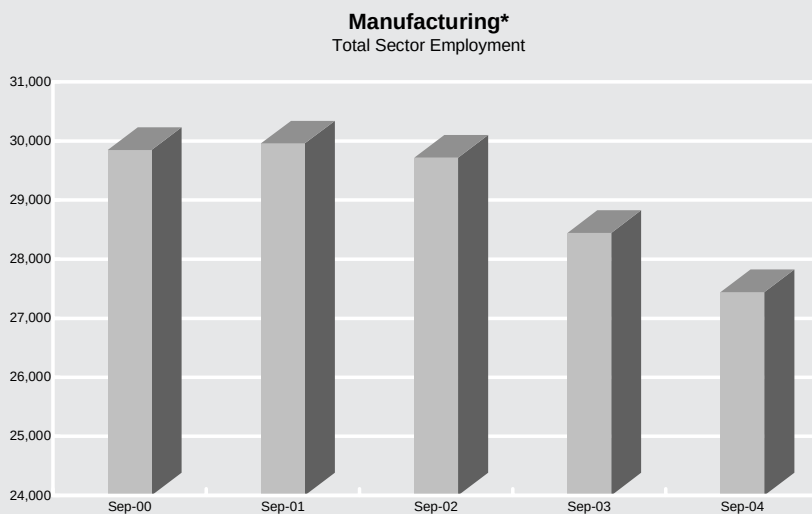
mainly due to a lower public sector complement of 718 over September 2003, mainly as a result of the implementation of restructuring programmes in a number of public entities. Meanwhile employment in the private sector declined by 132. Chart 3.5 shows the employment levels in direct production over the period covering September 2000 to September 2004.

Employment in agriculture and fisheries stood at 2,278 at the end of September 2004, a marginal decline of 14 over the same month of 2003. The share of agriculture and fisheries in total employment in direct production stood at 6.2 per cent, a marginal increase of 0.1 percentage points over September 2003. The labour complement in the stone and non-metallic quarrying, construction and oil drilling increased by 167 or 2.4 per cent over September 2003. This increase in employment is attributed to the private sector and at the end of September 2004 the share of stone and non-metallic quarrying, construction and oil drilling in total employment in direct production stood at 19.4 per cent.

Employment in manufacturing stood at 27,443, a decline of 1,003 over September 2003. This outcome is mainly due to a drop in public sector employment of 713 over the same period last year, as a result of the restructuring at the shipyards. In particular, a number of workers were transferred to the market services category following the setting up of IPSL. Private sector employment in manufacturing declined by 290, ending the year at the level of 27,392. This is mainly due to drops recorded in footwear and clothing, machinery and transport equipment. However, this decline was much lower than that registered in the twelve months to September 2003. At the end of September 2004 the share of manufacturing employment in direct production stood at 74.4 per cent, 1.0 percentage points below that recorded twelve months earlier. Chart 3.6 depicts the employment levels in manufacturing during the period September 2000 – September 2004.

Total sectoral job gains in manufacturing during the twelve months to September 2004 amounted to 503, up from 223 recorded in the same month of 2003. The increases arose in the private sector primarily in textiles and electrical machinery. As shown in Table 3.4, sectoral job losses in the private sector amounted 793, significantly below the level recorded during the twelve months to September 2003. These were concentrated in footwear and clothing, beverages, furniture and fixtures, machinery and transport equipment. Job losses in the public sector stood at 713 and were mainly due to the restructuring at the shipyards. Further detailed information about employment developments in manufacturing is found in Table 3.5.

Chart 3.6



*including private sector electricity and gas services

Changes in Manufacturing Employment*

Table 3.4

	2001-00 Sep	2002-01 Sep	2003-02 Sep	2004-03 Sep
Total Change	110	-242	-1,272	-1,003
Private	127	-116	-1,271	-290
Public	-17	-126	-1	-713
Total Sectoral Increases	606	703	223	503
Private	606	702	223	503
Public	-	1	-	-
Total Sectoral Decreases	496	945	1,495	1,506
Private	479	818	1,494	793
Public	17	127	1	713

* Excluding temporary employees and public sector employees in the electricity and gas sector

Source: Compiled from Employment and Training Corporation data

Manufacturing Employment*

Table 3.5

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Food mfg	3,116	3,055	3,063	3,046	3,038
Private	3,094	3,034	3,044	3,027	3,024
Public	22	21	19	19	14
Beverages mfg	1,269	1,278	1,214	1,263	1,224
Private	1,269	1,278	1,214	1,263	1,224
Public	-	-	-	-	-
Tobacco mfg	163	177	168	167	161
Private	163	177	168	167	161
Public	-	-	-	-	-
Mfg of Textiles	1,084	1,498	1,675	1,407	1,581
Private	1,084	1,498	1,675	1,407	1,581
Public	-	-	-	-	-
Mfg of Footwear, Clothing etc	3,264	3,275	2,882	2,137	1,650
Private	3,264	3,275	2,882	2,137	1,650
Public	-	-	-	-	-
Mfg of Wood & Cork	39	30	27	22	18
Private	39	30	27	22	18
Public	-	-	-	-	-
Mfg of Furniture & Fixtures	2,384	2,322	2,270	2,173	2,110
Private	2,384	2,322	2,270	2,173	2,110
Public	-	-	-	-	-
Mfg of Paper products	302	322	320	307	304
Private	302	322	320	307	304
Public	-	-	-	-	-
Printing & Allied mfg	1,569	1,576	1,677	1,728	1,716
Private	1,518	1,528	1,628	1,680	1,682
Public	51	48	49	48	34
Mfg of Leather & Leather Goods	215	215	192	184	173
Private	215	215	192	184	173
Public	-	-	-	-	-
Mfg of Rubber products	985	966	942	938	923
Private	985	966	942	938	923
Public	-	-	-	-	-
Mfg of Chemical products	1,197	1,174	1,163	1,032	1,022
Private	1,197	1,174	1,163	1,032	1,022
Public	-	-	-	-	-
Mfg of Non-Metallic products	1,014	999	1,033	1,009	1,007
Private	1,014	999	1,033	1,009	1,007
Public	-	-	-	-	-
Mfg of Metal products	1,382	1,423	1,425	1,389	1,371
Private	1,382	1,423	1,425	1,389	1,371
Public	-	-	-	-	-
Mfg of Machinery	643	618	858	746	614
Private	643	618	858	746	614
Public	-	-	-	-	-

Manufacturing Employment*

Table 3.5

continued

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Mfg of Electrical Machinery, Appliances & Supplies	5,803	5,867	6,006	6,052	6,166
Private	5,803	5,867	6,006	6,052	6,166
Public	-	-	-	-	-
Mfg of Transport Equipment	2,683	2,694	2,511	2,582	2,000
Private	1,862	1,885	1,822	1,893	2,000
Public	821	809	689	689	-
Miscellaneous and other mfg	2,738	2,471	2,292	2,264	2,365
Private	2,724	2,458	2,284	2,256	2,362
Public	14	13	8	8	3
Total Manufacturing Employment	29,850	29,960	29,718	28,446	27,443

* Excluding temporary employees and public sector employees in the electricity and gas sector

Source: Employment and Training Corporation

Food and Beverages

Employment in the food and beverages sector stood at 4,262 at the end of September 2004, a decline of 47 or 1.1 per cent over the previous twelve months. The share of the food and beverages sector in total manufacturing employment stood at 15.5 per cent, 0.4 percentage points above the same period last year. The performance of this sector was influenced by the increased competition arising from the removal of all remaining protective levies on agro-industrial products. Chart 3.7 illustrates the main developments in the food and beverage sector during the period September 2000 – September 2004.

Textiles, Footwear and Clothing

Employment in textiles, footwear and clothing amounted to 3,231 at the end of September 2004, a decline of 313 when compared to the same period of 2003. This drop is due to a decline of 487 in employment in footwear and clothing following redundancies by some firms operating in this sub-sector, as a consequence of international competition from low-wage countries in this highly labour-intensive sub-sector. Meanwhile, employment in the textiles sub-sector increased by 174 over September 2003. At the end of September 2004, the share of textiles, footwear and clothing in the manufacturing employment stood at 11.8 per cent, down from 12.5 per cent recorded in the previous twelve

Chart 3.7

Food & Beverages
Total Sector Employment

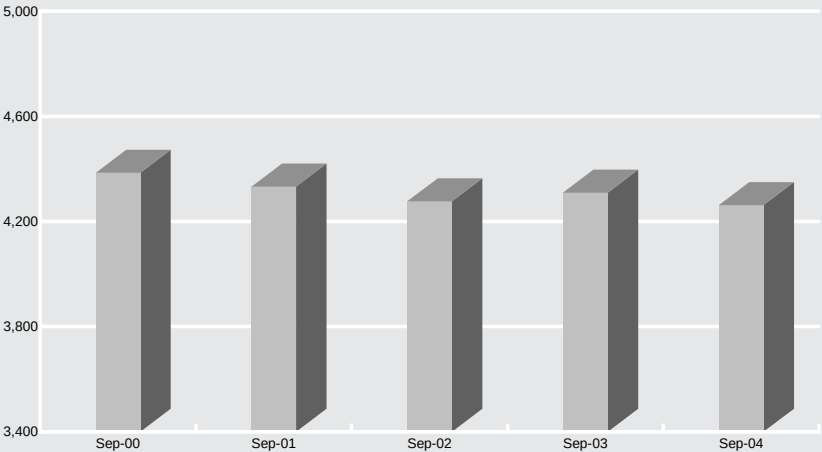
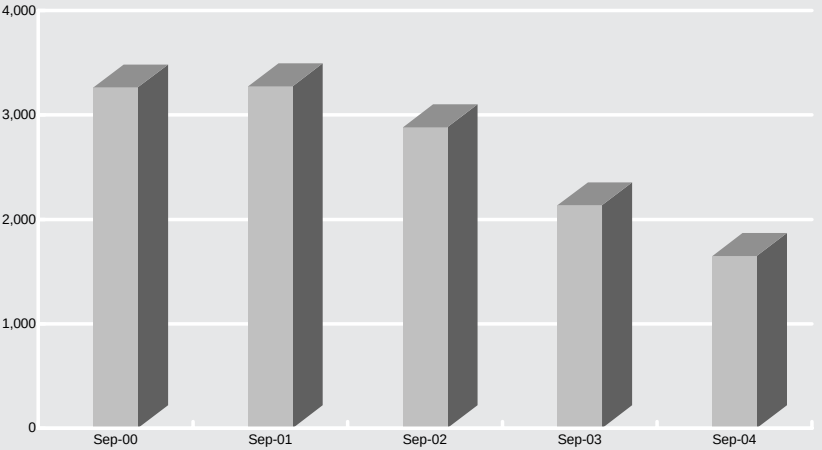


Chart 3.8

Footwear & Clothing
Total Sector Employment



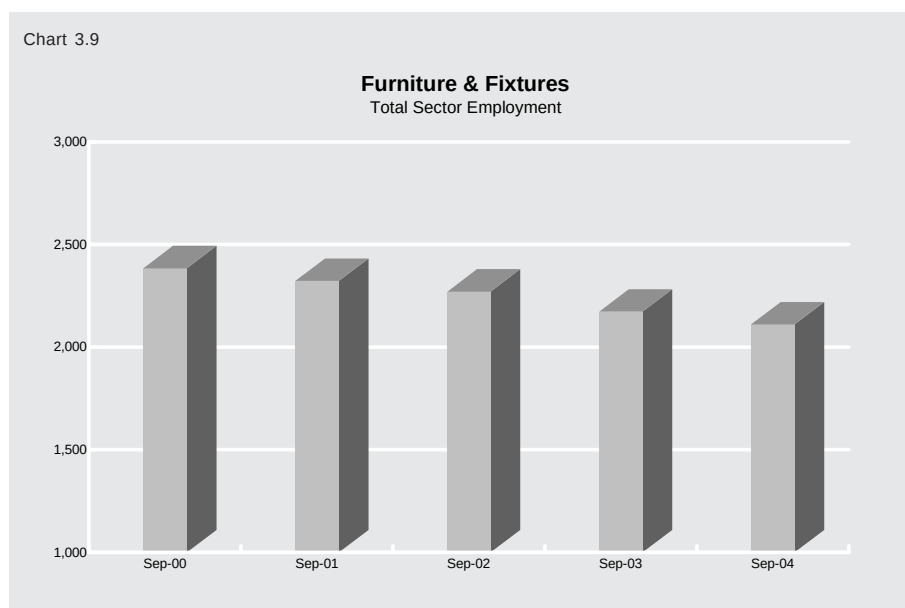
months. Chart 3.8 depicts the main developments in the footwear and clothing sub-sector over the recent years, thus showing continuous decreases since September 2001.

Furniture and Fixtures

At the end of September 2004, the number of employees in the furniture and fixtures sector stood at 2,110, a decline of 2.9 per cent over the same month in 2003. As shown in Chart 3.9, the number of employees in the furniture and fixtures sector followed a downward trend over the recent years, reflecting the restructuring of this sector triggered by the liberalisation of imported furniture products. The share of furniture and fixtures in total manufacturing employment stood at 7.7 per cent, 0.1 percentage points higher than the same period last year.

Paper Products and Printing

Aggregate employment in the paper products and printing sector stood at 2,020 at the end of September 2004, a marginal decline of 15 over September 2003. One notes, however, that this sector has experienced a steady rise in employment in recent years. The paper products and printing sector accounted for 7.4 per cent of total employment in manufacturing, an increase of 0.2 percentage points over September 2003.



Chemical Products

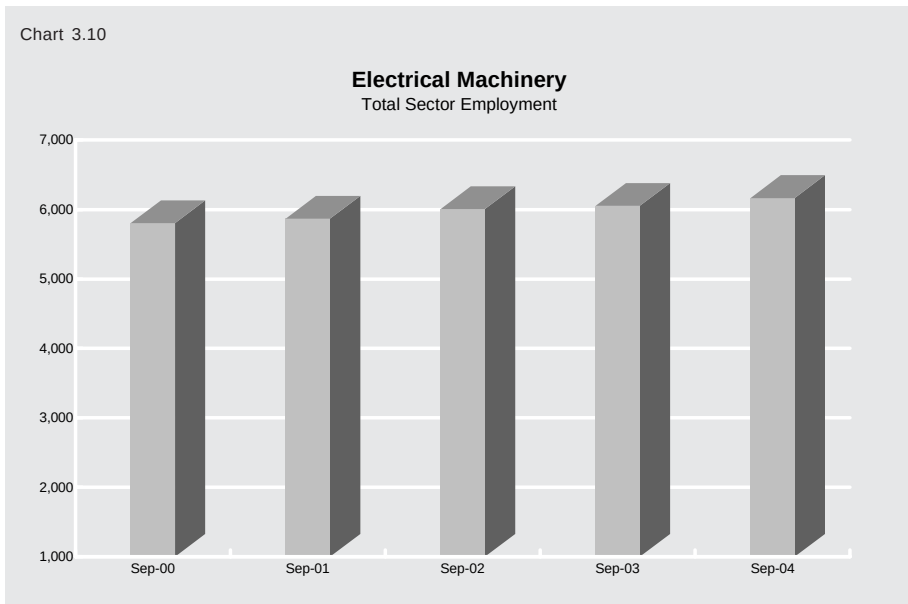
At the end of September 2004, employment in the chemical products sector stood at 1,022, a marginal decline of 10 employees over the same period last year. The share of the chemical products sector in total manufacturing stood at 3.7 per cent, almost unchanged from the share recorded in September 2003.

Non-Metallics and Metal Products

Aggregate employment in the non-metallics and metal products sector declined by 20 during the year ending in September 2004, down to a level of 2,378. The main drop in employment was attributed to the metal products sub-sector. The share of employment in non-metallics and metal products sector stood at 8.7 per cent, 0.3 percentage points less than that recorded in September 2003.

Machinery, Electrical Machinery, Appliances and Supplies

At the end of September 2004, employment in the machinery, electrical machinery, appliances and supplies sector declined marginally by 18 to 6,780 over the same period last year. This decline was mainly due to a drop of 132 in the machinery sub-sector, while an increase of 114 employees in the electrical machinery, appliances and supplies sub-sector partly mitigated this drop in employment. The better employment results reported by the electrical machinery, appliances and supplies sub-sector reflected the recovery of the global semiconductors industry. Employment in the electrical machinery, appliances and supplies sub-



sector was on a gradually rising trend over the period September 2000 – September 2004 as highlighted in Chart 3.10. At the end of the Survey period, the share of the machinery, electrical machinery, appliances and supplies sector stood at 24.7 per cent, up from 23.9 per cent recorded at the end of September 2003.

Market Services

In line with the trends noted in past years, market services remained the generator of employment in the Maltese economy. Chart 3.11 illustrates the main developments in market services employment between September 2000 and September 2004. At the end of September 2004, employment in market services stood at 64,346 representing an increase of 1,599 or 2.5 per cent over September 2003. As shown in Table 3.6 and Table 3.7, higher employment was mainly driven by the private sector market services that recorded an increase of 1,135. Employment in the public sector market services was up by 464 mainly as a result of a transfer of employees from the direct production category following the setting up of IPSL.

Total sectoral job gains in the market services category amounted to 1,876 of which 1,253 originated from the private sector and 623 took place in the public sector. The latter reflects the above mentioned shift of employees due to the restructuring of the shipyards. Meanwhile, total sectoral job losses stood at 277 mainly as a result of declines of 118 and 159 in the private and public sectors, respectively. Job increases arose mainly in community and business, wholesale

Changes in Employment in Market Services*

Table 3.6

	2001-00 Sep	2002-01 Sep	2003-02 Sep	2004-03 Sep
Total Change	971	597	842	1,599
Private	78	254	1,223	1,135
Public	893	343	-381	464
Total Sectoral Increases	2,271	1,564	1,478	1,876
Private	1,258	1,000	1,478	1,253
Public	1,013	564	-	623
Total Sectoral Decreases	1,300	967	636	277
Private	1,180	746	255	118
Public	120	221	381	159

* Excluding temporary employees and Malta Drydocks Corporation up to 2003 and Malta Shipyards Ltd in 2004

Source: Compiled from Employment and Training Corporation data

Employment in Market Services*

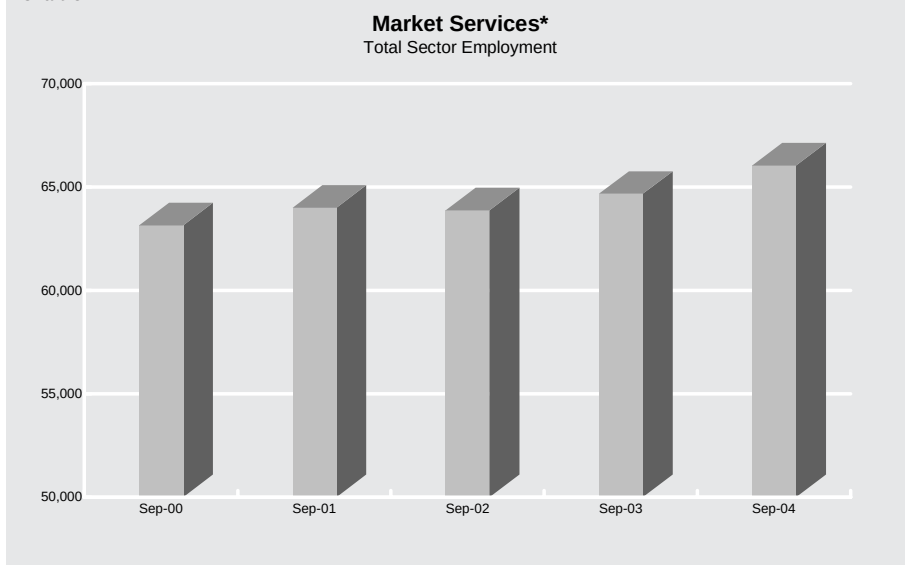
Table 3.7

	2000 Sep	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Wholesale & Retail trades	15,633	15,289	15,593	15,993	16,430
Private	15,633	15,289	15,593	15,993	16,430
Public	-	-	-	-	-
Banks & Financial institutions	4,228	4,140	4,052	4,039	4,017
Private	3,827	3,721	3,598	3,588	3,553
Public	401	419	454	451	464
Insurance	816	852	842	831	852
Private	811	845	835	824	847
Public	5	7	7	7	5
Real Estate	492	492	486	507	480
Private	454	456	455	477	460
Public	38	36	31	30	20
Transport	8,300	7,712	7,564	7,496	7,583
Private	5,855	5,236	5,171	5,115	5,219
Public	2,445	2,476	2,393	2,381	2,364
Storage & Warehousing	694	740	759	769	751
Private	170	137	147	158	148
Public	524	603	612	611	603
Communications	2,383	2,572	2,537	2,277	2,142
Private	667	806	886	732	676
Public	1,716	1,766	1,651	1,545	1,466
Community & Business	14,315	15,762	16,843	17,594	18,739
Private	10,347	11,053	11,614	12,615	13,150
Public	3,968	4,709	5,229	4,979	5,589
Recreation services	840	1,143	941	924	943
Private	693	1,012	822	810	835
Public	147	131	119	114	108
Hotels & Catering establishments	9,812	9,962	9,599	9,584	9,590
Private	9,443	9,501	9,144	9,132	9,175
Public	369	461	455	452	415
Other personal services	2,824	2,644	2,689	2,733	2,819
Private	2,722	2,644	2,689	2,733	2,819
Public	102	-	-	-	-
Total Employment in Market Services	60,337	61,308	61,905	62,747	64,346

* Excluding temporary employees and Malta Drydocks Corporation up to 2003 and Malta Shipyards Ltd in 2004

Source: Employment and Training Corporation

Chart 3.11



*including Malta Drydocks Corporation up to September 2003 and Malta Shipyards Ltd in September 2004

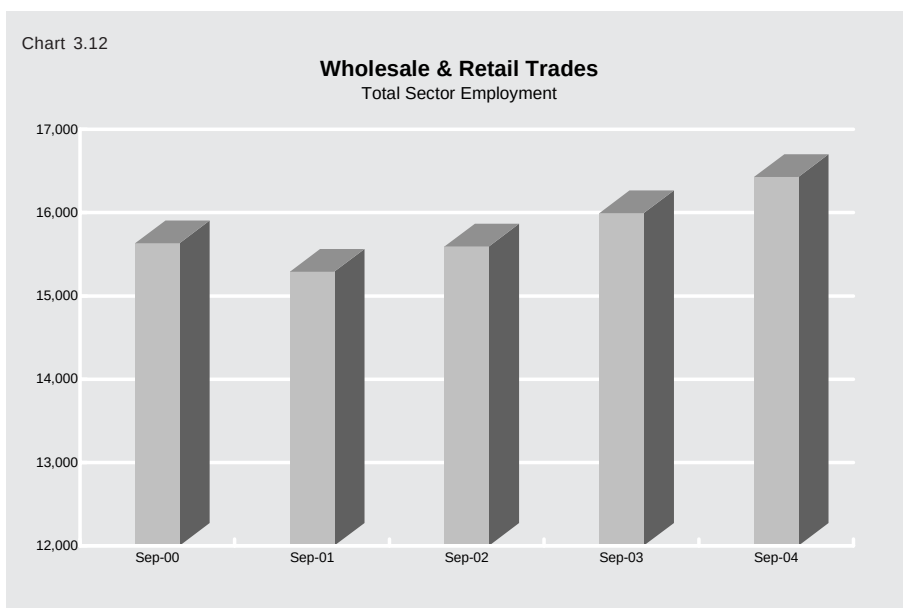
and retail trades, transport and other personal services. Job losses mainly occurred in the communications, real estate and banks and financial institutions.

Wholesale and Retail Trades

The labour complement in the wholesale and retail trades sector rose by 437, reaching 16,430 at the end of September 2004. As shown in Chart 3.12, employment in the wholesale and retail trade was on rising trend except for a decline recorded in the twelve months to September 2001 attributed to the closure of a major supermarket chain. This rise was distributed among a number of operators within the private sector. The share of employment in the wholesale and retail trades sector in total market services stood at 25.5 per cent, unchanged from September 2003.

Banks, Financial Institutions, Insurance and Real Estate

Aggregate employment in the banks, financial institutions, insurance and real estate sector stood at 5,349, a marginal decline of 28 or 0.5 per cent over the comparable month of 2003. This decline was mainly due to reductions of 22 and 27 employees in the banks and financial institutions and the real estate sub-sectors, respectively. In contrast, an increase of 21 persons was recorded in the insurance sub-sector. Consequently the share of the banks, financial institutions, insurance and real estate sector in total market services stood at



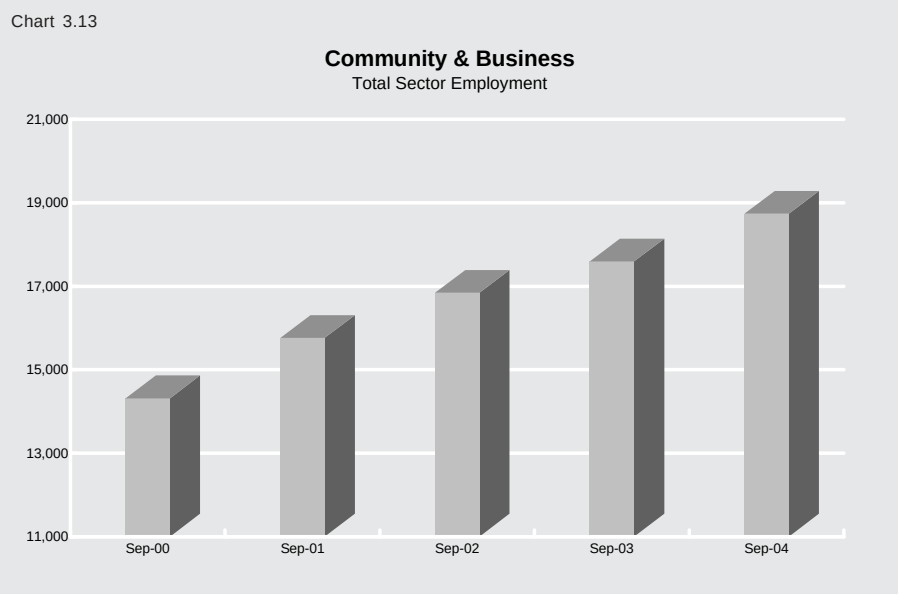
8.3 per cent at the end of September 2004, a drop of 0.3 percentage points over September 2003.

Transport

Employment in the transport sector stood at 7,583, an increase of 87 or 1.2 per cent over September 2003. This mainly reflected an increase of 104 in private sector employment, whilst the public sector complement declined by 17. The share of transport in market services stood at 11.8 per cent, practically unchanged from September last year.

Storage, Warehousing, Communications and Community and Business

During the twelve months to September 2004, employment in storage, warehousing, communications and community and business sector increased by 992 or 4.8 per cent to 21,632. This increase is mainly due to a rise in community and business employment by 1,145 of which 535 arose in the private sector and 610 in the public sector. The rise in private sector employment was spread among several operators within the sub-sector, while the rise in public sector employment was due to the transfer of employees from the direct production category following the setting up of IPSL and recruitment in MCAST. As depicted



in Chart 3.13, employment in the Community and Business category followed an upward trend over the recent years.

Employment in the storage and warehousing sub-sector declined by 18 when compared to September 2003. Meanwhile, employment in the communications sub-sector fell by 135, following a reduction of 56 and 79 persons from the private and public sector complement respectively. The decline in public sector employment was mainly a result of the restructuring effort at the Public Broadcasting Services Ltd. At the end of September 2004, the share of the storage, warehousing, communications and community and business sector in the market services category stood at 33.6 per cent, up from 32.9 per cent recorded during the comparable month of 2003.

Recreation Services, Hotels, Catering Establishments and Others

Aggregate employment in recreation services, hotels, catering establishments and others stood at 13,352 at the end of September 2004, a rise of 111 or 0.8 per cent over September 2003. This increase was mainly as a result of higher employment in all three sub-sectors. Employment in recreation services rose by 19 persons as a result of an increase of 25 in the private sector and a decline of 6 persons in the public sector. The labour complement in the hotels and catering establishments sub-sector increased marginally by 6, due to an increase of 43 in the private sector and a decline of 37 recorded in the public sector.

Chart 3.14



Employment in the other personal services category rose by 86, mainly as a result of relatively small-scale recruitment by several employers in the private sector. As illustrated in Chart 3.14, the declines in employment in the hotels and catering establishments sub-sector experienced during the previous two years seems to have been arrested during the period under review. At the end of September 2004 the share of recreation services, hotels, catering establishments and others sector stood at 20.8 per cent, a decrease of around 0.3 percentage points over the share recorded in September 2003.

Unemployment

The analysis in this section is based on the registered unemployed statistics pertaining to Part I of the unemployment Register. The number of Registered Unemployed persons stood at 7,382 at the end of September 2004, an increase of 149 over the same period last year. As a result, the unemployment rate stood at 5.1 per cent, a marginal increase of 0.1 percentage points over September 2003. It is noteworthy that the rise in unemployment was mainly the result of higher unemployment among males, while the number of females registering for unemployment declined. In fact male unemployment rose by 186 thus reaching 5,933 or 80.4 per cent of total unemployment as at the end of September 2004. In contrast, the number of female unemployed stood at 1,449 or 19.6 per cent of total unemployment, a decline of 37 or 2.5 per cent over September 2003. These developments partly capture the effect of the early retirement

Registered Unemployed*
by age distribution

Table 3.8

	Registered Unemployed	16 - 24 years %	25 - 49 years %	over 49 years %
1999	7,695	28.6	57.0	14.4
2000	6,583	27.5	56.8	15.7
2001	6,753	29.2	55.4	15.4
2002	6,774	28.3	56.2	15.5
2003	7,494	28.4	55.1	16.5
2003 (Sep)	7,233	30.1	55.5	14.4
2004 (Sep)	7,382	27.1	55.7	17.2

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

schemes that occurred in some public sector enterprises during the period under review and which were mostly taken up by male employees. Moreover, during the year ending in September 2004, the age distribution of registered unemployed shifted towards older workers as the share of persons aged 49 and over in total unemployment stood at 17.2 per cent, 2.8 percentage points more than September 2003 as shown in Table 3.8. In contrast, the share of youth unemployment in total employment, defined as the group of persons aged between 16 and 24, stood at 27.1 per cent, a decline of 3.0 percentage points over the same period last year. The share of the 25-49 age group increased only by a margin of 0.2 percentage points over September 2003.

As shown in Table 3.9, the share of persons registering for work for 9 to 48 weeks rose by 2.9 percentage points, reaching 37.3 per cent at the end of September 2004. This change in the distribution of registered unemployed by duration coincides with the timing of reforms in some public sector enterprises. Over the year ending September 2004, the share of persons registering for employment for more than 49 weeks stood at 41.8 per cent, an increase of 1.2 percentage points over the same month last year. In contrast, the share of persons registering for 8 weeks or less stood at 21.0 per cent, a decline of 4.1 percentage points over September 2003.

Around 79 per cent of the males registering for unemployment are looking for manual employment, while 53.4 per cent of the females are seeking non-manual employment. The increase in unemployment recorded in the twelve months to September 2004 is the combined effect of slight increases in the number of persons seeking both manual and non-manual employment. During September

Registered Unemployed*
by duration of registration

Table 3.9

	Registered Unemployed	under 8 weeks %	9 - 48 weeks %	over 49 weeks %
1999	7,695	13.0	34.6	52.5
2000	6,583	14.9	29.8	55.3
2001	6,753	19.1	35.4	45.5
2002	6,774	15.8	37.3	46.9
2003	7,494	20.8	41.2	38.0
2003 (Sep)	7,233	25.1	34.4	40.6
2004 (Sep)	7,382	21.0	37.3	41.8

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Registered Unemployed Classified by Occupation*
at September 2004

Table 3.10

	Registered Unemployed			Percentage Share		
	Males	Females	Total	Males	Females	Total
Non-Manual						
Clerical & related workers	377	399	776	6.4	27.5	10.5
Supervisory	49	11	60	0.8	0.8	0.8
Technological & professional	303	107	410	5.1	7.4	5.6
Miscellaneous non-manual	278	257	535	4.7	17.7	7.2
Total Non-Manual	1,007	774	1,781	17.0	53.4	24.1
Manual						
Agriculture	105	0	105	1.8	0.0	1.4
Construction	540	1	541	9.1	0.1	7.3
Textiles	7	7	14	0.1	0.5	0.2
Wood working	0	0	0	0.0	0.0	0.0
Printing	16	1	17	0.3	0.1	0.2
Metal working	277	0	277	4.7	0.0	3.8
Catering	202	27	229	3.4	1.9	3.1
Other services	77	92	169	1.3	6.3	2.3
Labouring	1,432	210	1,642	24.1	14.5	22.2
Miscellaneous	2,027	266	2,293	34.2	18.4	31.1
Total Manual	4,683	604	5,287	78.9	41.7	71.6
Disabled persons	243	71	314	4.1	4.9	4.3
Total	5,933	1,449	7,382	100.0	100.0	100.0

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

2004, manual unemployment stood at 5,287, reflecting an increase of 75 or 1.4 per cent over September 2003. Males made up 88.6 per cent of manual unemployment, 0.7 percentage points more than September 2003. The main increases in manual unemployment were recorded in the construction, catering and labouring categories. As shown in Table 3.10, manual unemployment represented 71.6 per cent of total unemployment at the end of September 2004, a decrease of 0.5 percentage points over the same month last year.

Non-manual unemployment stood at 1,781 at the end of September 2004, an increase of 55 or 3.2 per cent over September 2003. This mainly reflects higher unemployment within the technological and professional and the miscellaneous categories, while a slight decline was recorded in the clerical and related workers category. The share of non-manual unemployment in total unemployment stood at 24.1 per cent at the end of September 2004, an increase of 0.2 percentage points over the share recorded in the previous year. Non-manual unemployment was evenly split across genders as the share of males and females stood at 56.5 and 43.5 per cent respectively.

At the end of September 2004, the number of disabled persons registering for employment stood at 314 or 4.3 per cent of total unemployment, an increase of 19 or 6.4 per cent over the same month last year.

Part-Time Activity

Total part-time employment stood at 37,488 at the end of September 2004, an increase of 3,320 or 9.7 per cent over the same month of 2003. Total part-time employment rose steadily over the period September 2001 – September 2004, as the level recorded at the end of September 2004 was 6,681 above September 2001. During this period, the increase in part-time employment is due to increases in both part-timers holding a full-time job as well as persons holding a part-time job as their main occupation. This might imply that a higher level of flexibility is being gradually embedded in the domestic labour market with positive effects on the level of engagement by persons in the economy.

The number of part-timers holding a full-time job rose by 1,063 during the twelve months to September 2004. Of these, the number of males rose by 546 representing a share in the number of part-timers holding full-time employment of 74.8 per cent in September 2004. Conversely, the number of females stood at 4,081, a rise of 517 over September 2003. The share of females in the number

Part-Time Employment

Table 3.11

	2001 Sep	2002 Sep	2003 Sep	2004 Sep
Part-Timers holding a full-time job	14,048	14,781	15,159	16,222
Males	11,137	11,454	11,595	12,141
Females	2,911	3,327	3,564	4,081
Single	1,644	1,921	2,184	2,602
Married	1,267	1,406	1,380	1,479
Part-Timers as a primary job	16,759	17,729	19,009	21,266
Males	6,447	6,788	7,297	8,284
Females	10,312	10,941	11,712	12,982
Single	3,746	4,059	4,674	5,617
Married	6,566	6,882	7,038	7,365
Total Part-Time Employment	30,807	32,510	34,168	37,488
Males	17,584	18,242	18,892	20,425
Females	13,223	14,268	15,276	17,063
Single	5,390	5,980	6,858	8,219
Married	7,833	8,288	8,418	8,844
Part-Timers as a primary job as % of total gainfully occupied				
Males	6.2	6.5	7.1	8.0
Females	25.1	26.4	28.1	30.8
Total	11.5	12.2	13.1	14.6

Source: Employment and Training Corporation

of part-timers holding a full-time job rose by 1.7 percentage points to 25.2 per cent.

As shown in Table 3.11, the number of persons holding a part-time job as their main occupation stood at 21,266 at the end of September 2004, an increase of 2,257 persons over the same period last year. The number of females rose by 1,270 over September 2003. At 61.0 per cent of the total, this type of work arrangement is more common among females since it favours a better reconciliation of work and private life. On the other hand the number of male part-timers on a primary job stood at 8,284 representing an increase of 987 over the comparable month of 2003. At the end of September 2004, the share of persons holding a part-time job as their main occupation in total gainfully occupied stood at 14.6 per cent and followed a rising trend throughout the Survey period.

4. Productive Activities

4. Productive Activities

The local manufacturing industry is characterised by a significant number of locally-owned small and medium-sized enterprises (SMEs), as well as a number of relatively large foreign-owned export-oriented subsidiaries. This industry has been facing a number of challenges in recent years, mainly because of the increasingly competitive international environment and the consequent need to restructure. The removal of levies on imported industrial products and on imported agro-industrial products has put pressure on the locally-oriented enterprises. Furthermore, export-oriented firms face continuous challenges from developments in the international markets, in particular intensified competition from emerging countries, changing patterns in foreign demand and the general international economic conditions.

The subdued international economic environment prevailing since 2001 has not yet recovered fully, although Malta's main trading partners have registered moderate improvements during the past year. Furthermore, the global market for electronic components showed signs of recovery during 2004, underpinning the increased exports levels within the local electronics sub-sector during the Survey period. Meanwhile, the economic situation in Malta's main trading partners continued to improve. This performance contributed to the 1.2 per cent increase in exports, while developments in the local economic environment as well as the complete dismantling of the levy regime affected the demand for local sales, which declined by 4.9 per cent. As a result of these developments total turnover declined marginally by 0.2 per cent. During the period under review, investment increased by 10.3 per cent, mainly reflecting increased capital outlays in the chemicals and chemical products, textiles and textile products and publishing and printing sectors. Employment income declined by 2.4 per cent, reflecting job-shedding in a number of sectors within the industry during the nine months to September 2004.

Value added at factor cost is one of the main indicators used to measure the wealth generation capability of the manufacturing industry. Value added at factor cost per capita for the total manufacturing industry increased by 11.9 per cent between 2002 and 2003. This reflected an increase in gross operating surplus per capita coupled with a less significant increase in personnel costs per capita. The sectors which contributed most to aggregate value added were the radio, TV, and communication equipment, food and beverages, publishing and printing, furniture and other manufacturing, rubber and plastic products and wearing apparel and clothes sectors.

Although the agriculture and fisheries sector is not a major contributor towards the domestic economy, its importance in the economy stems from its linkages to other sectors such as tourism as well as environmental. During the Survey period, the wholesale value of fruit and vegetables sold through official markets declined by 5.0 per cent, while the volume of agricultural production increased by 8.5 per cent when compared to the level recorded during the same period last year. On the other hand, both the volume and value of fish landings increased when compared to the corresponding figures of last year.

The Maltese ship repair and shipbuilding industry continued to experience difficulties resulting from low levels of productivity and significant competitive pressures. As part of the restructuring programme, in November 2003, Malta Shipyards Ltd was set up to manage the previously Government-owned ship repair and shipbuilding entities. The restructuring plan involves turning Malta Shipyards Ltd from a net beneficiary of state aid into a commercially viable enterprise, and to enable it to withstand international competitive pressures in the ship repair market.

This Chapter first analyses the local manufacturing industry's performance during January-September 2004. Data presented in this Chapter are not directly comparable with those found in other Chapters of this Economic Survey, since the data provided by the National Statistics Office (NSO) are based on the results of a monthly survey conducted amongst a representative sample of manufacturing firms. Furthermore, as from 1999, data for the manufacturing industry are classified by the NSO according to the General Industrial Classification of Economic Activities within the European Community (NACE). Thus, they are not directly comparable with the manufacturing data that is found in previous Economic Surveys which had been based on the International Standard Industrial Classification of Economic Activities (ISIC). Furthermore, in 2001 the NSO adopted a new methodology with respect to the compilation of employment and wages and salaries for the manufacturing industry.

It is pertinent to note that the sectoral performance presented in this Chapter is affected by the re-classification of a number of enterprises among the different sectors reflecting a shift in their main reported activity. Moreover, a number of enterprises were no longer classified as undertaking manufacturing activity but rather market services and thus were excluded from the manufacturing industry by the NSO. Furthermore, due to this re-classification exercise, the enterprises which were previously classified in the office machinery and basic metals sectors, were all re-classified to other sectors. Consequently, no data for these sectors is provided after December 2003.

Moreover, as from May 2004, the NSO changed the methodology used for the collection of data on trade of goods between the EU Member States from the Customs Declaration to the Intrastat Supplementary Declaration. Thus, with the introduction of the Supplementary Declaration as a source document for trade statistics, total exports can no longer be broken down into domestic exports and re-exports. This implies that export figures for 2004 featured in this Chapter may include elements of re-exports.

The second part of this Chapter analyses sectoral value added at factor cost for the total manufacturing industry. Data for this section is compiled by the NSO from annual business surveys. Data on value added at factor cost is classified by the NSO according to NACE and is thus not directly comparable with data on value added found in previous publications of the Economic Survey, which had been based on ISIC. Furthermore, during 2000 the NSO has changed the methodology adopted in data collection and compilation of value added at factor cost. This new methodology has been applied to data as from 1999 and is in line with the Structural Business Statistics Council Regulation 58/97, making it comparable to European Union methodology.

Finally, the Chapter reviews activity in the agriculture and fisheries sector and concludes with an analysis of activities in the shipyards during the January-September 2004 period.

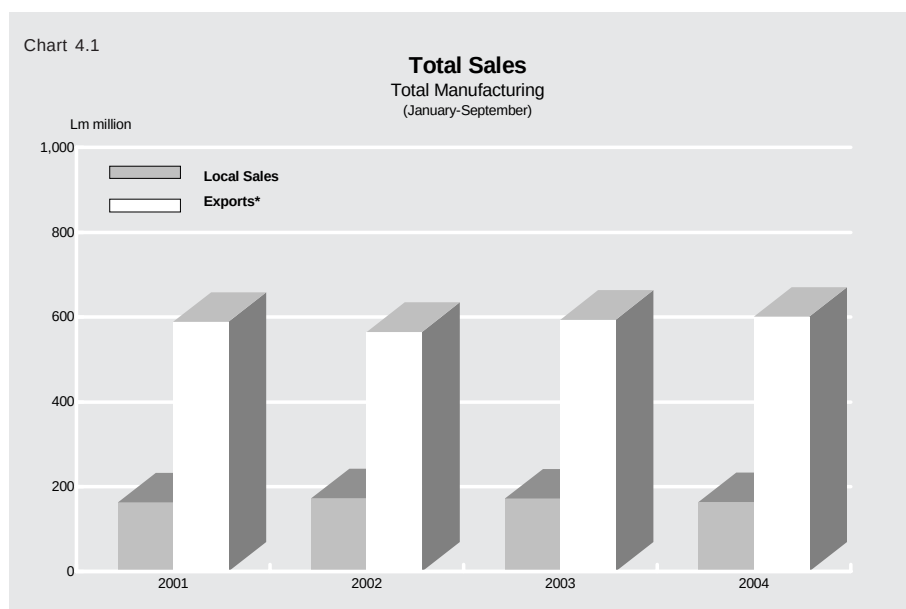
Domestic Manufacturing Performance

During the January-September 2004 period, total turnover for the manufacturing industry registered a marginal decline of 0.2 per cent as compared to the first nine months of 2003 and stood at Lm764.5 million. The performance of the industry was characterised by a decline in local sales which outweighed the marginal increase in exports. Noticeable improvements were registered in exports by a number of sectors, namely, textiles and textile products, radio, TV, and communication equipment and medical, precision and optical instruments. Meanwhile, sectors such as food and beverages, wearing apparel and clothes, leather and leather products, chemicals and chemical products and furniture and other manufacturing registered declines in total turnover.

Local sales for the manufacturing industry declined to Lm163.7 million, down from Lm172.2 million recorded in the nine months to September 2003. The level of local sales was negatively affected by the relatively subdued domestic economic activity as well as by the trade liberalisation process which resulted

in increased competition from imports. The major declines in local sales were recorded in the textiles and textile products, radio, TV, and communication equipment, furniture and other manufacturing and food and beverages sectors. It is interesting to note that of these sectors, the former two are almost entirely export-oriented. On the other hand, the food and beverages and furniture and other manufacturing sectors are mostly locally-oriented and both were influenced by changes in the trade regime during the past months. Moreover, the results for the first nine months of 2003 of the food and beverages sector should be viewed against higher than average performance in the corresponding 2001-2004 period. The share of local sales in total manufacturing turnover declined by 1.1 percentage point to 21.4 per cent. On the other hand, the share of exports in total turnover increased from 77.5 per cent to 78.6 per cent. The performance of exports and local sales is presented in Chart 4.1.

During the Survey period, earnings from employment in the manufacturing industry declined by 2.4 per cent and stood at Lm90.8 million, as shown in Chart 4.2. This reflected a drop in employment from the level recorded in September 2003. The upward trend registered during the past years in capital outlays in the manufacturing industry was sustained during the period under review. In fact, as illustrated in Chart 4.3, net investment increased by 10.3 per cent in the nine months to September 2004, reaching Lm40.0 million. Increased investment was mainly registered in the chemicals and chemical products, publishing and printing and textiles and textile products sectors, all mainly export-



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

Chart 4.2

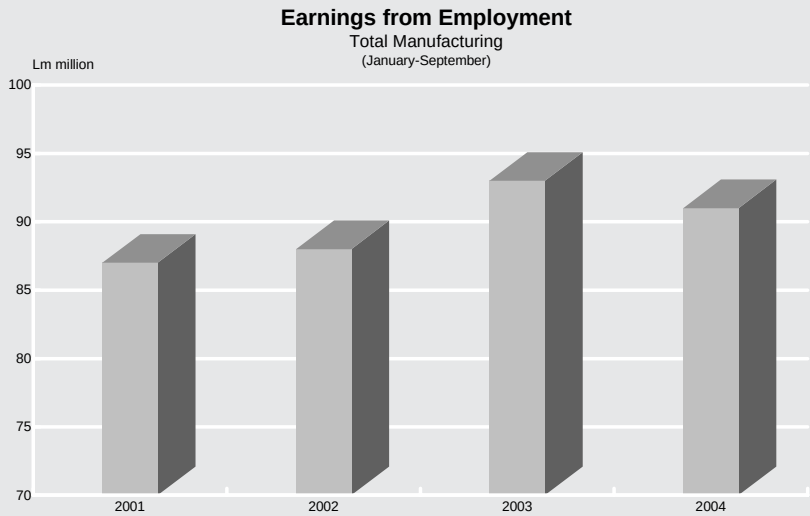


Chart 4.3

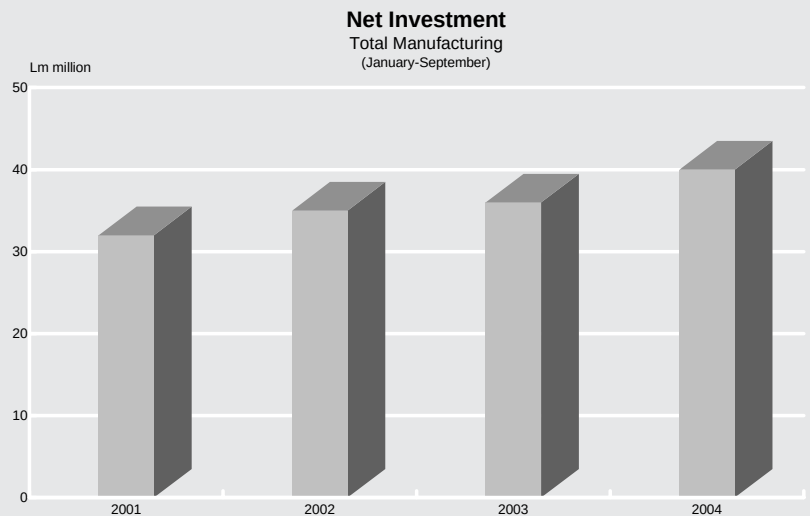
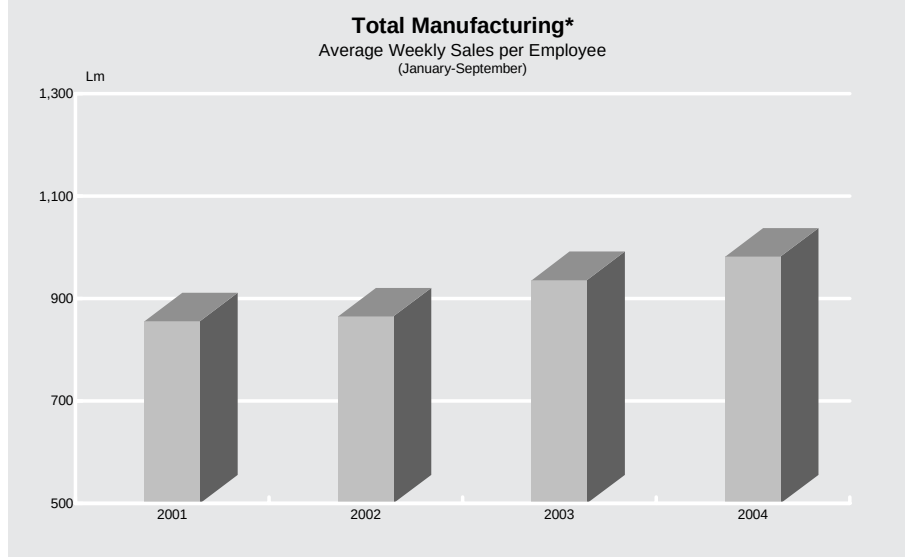


Chart 4.4



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

oriented. On the other hand, a contraction in investment was particularly registered by the food and beverages, rubber and plastic products and other transport equipment sectors.

Chart 4.4 presents average weekly sales per employee, which increased by 4.9 per cent in the January-September 2004 period and stood at Lm982.06. Despite a decline in total manufacturing turnover, average weekly sales per employee increased reflecting a higher cash-generating capability by employees in manufacturing activity. Chart 4.5 presents average weekly per capita compensation levels, which increased by 2.6 per cent and reached Lm116.63 per week.

The average rates of change in exports and local sales in eleven major sectors within the manufacturing industry during the first nine months of the 2000-2004 period are presented in Chart 4.6. Growth rates in exports were registered in the food and beverages, textiles and textile products, publishing and printing, machinery and equipment, electrical machinery and apparatus, medical, precision and optical equipment and other transport equipment sectors. Local sales by these sectors also registered positive rates of growth except for the textiles and textile products, electrical machinery and apparatus, other transport equipment and furniture and other manufacturing sectors which recorded negative rates

Chart 4.5

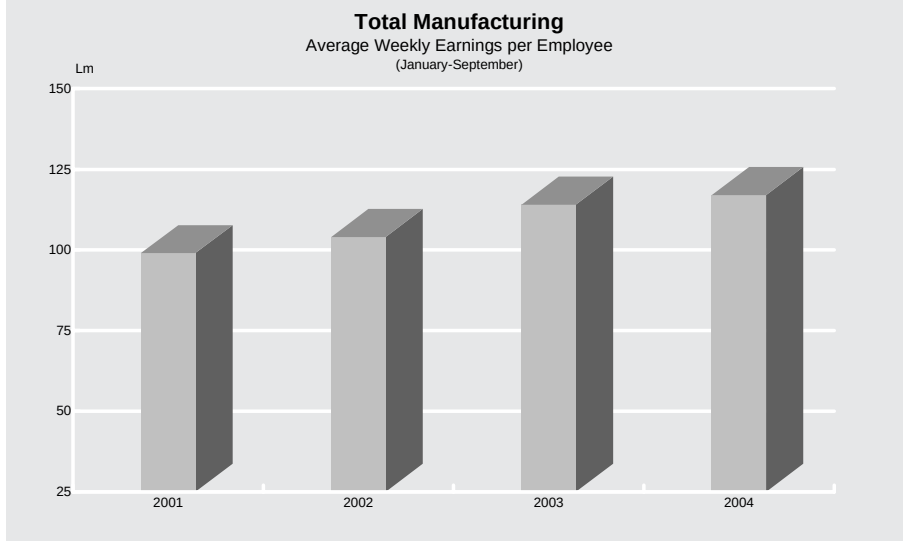


Chart 4.6



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

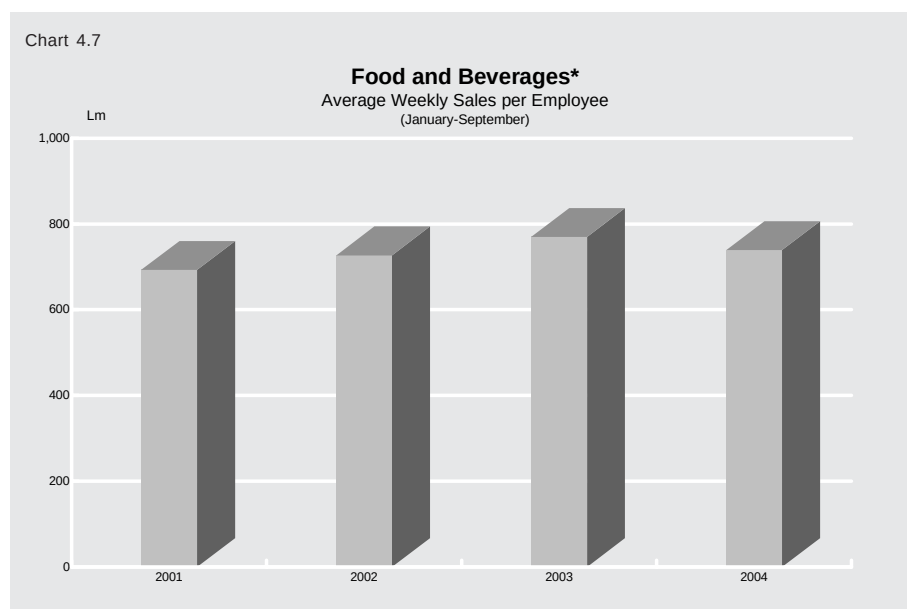
**As from 2004, data on exports may include re-exports

of growth. Growth rates in local sales were also registered by the wearing apparel and clothes sector and radio, TV and communication equipment sector although, on the other hand, negative growth rates in exports were registered by these two sectors.

The performance of the main manufacturing 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.

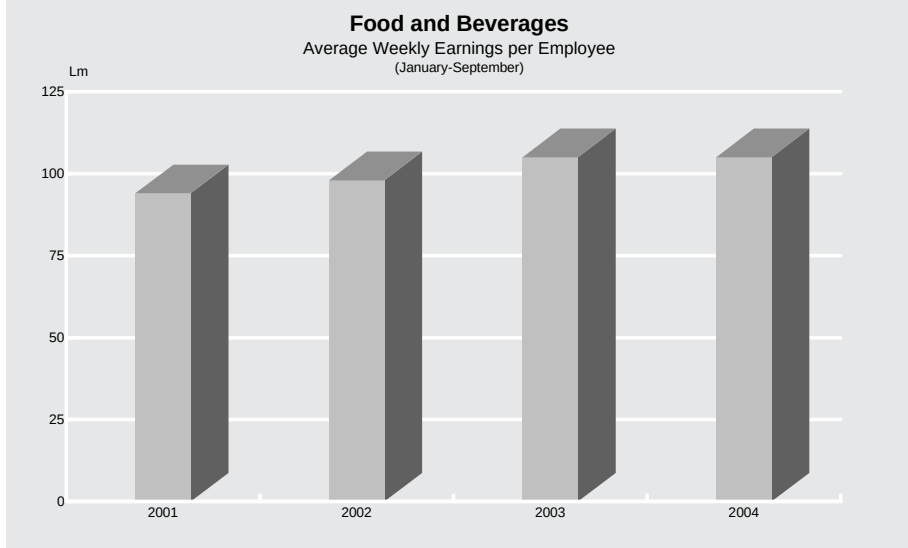
Food and Beverages

The food and beverages sector remained one of the most locally-oriented sectors in the manufacturing industry, with 82.9 per cent of production directed towards the local market. While the beverage sub-sector is largely local-oriented, the food sub-sector exported around 25 per cent of its output during the Survey period. Total sectoral turnover accounted for 11.7 per cent of total manufacturing sales, thus maintaining its position as the sector with the second largest share of total turnover in the industry, after the radio, TV and communication equipment sector, though the gap in the share of these two sectors is significant.



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

Chart 4.8



A decline of 6.0 per cent was registered in total turnover which stood at Lm89.3 million. This decline was underpinned by a 6.1 per cent decline in local sales and a 5.1 per cent decrease in exports. It is pertinent to note that the remaining levies on imported agro-industrial products were removed as from 1st May 2004 and this liberalisation process has affected the performance of local sales by this sector during the period under review. Following a marked increase in net investment by this sector to Lm5.4 million during the first nine months of 2003, capital outlays declined to Lm4.0 million during the Survey period.

During the period under review, average weekly sales per employee fell by 4.0 per cent and stood at Lm738.56 as shown in Chart 4.7. This reflected the fact that despite the decline in turnover, employment was not significantly affected. At Lm105.39, per capita compensation levels practically remained at the levels registered during the first nine months of 2003, as illustrated in Chart 4.8.

Tobacco Products

The tobacco products sector, which is dependent upon sales to the local market, registered an increase of 7.8 per cent in total turnover and reached Lm24.9 million. This increase in total turnover by this sector mainly reflects the increase in excise duties on tobacco products as well as the increase in the standard Value Added Tax (VAT) rate which became applicable during 2004. Net

investment in the sector practically maintained the level registered during the previous Survey period and stood at Lm0.1 million.

Average weekly sales per employee rose by 9.4 per cent and reached Lm4,027.89 in January-September 2004, reflecting the increase in sectoral turnover. Meanwhile, average weekly earnings per capita increased marginally to Lm146.35.

Textiles and Textile Products

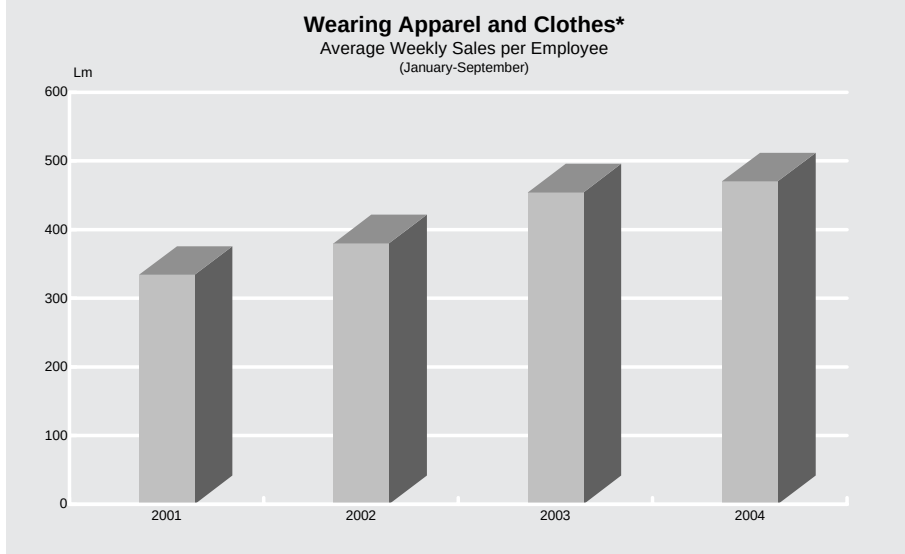
Turnover in the textiles and textile products sector increased by 59.8 per cent and stood at Lm20.0 million, reflecting a significant increase in exports by the sector. This was affected by the re-classification of export-oriented enterprises to this sector as a result of a shift in their main manufacturing activity. Local sales stood at Lm0.8 million, down from Lm2.6 million recorded in January-September 2003. Capital outlays in the sector increased from Lm0.3 million to Lm1.1 million.

Average weekly sales per capita increased by 34.0 per cent, to Lm504.57 in the period under review. Meanwhile, average weekly exports per employee increased by 63.2 per cent to Lm484.97. These significantly higher ratios reflect increased exports which more than offset higher employment levels, resulting from the re-classification exercise highlighted earlier. Average weekly per capita compensation levels increased by 15.5 per cent to Lm95.22, reflecting increased sectoral wages.

Wearing Apparel and Clothes

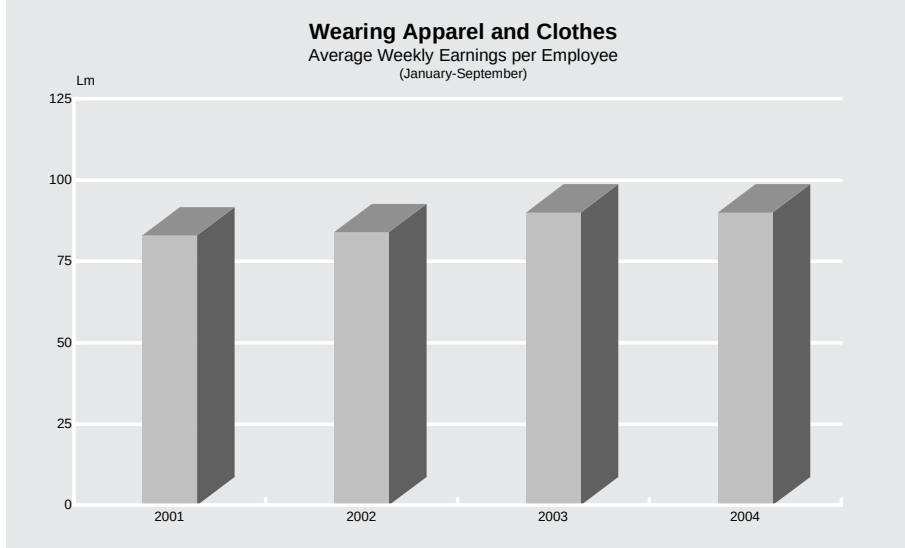
The wearing apparel and clothes sector is largely export-oriented, with nearly 80 per cent of its total production directed towards the export market. Total turnover declined by 20.2 per cent to Lm31.4 million during the Survey period. This was underpinned by a fall of 29.1 per cent in exports to Lm25.0 million. The decline in employment levels which has been recorded since 2002, persisted during the period under review and was reflected in a 22.7 per cent decline in aggregate wages paid by the sector. This sector continued to be affected by increased international competition which led to a fall in foreign demand for local products. Domestic wearing apparel and clothes manufacturers had to respond to similar developments by adopting measures which increased productivity, including at times downsizing. Local sales advanced by Lm2.3 million to reach Lm6.5 million.

Chart 4.9



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

Chart 4.10

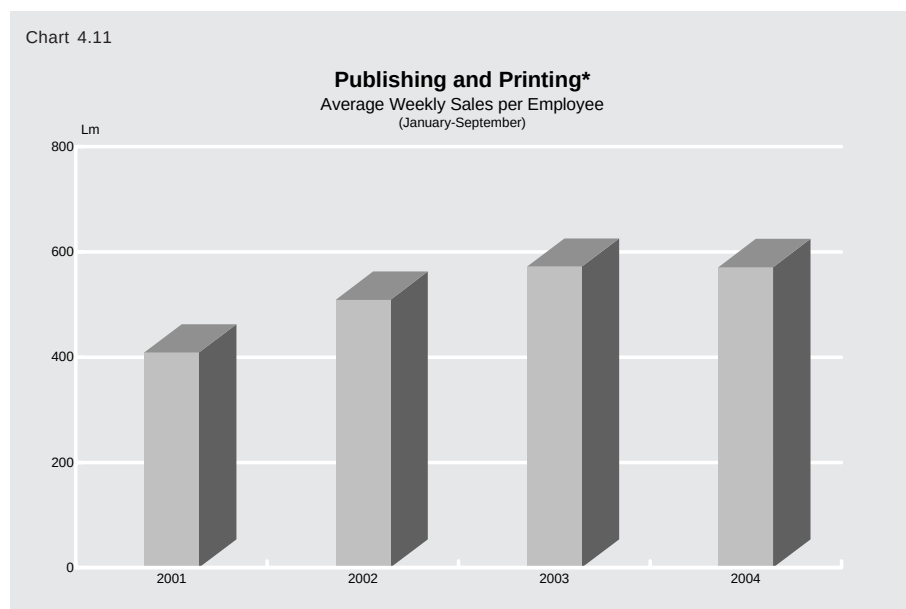


As shown in Chart 4.9, average weekly sales per employee increased by Lm15.93, reaching Lm470.21. Average weekly exports per capita fell by 8.0 per cent and were recorded at Lm373.63. At Lm90.45, average weekly compensation levels practically remained at the level registered during the first nine months of 2003 as presented in Chart 4.10.

Publishing and Printing

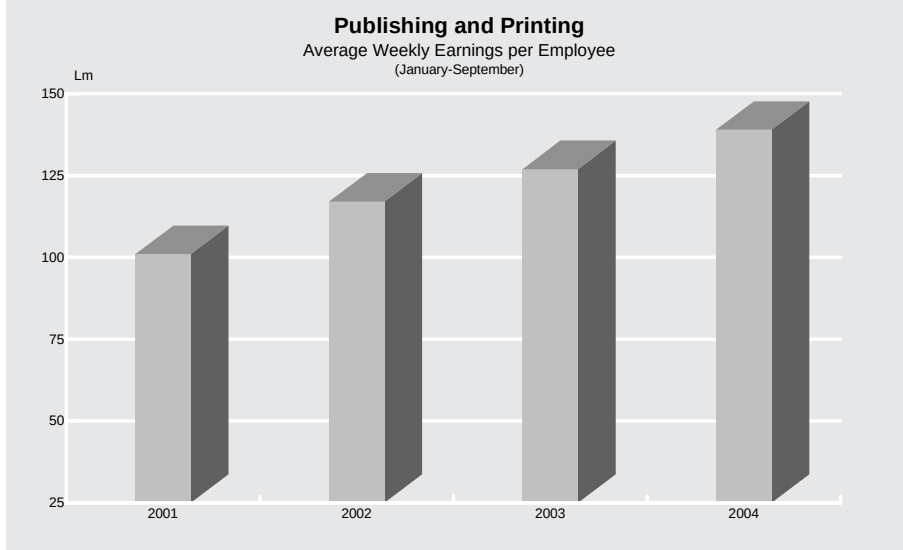
The publishing and printing sector registered a marginal decline in total turnover and stood at Lm36.4 million in January-September 2004. This was underpinned by a 1.8 per cent decline in exports which were recorded at Lm23.8 million. On the other hand, local sales increased by 2.7 per cent to Lm12.6 million. Capital outlays during the January-September 2004 period increased by Lm2.3 million, reaching Lm4.7 million.

Average weekly sales per employee declined marginally and stood at Lm570.92, as presented in Chart 4.11. Average weekly exports per capita declined by Lm6.32 and were recorded at Lm372.95. As shown in Chart 4.12, average per capita compensation levels followed the upward trend registered during recent years and stood at Lm138.62 up from Lm127.29 recorded in the previous Survey



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

Chart 4.12



period. This was 18.9 per cent higher than the average recorded for the total manufacturing industry.

Chemicals and Chemical Products

The chemicals and chemical products sector exported over 70 per cent of its output during the first nine months of 2004. A number of firms within the sector produce pharmaceuticals and toiletries mainly for the export market, while a number of other companies within this sector which produce products such as paints, detergents and insecticides are mainly locally-oriented.

Turnover in the sector declined by 15.4 per cent and reached Lm22.1 million during the Survey period. This performance was mainly attributable to a decline in exports reflecting the fact that a number of export-oriented firms which used to be incorporated within the chemicals and chemical products sector are now included within the textiles sector. Local sales increased by 11.1 per cent and reached Lm6.5 million. Net investment increased by Lm4.5 million and stood at Lm7.9 million, reflecting higher capital outlays by the pharmaceutical sub-sector.

Average weekly sales per capita increased by Lm65.96 and reached Lm700.65. Per capita compensation levels followed an upward trend, increasing to Lm128.30, being Lm11.67 more than the average for the total manufacturing

industry. Average weekly exports per employee also increased when compared to the level registered in the previous Survey period and stood at Lm493.52. These developments reflect a fall in employment levels.

Rubber and Plastic Products

Turnover in the rubber and plastic products sector increased by 1.6 per cent reaching Lm29.4 million in the first three quarters of 2004. This was underpinned by a 3.0 per cent increase in exports, which made up nearly 80 per cent of total production, and stood at Lm23.5 million. On the other hand, local sales declined by 3.7 per cent to Lm5.9 million. This performance was influenced by the re-classification of a number of enterprises in this sector to other manufacturing sectors. Capital outlays during the period under review dropped by Lm1.3 million to Lm1.0 million.

Average weekly sales per employee declined by 2.2 per cent and stood at Lm419.75 during the period under review. An increase of 5.1 per cent was recorded in per capita compensation levels which reached Lm123.97, being Lm7.34 higher than the average for the total manufacturing sector. Average weekly exports per employee declined marginally to Lm335.11.

Electrical Machinery and Apparatus

Turnover in the electrical machinery and apparatus sector, which is highly export-oriented, declined by 3.1 per cent during the first three quarters of 2004 to Lm27.4 million. This was underpinned by a decline of 1.2 per cent in exports, whilst local sales declined from Lm0.9 million to Lm0.4 million during the Survey period. This performance was registered despite the fact that a number of export-oriented firms underwent a re-classification by statistical authorities following a change in their activity and were thus included with the electrical machinery sector for the first time. At Lm1.5 million, net investment practically remained at the level registered during the first nine months of 2003.

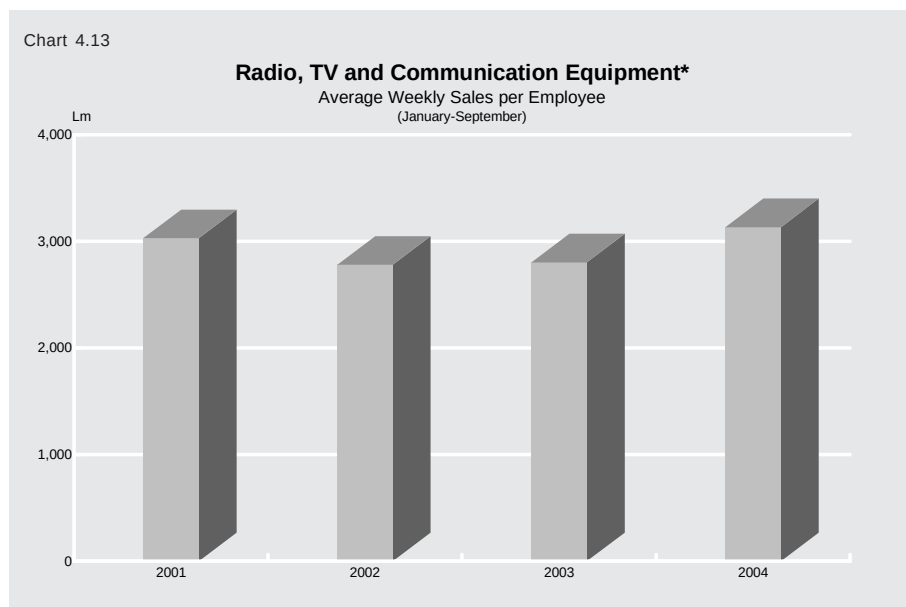
Average weekly sales per employee recorded an increase of Lm9.45 and reached Lm612.36. Average per capita compensation levels followed the upward trend registered during recent years and reached Lm124.21. This was Lm7.58 more than that recorded for the total manufacturing industry. Average weekly exports per employee registered an increase of Lm21.20 and stood at Lm604.00 during the Survey period.

Radio, TV and Communication Equipment

With sales accounting for almost half of total manufacturing turnover, the radio, TV and communication equipment sector remains the largest sector in the manufacturing industry. Production mainly consists of electronic components and other precision communication products. This sector is characterised by a limited number of relatively large export-oriented foreign subsidiaries. Its performance depends on international economic conditions, particularly on the market conditions for electronic products.

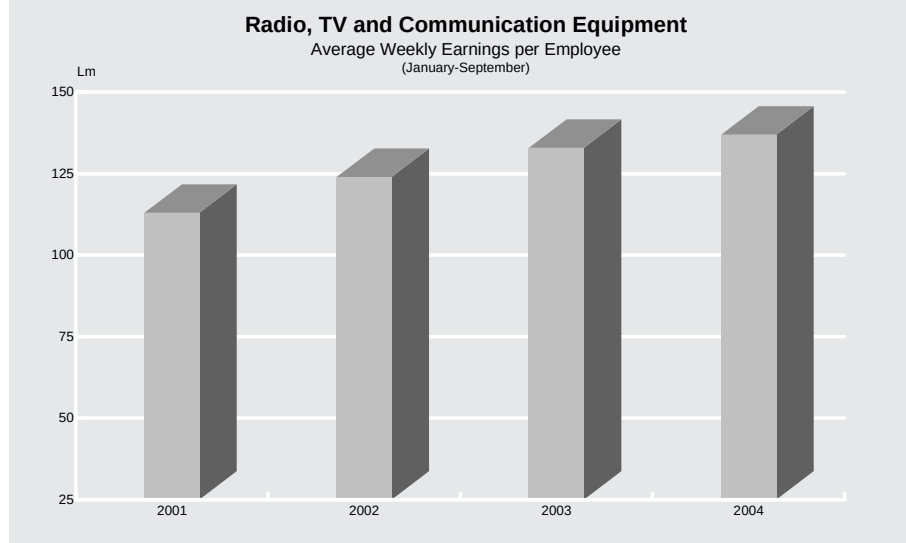
Turnover in the sector improved by 3.0 per cent in the period under review advancing to Lm371.8 million, reflecting the sustained recovery in the global semi-conductor market which commenced in 2003. This performance was underpinned by a 3.4 per cent increase in exports to Lm371.1 million. Increased exports were recorded despite the re-classification of export-oriented firms previously included in this sector to other sectors in the industry, reflecting a shift in their main manufacturing activity. On the other hand, local sales fell from Lm2.0 million to Lm0.8 million during the Survey period. Investment levels were slightly higher than those recorded in the previous Survey period and stood at Lm14.6 million.

Chart 4.13 presents sectoral average weekly sales per employee, which rose by Lm332.31 up to Lm3,133.35, being Lm2,151.29 higher than the average for



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

Chart 4.14



the aggregate manufacturing industry. Per capita weekly compensation levels increased by Lm3.60 to Lm136.51 as shown in Chart 4.14. Average weekly exports per employee were the highest recorded in the manufacturing industry and stood at Lm3,126.94, up from Lm2,785.31. These developments reflect an increase in total turnover and exports as well as a drop in employment levels within the sector.

Medical, Precision and Optical Instruments

Over 99 per cent of turnover of the medical, precision and optical instruments sector is exclusively directed to the export market. Total sectoral turnover increased by 35.8 per cent, being accounted for by an increase in exports which rose from Lm19.4 million to Lm26.2 million. This mainly reflected the inclusion of a number of export-oriented enterprises in the sector. Local sales increased marginally to Lm0.2 million in the same period. On the other hand, investment increased from Lm0.4 million to Lm1.0 million.

Average weekly sales per employee and average weekly exports per capita both increased by around 11 per cent, underpinned by an increase in turnover and exports which more than offset higher sectoral employment. Average per capita compensation levels fell by 10.7 per cent to Lm114.46.

Other Transport Equipment

The other transport equipment sector has become increasingly export-oriented with over 95 per cent of its turnover directed towards foreign markets. Following a significant increase in total turnover by this sector during the first nine months of 2003, turnover declined by 21.1 per cent to Lm9.5 million during the Survey period. This was mainly underpinned by a 15.6 per cent decline in exports. Meanwhile, local sales declined by Lm0.9 million to Lm0.4 million. This performance partly reflected the fact that some enterprises falling under the other transport equipment sector were re-classified to other sectors in the manufacturing industry. Following an investment of Lm0.6 million registered during the first nine months of 2003, capital outlays were negligible during the Survey period.

Even if average weekly sales per employee and average weekly exports per capita declined when compared to previous levels, these exceeded the levels of other manufacturing sectors. Similarly, despite remaining significantly above the average for the manufacturing industry, average weekly earnings per employee fell by Lm16.74 to Lm146.31.

Furniture and Other Manufacturing

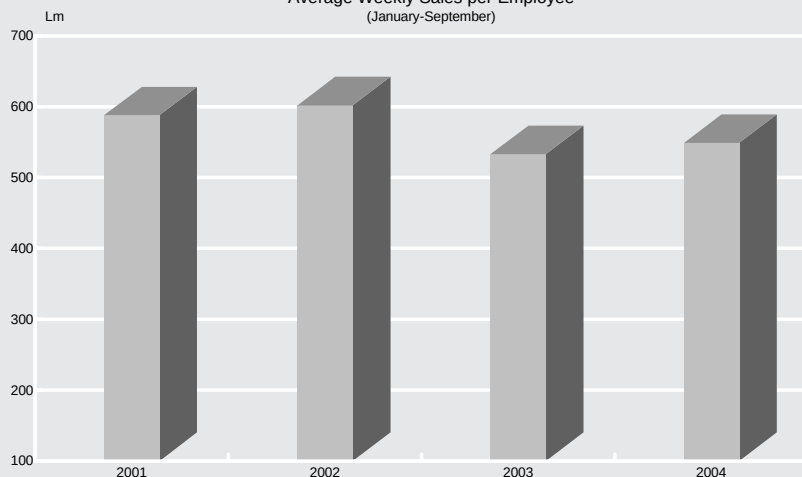
This sector mainly consists of a number of locally-oriented firms producing furniture and a cluster of other firms engaged in the manufacture of toys, games and jewellery items directed towards the export market.

Turnover in the sector declined by 6.6 per cent during the Survey period and stood at Lm33.8 million, mainly underpinned by a 20.7 per cent decline in local sales. This performance was primarily due to a decline in local sales by the furniture sub-sector. Certainly, the dismantling of protective levies is presenting manufacturers in the sector with new challenges. This may be the result of further consolidation and an adjustment process that has been characterising this sub-sector for the past two years in the wake of increased foreign competition brought about by the removal of the protective levies. The decline in exports, from Lm26.1 million to Lm25.8 million, mainly reflects a drop in exports of jewellery and miscellaneous goods which outweighed an increase in exports of furniture, games and toy products. It is pertinent to note that, a small number of companies within the sector were re-classified to other sectors in the manufacturing industry, due to a change in their main production.

Chart 4.15

Furniture and Other Manufacturing*

Average Weekly Sales per Employee
(January-September)

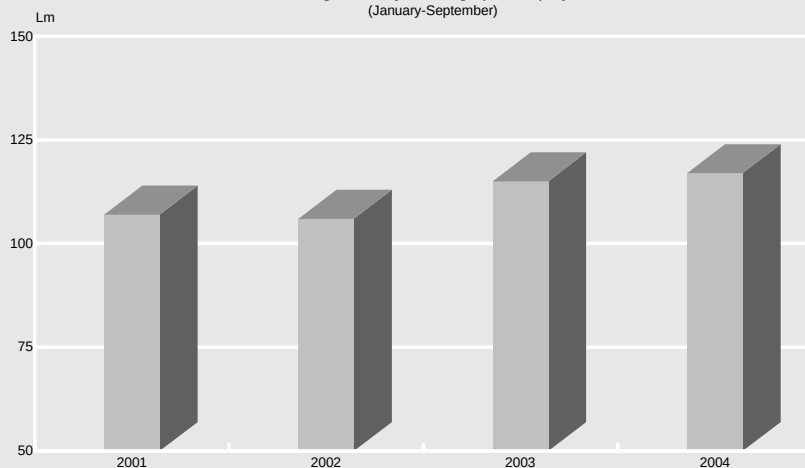


*As from 2004, data on exports may include re-exports

Chart 4.16

Furniture and Other Manufacturing

Average Weekly Earnings per Employee
(January-September)



Sectoral capital outlays declined from Lm4.0 million to Lm3.2 million, mainly reflecting the decline in investment in the jewellery and games and toys sub-sector. However, it is pertinent to note that this reflects the fact that during the first nine months of 2003 investment levels in the sector peaked, following capital outlays by a particular foreign-owned company operating in the toys and games sub-sector which expanded its operation.

Average weekly sales per employee increased by Lm16.43 and stood at Lm549.25 in the Survey period, as shown in Chart 4.15, reflecting a fall in employment levels which outweighed the decline in turnover. Furthermore, Chart 4.16 presents average weekly compensation levels per capita which increased by 2.1 per cent and stood at Lm117.37. Average weekly exports per capita rose by 9.1 per cent and stood at Lm419.30.

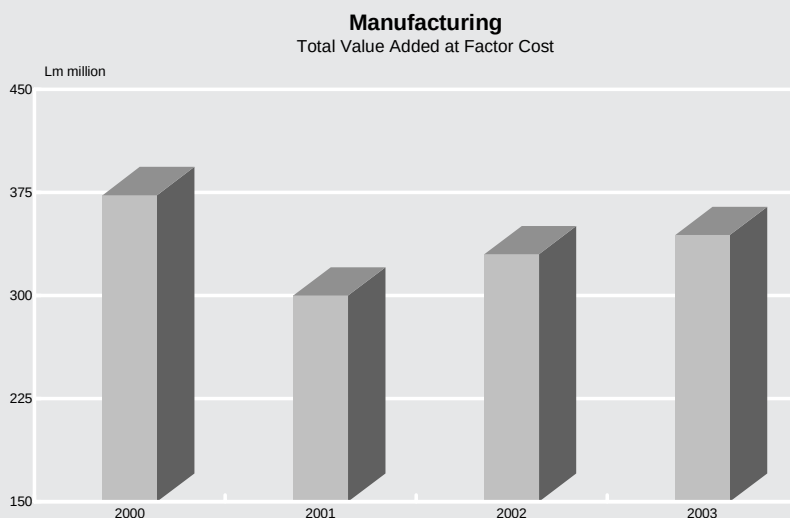
Value Added

A review of developments in value added of the manufacturing industry during the 2000-2003 period is included in the section below. 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 refers to the surplus generated by operating activities net of labour costs. Data compiled according to this methodology featured for the first time in the Economic Survey January-September 2002, and thus, the data presented here are not directly comparable to that published in previous Economic Surveys.

Value added data provides an indication of the contribution of various sectors to the local manufacturing industry. The trend followed by total manufacturing value added at factor cost during the four years to 2003 is presented in Chart 4.17. Total manufacturing value added at factor cost increased by 4.2 per cent in 2003, thus maintaining the recovery recorded in the previous year when value added at factor cost rose by 10.2 per cent. Changes in gross operating surplus underpinned the fluctuations recorded in value added at factor cost, since personnel costs registered marginal fluctuations in the 2000-2003 period.

Table 4.1 presents a sectoral analysis of the manufacturing industry, based on value added per capita. The performance of aggregate value added was reflected in the trend followed by total value added per capita. Total value added per capita registered a decline of 18.3 per cent in 2001 which was followed by an

Chart 4.17



Value Added at Factor Cost per capita

Table 4.1

Lm

	2000	2001	2002	2003*
Food and Beverages	11,587	10,758	12,170	12,468
Tobacco Products	32,430	23,894	15,436	15,527
Textiles and Textile Products	13,211	12,019	11,546	14,510
Wearing Apparel and Clothes	8,103	6,024	7,036	8,560
Leather and Leather Products	6,121	5,940	6,621	6,358
Wood and Wood Products	5,418	5,806	6,273	7,575
Paper and Paper Products	8,740	7,119	9,277	10,676
Publishing and Printing	11,895	11,066	13,799	15,403
Chemicals and Chemical Products	9,950	12,860	10,362	10,925
Rubber and Plastic Products	12,017	10,295	12,848	13,483
Other Non-Metallic Mineral Products	7,636	7,055	7,636	8,443
Basic Metals	5,693	7,016	7,088	6,145
Fabricated Metal Products	7,017	7,369	8,634	9,039
Machinery and Equipment	9,232	12,745	7,403	8,501
Electrical Machinery and Apparatus	10,761	12,364	13,721	14,088
Radio, TV and Communication Equipment	39,884	21,708	23,393	24,735
Medical, Precision and Optical Instruments	11,940	9,546	12,141	13,118
Motor Vehicles, Trailers and Semi-Trailers	7,113	6,492	7,390	6,577
Other Transport Equipment	3,538	4,436	4,534	6,086
Furniture and Other Manufacturing	8,683	7,702	8,653	9,463
Recycling	12,176	9,250	14,486	14,880
Total Manufacturing	12,122	9,909	10,971	12,272

* Provisional

Source: National Statistics Office

upward trend in the subsequent two years. In fact, increases of 10.7 per cent and 11.9 per cent were registered in 2002 and 2003, respectively.

Personnel costs per capita, shown in Table 4.2, increased consistently throughout the four years to 2003. Indeed, per capita personnel costs rose by 2.3 per cent and 3.0 per cent in 2001 and 2002, respectively. This was followed by a more significant increase of 7.4 per cent registered in 2003. Table 4.3 presents developments in gross operating surplus per capita which influenced changes in the value added at factor cost per capita. In fact, this component increased in 2002 and 2003 following a significant decline in 2001. Chart 4.18 presents developments in the two components of value added at factor cost per capita during the 2000-2003 period.

The share of personnel costs in value added at factor cost per capita increased from 44.8 per cent in 2000 to 56.1 per cent in the following year. Subsequently,

Personnel Costs per capita				
Table 4.2	Lm			
	2000	2001	2002	2003*
Food and Beverages	4,882	5,002	5,091	5,315
Tobacco Products	8,776	9,176	8,114	8,994
Textiles and Textile Products	5,184	5,685	4,816	5,471
Wearing Apparel and Clothes	4,759	4,645	4,106	4,465
Leather and Leather Products	4,135	4,556	4,606	4,726
Wood and Wood Products	2,765	2,950	3,359	3,897
Paper and Paper Products	5,273	5,418	5,763	6,646
Publishing and Printing	5,481	5,287	6,374	7,041
Chemicals and Chemical Products	5,133	6,089	6,221	6,316
Rubber and Plastic Products	6,335	5,989	5,969	6,651
Other Non-Metallic Mineral Products	3,822	4,067	4,189	4,460
Basic Metals	5,126	5,710	5,710	5,997
Fabricated Metal Products	4,026	4,570	4,859	5,236
Machinery and Equipment	4,406	5,147	5,011	4,714
Electrical Machinery and Apparatus	5,934	6,435	6,701	7,642
Radio, TV and Communication Equipment	6,951	6,309	7,161	7,860
Medical, Precision and Optical Instruments	5,700	5,656	5,991	6,290
Motor Vehicles, Trailers and Semi-Trailers	3,641	3,856	4,215	3,649
Other Transport Equipment	7,008	7,608	7,720	7,663
Furniture and Other Manufacturing	4,240	4,509	4,763	5,349
Recycling	4,167	4,317	4,692	4,517
Total Manufacturing	5,435	5,560	5,727	6,151
* Provisional				
Source: National Statistics Office				

Gross Operating Surplus per capita

Table 4.3

Lm

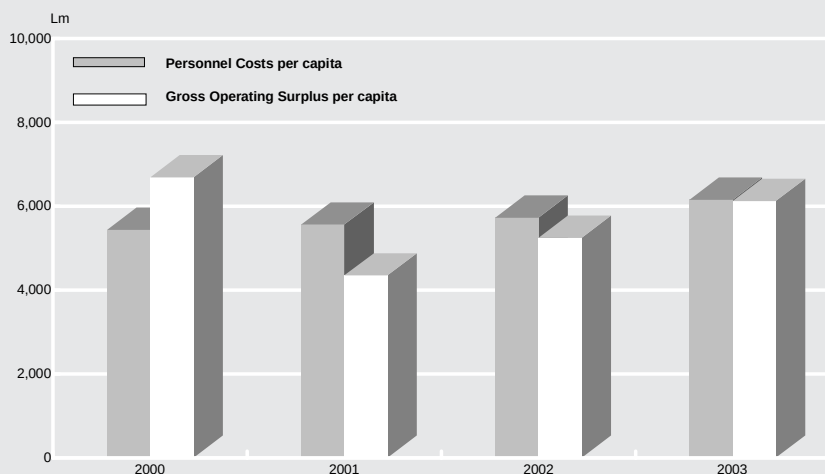
	2000	2001	2002	2003*
Food and Beverages	6,706	5,755	7,079	7,153
Tobacco Products	23,654	14,718	7,321	6,533
Textiles and Textile Products	8,028	6,333	6,730	9,039
Wearing Apparel and Clothes	3,344	1,379	2,930	4,095
Leather and Leather Products	1,986	1,384	2,015	1,632
Wood and Wood Products	2,653	2,856	2,914	3,678
Paper and Paper Products	3,467	1,702	3,515	4,030
Publishing and Printing	6,413	5,779	7,425	8,362
Chemicals and Chemical Products	4,816	6,771	4,140	4,609
Rubber and Plastic Products	5,682	4,306	6,879	6,832
Other Non-Metallic Mineral Products	3,814	2,988	3,446	3,983
Basic Metals	567	1,306	1,378	148
Fabricated Metal Products	2,991	2,799	3,775	3,803
Machinery and Equipment	4,825	7,599	2,392	3,787
Electrical Machinery and Apparatus	4,827	5,929	7,020	6,446
Radio, TV and Communication Equipment	32,933	15,399	16,232	16,875
Medical, Precision and Optical Instruments	6,239	3,891	6,150	6,828
Motor Vehicles, Trailers and Semi-Trailers	3,472	2,636	3,175	2,928
Other Transport Equipment	(3,470)	(3,172)	(3,186)	(1,576)
Furniture and Other Manufacturing	4,442	3,193	3,891	4,114
Recycling	8,009	4,933	9,794	10,363
Total Manufacturing	6,687	4,349	5,244	6,121

* Provisional

Source: National Statistics Office

Chart 4.18

Composition of per capita Value Added at Factor Cost



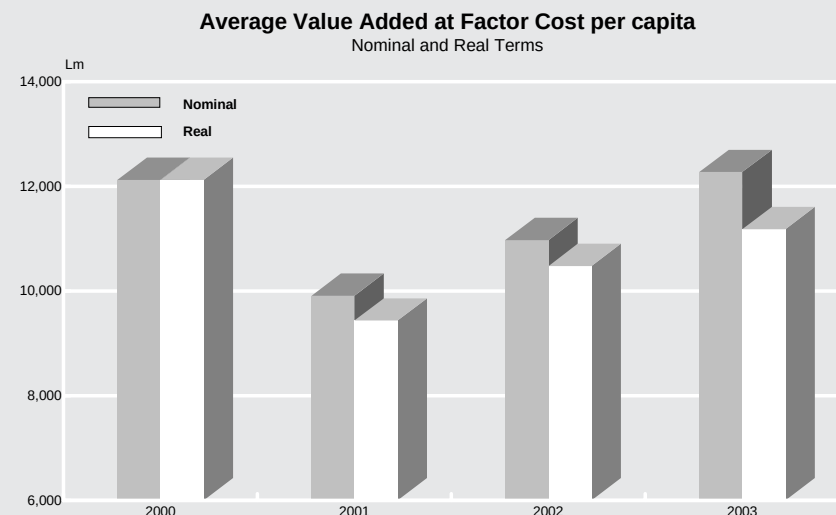
in 2002 and 2003, this share stood at around 52 per cent and 50 per cent, respectively. The significant decline in gross operating surplus in 2001 resulted in a drop in its share in value added at factor cost. Subsequently, in 2002 and 2003 gross operating surplus accounted for around half of total value added at factor cost per capita.

An analysis of productivity changes in the manufacturing industry is conducted by netting the effects of prices 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, from value added. Data on real value added at factor cost per capita are presented in Table 4.4 and Chart 4.19. Real value added per capita declined by 22.2 per cent in 2001. However, this decline was partly reversed in the following two years to reach Lm11,181 in 2003, but declined in 2004 to Lm11,048.

Nominal and real average value added at factor cost per capita for the aggregate manufacturing industry are shown in Table 4.5. A statistical estimate of annual

Value Added at Factor Cost per capita in real terms				
Table 4.4	Lm			
	2000	2001	2002	2003*
Food and Beverages	11,587	10,240	11,623	11,360
Tobacco Products	32,430	22,743	14,742	14,147
Textiles and Textile Products	13,211	11,440	11,027	13,220
Wearing Apparel and Clothes	8,103	5,734	6,720	7,799
Leather and Leather Products	6,121	5,654	6,323	5,793
Wood and Wood Products	5,418	5,526	5,991	6,902
Paper and Paper Products	8,740	6,776	8,860	9,727
Publishing and Printing	11,895	10,533	13,179	14,034
Chemicals and Chemical Products	9,950	12,241	9,896	9,954
Rubber and Plastic Products	12,017	9,799	12,271	12,285
Other Non-Metallic Mineral Products	7,636	6,716	7,292	7,692
Basic Metals	5,693	6,678	6,770	5,599
Fabricated Metal Products	7,017	7,014	8,245	8,236
Machinery and Equipment	9,232	12,132	7,070	7,746
Electrical Machinery and Apparatus	10,761	11,768	13,104	12,836
Radio, TV and Communication Equipment	39,884	20,662	22,341	22,537
Medical, Precision and Optical Instruments	11,940	9,086	11,595	11,952
Motor Vehicles, Trailers and Semi-Trailers	7,113	6,179	7,057	5,992
Other Transport Equipment	3,538	4,222	4,331	5,545
Furniture and Other Manufacturing	8,683	7,331	8,264	8,622
Recycling	12,176	8,804	13,835	13,557
Total Manufacturing	12,122	9,432	10,478	11,181
* Provisional				
Source: National Statistics Office				

Chart 4.19



Average Value Added at Factor Cost per capita
nominal and real terms

Table 4.5

	2000	2001	2002	2003*	2004 ⁽¹⁾
Average Value Added at factor cost per capita (Lm) at current prices	12,122	9,909	10,971	12,272	12,520
Average Value Added at factor cost per capita (Lm) at constant prices	12,122	9,432	10,478	11,181	11,048
Percentage Change	...	-22.2	11.1	6.7	-1.2
Productivity Index 2000=100	100	78	86	92	91

* Provisional

⁽¹⁾ Forecasted

Source: National Statistics Office
Own Calculations

value added at factor cost for 2004 was derived applying econometric techniques. The resultant average value added at factor cost per capita is estimated at Lm11,048, representing a decline of 1.2 per cent in real terms in 2004.

A productivity index with 2000 as a base year was compiled to reflect developments in real per capita value added for the 2000-2004 period. The productivity index increased by 8.0 percentage points in 2002 and by 6.0 percentage points a year later. The index declined by 1.0 percentage point in 2004.

Sector Analysis

The following analysis reviews the largest sectoral contributions to value added at factor cost generated within the manufacturing industry. Table 4.6 presents the shares of the sectors within the manufacturing industry in total value added at factor cost.

Table 4.6 Composition of Value Added at Factor Cost				
	per cent			
	2000	2001	2002	2003*
Food and Beverages	12.7	14.4	14.9	15.0
Tobacco Products	1.4	1.2	0.7	0.7
Textiles and Textile Products	2.5	3.1	4.3	4.6
Wearing Apparel and Clothes	6.3	6.5	6.6	5.5
Leather and Leather Products	1.4	1.7	1.5	1.1
Wood and Wood Products	0.3	0.3	0.3	0.3
Paper and Paper Products	0.8	0.8	0.9	0.9
Publishing and Printing	6.0	7.6	8.1	9.0
Chemicals and Chemical Products	2.3	3.5	2.7	2.8
Rubber and Plastic Products	6.7	6.9	7.4	6.7
Other Non-Metallic Mineral Products	2.7	2.8	2.9	3.1
Basic Metals	0.1	0.1	0.1	0.1
Fabricated Metal Products	2.5	3.2	3.5	3.4
Machinery and Equipment	1.2	1.8	0.9	1.1
Electrical Machinery and Apparatus	3.6	5.3	5.3	4.8
Radio, TV and Communication Equipment	32.5	22.2	21.6	22.0
Medical, Precision and Optical Instruments	4.6	4.1	4.1	4.6
Motor Vehicles, Trailers and Semi-Trailers	0.2	0.2	0.2	0.1
Other Transport Equipment	3.6	5.4	5.0	5.2
Furniture and Other Manufacturing	8.4	8.5	8.7	8.7
Recycling	0.2	0.2	0.3	0.3
Total Manufacturing	100.0	100.0	100.0	100.0
* Provisional				
Source: National Statistics Office				

The food and beverages sector's share to total value added remained the second largest in the industry. The sector's share in total value added followed a gradual upward trend during the three years to 2002, reaching 14.9 per cent up from 12.7 per cent in 2000. During 2003, the contribution of the food and beverages sector to total value added remained at around 15.0 per cent. Personnel costs per capita followed a gradual upward trend between 2000 and 2003. Gross operating surplus per capita registered a decline in 2001 and increased thereafter. This is reflected in the developments of value added per capita, which followed a similar trend. The share of gross operating surplus in value added per capita reached 57.4 per cent in 2003, being slightly below the share registered in 2000. Value added at factor cost per capita in the sector was marginally higher than the average for the manufacturing industry in 2003.

The share in value added at factor cost of the wearing apparel and clothes sector stood at around 6.5 per cent between 2000 and 2002, falling slightly to 5.5 per cent in 2003. On the other hand, value added at factor cost per capita fell by 25.7 per cent in 2001, but increased in the subsequent two years. This reflected the trend in the sector's gross operating surplus per capita which fell in 2001 but increased thereafter. In fact, in 2003 gross operating surplus per capita increased by 39.8 per cent, exceeding the level recorded in 2000. Personnel costs per capita, which made up 52.2 per cent of the sector's value added per capita in 2003, increased by 8.7 per cent in 2003, following declines recorded in the previous two years. Value added per capita in the wearing apparel and clothes sector was 30.2 per cent lower than the average for the manufacturing industry.

In 2003, the publishing and printing sector was the third largest contributor to total manufacturing value added. Its share in total value added reached 9.0 per cent in 2003. The sector's value added at factor cost per capita was 25.5 per cent more than the average for the aggregate manufacturing sector in 2003. Following a 7.0 per cent decline in 2001, value added at factor cost per capita increased by 24.7 per cent in 2002 and by 11.6 per cent in the following year. Gross operating surplus followed a similar trend during the four years to 2003, while sectoral personnel costs were relatively stable in 2000 and 2001, increasing thereafter. The share of personnel costs per capita in the sector's value added at factor cost per capita declined marginally since 2001 to 45.7 per cent in 2003.

At 6.7 per cent, the share in total manufacturing value added at factor cost of the rubber and plastic products sector declined to the level recorded in 2000. The increase in value added at factor cost per capita in 2003 was underpinned

by the 11.4 per cent increase in personnel costs per capita. Meanwhile, gross operating surplus per capita remained at the level recorded in 2002. The share of personnel costs in the sector's value added per capita increased to 49.3 per cent in 2003, up from 46.5 per cent recorded a year earlier. Sectoral value added per capita was 9.9 per cent higher than the average for the manufacturing industry.

The major contributor towards total manufacturing value added at factor cost remained the radio, TV and communication equipment sector whose share in total value added at factor cost stood at around 22 per cent in the three years to 2003. This followed a peak of 32.5 per cent in 2000 reflecting the sector's exceptional performance in that particular year. Sectoral value added per capita registered an increase of 5.7 per cent in 2003, following an increase of 7.8 per cent recorded a year earlier. This performance in value added at factor cost per head was underpinned by a similar pattern recorded in gross operating surplus and personnel costs per capita. Although this sector is the most capital-intensive sector within the local manufacturing industry, the share of personnel cost per capita increased gradually from 17.4 per cent in 2000 to 31.8 per cent in 2003 reflecting the significant drop in gross operating surplus during this period. These developments may have been influenced by the depressed international prices of electronic products.

The furniture and other manufacturing sector was the fourth largest contributor to aggregate manufacturing value added, registering a share of 8.7 per cent. Sectoral value added per capita during the four years under review stood at around three-fourths of the average for the industry. The sector's value added per capita declined in 2001 but increased by 9.4 per cent in 2003, exceeding the level registered in 2000. This performance in 2003 mainly reflects changes in the sector's personnel costs per capita. Indeed, personnel costs per capita increased by 12.3 per cent in 2003, following relatively stable levels between 2000 and 2002. Personnel costs accounted for around 57 per cent of the sector's value added per capita in 2003.

Agriculture and Fisheries

Although the agriculture, hunting and forestry and fishing sectors' contribution towards total economic activity remained rather low in the period under review, at 2.3 per cent of Gross Value Added excluding FISIM, the sector still maintains its importance in the local economy. The welfare of the farming community, which generally is made up of family-owned concerns, depends on the activity in this sector. Moreover, agricultural services enhance the islands' limited rural

landscape, while the fisheries sector enhances the traditional seascape in the main fishing villages, thus providing a tourist attraction.

Agriculture

The performance of the Maltese agricultural sector is hampered by various factors, such as scarce water supply, limited size of holdings which prevents producers from reaping economies of scale, scarcity of forage for livestock and undeveloped export distribution facilities. In line with Government's agriculture policy reform agenda, import levies on a number of agricultural and agro-food products were entirely removed by 1st May 2004. In a bid to assist producers adapt to these new circumstances, the Special Market Policy Programme for Maltese Agriculture (SMPPMA) provides various financial assistance schemes as well as incentive schemes earmarked to enable operators in the sector to carry out the necessary capital outlays leading to the restructuring of the sector. During the first nine months of 2004, Lm3.9 million were provided by Government under the agriculture support scheme.

Table 4.7 presents monthly data on the volume of fresh beef, pork and broilers slaughtered at the Civil Abattoir and in private slaughterhouses. The amount of livestock slaughtered during the Survey period was lower than that recorded in the same period in 2003. The amount of slaughtered pork fell by 15.4 per cent to 6,232 tonnes, whilst the slaughtering of beef declined by 12.8 per cent. Meanwhile, the amount of slaughtered broilers fell by a lower 7.9 per cent to 4,984 tonnes in the period under review. The production of pork was the single

Slaughterings						
Beef, Pork and Broilers						
Table 4.7						
tonnes						
	Beef		Pork		Broilers	
	2003	2004	2003	2004	2003	2004
January	135	86	992	745	734	904
February	129	87	810	687	621	718
March	113	127	885	748	604	734
April	131	110	913	778	684	614
May	106	108	821	640	509	530
June	123	87	719	677	571	364
July	85	84	802	635	642	362
August	92	117	673	638	521	333
September	128	103	748	684	527	425
Total	1,042	909	7,363	6,232	5,413	4,984
Source: National Statistics Office						

most important activity, accounting to 51.4 per cent of total meat production. On the other hand, bovine meat production accounted for the least share in total meat production, since the production of milk is the main activity of the local cattle industry.

During the nine months to September 2004, 36.1 million kgs of fruit and vegetables were sold, being 8.5 per cent more than the quantity sold in the previous Survey period. Nevertheless, the wholesale value of fruit and vegetables sold through organised markets stood at Lm5.8 million, 5.0 per cent less than the value recorded in the same period a year earlier. This reflected the fact that, during January-September 2004, most of the monthly price indices of fresh fruit and vegetables were lower than those recorded in the same period last year, as shown in Table 4.8.

Further analysis of the fresh vegetable index shows that only the price index for January was higher than that recorded in the same period of the previous year. In fact, indices recorded in the following eight months were generally significantly lower than those recorded in the same months for 2003. A marked decline in the price index was registered in April, reflecting cheaper prices of marrows, cucumbers and bellpepper. Similarly, the price index for May fell possibly reflecting the effect of the removal of levies on agriculture products. The main price

Fresh Fruit and Vegetables Indices				
Table 4.8	1995=100			
	Fresh Fruit Index		Fresh Vegetables Index	
	Price Index	Volume Index	Price Index	Volume Index
2003				
January	180.85	50.31	121.41	95.76
February	189.96	27.31	179.21	76.90
March	169.43	26.38	182.60	82.44
April	110.41	54.34	170.72	108.73
May	176.10	74.29	175.39	118.06
June	137.80	160.14	73.95	174.42
July	158.81	122.89	69.49	193.61
August	135.94	169.58	77.99	153.74
September	166.47	142.37	105.58	122.77
2004				
January	182.84	29.90	193.32	79.04
February	197.01	14.18	156.59	84.62
March	162.75	26.41	152.79	100.72
April	92.44	70.29	127.41	120.28
May	152.26	71.12	83.65	128.40
June	102.96	218.36	53.95	161.57
July	133.99	175.58	64.86	219.96
August	107.71	251.15	61.98	182.93
September	144.06	193.91	71.48	133.67
Source: National Statistics Office				

drops were recorded in water and sugar melons and pumpkins. Lower prices for vegetables reflected high production levels of vegetable crops during the Survey period. The volume index for vegetables was higher in the first nine months of 2004 except in January and June. The highest rise in the volume index was recorded in July, reflecting increased supply of water melons, potatoes, dry onions and marrows. The volume index for August was also relatively high, reflecting higher production of potatoes, tomatoes, sugar melons, dry onions and lettuce.

Between March and September 2004 monthly average price indices for fresh fruit were lower than the corresponding figures for 2003. Significant declines were registered between May and September due to lower prices of nectarines, peaches, cherry plums and lemons. The fruit volume index registered increases in most months during the Survey period with the exception of January, February and May. The largest increases were recorded between June and September on account of higher supply of nectarines, peaches and strawberries.

Major agricultural imports for the first nine months of the 2001-2004 period are presented in Table 4.9. The value of imported agricultural commodities increased by 1.4 per cent over the level recorded in the previous Survey period and reached Lm86.6 million. Higher import values were registered for meat and edible offals, cereal preparations, beverages, spirits and vinegar and dairy produce. On the

Imports of Major Agricultural Commodities (January-September)				
Table 4.9	Lm million			
	2001	2002	2003	2004
Live Animals	0.31	0.35	0.32	0.57
Meat and Edible Offals	6.31	6.65	7.84	10.17
Fish	4.36	9.34	5.78	4.06
Dairy Produce	9.17	8.78	8.95	9.64
Edible Fruits and Nuts	6.30	6.10	6.18	5.80
Cereals	7.69	7.01	9.26	4.13
Preparations of Meat, Fish	6.45	6.14	6.43	6.84
Sugar & Confectionery	3.87	3.89	3.74	3.34
Cereal Prep.	8.20	8.43	8.67	10.85
Veg. and Fruit Prep.	4.76	5.19	5.63	6.47
Misc. Edible Prep.	6.73	7.85	8.43	7.80
Beverages, Spirits, Vinegar	7.72	8.27	9.36	11.20
Feeds	5.46	5.21	4.81	5.76
Total	77.33	83.21	85.40	86.63
Source: National Statistics Office				

Box 4.1

Economic Accounts for Agriculture

In August 2004, the National Statistics Office (NSO) has launched agriculture statistics based on the new methodologies for the Economic Accounts for Agriculture, as per the European System of Accounts (ESA95) as well as the revised methodology on Agriculture Labour Input Statistics. It is pertinent to note that the agriculture statistics cover private enterprises and are thus not directly comparable with other chapters in this Economic Survey.

In 2003, agricultural factor income at current market prices, presented in Table 4.A, registered a marginal increase over the level recorded in 2002 and stood at Lm27.9 million, which was mainly due to a decline in intermediate consumption. In fact, intermediate consumption declined by 5.2 per cent when compared to the level recorded in 2002 and stood at Lm27.2 million in 2003. This was underpinned by a decline in the value of all goods and services used as inputs in the production process.

Furthermore, final production at basic prices fell by 2.3 per cent and stood at Lm56.6 million in 2003. This decline mainly reflected a drop in the value of crop production from Lm20.8 million to Lm18.8 million as well as a decline of Lm0.7 million in livestock production. On the other hand, an increase of Lm1.4 million was registered in the value of the production of other animal products.

In 2003, final production at producer prices fell by 8.0 per cent and stood at Lm52.5 million. Government compensated farmers for this drop through various subsidy schemes which made up for the loss of income from lower prices obtained due to the gradual dismantling of levies on agro-food products. Indeed, subsidies increased from Lm0.8 million in 2002 to Lm4.1 million in 2003.

Total factor income in real terms declined by 0.8 per cent and stood at Lm24.7 million in 2003, since the marginal increase in nominal income was offset by an increase in the general price level. Nominal factor income in terms of wages registered the largest increase and reached Lm1.3 million, up from Lm1.1 million registered in 2002, as illustrated in Table 4.B. On the other hand, nominal entrepreneurial income registered a marginal decline when compared to the level recorded in 2002 and stood at Lm25.3 million. Nominal income in terms of interest and rents remained at the level recorded in the previous year, at Lm0.8 million and Lm0.5 million, respectively.

Factor Income at Current Prices				
Table 4.A	Lm thousand			
	2000	2001	2002	2003
Total final production at producer prices	55,008	57,513	57,107	52,548
add subsidies on production	119	128	799	4,051
Total final production at basic prices	55,127	57,641	57,906	56,599
less intermediate consumption	27,258	28,354	28,680	27,200
Gross value added at basic prices	27,869	29,287	29,226	29,399
less fixed capital consumption	1,706	1,790	1,800	1,729
Net value added at basic prices	26,163	27,497	27,426	27,670
add other subsidies not directly linked with production	300	300	429	268
Factor income at current prices	26,463	27,797	27,855	27,938

Source: National Statistics Office

Box 4.1 continued

**Distribution of Factor Income at
Current Prices**

Table 4.B	Lm thousand			
	2000	2001	2002	2003
Factor Income	26,463	27,797	27,855	27,938
Entrepreneurial income (profits)	24,025	25,520	25,528	25,349
Compensation of employees (wages)	1,015	995	1,081	1,344
Interest	897	755	755	755
Rents	526	526	490	490

Source: National Statistics Office

other hand, significant declines in import values were recorded for cereals, fish and miscellaneous edible preparations. These notable decreases partly offset the effect of increased imports due to the removal of levies as from May 2004.

Fisheries

The Maltese fishing industry relies on both fish farming techniques as well as traditional fishing methods. The fish farming industry, whose main produce consists of sea-bass and sea-bream, is mainly export-oriented.

Traditional fishing methods supply the local market with a variety of fish, mainly blue fin tuna, dorado (*lampuki*) and swordfish. In January-September 2004, total fish landings increased by 1.8 per cent over the level recorded during the same period last year, and stood at 742 tonnes. This reflected an increase in landings of swordfish, dog-fish and blue fin tuna. On the other hand, there was a decline in landings of shrimps, bogue and stone bass. At Lm1.5 million, the wholesale value of fish remained at the level recorded during the first nine months of 2003.

Table 4.10 presents monthly data on average fish prices and volume, expressed as an index (1995=100). When compared to the first nine months of 2003, increases in the fresh fish price index were registered in February and March and between July and September. On the other hand, the price index registered a decrease during January as well as between April and June when compared to the corresponding periods of 2003. As indicated by the volume index, similar to previous years, the largest quantities of fish were caught between May and September.

Fresh Fish Indices

Table 4.10

1995=100

	Fresh Fish Index	
	Price Index	Volume Index
2003		
January	144.24	12.81
February	124.37	10.38
March	112.60	26.59
April	158.50	12.62
May	169.76	106.53
June	150.93	84.61
July	124.20	56.94
August	111.75	63.60
September	111.94	137.61
2004		
January	113.52	32.63
February	159.77	21.94
March	129.67	20.00
April	133.11	16.69
May	159.47	126.86
June	128.04	84.00
July	125.56	46.07
August	129.49	75.29
September	117.01	97.46

Source: National Statistics Office

Exports of Fish (January - September)

Table 4.11

	2003		2004	
	Qty (Kg)	Value Lm 000	Qty (Kg)	Value Lm 000
Sea-bream/Sea-bass	751,283	1,421.7	706,699	1,629.9
Tuna	287,498	1,196.9	365,764	1,685.8
Total	1,038,781	2,618.6	1,072,463	3,315.7

Source: National Statistics Office

As shown in Table 4.11, during the Survey period, exports of fish totaled 1,072,463 kgs, 3.2 per cent more than the exports registered during the same period last year. However, the value of these exports registered an increase of 26.6 per cent and reached Lm3.3 million. This reflects higher average prices for fish exports. While the volume of exported sea-bream and sea-bass declined by 5.9 per cent, the value of these exports increased by 14.6 per cent. As a consequence, the ratio of sea-bream and sea-bass to the total volume of fish-exports decreased from 72.3 per cent to 65.9 per cent. On the other hand, a higher volume of tuna was exported. In fact, the value and volume of exports of tuna increased when compared to the first nine months of 2003.

Shipyards

The Maltese ship repair and ship building industry experienced difficulties over the past years primarily due to low levels of productivity and significant pressures from the international market. Over the years, the shipyards registered significant losses and relied heavily on Government financial assistance. A Task Force was set up in September 2001, primarily entrusted with drawing up and implementing a restructuring plan for the shipyards. This plan envisaged amongst other things that over a period of seven years, a gradual scaling down of the capacity of the yards in terms of both human and physical resources was to be undertaken as well as the introduction of various schemes related to training of staff and support to employees who seek alternative occupation.

In 2002, around 700 persons accepted early and voluntary retirement schemes. After the signing of an agreement between the management and the union representing the employees in November 2003, 1,700 employees were absorbed

Government Assistance (Contributions through the Consolidated Fund)					
Table 4.12	Lm million				
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
Malta Shipbuilding	5.0	5.5	4.7	4.5	-
Malta Drydocks	5.1	15.2*	15.1*	12.2*	-
Malta Shipyards Ltd	-	-	-	-	6.1
*Includes funds which in previous years were provided for from the Treasury Clearance Fund					
Source: The Treasury					

into a newly formed company – Malta Shipyards Ltd, whilst another 900 were offered different types of early retirement schemes and resignation schemes. Those who refused the schemes were entrusted to another new wholly-owned Government company, Industrial Projects and Services Ltd. These workers have been posted within the public sector.

The major aim of the restructuring programme is to fully eliminate the need for further reliance by this industry on public funds. As the shipyards are currently a major beneficiary of financial assistance, the plan seeks to eliminate subsidies to this industry by the end of 2008. This phasing out path is in line with the transition period agreed upon during Malta's accession negotiations.

As illustrated in Table 4.12, public funds financed by appropriations from the Consolidated Fund directed to Malta Shipyards totaled Lm6.1 million during the Survey period. Furthermore, Government provided Lm1.7 million to finance the pensions of persons who opted for the early retirement scheme in 2002.

Employment in Malta Shipyards Ltd in September 2004 stood at 1,776, down from 2,651 as show in Table 4.13. It is pertinent to note that in the period under review, a number of employees were transferred to Industrial Projects and Services Ltd reflecting the restructuring programme implemented at the shipyards. The company's turnover for the January-September 2004 period stood at Lm7.1 million while net losses for the same period were recorded at Lm7.0 million.

The commercial ship repair market was affected by the high freight rates which discouraged owners from docking their ships except for emergency repairs and

Employment					
Table 4.13					
	2001	2002	2003	2003 Sep	2004 Sep
Malta Shipbuilding	813	692	-	690	-
Malta Drydocks	2,654	1,973	-	1,961	-
Malta Shipyards Ltd	-	-	1,743	-	1,776
Total	3,467	2,665	1,743	2,651	1,776
Source: Employment and Training Corporation					

maintenance. Furthermore, the offshore market in the Mediterranean remained rather subdued this year. Moreover, competition in the sector remained intense with the traditional ship repair market currently being dominated by low cost countries such as Turkey and Croatia.

However, Malta Shipyards Ltd succeeded in securing a number of important contracts, including one for the building of a barge which is to be used in the Caspian sea oilfields, the refurbishment of a cruise liner, as well as major repairs on two tug boats. Furthermore, the Company was commissioned to undertake extensive repairs on a damaged oil rig.

Moreover, the servicing of super yachts in the yard, which commenced last year, proved to be successful during 2004, resulting in a number of yachts visiting the facility for maintenance and repair reasons. The facility's competitive advantage is derived from its unique location, which lies between the Far East and the western Mediterranean and the efficient service which is provided.

Malta Shipyards Ltd intends to attract enough business to thrive, particularly in the context of the planned reduction in Government assistance. This can be achieved through further diversification into higher value added sectors of the ship repair and conversions market. To this end, the Company is strengthening its marketing efforts so as to enter into new alliances with specialised service providers in order to establish itself in new markets, such as liquefied natural gas (LNG) vessel repair and tank coating.

Sampled Manufacturing Firms*
(January-September)

Appendix Table 4.1

	2001	2002	2003	2004** ⁽¹⁾
TOTAL MANUFACTURING				
Sales (Lm 000)	752,101	738,118	765,848	764,490
Wages (Lm 000)	86,632	88,365	93,034	90,790
Net Investment (Lm 000)	31,705	34,952	36,277	40,024
Exports (Lm 000)	589,354	565,225	593,682	600,773
Local Sales (Lm 000)	162,747	172,893	172,166	163,717
Avg. Weekly Sales/Employee (Lm)	856.27	864.51	935.77	982.06
Avg. Weekly Earnings/Employee (Lm)	98.63	103.50	113.68	116.63
Avg. Weekly Exports/Employee (Lm)	670.98	662.01	725.40	771.75
FOOD AND BEVERAGES				
Sales (Lm 000)	85,215	89,332	94,915	89,263
Wages (Lm 000)	11,556	12,027	12,986	12,737
Net Investment (Lm 000)	3,652	2,293	5,414	3,958
Exports (Lm 000)	11,803	14,413	16,089	15,262
Local Sales (Lm 000)	73,412	74,918	78,826	74,001
Avg. Weekly Sales/Employee (Lm)	693.14	727.24	769.52	738.56
Avg. Weekly Earnings/Employee (Lm)	94.00	97.91	105.28	105.39
Avg. Weekly Exports/Employee (Lm)	96.01	117.34	130.44	126.28
TOBACCO PRODUCTS				
Sales (Lm 000)	27,339	23,067	23,075	24,872
Wages (Lm 000)	1,098	817	907	904
Net Investment (Lm 000)	662	484	99	134
Exports (Lm 000)	3,398	177	26	43
Local Sales (Lm 000)	23,941	22,890	23,049	24,829
Avg. Weekly Sales/Employee (Lm)	4,601.70	3,943.10	3,682.59	4,027.89
Avg. Weekly Earnings/Employee (Lm)	184.83	139.62	144.73	146.35
Avg. Weekly Exports/Employee (Lm)	571.92	30.31	4.22	6.94
TEXTILES AND TEXTILE PRODUCTS				
Sales (Lm 000)	7,174	12,808	12,496	19,967
Wages (Lm 000)	1,516	2,387	2,737	3,768
Net Investment (Lm 000)	459	1,438	306	1,142
Exports (Lm 000)	5,006	7,909	9,862	19,191
Local Sales (Lm 000)	2,167	4,900	2,634	775
Avg. Weekly Sales/Employee (Lm)	358.08	429.87	376.51	504.57
Avg. Weekly Earnings/Employee (Lm)	75.67	80.12	82.47	95.22
Avg. Weekly Exports/Employee (Lm)	249.90	265.44	297.14	484.97

Sampled Manufacturing Firms*
(January-September)

Appendix Table 4.1

Continued

	2001	2002	2003	2004** ⁽¹⁾
WEARING APPAREL AND CLOTHES				
Sales (Lm 000)	42,602	45,921	39,379	31,407
Wages (Lm 000)	10,622	10,156	7,813	6,042
Net Investment (Lm 000)	1,116	505	400	76
Exports (Lm 000)	38,166	40,896	35,215	24,956
Local Sales (Lm 000)	4,436	5,025	4,164	6,451
Avg. Weekly Sales/Employee (Lm)	334.09	380.24	454.28	470.21
Avg. Weekly Earnings/Employee (Lm)	83.30	84.09	90.14	90.45
Avg. Weekly Exports/Employee (Lm)	299.30	338.63	406.24	373.63
LEATHER AND LEATHER PRODUCTS				
Sales (Lm 000)	12,050	10,808	8,454	5,936
Wages (Lm 000)	2,670	2,182	1,853	1,430
Net Investment (Lm 000)	154	223	103	44
Exports (Lm 000)	11,468	10,642	8,316	5,809
Local Sales (Lm 000)	582	166	138	127
Avg. Weekly Sales/Employee (Lm)	362.36	388.50	394.11	354.81
Avg. Weekly Earnings/Employee (Lm)	80.30	78.44	86.41	85.45
Avg. Weekly Exports/Employee (Lm)	344.87	382.53	387.69	347.21
WOOD AND WOOD PRODUCTS				
Sales (Lm 000)	374	377	375	238
Wages (Lm 000)	127	119	122	82
Net Investment (Lm 000)	2	1	0	0
Exports (Lm 000)	24	34	21	0
Local Sales (Lm 000)	350	343	355	238
Avg. Weekly Sales/Employee (Lm)	195.83	211.61	201.94	182.88
Avg. Weekly Earnings/Employee (Lm)	66.32	66.64	65.54	63.26
Avg. Weekly Exports/Employee (Lm)	12.55	19.18	11.07	0.00
PAPER AND PAPER PRODUCTS				
Sales (Lm 000)	5,624	5,503	5,610	5,645
Wages (Lm 000)	1,287	1,256	1,324	1,372
Net Investment (Lm 000)	68	7	18	402
Exports (Lm 000)	302	234	92	141
Local Sales (Lm 000)	5,322	5,269	5,518	5,504
Avg. Weekly Sales/Employee (Lm)	453.48	454.68	510.70	504.34
Avg. Weekly Earnings/Employee (Lm)	103.74	103.76	120.57	122.57
Avg. Weekly Exports/Employee (Lm)	24.33	19.34	8.41	12.57

Sampled Manufacturing Firms*

(January-September)

Appendix Table 4.1

Continued

	2001	2002	2003	2004** ⁽¹⁾
PUBLISHING AND PRINTING				
Sales (Lm 000)	23,872	30,416	36,540	36,442
Wages (Lm 000)	5,920	7,000	8,135	8,848
Net Investment (Lm 000)	522	3,241	2,471	4,721
Exports (Lm 000)	13,103	19,104	24,238	23,806
Local Sales (Lm 000)	10,769	11,312	12,302	12,636
Avg. Weekly Sales/Employee (Lm)	408.97	509.06	571.76	570.92
Avg. Weekly Earnings/Employee (Lm)	101.43	117.15	127.29	138.62
Avg. Weekly Exports/Employee (Lm)	224.48	319.74	379.27	372.95
CHEMICALS AND CHEMICAL PRODUCTS				
Sales (Lm 000)	26,133	26,288	26,073	22,052
Wages (Lm 000)	4,700	4,883	5,110	4,038
Net Investment (Lm 000)	1,456	3,885	3,415	7,906
Exports (Lm 000)	20,498	20,222	20,207	15,533
Local Sales (Lm 000)	5,635	6,066	5,866	6,519
Avg. Weekly Sales/Employee (Lm)	638.77	641.55	634.69	700.65
Avg. Weekly Earnings/Employee (Lm)	114.88	119.16	124.38	128.30
Avg. Weekly Exports/Employee (Lm)	501.04	493.50	491.89	493.52
RUBBER AND PLASTIC PRODUCTS				
Sales (Lm 000)	28,684	29,846	28,963	29,423
Wages (Lm 000)	8,169	8,055	7,957	8,690
Net Investment (Lm 000)	2,494	2,303	2,270	1,009
Exports (Lm 000)	23,983	23,895	22,804	23,490
Local Sales (Lm 000)	4,701	5,951	6,159	5,933
Avg. Weekly Sales/Employee (Lm)	335.23	393.53	429.28	419.75
Avg. Weekly Earnings/Employee (Lm)	95.47	106.21	117.94	123.97
Avg. Weekly Exports/Employee (Lm)	280.28	315.07	337.99	335.11
OTHER NON-METALLIC MINERAL PRODUCTS				
Sales (Lm 000)	9,351	10,671	10,284	10,439
Wages (Lm 000)	2,030	2,107	2,307	2,328
Net Investment (Lm 000)	189	318	295	68
Exports (Lm 000)	1,585	1,929	1,229	1,368
Local Sales (Lm 000)	7,766	8,741	9,055	9,072
Avg. Weekly Sales/Employee (Lm)	384.06	417.30	383.45	396.75
Avg. Weekly Earnings/Employee (Lm)	83.37	82.39	86.02	88.48
Avg. Weekly Exports/Employee (Lm)	65.11	75.44	45.81	51.98

Sampled Manufacturing Firms*

(January-September)

Appendix Table 4.1

Continued

	2001	2002	2003	2004** ⁽¹⁾
BASIC METALS				
Sales (Lm 000)	455	297	218	-
Wages (Lm 000)	244	220	201	-
Net Investment (Lm 000)	0	2	0	-
Exports (Lm 000)	122	126	107	-
Local Sales (Lm 000)	333	171	111	-
Avg. Weekly Sales/Employee (Lm)	185.39	135.12	117.37	-
Avg. Weekly Earnings/Employee (Lm)	99.41	100.34	108.34	-
Avg. Weekly Exports/Employee (Lm)	49.69	57.23	57.55	-
FABRICATED METAL PRODUCTS				
Sales (Lm 000)	9,804	11,639	11,658	9,803
Wages (Lm 000)	2,621	2,788	2,814	2,966
Net Investment (Lm 000)	173	156	351	99
Exports (Lm 000)	4,104	6,601	5,178	4,454
Local Sales (Lm 000)	5,701	5,039	6,480	5,349
Avg. Weekly Sales/Employee (Lm)	359.14	436.11	444.15	387.11
Avg. Weekly Earnings/Employee (Lm)	96.02	104.48	107.20	117.12
Avg. Weekly Exports/Employee (Lm)	150.32	247.31	197.27	175.89
MACHINERY AND EQUIPMENT				
Sales (Lm 000)	10,592	8,383	9,841	9,752
Wages (Lm 000)	1,633	1,588	1,652	1,829
Net Investment (Lm 000)	242	247	380	134
Exports (Lm 000)	8,403	6,172	7,350	7,395
Local Sales (Lm 000)	2,189	2,211	2,491	2,357
Avg. Weekly Sales/Employee (Lm)	634.57	547.41	677.69	591.60
Avg. Weekly Earnings/Employee (Lm)	97.83	103.68	113.80	110.93
Avg. Weekly Exports/Employee (Lm)	503.42	403.03	506.17	448.63
OFFICE MACHINERY				
Sales (Lm 000)	807	909	591	-
Wages (Lm 000)	81	77	66	-
Net Investment (Lm 000)	0	0	1	-
Exports (Lm 000)	64	332	131	-
Local Sales (Lm 000)	743	577	460	-
Avg. Weekly Sales/Employee (Lm)	1,089.31	1,185.49	826.10	-
Avg. Weekly Earnings/Employee (Lm)	108.83	100.86	92.54	-
Avg. Weekly Exports/Employee (Lm)	86.05	433.18	183.23	-

Sampled Manufacturing Firms*

(January-September)

Appendix Table 4.1

Continued

	2001	2002	2003	2004** ⁽¹⁾
ELECTRICAL MACHINERY AND APPARATUS				
Sales (Lm 000)	33,324	30,226	28,240	27,353
Wages (Lm 000)	5,625	5,372	5,719	5,548
Net Investment (Lm 000)	1,951	1,313	1,449	1,494
Exports (Lm 000)	32,863	29,117	27,298	26,979
Local Sales (Lm 000)	461	1,109	942	374
Avg. Weekly Sales/Employee (Lm)	649.13	635.95	602.91	612.36
Avg. Weekly Earnings/Employee (Lm)	109.56	113.03	122.10	124.21
Avg. Weekly Exports/Employee (Lm)	640.14	612.62	582.80	604.00
RADIO, TV AND COMMUNICATION EQUIPMENT				
Sales (Lm 000)	368,930	337,773	361,004	371,816
Wages (Lm 000)	13,747	15,108	17,129	16,198
Net Investment (Lm 000)	15,856	15,157	14,357	14,634
Exports (Lm 000)	368,544	335,308	358,977	371,055
Local Sales (Lm 000)	385	2,466	2,027	761
Avg. Weekly Sales/Employee (Lm)	3,028.09	2,778.59	2,801.04	3,133.35
Avg. Weekly Earnings/Employee (Lm)	112.83	124.28	132.91	136.51
Avg. Weekly Exports/Employee (Lm)	3,024.92	2,758.30	2,785.31	3,126.94
MEDICAL, PRECISION AND OPTICAL INSTRUMENTS				
Sales (Lm 000)	13,179	16,758	19,453	26,417
Wages (Lm 000)	4,491	4,140	4,875	5,303
Net Investment (Lm 000)	1,763	602	362	951
Exports (Lm 000)	13,081	16,680	19,401	26,220
Local Sales (Lm 000)	98	77	51	197
Avg. Weekly Sales/Employee (Lm)	293.17	420.30	511.22	570.17
Avg. Weekly Earnings/Employee (Lm)	99.89	103.84	128.12	114.46
Avg. Weekly Exports/Employee (Lm)	291.00	418.36	509.87	565.92
MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS				
Sales (Lm 000)	874	579	541	429
Wages (Lm 000)	170	148	131	161
Net Investment (Lm 000)	16	7	0	0
Exports (Lm 000)	741	441	385	270
Local Sales (Lm 000)	133	139	156	159
Avg. Weekly Sales/Employee (Lm)	332.92	257.54	291.13	207.48
Avg. Weekly Earnings/Employee (Lm)	64.62	65.96	70.50	78.00
Avg. Weekly Exports/Employee (Lm)	282.23	195.90	207.28	130.67

Sampled Manufacturing Firms*
(January-September)

Appendix Table 4.1

Continued

	2001	2002	2003	2004** ⁽¹⁾
OTHER TRANSPORT EQUIPMENT ⁽²⁾				
Sales (Lm 000)	4,151	5,477	11,989	9,455
Wages (Lm 000)	776	714	1,393	1,328
Net Investment (Lm 000)	23	25	617	44
Exports (Lm 000)	3,408	4,839	10,683	9,012
Local Sales (Lm 000)	743	638	1,306	443
 Avg. Weekly Sales/Employee (Lm)	638.59	858.07	1,403.66	1,042.00
Avg. Weekly Earnings/Employee (Lm)	119.44	111.83	163.05	146.31
Avg. Weekly Exports/Employee (Lm)	524.25	758.19	1,250.79	993.21
 FURNITURE AND OTHER MANUFACTURING				
Sales (Lm 000)	41,566	41,040	36,150	33,781
Wages (Lm 000)	7,551	7,219	7,801	7,219
Net Investment (Lm 000)	907	2,744	3,969	3,207
Exports (Lm 000)	28,688	26,154	26,072	25,788
Local Sales (Lm 000)	12,878	14,886	10,078	7,993
 Avg. Weekly Sales/Employee (Lm)	587.87	602.23	532.82	549.25
Avg. Weekly Earnings/Employee (Lm)	106.79	105.94	114.99	117.37
Avg. Weekly Exports/Employee (Lm)	405.73	383.79	384.28	419.30

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

** Provisional

⁽¹⁾As from 2004, data on exports may include re-exports

⁽²⁾Data for 2001-2003 excludes Malta Shipbuilding Co. Ltd.

Source: National Statistics Office

5. Services Activities

5. Services Activities

Along the years, the services sector has become a major contributor to the development of the Maltese economy. Within this sector, tourism holds a significant role, both in terms of employment and foreign exchange earnings. After suffering a setback in 2002, due to a number of factors mainly linked to international developments, data indicates some improvement in the performance of the domestic tourist industry in the first three quarters of 2003. During the period under review, Government and the private sector continued to invest in this sector, including the promotion of Malta as an all year tourist destination and marketing campaigns in key foreign countries in order to diversify the tourism market. Similarly, financial services and Freeport-related activities continued to be consolidated, enhanced and developed.

During the Survey period, tourist departures increased by 2.3 per cent up from 1.3 per cent recorded in the first nine months of 2003. However, at a level of 919,728 this is still below the corresponding 2001 level. During the Survey period, the average length of stay rose from 9.5 days to 10.2 days. Gross foreign exchange earnings stood at Lm203.5 million, an increase of 3.5 per cent over the same period of 2003. Per capita earnings increased to Lm221.3 from Lm218.8 in the corresponding period of 2003, whilst earnings per night spent increased from Lm20.9 during the first nine months of 2003 to Lm22.5 during the Survey period. Full-time employment in tourism-related activities remained practically unchanged and amounted to 9,590 employees as at September 2004. Meanwhile, the number of cruise liner tourists declined during the first nine months of 2004, with arrivals to Malta reaching 196,358.

The Malta Financial Services Authority (MFSA) continued to provide the regulatory framework concerning financial services in Malta. Moreover, the legal framework governing the Maltese financial sector continued to be brought in line with EU legislation, leading to a greater integration of the domestic financial system with that of the EU.

The Malta Freeport Corporation Ltd is a leading transshipment terminal in the Mediterranean. A growth of 10.7 per cent was registered in transshipment throughput between January and September 2004 over the same period last year.

As from January 2004 Malta Enterprise Corporation assumed the responsibility previously carried out by Malta Development Corporation, Malta Export Trade

Corporation and the Institute for the Promotion of Small Enterprises. Consequently, it acts as a single point of contact for all enterprises considering investment and commercial links with Malta.

Tourism

The National Statistics Office (NSO) introduced a new system for compiling tourist data starting from 2001 on the basis of an Inbound Tourism Survey. Therefore, tourist data in this Chapter is not directly comparable with that published in previous issues of the Economic Survey. Moreover, it is pertinent to note that until March 2004 data regarding tourist arrivals by sea are taken from information provided in embarkation cards. Thereafter, data for tourist sea departures refer to information taken from the Inbound Tourism Survey.

Developments during the Survey period seem to indicate that the impact of the unfavourable global environment that started in 2001 on tourism departures seems to be diminishing. Indeed, following the decline in tourism departures registered during 2002 a much smaller contraction was recorded in 2003, whilst an improvement was posted in the first nine months in 2004. Tourist departures during the period under review increased by 2.3 per cent over the same period of 2003. However, at 919,728 the level of tourist departures recorded during the Survey period is still below that registered during the first nine months of 2001. Gross foreign exchange earnings from tourism increased by 3.5 per cent to Lm203.5 million during the first nine months of 2004.

On the other hand, cruise liner passengers posted a decline during the Survey period. In fact, cruise passengers fell by 31.7 per cent to 196,358 from a level of 287,525 in the January – September 2003 period, the latter being the highest level recorded in recent years. Full-time employment in hotels and catering establishments amounted to 9,590 as at the end of September 2004, almost unchanged over September 2003. During the Survey period the bed-stock capacity in hotels, complexes, guesthouses, and hostels declined by 330 beds to 41,793. The main tourism indicators are presented in Table 5.1.

On the international front, the fear factor in the aftermath of the 11th September 2001 and the Iraq war in 2003 have faded away and travel confidence is being restored. Destinations in Asia and the Pacific, and in particular in Northwest and Southwest Asia, have regained from the losses suffered in 2003 due to SARS. Additionally, despite the uncertainty surrounding the international political

Main Tourism Indicators

Table 5.1

	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Tourist Departures*	950,977	229,778	887,282	244,994	899,147	219,087	919,728
Gross foreign exchange earnings (Lm million)	205.5	55.3	182.7	63.0	196.7	64.7	203.5
Nights spent (000's)**	9,092	1,975	8,553	2,046	9,423	1,870	9,054
Cruise Passengers***	187,889	71,501	257,294	84,338	287,525	96,074	196,358
Total full-time employment in hotels and catering establishments	9,962	9,438	9,599	9,432	9,584	9,338	9,590
Beds in hotels, complexes, guesthouses, and hostels	41,629	38,701	39,348	39,940	42,123	41,443	41,793
*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey							
**For 2004 includes April - September sea nights from Inbound Tourism Survey							
***Excluding Maltese cruise passengers							

Source: National Statistics Office
Employment and Training Corporation

scenario and the concerns raised by the volatility of oil prices, the world economy has improved.

On the other hand, with regards tourism in Europe, the strength of the Euro during the first nine months of 2004 emerges as a major factor in the present performance. Indeed, the strong Euro and decreasing airfares led to a growing popularity of travel from Europe to destinations in the Caribbean or in Mexico and Brazil as these destinations became increasingly accessible and a competitive alternative to the Mediterranean. Given the influence of these factors, the Maltese tourism industry is facing a challenge to remain an attractive destination in an increasingly competitive international market.

The Malta Tourism Authority (MTA), through its activities, aims at promoting Malta as an all-year tourism destination and in developing a sustainable tourism industry. To this end, the MTA is operating under its Second Strategic Plan for the tourism industry for the period 2002-2004. The MTA has a number of offices globally, participates in a number of trade and consumer fairs, and commissions various advertising campaigns. During the Survey period, MTA was in the

process of carrying out an extensive review of its operations in order to improve its overall efficiency, effectiveness and accountability.

Additionally, 14 airlines increased their number of flights to Malta or operated flights to Malta for the first time during the Survey period. Furthermore, besides Government and private investment in the tourism industry, an EU and Government-funded scheme has been launched during the Survey period. The aim of this Scheme is to increase the competitiveness of the tourism service providers and to directly influence investment by the private sector. The target beneficiaries of the scheme are tourism operators and those closely linked to the industry. Accordingly, this will enable the tourism sector to benefit from EUR 2.5 million over two years, with 60 per cent of the funds to be given as grants while the rest are to be provided by the private sector.

Monthly Tourist Departures*

Table 5.2

	2001	2002	2003	2004
January	56,103	47,868	50,000	49,262
February	55,369	47,781	49,418	51,132
March	81,515	79,859	72,501	65,999
April	103,879	93,559	94,640	92,166
May	108,556	97,492	105,736	105,402
June	110,772	103,557	106,226	114,879
July	133,663	126,293	131,438	134,366
August	166,776	163,893	167,112	177,097
September	134,344	126,980	122,076	129,425
January/September	950,977	887,282	899,147	919,728
% change**	...	-6.7	1.3	2.3
October	117,338	126,040	110,589	
November	68,782	70,927	66,368	
December	43,658	48,027	42,130	
Total	1,180,755	1,132,276	1,118,235	
% change**	...	-4.1	-1.2	

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

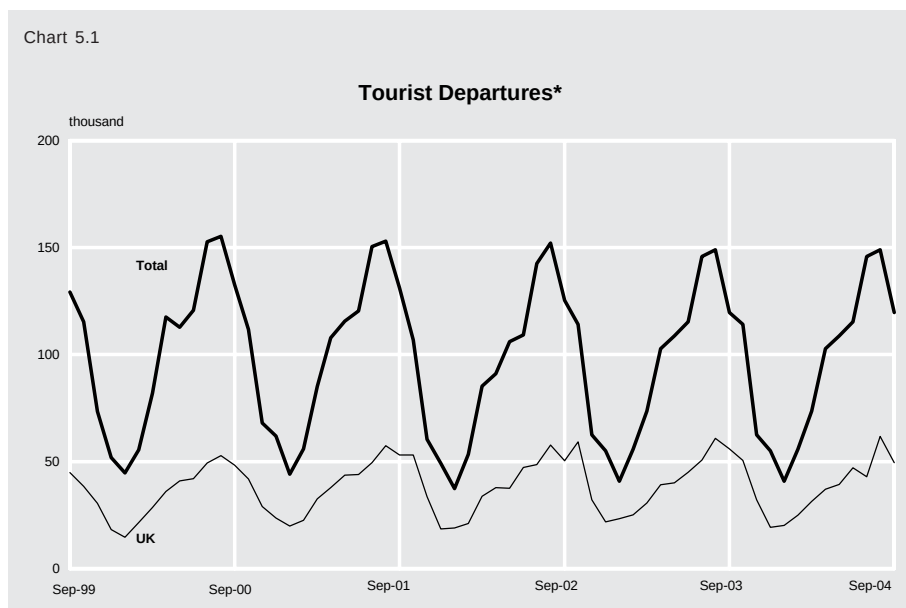
**Figures for 2001 are not available due to a change in the methodology of compiling tourism statistics, which is now based on the Inbound Tourism Survey

Source: National Statistics Office

Monthly Distribution

Data on the monthly distribution of tourist departures is shown in Table 5.2. Chart 5.1 indicates clearly that the local tourism industry is characterised by significant seasonality patterns. Despite the increase in tourist departures, during the period under review, this improvement was not consistent on a month by month basis. Lower tourist departures were recorded in January when compared to the same month of 2003, together with March and April. By contrast, February recorded an increase in tourist departures of 3.5 per cent over February 2003. In May tourist departures declined by 0.3 per cent over the comparable month of 2003. On the other hand, from June to September tourist departures recorded significant increases, particularly in June, with an 8.1 per cent increase, to a level of 114,879. During the period under review, August remained the peak month accounting for 19.3 per cent of total departures.

The distribution of tourist departures on a quarterly basis is shown in Table 5.3. Tourist departures in the first quarter of 2004 declined by a percentage point when compared to the same quarter in 2003, to 18.1 per cent. This was due to a decline in departures in both January and March of 2004. Meanwhile, tourist departures in the second quarter of the Survey period remained practically unchanged at 34.0 per cent attributable to lower departures in both April and



*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

Quarterly Distribution of Tourist Departures*

Table 5.3

per cent

	2001	2002	2003	2004
March	20.3	19.8	19.1	18.1
June	34.0	33.2	34.1	34.0
September	45.7	47.0	46.8	47.9

*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

May, while the third quarter which accounts for the bulk of tourist departures from Malta, increased by 1.1 percentage points to 47.9 per cent.

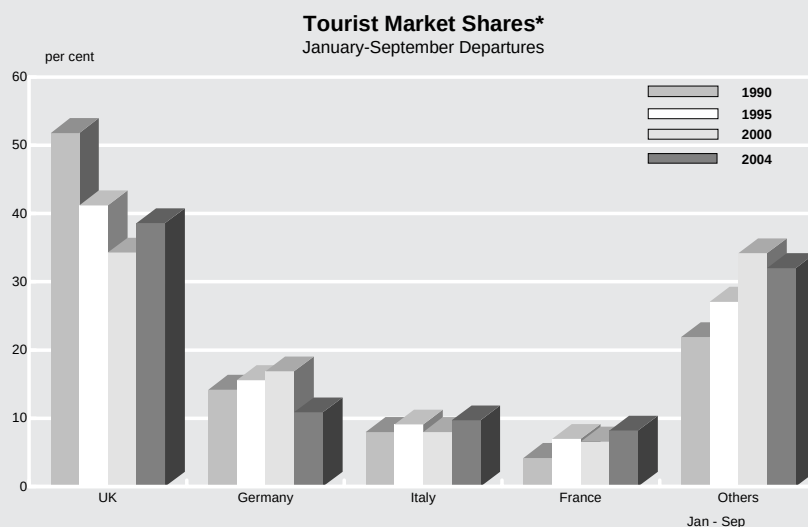
Tourist Nationality

During the Survey period, further efforts were undertaken to diversify the domestic tourism market. Market campaigns were made in Russia, Austria, Germany, Switzerland, Italy, and other Eastern European countries. MTA's campaign in overseas countries promoted Malta as an all-year round active destination. Whilst the UK remains the main important market in the tourism sector, there were other markets which showed gains in terms of tourist departures during the Survey period.

Chart 5.2 illustrates the market share of Malta's main source markets for the first three quarters of the period ranging from 1990 to 2004. The UK represents the highest proportion of tourists, however its relative share has declined from 51.8 per cent during January – September 1990 to 38.6 per cent during the Survey period. Meanwhile, after increasing up to 2000, the share of the German market recorded a decline to 10.9 per cent in the nine months to September 2004. The share of the Italian source market remained relatively stable between 1990 and 2000, but increased to 9.7 per cent at the period ending September 2004. Similarly, the share of the French market increased to 8.2 per cent during the Survey period, compared to the 4.2 per cent during 1990. The share of the other markets category, increased from 21.9 per cent in the first three quarters of 1990 to 32.6 per cent at the end of September 2004.

A detailed breakdown of tourist departures by nationality is presented in Table 5.4. Tourists from the UK decreased by 16,734 or 4.5 per cent, to 354,420 persons at the end of September 2004. On the other hand, after the decline in

Chart 5.2



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

Table 5.4

	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
United Kingdom	361,364	105,474	354,042	113,363	371,154	101,943	354,420
Germany	132,533	33,907	112,446	36,025	96,394	29,021	100,549
Italy	85,437	9,898	77,778	10,452	81,431	11,249	89,605
France	68,220	10,984	68,928	11,345	65,432	11,950	75,419
Netherlands	40,985	8,688	33,745	8,630	32,468	7,576	30,564
Scandinavia**	38,525	11,850	29,792	10,240	35,280	11,677	50,117
Libya	26,277	6,151	19,482	5,564	14,312	3,151	10,115
Belgium	17,952	3,753	19,813	4,796	22,025	4,374	25,762
Austria	21,390	3,928	15,166	3,787	19,999	4,597	18,690
Switzerland	21,121	5,649	16,064	6,309	17,446	4,564	16,480
USA	11,459	2,520	10,269	2,588	11,734	3,440	14,061
Others	125,714	26,976	129,757	31,895	131,472	25,545	133,946
TOTAL	950,977	229,778	887,282	244,994	899,147	219,087	919,728

*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

the first three quarters of 2002 and 2003, tourist departures to Germany, increased by 4,155 or 4.3 per cent to 100,549 during the comparable period of 2004. This increase may partly reflect the fact that a travel agency company booked more tourists to Malta this year compared to the previous year.

Tourists from Netherlands, Libya, Austria, and Switzerland registered a decline during the Survey period when compared to the same period of 2003. However, the MTA continued its strong marketing campaign in Austria during this period, in order to promote Malta as a young, active and vibrant destination. Similarly, MTA is promoting Malta as a tourist destination in Switzerland.

By contrast, a relatively high improvement was recorded in the Scandinavian sources market, which consist of Denmark, Finland, Norway and Sweden. Departures to this market amounted to 50,117 during the Survey period, an increase of 14,837 or 42.1 per cent over September 2003. This increase is largely attributable to the Swedish market. In fact, tourist departures increased by 9,709 over January to September 2003, to 17,776 persons during the first nine months of 2004. As a result, the share of tourist departures to Sweden increased from 0.9 per cent in the first nine months of 2003 to 1.9 per cent in the comparable 2004 period.

During the period under review, tourists from France increased by 15.3 per cent to 75,419 persons thus reversing the decline recorded in the same period of 2003. This was mainly attributable to the increased marketing promotion by the MTA. After declining by 1,190 between January to September 2001 and 2002, tourists from the US registered an increase of 19.8 per cent to 14,061 in the first nine months of 2004. Similarly, tourist departures to the Other Countries category, were higher during the period under review. Indeed, this category increased by 1.9 per cent to 133,946 in the first three quarters of 2004.

Cruise Passengers

During the Survey period, the number of foreigners visiting Malta on cruise liners registered a relatively high drop of 91,167 or 31.7 per cent, as business operators re-assessed their operations in the Mediterranean region.

During the period under review, a number of cruise liner companies started using Malta as a home port where cruises start and end. Since this concept involves tourists flying to Malta from where they start and end their cruise, it should provide high value added to the economy that goes beyond the cruise liner industry. Moreover, a new liner, which forms part of the world's leading

cruise liners, will start including Malta in its itinerary as from next year. The completion of the Cruise Liner Terminal Project should continue to bolster Malta as an important destination in the Mediterranean.

Accommodation

Table 5.5 provides data concerning Malta's accommodation capacity by category of units and beds. It is pertinent to point out that the change in accommodation levels in Table 5.5 reflects new accommodation, closure of existing accommodation as well as reclassifications.

By the end of September 2004, the number of hotels amounted to 128, one less than that recorded in December 2003 attributable to the 3-Star category. In

Main Types of Tourist Accommodation						
Table 5.5						
	2002 (Dec)		2003 (Dec)		2004(Sep)	
	Units	Beds	Units	Beds	Units	Beds
Hotels						
Five Star	11	3,738	13	5,040	13	5,040
Four Star	45	15,341	47	15,906	47	15,922
Three Star	51	11,548	51	11,074	50	10,914
Two Star	19	1,258	18	1,174	18	1,174
Total	126	31,885	129	33,194	128	33,050
Villages/ Aparthotels						
Four Star	8	1,924	8	1,920	8	1,920
Three Star	12	2,618	12	2,642	10	2,884
Two Star	15	2,407	15	2,407	15	2,407
Total	35	6,949	35	6,969	33	7,211
Guesthouses						
Comfort	12	295	12	295	12	295
Standard	24	645	28	749	28	749
Total	36	940	40	1,044	40	1,044
Hostels						
Standard	2	166	3	236	5	488
Total	2	166	3	236	5	488
Source: National Statistics Office						

terms of bed-stock, capacity in September 2004 stood at 33,050 beds, a decline of 144 beds when compared to December 2003 levels. Capacity in the 5-Star accommodation category as well as the 2-Star category remained unchanged, while the 4-Star category increased the number of beds by 16. The 3-Star accommodation recorded a decline of 160 beds over December 2003.

The total number of tourist villages and apart-hotels at the end of the Survey period stood at 33 with a bed-stock capacity of 7,211, compared to 35 units and 6,969 beds at December 2003. On the other hand, the accommodation capacity of guesthouses remained unchanged over the same period, at a level of 40 units and 1,044 beds. Meanwhile, accommodation in hostels when compared to December 2003 increased by 2 units to 5 hostels, while the bed-stock capacity increased by 252 to 488, during the period under review.

The amount and level of accommodation facilities along with the occupancy rates as illustrated in Table 5.6, are an important element of consideration in the analysis of the tourism industry. The 5-Star, 4-Star and 3-Star category of hotel

Monthly Accommodation Occupancy Levels - 2004*					
Table 5.6					per cent
	Hotels				Complexes Villages & Apar-hotels Hostels & Guesthouses
	5 Star	4 Star	3 Star	2 Star	
January	37	35	29	6	14
February	34	44	39	8	17
March	44	63	42	16	19
April	57	65	46	11	27
May	55	66	41	38	38
June	63	71	52	29	46
July	80	100	76	72	56
August	100	100	100	97	77
September	70	80	76	44	38
Average	60	69	56	36	37
*Occupancy levels for January - June period are based on the Collective Accommodation Establishments Occupancy levels for July - September are estimated on the basis of the Inbound Tourism Survey and the official bed-stock as supplied by the Malta Tourism Authority					
Source: National Statistics Office					

accommodation reached their peak inflow in August with 100 per cent occupancy rates. August also proved to be the peak month for the 2-Star hotel category, and for the complexes, villages and apart-hotels, together with hostels and guesthouses, with 97 per cent and 77 per cent, respectively. For the 5-Star and 4-Star category, the second highest occupancy rate was registered in July at 80 per cent and 100 per cent, respectively.

Another important indicator of the performance of the tourist industry is that related to the average length of nights spent by tourists. During the Survey period, the average length of stay was recorded at 10.2 days compared to 9.5 days over the same period of 2003.

Employment

Full-time employment in tourism-related activities as at September 2004 stood at 9,590 persons, representing 7.0 per cent of the gainfully occupied population. Private sector employment in hotels and catering establishments amounted to 9,175, or 17.2 per cent of the persons employed in private market services.

Foreign Exchange Earnings

Tourism earnings are an important source of foreign exchange generation for the local economy, and help to reduce the gap in the domestic merchandise trade account. Accordingly, tourism earnings are an important indicator of the performance of the domestic tourism industry.

Gross foreign exchange earnings for the first nine months of 2004 amounted to Lm203.5 million, an increase of 3.5 per cent from Lm196.7 million registered during the same period in 2003. Apart from the higher number of tourist departures, this increase in tourism earnings during the Survey period could partly reflect the small appreciation of the Euro against the Maltese lira. Per capita earnings stood at Lm221.3 during the first nine months of 2004, compared to Lm218.8 of the previous comparable period. Similarly, earnings per nights spent increased to Lm22.5 for the period under review from Lm20.9 for the corresponding period in 2003. Data on foreign exchange earnings from tourism is provided in Table 5.7, while Chart 5.3 depicts tourism earnings per capita.

During the Survey period, gross earnings from tourism accounted for 19.3 per cent of exports of goods and services. This compares with 18.6 per cent registered in the first nine months of 2003. During the Survey period, an increase

Earnings from Tourism

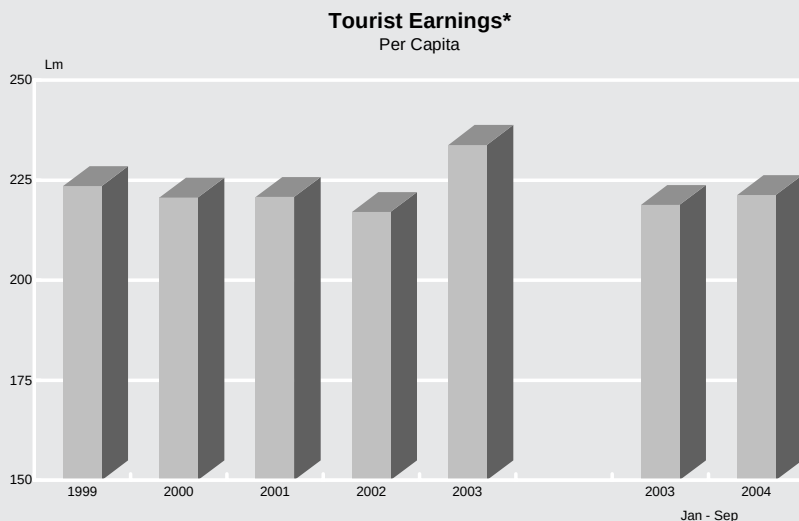
Table 5.7

	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 (%)
2001	260.7	220.8	23.6	18.6	29.9
2002	245.7	217.0	23.2	16.5	27.4
2003	261.5	233.8	23.1	18.4	28.7
2003 (Jan/Sep)	196.7	218.8	20.9	18.6	29.0
2004 (Jan/Sep)	203.5	221.3	22.5	19.3	29.9

*For 2004 includes April - September sea nights from Inbound Tourism Survey

Source: National Statistics Office

Chart 5.3



*As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not strictly comparable to previous periods

in the ratio of foreign exchange earnings from tourism to exports of manufactured goods was also registered. This ratio increased from 29.0 per cent in the first three quarters of 2003 to 29.9 per cent during the Survey period. These ratios highlight the important role of the tourism industry in its contribution to the external payments position of the domestic economy.

Malta Financial Services Authority

During the Survey period, the Malta Financial Services Authority (MFSA) continued to regulate Malta as a centre for financial services. The legal framework governing the Maltese financial sector continued to be brought in line with EU legislation, contributing to a greater integration of the domestic financial system with that of the EU.

Regulations related to the European Passport Rights for financial services have come into force as from 1st May, 2004. These procedures, known as the single passport, provide access to the European financial services market. This implies that a particular product licensed in the home Member State would be automatically recognised in all other Member States and may be sold across borders free of undue bureaucratic controls. The single passport also attracts investment from outside the EU that establishes itself within a Member State in order to gain access to the European market.

Additionally, the MFSA continued to enhance its level of co-operation with foreign supervisory authorities. During the Survey period, the MFSA signed a Memorandum of Understanding with the financial services authorities of a number of countries, with the aim of protecting investors and promoting the integrity of regulated markets.

During the period under review, nine new trusts were registered with the MFSA and fourteen trusts were terminated, thus bringing the total number of trusts on the register at the end of September 2004 to 181. Additionally, the MFSA issued three new Investment Services (IS) licenses during this period, bringing the total of IS licenses to 90. Moreover, during the first nine months of this year, the MFSA issued 41 new Collective Investment Scheme (CISs) licences including four professional investor fund licences. The total number of CISs at the end of September 2004 stood at 267.

The situation in the insurance sector remained relatively unchanged compared to the first nine months of 2003. At the end of the third quarter of 2004, the

number of foreign principals authorised to carry on insurance business in Malta stood at 12. The total number of registered insurance brokers during this period under review amounted to 62, of which 24 were companies while the remaining 38 were individual brokers. Additionally, 25 insurer agents consisting of 11 local and 14 foreign insurers were registered with the MFSA as at the end of September 2004.

During the first nine months of 2004, some 1,762 new commercial partnerships were recorded, representing an increase of 21.8 per cent over the corresponding 2003 period.

Malta Freeport Corporation Ltd

Along the years Malta Freeport Corporation Ltd has established itself as a major maritime transshipment centre in the Mediterranean region. The main activities of the Malta Freeport are namely two container terminals, the distripark facilities and an oil products terminal.

The Malta Freeport Terminals Ltd handled a total of 1,061,603 Twenty Equivalent Units (TEUs) during the Survey period, an increase of 9.6 per cent over the corresponding 2003 period. Of the total TEUs handled, transshipment throughput accounted for 93.8 per cent, or 995,778 TEUs. As a result, transshipment throughput increased by 10.7 per cent over January - September 2003. Additionally, over the same period, 1,287 ship calls were registered at the terminal, from 1,297 a year earlier. Charts 5.4 and 5.5 depict transshipment throughput and total ship calls, respectively.

The latest addition to the Freeport's list of clients was the Islamic Republic of Iran Shipping Lines, which opted to utilise Malta Freeport following their decision to start transshipment operations in the Mediterranean. Additionally, China Shipping Container Lines increased transshipment activities at the Freeport.

In line with Malta Freeport's strategy to consolidate its competitive edge various development projects were undertaken aimed at expanding capacity and improving productivity. Additionally, the Freeport has developed part of its hinterland to create a storage area of over 4,000 empty TEUs. The company will also be undertaking dredging maintenance works of the basin between Terminal One and Terminal Two.

Chart 5.4

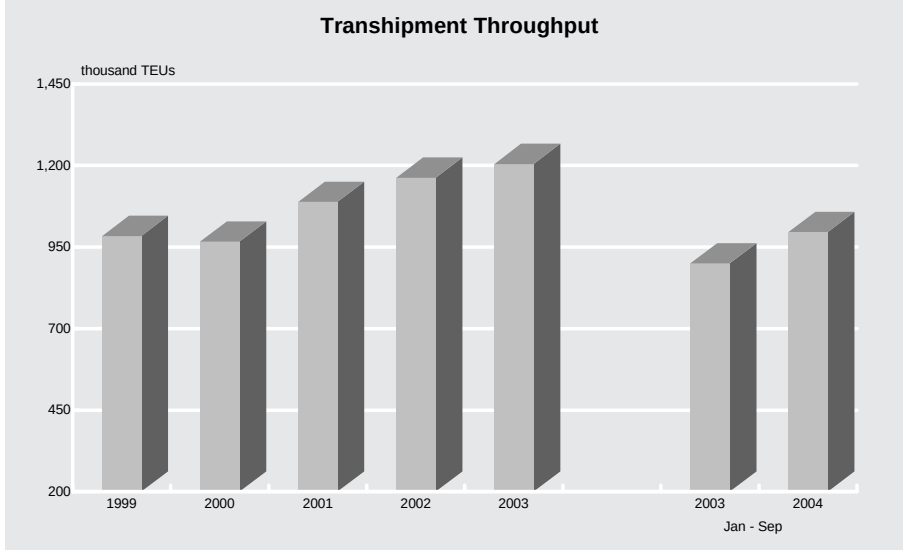
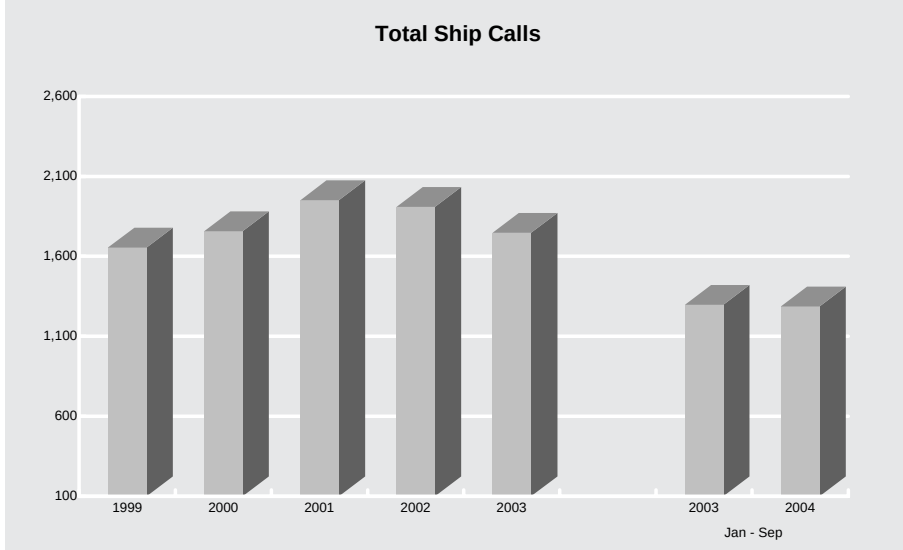


Chart 5.5



During the first nine months of 2004, the Oiltanking Malta Ltd handled 2,662,960 metric tonnes of oil products, compared to 2,371,394 in corresponding period of 2003, whilst 382 vessels berthed alongside its jetties, compared to 404 a year earlier.

Additionally, the Government signed a US dollars 421 million agreement granting the French CMA CGM group, the fifth largest shipping company in the world, a thirty-year concession to operate the Malta Freeport Terminals.

Malta Enterprise Corporation

Malta Enterprise Corporation started operations in January 2004, taking over the activities of Malta Development Corporation, Malta Export Trade Corporation Ltd and the Institute for the Promotion of Small Enterprises Ltd. The remit of Malta Enterprise Corporation includes business development and enterprise support. By providing a one-stop shop for foreign and local investors, it acts as a single point of contact for all enterprises considering investment, trade and commercial links with Malta.

During the period under review, Malta Enterprise Corporation approved 19 new projects, which consisted of 5 Maltese projects and 14 foreign projects. In line with last years' developments, the majority of foreign-owned projects originated from Germany. Furthermore, 37 expansion projects were approved. These projects were made up of 26 Maltese projects and 11 foreign-owned projects.

Malta Enterprise Corporation identified the pharmaceuticals, healthcare, ICT, maritime, aviation, oil and gas, filmmaking, international trading, research and development and shared services as potential sectors for the attraction of foreign direct investment.

During the period under review, four schemes to assist local enterprises were launched, of which two were funded by Government and the others were funded through the EU's European Regional and Development Fund. In May 2004, the Food Processing Support Scheme for Micro Enterprises and SME's was launched. This scheme assists beneficiaries to upgrade their operations in order to become competitive in global markets, namely through the adoption of recognised standards. During the Survey period 57 companies availed themselves of this Scheme.

Moreover, 53 companies benefited from the Compliance Support Scheme for Micro Enterprises and SMEs. Another scheme that was launched during the Survey period consisted of a support scheme to assist Ta' Qali Crafts Village tenants, in the form of loan guarantees and interest subsidy. Meanwhile, during September 2004, Malta Enterprise Corporation introduced the Operations Scheme and the Market Entry and Internationalisation Scheme, both funded by the EU.

During the Survey period, participation in a number of trade missions and fairs was undertaken. In particular, these initiatives included sector specific mini-missions to Libya and Dubai, fact-finding delegations to Egypt, Sweden and Estonia and participation in sector specific fairs.

During the period under review, Malta Enterprise Corporation granted a Loan Interest Subsidy Scheme, this amount being the interest rate differential paid to clients on commercial rates from banks. By the end of the third quarter of 2004, soft loans were granted to nine different sectors, namely the electronic and electrical sector, the communications sector, the medical, pharmaceutical and biotechnological, the non-metallic sector, the sectors of software, back office and internet related, and the paper and printing sector.

6. Prices and Incomes

6. Prices and Incomes

This Chapter presents a review of local inflationary trends, together with a comparison of inflation rates in the European Union (EU) Member States. The analysis of fluctuations in international prices is important given the high degree of openness of the domestic economy. The study of local inflationary developments is followed by an in-depth analysis of the changes in domestic sectoral wages occurring between September 2003 and September 2004. The analysis of these two topics is carried out in the context of the close relation that exists between inflationary developments and changes in earnings levels, which impinge not only on Malta's international competitiveness, hence on the ability of the domestic economy to create wealth, but also on income distribution patterns in Malta.

The 12-month inflation rate in Malta stood at 2.57 per cent in September 2004 as compared to 1.10 per cent in September 2003. After falling throughout most of 2002 and 2003, the domestic inflation rate recorded its lowest level of 1.05 per cent in October 2003. During the subsequent months, inflation followed a gradual increasing trend, reaching the highest level in September 2004. The evolution of inflation during the course of the first nine months of 2004 was primarily influenced by domestic factors.

The analysis of average weekly sectoral wage rates is compiled from the collective agreements of 204 companies employing a total workforce of 30,996 persons. The study shows that an increase of 1.6 per cent in average weekly sectoral wages was registered during the twelve months to September 2004. In accordance with the mandatory cost-of-living adjustments for 2004, all categories of employment benefited from a weekly wage increase of at least Lm0.75. The analysis indicates that the highest wage rises in percentage terms were granted in the Transport Equipment sub-sector, followed by the Machinery sub-sector in the direct production sector. On the other hand, the Wholesale and Retail Trade sub-sector recorded the largest wage increases in percentage terms within the market services sector. The study also shows that the largest proportion of employees for all firms (51.0 per cent) earn an average weekly wage higher than Lm92.25. Furthermore, the majority of employees (64.1 per cent) in market services earned an average weekly wage that exceeded Lm92.25, in comparison with 37.8 per cent of workers engaged in direct productive activities.

Harmonised Index of Consumer Prices (HICP)

In May 2004, the National Statistics Office (NSO) published the Harmonised Index of Consumer Prices (HICP) for the first time. The HICP measures consumer price movements and is compiled according to the rules specified in a series of European Union Regulations developed by Eurostat in conjunction with EU Member States. This enables comparisons of inflation rates across the European Union.

The scope of the price index is determined by following closely National Accounts concepts of what constitutes household consumption. Consequently, the HICP uses National Accounts data sources to weigh the items in the basket.

It is pertinent to note the differences in the methodology of the Retail Price Index (RPI) and the HICP, in particular with respect to the population base of each index, the weights used and the coverage of the indices. The population of the RPI is representative of private households, largely based on data derived from the Household Budgetary Survey (HBS). Meanwhile, the HICP weights are based on the final consumption expenditures of all individuals in the domestic territory, including spending by private households, institutional households and tourists as a result of which the restaurants and hotels sub-index is assigned a higher weight than in the RPI. The main discrepancy related to the weighting system is that the RPI is a fixed weights and fixed base index whilst the HICP is a chain index whose weights are reviewed in January of each year. This weighting system enables the introduction of new significant goods and services on an annual basis. In contrast to the RPI, which is based on a local classification system with ten commodity groups, the HICP is composed of twelve sub-indices based on the international National Accounts Classification of Individual Consumption by Purpose (COICOP) system. The largest differences between RPI and HICP on a monthly basis are due to disparities in the weighting schemes. It is noteworthy that both the RPI and HICP utilise the same price collection methodologies.

The Table presents inflation rates as measured by the 12-month moving average HICP with base year 1996 for the period January 2001 to September 2004. During this period, the inflation rate fluctuated from the lowest level of 1.90 per cent in November 2003 to the highest rate of 3.11 per cent in May 2002. Since January 2002, the domestic HICP inflation rate followed a general upward trend peaking in May 2002. Thereafter, the HICP inflation rate decelerated to reach the lowest level in November 2003. During the subsequent three months, the 12-month moving inflation rate increased marginally to reach 2.13 per cent in February 2004. After recording a slight decline in March 2004, the inflation rate continued to increase gradually to reach 2.75 per cent in September 2004.

Box 6.1 continued

**Harmonised Index of Consumer Prices
12-Month Moving Average Inflation Rate**
(1996=100)

	per cent			
	2001	2002	2003	2004
January	2.84	2.77	2.34	2.09
February	2.66	2.95	2.24	2.13
March	2.52	3.06	2.18	2.11
April	2.42	3.10	2.13	2.24
May	2.30	3.11	2.08	2.34
June	2.25	3.07	2.08	2.44
July	2.23	3.00	2.03	2.56
August	2.23	2.92	1.99	2.62
September	2.23	2.84	1.95	2.75
October	2.19	2.82	1.94	
November	2.30	2.74	1.90	
December	2.51	2.61	1.93	

Source: National Statistics Office

Inflation

The official measure of inflation in Malta is calculated by using percentage changes in the 12-month moving average for the Retail Price Index (RPI).

As from January 2003, the National Statistics Office (NSO) introduced a new RPI with base December 2002. The new index series started being compiled as from January 2002. Thus in order to have a continuous series of RPI readings expressed in terms of a common benchmark, the RPI with base year 1995 has been extended with the use of a linking coefficient.

Table 6.1 presents domestic inflation rates whilst Table 6.2 shows the monthly RPI readings, for the period between January 2001 and September 2004 in terms of base year 1995. The inflation rates are calculated by comparing the average RPI in the twelve months leading to the month under review with the average for the previous 12-month corresponding period. Over the last twelve months, the domestic inflation rate recorded its lowest level of 1.05 per cent in October 2003, but increased continuously thereafter to reach 2.57 per cent in September 2004. A graphical representation of the domestic 12-month moving inflation rates for the period between September 1999 and September 2004 is provided in Chart 6.1.

12-Month Moving Inflation Rate
(1995=100)

Table 6.1

per cent

	2001	2002	2003	2004
January	2.15	3.27	1.79	1.57
February	2.01	3.48	1.58	1.70
March	1.92	3.62	1.46	1.75
April	1.91	3.65	1.36	1.86
May	1.89	3.64	1.26	1.95
June	1.95	3.54	1.25	2.03
July	2.04	3.39	1.20	2.23
August	2.22	3.14	1.14	2.41
September	2.42	2.89	1.10	2.57
October	2.48	2.82	1.05	
November	2.64	2.55	1.13	
December	2.93	2.19	1.30	

Source: National Statistics Office

Retail Price Index

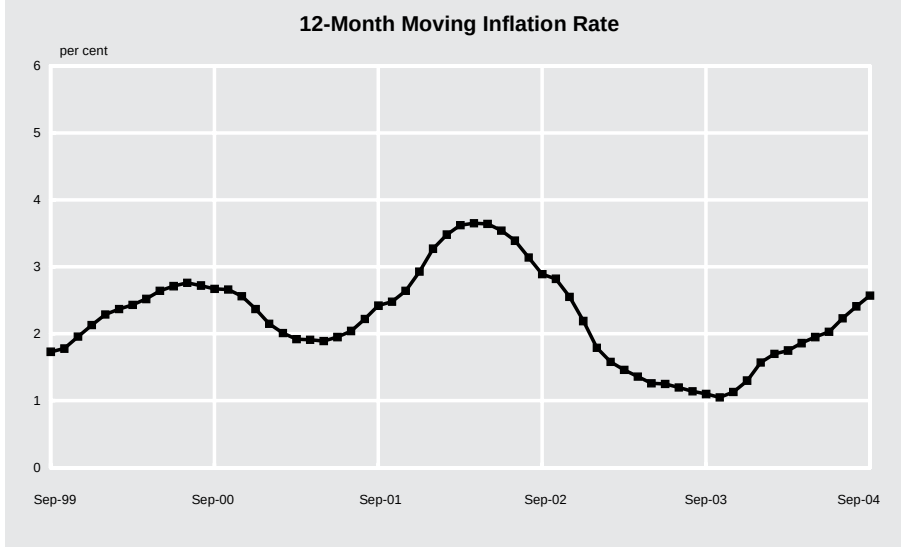
Table 6.2

(1995=100)

	2001	2002	2003	2004
January	112.95	118.23	118.09	121.76
February	113.26	117.44	118.66	121.80
March	113.94	117.55	119.57	122.31
April	114.52	117.75	119.62	123.10
May	115.62	118.47	120.01	122.87
June	115.75	118.03	120.19	123.45
July	116.31	118.44	119.78	124.07
August	117.30	118.90	119.70	123.01
September	117.66	119.18	120.12	123.38
October	116.82	119.40	121.42	
November	118.48	119.29	121.22	
December	118.76	119.14	121.98	
Average Jan-Dec	115.95	118.49	120.03	

Source: National Statistics Office

Chart 6.1



The upward trend in the twelve-month moving average rate of inflation during the eleven months to September 2004 was mainly attributable to higher prices recorded within the Beverages and Tobacco sub-index and the Other Goods and Services sub-index. The Personal Care and Health sub-index also registered an increase in average prices, followed by the Housing sub-index. All the remaining sub-indices of the RPI reported percentage increases, with the exception of the Clothing and Footwear sub-index which was characterised by lower average prices.

An analysis of particular trends inherent in each sub-index of the RPI provides more insight on the underlying inflationary movements. The average for the twelve months to September of the 2001-2004 period for the sub-indices composing the RPI, categorised by commodity group, are presented in Table 6.3.

The Food sub-index followed an erratic pattern during the four years to September 2004. During the twelve months to September 2004, the Food sub-index rose by 1.42 per cent over the comparable level for 2003. The increase in average food prices during the period October 2003 to September 2004, was marginally higher than that recorded during the previous year. The removal of the remaining levies on imported foodstuffs including agricultural and agro-food products from 1st May 2004 have been reflected in lower average prices for amongst others, pasta, biscuits and rusks, unprocessed potatoes and vegetables during the same

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

Table 6.3

(1995=100)

Commodity Group	Weight	2001	2002	2003	2004
Food	23.82	114.05	118.24	119.66	121.36
Beverages and Tobacco	6.11	137.55	148.10	152.61	165.22
Clothing and Footwear	8.24	92.74	92.86	85.94	84.75
Housing	7.57	117.91	121.64	124.50	128.50
Water, Electricity, Gas and Fuels	2.25	104.64	108.66	110.04	110.46
Transport and Communications	23.13	125.67	127.75	131.44	135.02
Recreation and Culture	8.84	116.29	120.08	122.00	122.67
Household Equipment & House Maintenance Costs	7.65	105.48	105.74	104.96	106.13
Personal Care and Health	6.22	119.64	123.44	127.11	133.42
Other Goods and Services	6.17	106.96	108.22	111.83	120.68

Source: National Statistics Office

month. A marginal increase in the average price of fresh bread and fresh pastry was recorded in August 2004, mainly due to the revision in the price of flour to reflect higher imported prices from international markets. However, in general, the increase in average prices for fresh or chilled fish, vegetables, served meals and take-aways, and fresh or chilled fruits have compensated for the decline in average prices of other items falling within the Food sub-index during the twelve months to September 2004. It is noteworthy that the Food sub-index carries the largest weighting within the RPI.

Average prices for beverages and tobacco increased significantly by 8.26 per cent in the October 2003-September 2004 period compared to the same period of the previous year, mainly contributing to the higher overall inflation during the same period. The Beverages and Tobacco sub-index has followed a general upward trend during the past years, mainly on account of higher excise duties on cigarettes and alcohol. It is pertinent to note that although these price changes generally become effective in November of each year, following an announcement in the Budget, they are captured in the RPI in January of the following year when average prices are observed by the NSO. In December 2003 and January 2004, higher average prices for cigarettes, non-alcoholic beverages, wines, and served beverages were recorded. On the other hand, the highest price drops were recorded in respect of retail wine prices, mainly brought about by the removal of levies on foreign wines.

The Clothing and Footwear sub-index experienced a decline of 1.38 per cent in 2004 over the comparable twelve-month period of 2003. This sub-index has been declining generally since 2001. Average prices in the Clothing and Footwear sub-index tend to be subject to seasonal fluctuations. In particular, price increases are generally recorded in November and May, whilst average price reductions are typically registered in January and August due to seasonal sales.

The Housing sub-index followed a general upward trend over the four years to September 2004. This sub-index increased by 3.21 per cent during the twelve months to September 2004, compared to the corresponding period of the previous year. In particular, higher average prices were recorded in respect of the repair and maintenance of dwellings and parts of household appliances in January, June and September 2004.

During the twelve months to September 2004, the Water, Electricity, Gas and Fuels sub-index was characterised by a marginal increase of 0.38 per cent. Following an increase in the Water, Electricity, Gas and Fuels sub-index in January 2002 due to the total removal of rebates on electricity bills, average prices for items falling within this sub-index remained relatively stable during the subsequent months to September 2004. Average price increases for liquid fuels were recorded in January, April and July 2004, whilst an increase in the price of liquid gas was recorded in February 2004, following an adjustment in tariffs for liquid petroleum gas and propane gas.

Average prices for items falling within the Transport and Communications sub-index have increased over the past four years. An increase of 2.72 per cent in this sub-index was recorded in the twelve months to September 2004, when compared to the same period in 2003. During the three months to December 2003, lower average prices were recorded in respect of fuels, maintenance and repair service of cars and air transport services. However, significant increases were recorded in January, April and July 2004 in respect of the retail price of fuels, which are linked with movements in world oil prices. In July 2004, higher average prices were also recorded in respect of sea transport services and telephone services, the latter as a result of a revision in tariffs for local calls and fixed line rentals by the national fixed line telephony provider, applicable from 1st June 2004. Furthermore, average price rises in respect of motor cars, car parts, the maintenance and repair services of cars and air transport services also contributed to the rise in the Transport and Communications sub-index. Since the introduction of the new RPI in January 2003, the Transport and Communications sub-index has carried the second largest weighting within the RPI.

The Recreation and Culture sub-index was characterised by a general increase in prices during the four years to September 2004. During the October 2003 to September 2004 period, the Recreation and Culture sub-index recorded a marginal increase of 0.55 per cent over the comparable period of 2003. In particular, higher average prices in respect of parts and accessories of audio-visual equipment, plants and flowers and hire and leasing of recreational and sports events contributed to higher prices in this sub-index in December 2003 and January 2004. Higher average prices were also recorded in respect of books and newspapers, reflecting the introduction of a reduced VAT rate of 5 per cent on these items as from 1st May 2004.

The Household Equipment and House Maintenance Costs sub-index generally followed an erratic pattern over the four years to September 2004. During the twelve months to September 2004, this sub-index increased by 1.11 per cent over the comparable period of the previous year. In particular, higher average prices for furniture and household appliances were registered in January 2004. In contrast, the decline in this sub-index during June 2004 was brought about by lower average prices recorded for furniture and household appliances due to annual sales.

The Personal Care and Health sub-index followed a general upward trend during the four years to September 2004. In particular, average prices for items falling within this sub-index increased by 4.96 per cent during the twelve months to September 2004 when compared to the same period of 2003. The main price increases were registered in January and February 2004, resulting from price changes for medical services, dental services and hairdressing and personal grooming services.

Average prices for items falling within the Other Goods and Services sub-index have in general increased over the past four years. Indeed, this sub-index increased by 7.91 per cent over the October 2003 to September 2004 period. A significant increase was registered in January 2004, mainly attributable to higher average prices for insurance services and other personal effects. Further price increases were also registered in April 2004 for jewellery, watches and clocks and in June 2004 for insurance services, contributing to the general rise in the Other Goods and Services sub-index.

International Comparison

Table 6.4 presents data on inflation rates based on the 12-month moving average of the Harmonised Index of Consumer Prices (HICP) for EU Member States.

The common methodology used to compile this index enables the comparison of inflation rates across the European Union.

The lowest inflation rates in September 2004 were recorded in Lithuania and Finland, at 0.1 per cent and 0.3 per cent, respectively. In contrast, the highest inflation rates were reported in three of the new Member States, Slovakia (8.2 per cent), Hungary (6.7 per cent) and Latvia (5.3 per cent). The 12-month moving average inflation rate registered for the EU 25 Member States in September 2004 stood at 1.9 per cent, practically at the same level recorded in December 2003. Inflation in the EU Member States throughout the past nine months was mainly affected by movements in energy prices. In the first quarter of 2004, inflation in the EU Member States declined due to a sharp fall in oil and

European Union Inflation Rates
(Harmonised Index of Consumer Prices)

Table 6.4 per cent

	2001	2002	2003	2004 ⁽¹⁾
Austria*	2.3	1.7	1.3	1.7
Belgium	2.4	1.6	1.5	1.7
Cyprus	2.0	2.8	4.0	2.0
Czech Republic	4.5	1.4	-0.1	2.1
Denmark	2.3	2.4	2.0	0.9
Estonia	5.6	3.6	1.4	2.2
Finland	2.7	2.0	1.3	0.3
France*	1.8	1.9	2.2	2.4
Germany	1.9	1.3	1.0	1.5
Greece	3.7	3.9	3.4	3.0
Hungary	9.1	5.2	4.7	6.7
Ireland	4.0	4.7	4.0	2.5
Italy	2.3	2.6	2.8	2.4
Latvia	2.5	2.0	2.9	5.3
Lithuania	1.3	0.4	-1.1	0.1
Luxembourg	2.4	2.1	2.5	2.8
Netherlands*	5.1	3.9	2.2	1.5
Poland	5.3	1.9	0.7	2.8
Portugal	4.4	3.7	3.3	2.5
Slovakia	7.2	3.5	8.5	8.2
Slovenia	8.6	7.5	5.7	4.0
Spain	2.8	3.6	3.1	2.9
Sweden	2.7	2.0	2.3	1.2
United Kingdom	1.2	1.3	1.4	1.3
EU 25*	2.2	2.1	2.0	1.9
Malta	2.5	2.6	1.9	2.8

* Provisional for September 2004

⁽¹⁾ For 2004, figures relate to September

Source: Eurostat

National Statistics Office

energy prices, from high prices in early 2003 due to the start of the Iraq war. Thereafter, the strong increase in oil prices in the past months contributed to reverse the downward trend followed by EU inflation in the first months of 2004. The inflation rate in Malta, based on the HICP reached 2.8 per cent in September 2004 as compared to 1.9 per cent recorded in December 2003. A review of the data presented in Table 6.4 shows that the domestic inflation rate stood above the average for the EU 25 Member States in September 2004, as well as that of our main trading partners.

Sectoral Wages

This section reviews developments in sectoral average weekly wage rates recorded between September 2003 and September 2004 on the basis of collective agreements finalised and deposited with the Department of Industrial and Employment Relations until September 2004. The analysis is based on 204 enterprises, accounting for a total of 30,996 employees. This includes 100 firms engaged in direct productive activities employing a total of 15,416 workers and 104 organisations operating in the market services sector with a total workforce complement of 15,580 employees. The study focuses on four major categories of employment covered by collective agreements, namely labourers, skilled tradesmen, clerical as well as managerial grades. Definite contracts of employment are excluded from the analysis. Likewise, employment benefits received over and above the basic wage, such as production bonuses, overtime payments, social security benefits and allowances, and other non-wage income are not taken into account. As a result, the employees' actual average weekly remuneration is higher than that reported hereunder. It is relevant to note that since not all employees are covered by a collective agreement and the analysis includes only the basic wage, the results reported in this Chapter are not directly comparable to data based on the gainfully occupied population included in other chapters of this Economic Survey.

In addition, the tables presented in this section are not directly comparable to those published in previous issues of the Economic Survey, due to the methodology and sampling procedure adopted in this analysis. Direct comparability is restrained by the introduction of additional firms and changes in employment levels of the enterprises, which alter the individual firm's respective weightings in each category. Furthermore, in the case when a new collective agreement results in a reclassification of grades and there are new trainees who are generally paid the entry level of any given wage scale, the

reported average remuneration level may decline. This decline would be recorded even if the compensation level of existing employees would not have been adversely affected. Collective agreements were classified according to their respective sub-sector of economic activity. Each sub-sectoral mean wage is computed by averaging minimum and maximum wage scales specified in the individual collective agreements. Subsequently, cost-of-living adjustments, which stood at Lm1.75 for 2003 and Lm0.75 for 2004, were added to these figures. The mean wages are then weighted according to employment levels as at September 2003 in each sub-sector.

The overall weighted average wage of all the firms stood at Lm93.71 in September 2003. As shown in Table 6.5, average weekly wages in the direct production sector stood at Lm85.06, in comparison with the corresponding figure for the market services sector, which amounted to Lm102.27. The highest average weekly wage rates were recorded in the market services sector, specifically in the Banking and Other Financial Institutions sub-sector (Lm112.77), the Transport sub-sector (Lm108.37) and the Community and Business sub-sector (Lm104.31). In contrast, the lowest paid sub-sectors were included in the direct production sector. These were the Leather and Leather Goods sub-sector (Lm59.74) and the Textiles, Footwear and Clothing sub-sector (Lm67.45). The labourer category in the Leather and Leather Goods sub-sector registered the lowest weekly wage rate, which stood at Lm58.30 in September 2003, exceeding the 2003 minimum wage (Lm53.13) by Lm5.17 or 9.7 per cent. In contrast, the managerial grade within the Banking and Other Financial Institutions sub-sector reported the highest average weekly wage of Lm156.63 as at September 2003.

The average weekly wage rate for the various employment categories as at September 2004 is illustrated in Table 6.6. It is noteworthy that both Table 6.5 and Table 6.6 are directly comparable since the same enterprises and the same employment weighting structure is maintained. Hence, the divergences in the respective wage rates reflect the actual change in remuneration levels occurring during the twelve months to September 2004. The weighted average weekly wage for all firms as at September 2004 reached Lm95.17, representing a weekly rise of Lm1.46 or 1.6 per cent over the corresponding figure for 2003. This increase was above the statutory minimum weekly wage increase of Lm0.75 for 2004.

During the Survey period, the wage increase registered in the direct production sector was marginally higher than that recorded by the market services sector.

Average Weekly Wages - September 2003

Table 6.5

Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	86.75	87.25	83.75	92.75	86.89
Food	81.26	91.26	82.50	90.20	82.72
Beverages	90.34	100.62	92.82	104.17	94.15
Tobacco	78.47	94.92	101.34	-	84.53
Textiles, Footwear and Clothing	65.18	83.62	81.76	84.27	67.45
Furniture	78.34	99.45	97.25	101.25	90.84
Paper & Printing	94.33	104.43	91.73	102.61	98.25
Leather & Leather Goods	58.30	65.90	73.50	84.25	59.74
Chemicals	88.46	96.94	97.23	103.59	92.18
Non-Metallic Products	71.50	91.00	-	94.75	84.43
Metal Products	87.17	90.91	86.16	91.13	88.60
Machinery	65.05	80.78	72.34	89.97	74.23
Electrical Machinery	75.84	98.32	87.22	106.20	85.67
Transport Equipment	77.41	86.64	87.98	103.62	89.74
Miscellaneous	81.25	97.20	96.60	108.11	86.57
Electricity & Gas Services	83.66	97.60	95.87	109.12	92.04
Construction	76.37	98.02	100.56	-	83.65
Wholesale & Retail Trade	77.03	89.34	84.85	104.79	86.30
Banking & OFI	89.17	108.42	106.79	156.63	112.77
Insurance & Real Estate	68.80	-	-	-	68.80
Transport	97.63	115.74	105.39	129.80	108.37
Storage and Warehousing	89.98	101.11	97.36	121.98	97.69
Communications	93.47	106.04	87.56	135.39	96.98
Community & Business	78.05	94.76	85.27	133.33	104.31
Recreation Services	90.54	98.30	99.88	108.11	97.20
Hotels & Catering Ests	85.84	91.67	90.93	90.83	88.33
 All Firms	 80.12	 97.05	 96.84	 121.39	 93.71
 Direct Production	 77.70	 95.89	 90.27	 104.02	 85.06
Market Services	86.35	98.88	97.85	131.12	102.27

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

Whilst the average wage in the direct production sector rose by Lm1.50 to reach Lm86.56 in September 2004, the average weekly wage rate in the market services sector increased by Lm1.43, to stand at Lm103.70 during the same month. This contributed to a marginal drop in the wage gap existing between the two sectors to Lm17.14 in September 2004. The best performing sub-sectors as at September 2004 were the Banking and Other Financial Institutions sub-sector (Lm114.09), the Transport sub-sector (Lm109.42) and the Community and Business sub-sector (Lm105.68). Likewise, the least remunerated sub-sectors engaged in direct productive activities were the Leather and Leather Goods sub-sector (Lm60.49) and the Textiles, Footwear and Clothing sub-sector (Lm68.42). All sub-sectors within the direct production sector recorded an

Average Weekly Wages - September 2004

Table 6.6

Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	87.50	88.00	84.50	93.50	87.64
Food	82.01	92.01	83.25	90.95	83.47
Beverages	91.38	101.58	95.13	105.04	95.36
Tobacco	79.22	95.67	102.09	-	85.28
Textiles, Footwear and Clothing	66.14	84.53	82.77	85.48	68.42
Furniture	80.37	101.86	100.00	103.20	93.08
Paper & Printing	95.39	105.33	92.77	103.51	99.24
Leather & Leather Goods	59.05	66.65	74.25	85.00	60.49
Chemicals	90.66	98.96	99.27	106.56	94.50
Non-Metallic Products	72.25	91.75	-	95.50	85.18
Metal Products	89.31	92.68	87.83	92.50	90.54
Machinery	66.84	82.96	73.09	90.72	76.13
Electrical Machinery	77.04	99.73	89.00	107.63	86.98
Transport Equipment	79.74	89.10	90.36	106.13	92.16
Miscellaneous	83.47	99.88	97.65	109.79	88.74
Electricity & Gas Services	85.91	99.85	98.12	111.37	94.29
Construction	77.12	98.77	101.31	-	84.40
Wholesale & Retail Trade	79.04	91.70	87.00	107.14	88.49
Banking & OFI	89.96	109.17	108.05	158.58	114.09
Insurance & Real Estate	69.55	-	-	-	69.55
Transport	98.50	116.54	106.21	131.83	109.42
Storage and Warehousing	90.73	101.86	98.11	122.73	98.44
Communications	95.74	108.27	89.96	137.62	99.30
Community & Business	79.18	96.42	86.56	134.83	105.68
Recreation Services	91.29	99.05	100.63	108.86	97.95
Hotels & Catering Ests	86.97	92.80	91.98	91.93	89.45
All Firms	81.48	98.69	98.25	123.06	95.17
Direct Production	79.10	97.53	91.98	105.69	86.56
Market Services	87.58	100.53	99.21	132.79	103.70

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

average weekly remuneration level below the average for all firms in September 2004, with the exception of the Paper and Printing sub-sector (Lm99.24) and the Beverages sub-sector (Lm95.36). However, it is pertinent to note that even the lowest average weekly wage of Lm59.05, corresponding to the labourer category in the Leather and Leather Goods sub-sector, exceeded the National Minimum Wage for the year 2004 of Lm53.88 by Lm5.17 or 9.6 per cent.

In order to facilitate the comparison of average weekly wage rates, Table 6.7 shows percentage changes occurring between September 2003 and September 2004. The weighted average weekly wage for all firms in September 2004 was 1.6 per cent higher than that recorded in September 2003. The direct production

Changes in Average Weekly Wages

September 2004 - September 2003

Table 6.7

per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	0.9	0.9	0.9	0.8	0.9
Food	0.9	0.8	0.9	0.8	0.9
Beverages	1.2	1.0	2.5	0.8	1.3
Tobacco	1.0	0.8	0.7	-	0.9
Textiles, Footwear and Clothing	1.5	1.1	1.2	1.4	1.4
Furniture	2.6	2.4	2.8	1.9	2.5
Paper & Printing	1.1	0.9	1.1	0.9	1.0
Leather & Leather Goods	1.3	1.1	1.0	0.9	1.3
Chemicals	2.5	2.1	2.1	2.9	2.5
Non-Metallic Products	1.0	0.8	-	0.8	0.9
Metal Products	2.5	1.9	1.9	1.5	2.2
Machinery	2.8	2.7	1.0	0.8	2.6
Electrical Machinery	1.6	1.4	2.0	1.3	1.5
Transport Equipment	3.0	2.8	2.7	2.4	2.7
Miscellaneous	2.7	2.8	1.1	1.6	2.5
Electricity & Gas Services	2.7	2.3	2.3	2.1	2.4
Construction	1.0	0.8	0.7	-	0.9
Wholesale & Retail Trade	2.6	2.6	2.5	2.2	2.5
Banking & OFI	0.9	0.7	1.2	1.2	1.2
Insurance & Real Estate	1.1	-	-	-	1.1
Transport	0.9	0.7	0.8	1.6	1.0
Storage and Warehousing	0.8	0.7	0.8	0.6	0.8
Communications	2.4	2.1	2.7	1.7	2.4
Community & Business	1.4	1.7	1.5	1.1	1.3
Recreation Services	0.8	0.8	0.8	0.7	0.8
Hotels & Catering Ests	1.3	1.2	1.2	1.2	1.3
All Firms	1.7	1.7	1.5	1.4	1.6
Direct Production	1.8	1.7	1.9	1.6	1.8
Market Services	1.4	1.7	1.4	1.3	1.4

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

sector registered the highest growth in weekly remuneration levels of 1.8 per cent, whilst the comparable figure for the market services sector amounted to 1.4 per cent. During the period under review, both the labourer and skilled tradesman categories for all the firms recorded the highest percentage weekly wage increase of 1.7 per cent. The skilled tradesman category also registered the highest percentage increase (1.7 per cent) in average weekly wages within the market services sector. In contrast, the highest percentage wage increase (1.9 per cent) recorded in the direct production sector during the period under review, pertained to the clerical/executive category. On a sub-sectoral level, the Transport Equipment sub-sector registered the highest percentage wage increase of 2.7 per cent with the labourer category recording the highest

Proportion of Sampled Employees in Wage Ranges

Table 6.8

per cent

Sector \ Wage Range	Up to Lm62.24	Lm62.25- Lm72.24	Lm72.25- Lm82.24	Lm82.25- Lm92.24	Over Lm92.25
Oil Drilling	0.0	0.0	0.0	96.3	3.8
Food	0.0	0.0	44.8	37.2	18.0
Beverages	0.0	0.0	10.2	18.6	71.2
Tobacco	5.6	1.9	64.8	0.0	27.8
Textiles, Footwear & Clothing	31.2	51.1	10.1	5.2	2.4
Furniture & Fixtures	3.7	0.6	11.0	26.2	58.5
Paper & Printing	0.0	1.8	11.2	22.7	64.2
Leather & Leather Goods	87.5	8.1	1.5	2.9	0.0
Chemicals	0.3	3.2	22.3	12.3	61.9
Non-Metallic Products	0.0	0.0	36.0	52.0	12.0
Metal Products	0.0	13.3	12.2	22.7	51.8
Machinery	4.3	35.0	7.4	45.1	8.2
Electrical Machinery	5.7	5.5	51.8	4.5	32.6
Transport Equipment	0.0	0.0	10.1	64.6	25.3
Miscellaneous	1.5	30.5	4.4	1.2	62.4
Electricity & Gas	0.0	0.0	0.0	48.1	51.9
Construction	0.0	0.0	66.7	0.0	33.3
Wholesale & Retail Trade	0.0	7.8	29.9	30.5	31.7
Banking & OFI	0.0	0.0	4.0	1.1	94.9
Insurance & Real Estate	0.0	0.0	100.0	0.0	0.0
Transport	0.0	0.5	0.0	7.5	92.0
Storage and Warehousing	0.0	0.0	19.0	7.1	73.8
Communications	0.0	1.4	2.0	37.1	59.5
Community & Business	1.3	5.1	21.3	20.6	51.8
Recreation Services	0.0	0.0	16.1	16.1	67.8
Hotels & Catering Ests.	1.1	1.0	13.3	56.4	28.3
All Firms	4.1	7.8	17.5	19.7	51.0
Direct Production	7.7	13.3	24.1	17.1	37.8
Market Services	0.5	2.3	10.9	22.2	64.1

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

percentage increase (3.0 per cent) in average weekly wages during the twelve months to September 2004.

The dispersion of weekly wages as at September 2004 along different wage brackets is presented in Table 6.8. This dispersion may reflect the relative degree of skill and specialised expertise required by each sub-sector. In general, sub-sectors that demand superior skills pay higher remuneration to a larger proportion of their workforce. The largest share of employees (51.0 per cent) for all firms earned on average a weekly wage that fell within the highest weekly wage bracket of Lm92.25 and above. At 19.7 per cent, the Lm82.25-Lm92.24 wage bracket represents the second largest proportion of remunerated employees. It

is pertinent to note that the largest share of employees engaged in both the direct production sector (37.8 per cent) and the market services sector (64.1 per cent) earned on average a weekly wage that exceeded Lm92.25. Around one-fourth of employees engaged in direct productive activities fell within the central Lm72.25-Lm82.24 wage bracket, followed by the Lm82.25-Lm92.24 wage cluster with a share of 17.1 per cent of employees. On the other hand, the second largest proportion of employees in market services (22.2 per cent) earned an average weekly wage between Lm82.25-Lm92.24, whilst the Lm72.25-Lm82.24 wage bracket only accounted for around one-tenth of employees.

In the market services sector, the Banking and Other Financial Institutions sub-sector had 94.9 per cent of its employees clustered in the highest wage bracket, closely followed by the Transport sub-sector at 92.0 per cent. In comparison, in the direct production sector, the Beverages sub-sector had the largest share of employees (71.2 per cent) earning wages over Lm92.25. This was followed by the Paper and Printing sub-sector, with nearly two-thirds of its employees earning an average weekly wage falling within the highest wage bracket. Furthermore, the analysis shows that 7.7 per cent of the workers engaged in direct productive activities earned an average weekly wage of up to Lm62.24, whilst only 0.5 per cent of the market services employees fell within this lowest income bracket.

Notwithstanding the differential in average weekly wages that exists between the two main economic sectors, it is relevant to note that when one factors in production bonuses, the actual take-home pay of a large number of workers in the direct production sector is higher than that actually reported in this study. The dispersion in average weekly wage rates between the direct production and market services sectors is indicative of the differences in the respective operational, skills and expertise structures required in these two sectors. The largest proportion of employees (62.8 per cent) engaged in direct production activities fall within the labourer category, whilst only around one-fourth of market services employees are labourers. In contrast, the majority of workers (42.9 per cent) employed within the market services sector are engaged in the clerical/executive grades.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

During the first nine months of 2004, a significant increase in the current account deficit was recorded. A variety of factors underpinned this deterioration in the current account balance. In particular, a substantial increase in profits by foreign owned companies, particularly in the banking sector, led to a significant outflow in the investment income account. Most of these earnings were however re-invested in the Maltese economy and will feature as an inflow of foreign direct investment in the capital and financial account of the balance of payments. In addition, lower net interest receipts from abroad were recorded during the Survey period.

Besides, developments in the merchandise account have also contributed towards a high current account imbalance. Imports of goods registered a substantial increase. In fact, higher imports of consumer and capital goods were recorded. Imports of fuel also increased as a result of the significant increase in international oil prices registered during the Survey period. Meanwhile, export performance remained modest. Sectors which typically generate high value added per capita, recorded a significant increase in exports. Such sectors included the machinery and transport equipment sector and the chemical and pharmaceutical sector. This positive development made up for the fall in exports by the clothing sector and the food, beverages and tobacco category. Moreover, tourist earnings increased over the Survey period. This was partly offset by higher payments on transportation, partly reflecting the increase in imports and higher transport costs due to the increase in international oil prices.

Foreign Trade

The first nine months of 2004 were characterised by a marginal increase of 0.3 per cent in export activity and an increase of 4.7 per cent in total imports. As a result, the trade deficit deteriorated by Lm43.1 million to Lm318.9 million. The rate of import cover declined further to 68.3 per cent during the Survey period. This is illustrated in Chart 7.2. The developments in international trade are highlighted in Table 7.1 and Chart 7.1. Following the introduction of the Intrastat Supplementary Declaration as the source of trade statistics relating to EU Member States, the subdivision between domestic exports and re-exports was discontinued. As a result, data in the Economic Survey now refers to total exports and is thus not directly comparable with previous publications.

Box 7.1

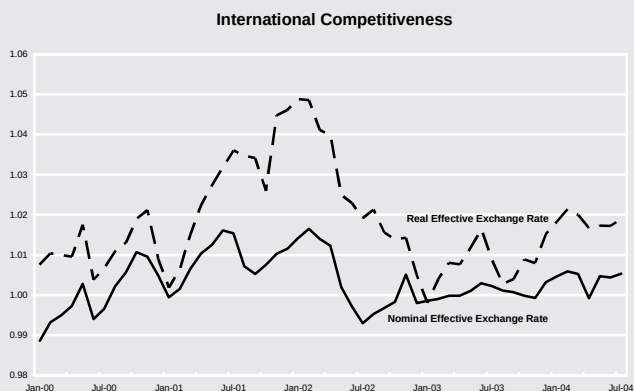
International Competitiveness

An indicator of a country's international price competitiveness is provided by the real effective exchange rate. The real effective exchange rate is calculated as the product of the nominal effective exchange rate and the relative foreign to domestic prices. In turn, the nominal effective exchange rate is an average of exchange rates weighted by bilateral trade shares. A decline in the real effective exchange rate is indicative of improved international competitiveness

Data published by the IMF for the first six months of 2004 indicate that the real effective exchange rate has increased marginally by 0.2 per cent on the level recorded in December 2003. Meanwhile, the nominal effective exchange rate has increased by 0.1 per cent over the same period. This indicates that the inflationary developments recorded in the first six months of 2004 contributed to a marginal deterioration in the price competitiveness of Maltese products and services on the international markets. This reflects higher domestic inflation relative to inflation abroad, particularly in relation to Malta's major trading partners within the EU.

A note of caution on the interpretation of real effective exchange rates is however warranted. In deriving the real effective exchange rate, the IMF uses the consumer price index as a measure of prices. This index does not necessarily reflect Malta's export prices in the short-term. In fact, the deflator for exports shows a substantial decline over the period under review.

In the long term, the inflation in consumer prices may be reflected in the costs of production and possibly in export prices, depending on whether the country is a price taker. In this case, the use of real effective exchange rates based on the consumer price index may be a relatively good indication of international price competitiveness. In any case, the real effective exchange rate should ideally be considered as one of a myriad of possible measures used to objectively measure trends in competitiveness.



Foreign Trade

Table 7.1

Lm million

	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Imports (c.i.f.)	918.8	306.4	906.3	321.2	960.4	320.8	1,005.4
Total Exports (f.o.b.)	668.3	212.3	719.9	248.5	684.6	243.7	686.5
Trade Gap	-250.5	-94.1	-186.4	-72.7	-275.8	-77.1	-318.9
of which:							
Exceptional Item (Exports)	-	-	50.1	-	-	-	-
Exceptional Item (Imports)	-	-	-	-	2.1	-	-

Source: National Statistics Office

Chart 7.1

Foreign Trade

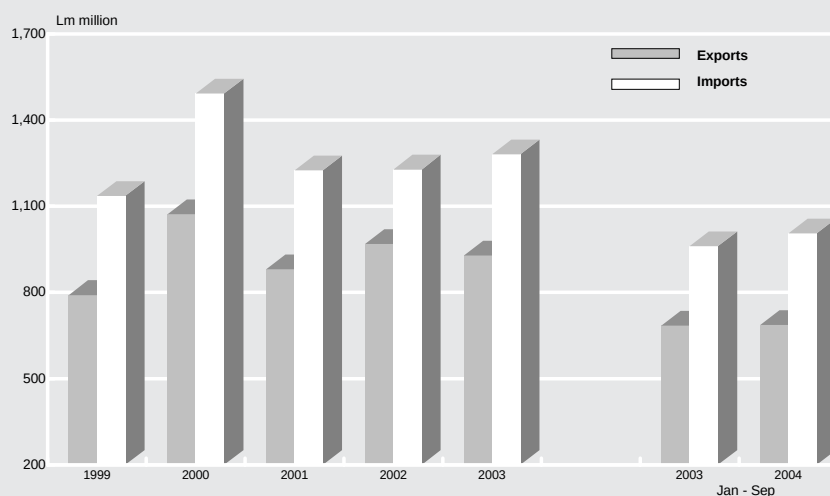
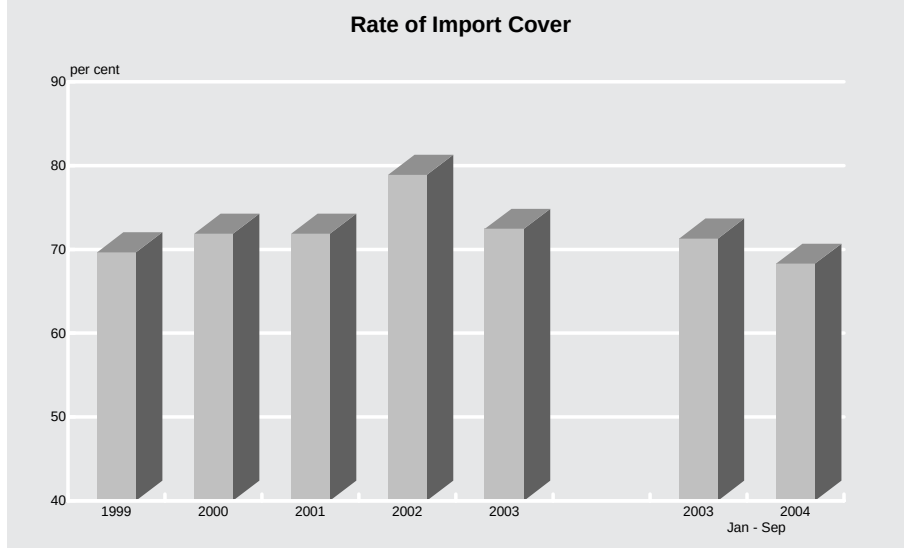


Chart 7.2



It is pertinent to note that imports registered during the Survey period include Lm23 million worth of sea-craft. This followed the one-off concession granted last year on the VAT payable on registration of sea-craft, which in turn resulted in a substantial increase in yachts and pleasure boats registered in Malta. Although this figure is included in the data for foreign trade, it is excluded from figures for imports of goods and services in both the balance of payments and the national accounts data. In this sense, a significant amount of the aggregate increase in imports is due to the implementation of one-off measure by Government to increase its revenue. A significant part of the increase in imports can be safely considered of an exceptional nature which, in itself, does not reflect negatively upon Malta's ability to restore to a healthy trade gap position. Figures for 2003 also include the importation of a patrol boat worth Lm2.1 million. The net effect of these one-off items accounts for more than half the increase in the trade deficit. Excluding these one-off items, imports would have recorded an increase of 2.5 per cent.

Exports registered a marginal increase during the period under review. Export activity during the first nine months of 2004 was influenced by the restructuring process currently taking place as a result of increased competitive pressures from abroad. This involved export sectors such as the clothing sector. On the other hand, high value added sectors such as chemicals and scientific instruments recorded improvements. It is encouraging to note that export-oriented activity in Malta is gradually adjusting to increased price competition in international

markets. It further accentuates the need to upgrade the skills of the labour force in a bid to increase Malta's competitive edge by increasing productivity levels.

The analysis of Malta's export and import flows by geographical areas has been adjusted to account also for trade flows with the nine new Member States which, together with Malta, have joined the European Union in May 2004. At the same time, reference to Malta's trade flows with the EU 15 has been retained to allow comparability in trade data for the time-frame under review. In addition, trade data for EU countries is considered by country of consignment as from 2004.

Exports

Against the background of a consolidation of global economic recovery and increased pressure for the achievement of higher productivity levels, total exports were marginally higher than the corresponding nine months of 2003. Data on the composition of exports indicates that the manufacturing base of the Maltese economy is still undergoing structural change. Thus one notes a decline in exports of clothing, and the food, beverages and tobacco category, and a compensating increase in exports of chemicals and machinery and transport equipment. Table 7.2 shows the commodity breakdown of exports since 2001 whilst Chart 7.3 highlights the contribution of semi-manufacturing, machinery and transport equipment, and other manufacturing towards total exports. Chart 7.4 illustrates

Commodity Breakdown of Exports							
Table 7.2		Lm million					
	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Total Exports							
Food, Beverages and Tobacco	25.9	8.3	31.4	25.2	31.3	19.4	29.5
Chemicals	15.3	4.6	14.4	4.2	13.1	5.9	18.2
Semi-manufactures	39.5	13.9	36.5	12.5	36.0	12.8	35.8
Machinery and Transport Equipment	427.9	127.6	455.5	146.3	427.4	149.3	441.7
Clothing	46.6	16.4	51.9	17.1	47.4	14.6	36.0
Fuels	34.5	13.7	39.0	13.2	38.8	12.8	32.4
Printed Matter	13.4	5.4	19.5	8.3	24.3	7.5	24.1
Toys and Games	16.1	4.0	22.2	7.2	21.1	7.1	22.3
Scientific Instruments	20.7	6.7	19.9	5.4	20.1	7.8	19.9
Other Manufactures	28.4	11.7	29.6	9.1	25.1	6.5	26.6
Total Exports	668.3	212.3	719.9	248.5	684.6	243.7	686.5
Source: National Statistics Office							

Chart 7.3

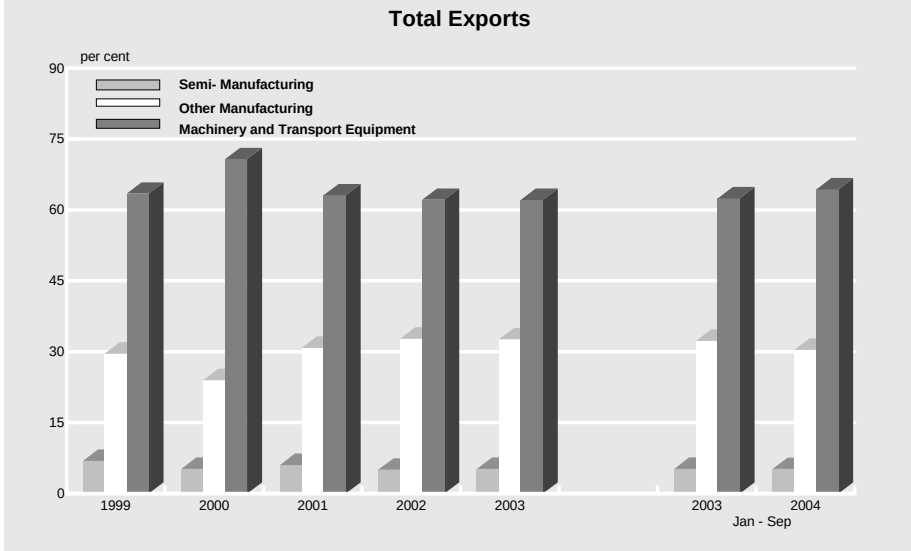
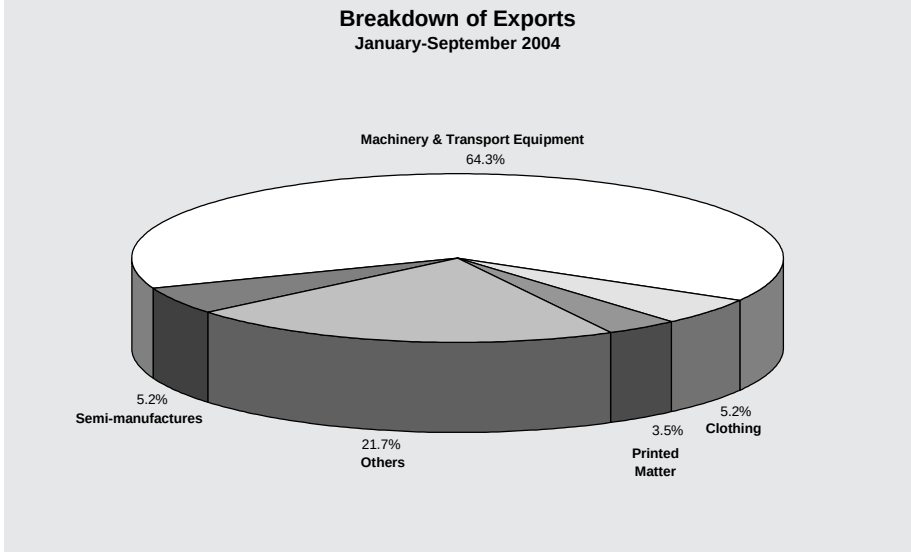


Chart 7.4



the contribution of different categories to total Maltese exports during the Survey period. During the period under review, total exports increased marginally by Lm1.9 million to Lm686.5 million.

Since 2002, the aggregate share of traditional export sectors, including the clothing category and food, beverages and tobacco category, has declined to 9.5 per cent of total exports in the first nine months of 2004. The clothing sector alone recorded a decline of 8.7 per cent and 24.1 per cent in the first three quarters of 2003 and 2004 respectively. During the Survey period total exports of clothing declined by Lm11.4 million to Lm36.0 million. The food, beverages and tobacco category also recorded a decline of Lm1.8 million, or 5.8 per cent, to Lm29.5 million.

During the January-September period, exports of chemical products recorded a substantial increase of Lm5.1 million, or 38.9 per cent, to Lm18.2 million. The machinery and transport equipment category, which includes exports of semi-conductors, also registered an increase of Lm14.3 million, or 3.3 per cent. The increase in international demand for semi-conductors may have contributed to this positive outcome in one of the most important sectors of manufacturing activity. This improvement should also be considered in the wider picture of price competition on the international markets for semiconductors, which has led to a constant decline in prices of semiconductors. This suggests that the domestic performance of this sector was also characterised by lower prices and higher export volumes.

Trade activity in 2004 was also characterised by the significant increase in oil prices. Despite this increase, however, exports of fuel declined by Lm6.4 million between the January-September period of 2003 and 2004. This followed the termination of services by a major bunkering operator in the third quarter of 2004.

Exports of toys and games increased by Lm1.2 million. Following the increasing trend in exports since 2000, the share of exports of printed matter in total exports remained at the same level as the comparable nine months of 2003. Exports of semi-manufactures declined marginally to Lm35.8 million. An increase of Lm1.5 million, or 6.0 per cent, in exports of other manufactures was also recorded during the Survey period.

Geographical Distribution – Exports

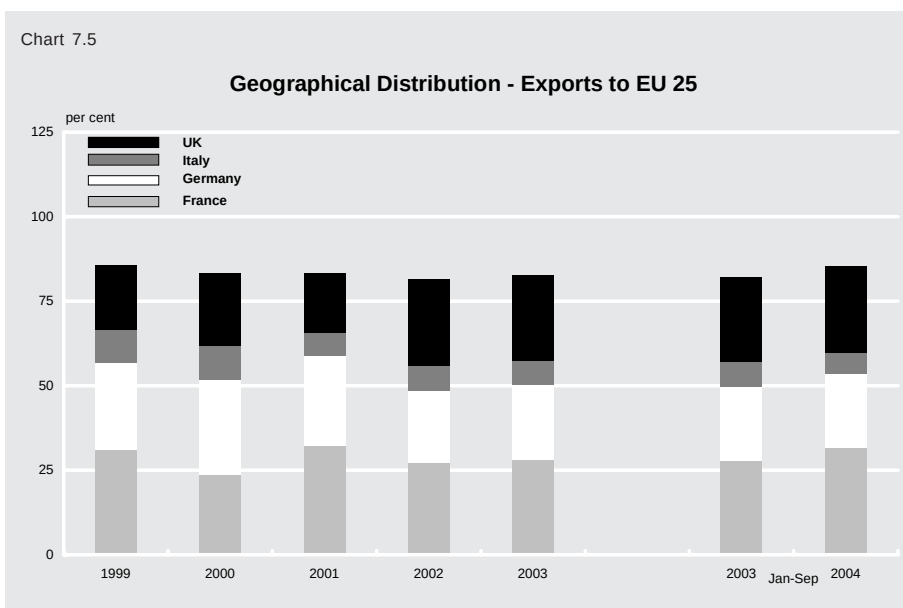
The first nine months of 2004 were characterised by an increase in exports to the EU 25 and the American continent, whilst exports to Asia declined. Table 7.3 highlights these developments in more detail. Despite the marginal appreciation of the Maltese lira against the Euro, exports to the Euro Area have increased by Lm12.3 million, or 5.5 per cent, to Lm236.5 million. The higher exports to the EU 25 and North America reflect, in part, the improved economic performance recorded in 2004 by these two continents.

The EU 25 Member States account for 48.2 per cent of total exports compared to 47.2 per cent a year earlier, thus consolidating their position as Malta's major export market. Total exports to the EU 25 increased by Lm7.3 million during the period under review. Chart 7.5 shows the share of Maltese exports to France, Germany, Italy and the UK in total exports to the EU 25 Member States. During the Survey period, exports to France increased by Lm15.2 million to Lm104.6 million and exports to the UK increased by Lm3.6 million to Lm84.3 million. A marginal increase of Lm1.2 million in exports to Germany was recorded, whilst

	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Europe	331.6	105.6	332.8	116.1	327.3	108.2	336.6
EU 15*	321.5	99.8	320.3	109.2	309.5	101.5	325.8
EU 25*	329.3	104.6	327.4	113.4	323.3	106.7	330.6
Italy	21.9	8.3	25.1	7.6	24.5	7.0	21.3
Germany	87.4	27.4	70.3	23.3	70.8	24.4	72.0
France	113.3	26.9	87.6	32.4	89.4	30.8	104.6
U.K.	53.7	22.5	82.1	30.1	80.7	28.3	84.3
Netherlands	9.7	2.8	8.4	1.9	5.6	1.2	4.0
Belgium	20.4	7.0	23.7	7.0	21.6	4.0	14.6
Others	22.9	9.7	30.2	11.2	30.6	11.0	29.8
Euro Area	265.4	76.0	235.6	77.8	224.2	71.9	236.5
Other European countries	2.3	1.0	5.4	2.6	4.0	1.5	6.0
Africa	24.0	9.1	34.2	10.6	25.2	9.9	32.2
America	141.3	36.9	131.4	32.3	98.6	44.6	113.9
USA	138.0	36.3	128.3	31.1	92.1	42.1	108.4
Others	3.3	0.6	3.0	1.3	6.5	2.5	5.5
Oceania	0.5	0.1	0.5	0.1	0.4	0.1	0.7
Asia	129.1	45.1	174.8	72.9	189.1	66.1	170.7
Japan	21.3	5.0	20.1	21.5	20.5	16.6	14.2
Singapore	76.1	27.7	116.0	35.9	121.9	34.0	101.5
Others	31.7	12.3	38.7	15.5	46.7	15.5	55.0
Ships & Aircraft	41.8	15.5	46.3	16.5	44.0	14.8	32.4
Total Exports	668.3	212.3	719.9	248.5	684.6	243.7	686.5
EU 25 Exports as % of Total	49.3	49.3	45.5	45.7	47.2	43.8	48.2

*As from 2004 considered by country of consignment

Source: National Statistics Office



exports to Italy were Lm3.2 million less during the Survey period of 2004. Further declines were registered in exports to Netherlands and Belgium.

During the Survey period, the American continent accounted for 16.6 per cent of total Maltese exports compared to 14.4 per cent in the first three quarters of 2003. Indeed, exports to the USA exceeded Lm108 million, Lm16.3 million higher than in 2003. This partly reflects the positive economic performance registered by the US economy in the first nine months of 2004.

The Asian continent accounts for 24.9 per cent of the total Maltese export market. During the Survey period, exports to Asia were Lm18.4 million less, representing a decline of 9.7 per cent over the comparable period of 2003. This includes a fall of Lm20.4 million and Lm6.3 million in exports to Singapore and Japan, respectively. Meanwhile, exports to other Asian countries registered an increase.

Other developments registered during the first nine months of 2004 include an increase of Lm7.0 million, or 27.8 per cent, in exports to Africa and a marginal increase in exports to Oceania. The fall of Lm11.6 million in exports to ships and aircraft reflects, in part, the termination of services provided by a major oil-bunkering operator.

Imports

Imports of goods during the first nine months of 2004 registered an increase of Lm45.0 million to Lm1,005.4 million. This was mainly driven by imports of capital goods, consumer goods and fuel. Imports of industrial supplies declined. Table 7.4 highlights developments in imports by broad economic category.

The removal of the remaining levies on imports in May 2004, partly explains the higher imports of food, beverages and tobacco products. It may have led to a shift in demand, away from locally produced goods in the food and beverages sector, towards imported goods. Indeed, imports of food and beverages increased by Lm8.9 million in the first nine months of 2004. During the period under review, imports of durable consumer goods also recorded an increase of Lm6.7 million. Likewise, imports of other consumer goods rose by a further Lm8.7 million. A breakdown of consumer imports is portrayed in Chart 7.6.

Imports of capital goods registered a substantial increase of Lm32.8 million, or 21.0 per cent, over the first nine months of 2003. Included in this figure is Lm23.0 million worth of sea-craft registered in the first quarter of 2004, following the temporary reduction in the VAT rate on yachts and other vessels for pleasure or sport. This led to a substantial increase in newly registered sea-craft. Even

Imports by Broad Economic Category								Lm million
	2001		2002		2003		2004	
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	
Consumer Goods								
Food and Beverages	69.8	27.2	72.6	27.0	75.4	28.7	84.3	
Durable Goods	86.1	31.7	85.4	34.8	90.3	37.0	97.0	
Others	47.4	16.9	55.6	18.7	59.4	20.3	68.1	
Total	203.3	75.8	213.6	80.4	225.1	86.0	249.4	
Industrial Supplies								
Primary	13.1	4.6	18.3	5.2	14.5	3.0	10.3	
Semi-finished	452.3	149.4	432.7	147.2	459.7	152.6	449.8	
Finished	11.2	3.9	11.1	6.8	14.3	6.8	16.1	
Total	476.6	157.9	462.1	159.2	488.5	162.4	476.2	
Capital and Others								
Capital Goods	151.6	47.8	148.7	49.9	156.4	49.5	189.2	
Fuel	78.7	22.0	73.8	29.0	81.8	20.1	84.0	
Non-specified and Gold	8.7	2.8	8.1	2.6	8.6	2.8	6.6	
Total	239.0	72.6	230.6	81.5	246.8	72.4	279.8	
Total Imports	918.9	306.3	906.3	321.2	960.4	320.8	1,005.4	

Source: National Statistics Office

Source: National Statistics Office

Chart 7.6

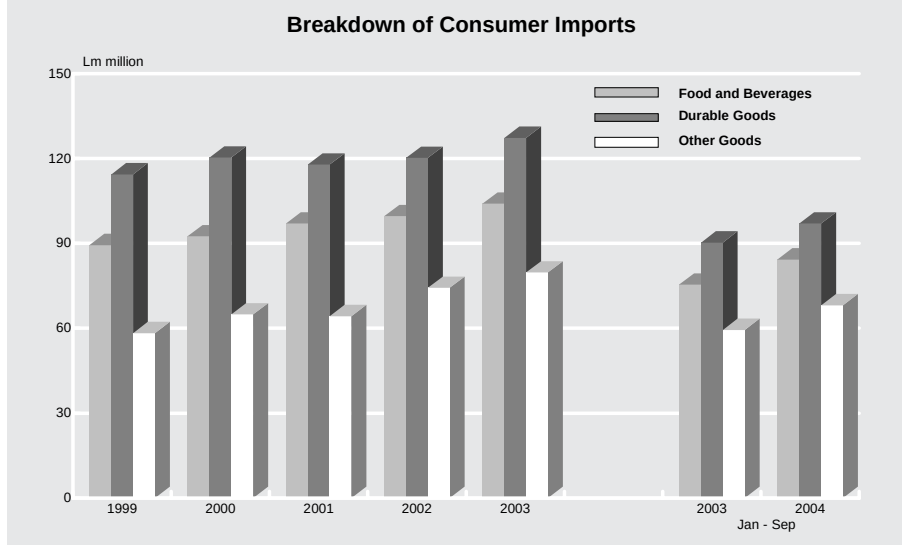
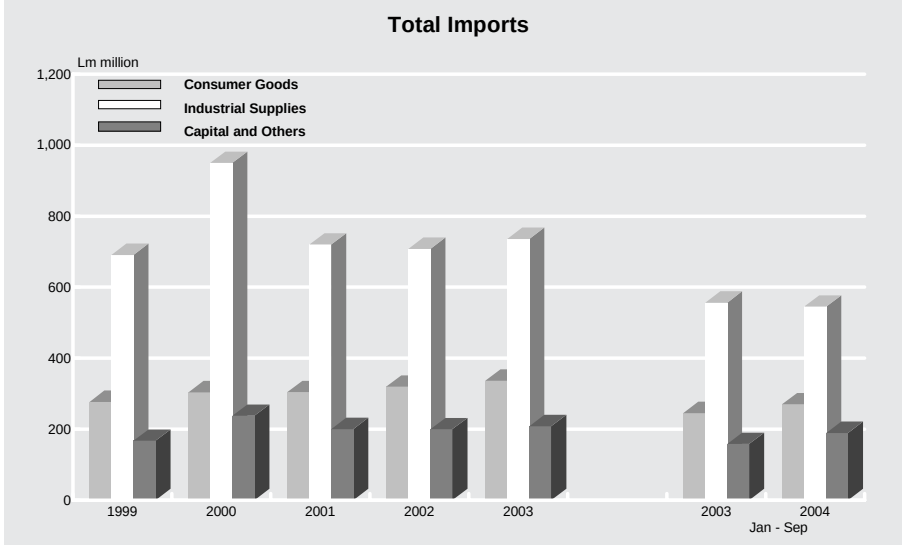


Chart 7.7



after accounting for this one-off item, imports of capital goods advanced by Lm9.8 million or 6.3 per cent.

The first nine months of 2004 were characterised by a significant increase in crude oil prices. As pointed out in Chapter 1 of the Economic Survey, a number of factors contributed to a significant rise in the international price of oil. As a result of these developments, Malta's fuel imports bill increased during the period under review. The impact on the fuel import bill of higher international oil prices was partly mitigated by lower imports of fuel intended for bunkering activities, after a major operator in the oil-bunkering sector ceased its operations in the third quarter of 2004. This explains why the fuel import bill for the January-September period of 2004 was only Lm2.2 million higher than the corresponding period in 2003.

Imports of industrial supplies stood at Lm476.2 million during the first three quarters of 2004, a decline of Lm12.3 million, or 2.5 per cent. This reflects the modest export performance registered during the Survey period. Primary supplies declined by Lm4.2 million whilst semi-finished supplies fell by Lm9.9 million. Meanwhile, finished industrial supplies registered a marginal increase of Lm1.8 million. The composition of imports is illustrated in Chart 7.7.

Geographical Distribution – Imports

Imports from the Euro Area, increased by Lm21.9 million, or 4.0 per cent, to Lm562.8 million during the first nine months of 2004. Higher imports from Asia were also registered during the Survey period whilst imports from America declined. Further details are provided in Table 7.5.

Imports from the EU 25 Member States increased significantly by Lm51.8 million during the Survey period. Almost 70 per cent of Maltese imports originate from the EU 25, up from around 68 per cent in the Survey period of 2003. Significant increases in imports from Malta's major trading partners within the EU were recorded. The share of France, Germany, Italy and the UK of total imports from the EU 25 is illustrated in Chart 7.8. Imports from Italy, U.K. and Germany increased by Lm22.9 million, Lm28.4 million, and Lm10.7 million, respectively. On the other hand, imports from France registered a significant fall of Lm30.4 million. A rise of Lm12.4 million in imports from the Netherlands was recorded in the first nine months of 2004.

Imports from America continued on a downward trend during January-September 2004 falling by Lm30.7 million. As a result, the share of imports

Imports by Main Geographical Areas

Table 7.5

Lm million

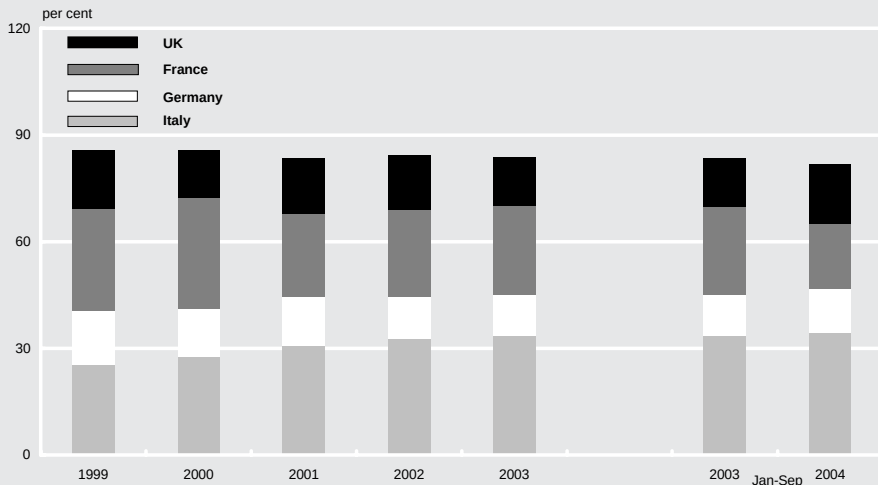
	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Europe	622.7	212.4	661.6	230.0	700.1	237.4	737.4
EU 15*	581.6	197.5	610.4	214.5	642.6	224.7	694.6
EU 25*	588.3	200.1	616.4	216.9	649.6	227.4	701.4
Italy	182.1	61.3	197.7	74.0	218.1	76.3	241.0
U.K.	89.4	33.7	93.8	33.9	89.7	28.9	118.1
Germany	79.8	27.6	74.3	24.2	75.7	25.3	86.4
France	138.5	45.6	155.3	49.8	159.6	59.3	129.2
Netherlands	21.0	7.4	20.8	7.7	22.2	7.5	34.6
Others	77.5	24.5	74.4	27.2	84.3	30.1	92.1
Euro Area	480.9	159.9	504.9	176.0	540.9	191.6	562.8
Other European Countries	34.3	12.3	45.1	13.1	50.5	10.0	36.0
Africa	20.7	7.9	12.3	5.0	9.1	1.7	17.6
America	113.7	43.7	94.0	33.4	91.2	24.7	60.5
USA	101.7	40.0	84.7	30.6	81.7	22.2	47.0
Others	12.0	3.6	9.3	2.8	9.5	2.5	13.5
Oceania	5.5	1.3	4.9	1.3	5.6	1.2	2.5
Asia	156.2	41.1	133.5	51.5	154.4	55.8	187.4
Japan	19.7	6.5	21.0	6.9	21.1	8.2	25.3
Singapore	71.2	10.8	37.2	14.6	47.5	12.1	75.7
Others	65.4	23.8	75.3	30.0	85.8	35.5	86.4
Total Imports	918.8	306.4	906.3	321.2	960.4	320.8	1,005.4
EU 25 Imports as % of Total	64.0	65.3	68.0	67.5	67.6	70.9	69.8

*As from 2004 considered by country of consignment

Source: National Statistics Office

Chart 7.8

Geographical Distribution - Imports from EU 25



from the American continent declined from 10.9 per cent in 2000 to 6.0 per cent in 2004. At Lm47.0 million, imports from the USA were at their lowest level in the last five years.

The fall in imports from America was compensated by an increase in imports from the Asian continent, which advanced by Lm33.0 million in 2004. Asia now represents more than 18 per cent of Maltese imports. Imports from Singapore increased by a further Lm28.2 million to Lm75.7 million during the Survey period. An additional Lm4.2 million in imports from Japan was also recorded. Higher imports from Africa and lower imports from Oceania were also registered.

Geographical Distribution – Trade Balances

Table 7.6 shows Malta's trade balances with a number of countries. The trade balance with the EU 25 Member States deteriorated by Lm44.5 million. Within the EU 25 higher trade gaps were registered with Germany, Italy, the UK, Belgium and the Netherlands. This was partly compensated by an improvement in the negative balance with France. Outside the EU, a significant improvement of Lm49.0 million in the positive trade balance with the USA was registered

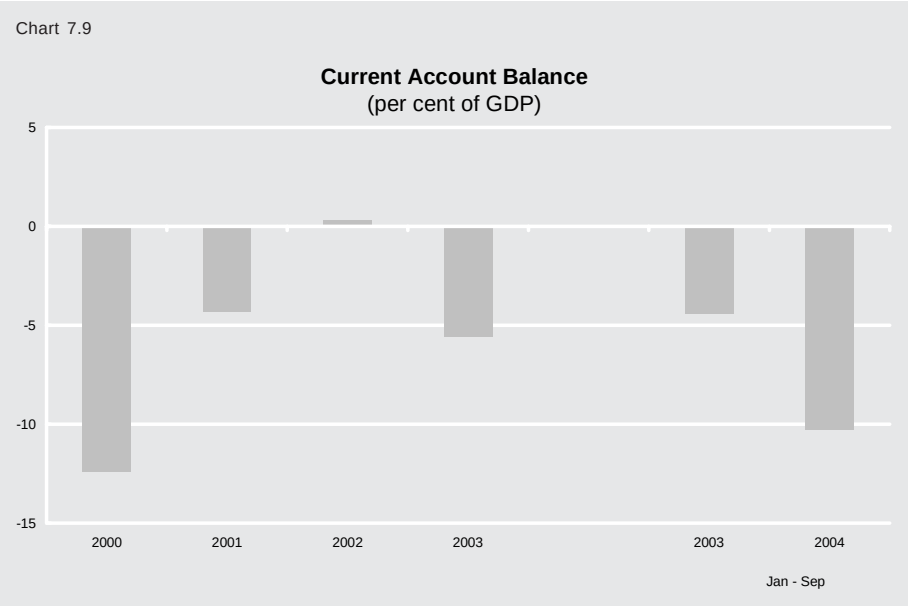
Trade Balances with Various Countries					
Table 7.6	Lm million				
	2001	2002	2003	2003 Jan/Sep	2004 Jan/Sep
EU 15*	-357.6	-395.3	-456.3	-333.5	-368.8
EU 25*	-354.5	-392.5	-447.1	-326.3	-370.8
Belgium	12.1	-10.4	3.8	5.5	-6.2
France	-43.9	-85.1	-98.7	-70.2	-24.6
Germany	7.4	-5.0	-5.8	-4.1	-14.3
Italy	-213.2	-239.1	-262.9	-193.2	-219.7
Netherlands	-15.9	-18.3	-22.9	-16.4	-29.0
United Kingdom	-46.9	-15.5	-96.2	-10.6	-33.7
Other EU	-54.1	-19.0	35.6	-37.3	-43.3
Other Countries					
USA	32.6	44.1	30.3	12.4	61.4
Japan	0.1	13.6	7.8	-0.6	-11.1
Singapore	21.9	100.2	96.3	74.4	25.8
Libya	2.2	24.0	20.9	15.8	20.0
China	-24.0	-25.2	-33.5	-23.6	-16.3
*As from 2004 considered by country of consignment					
Source: National Statistics Office					

during the Survey period. However, the positive trade balance with Singapore deteriorated by Lm48.6 million.

Balance of Payments

The widening of the current account deficit during the first nine months of 2004 suggests that domestic absorption continued to exceed national income. In turn, the high level of domestic absorption relative to the income level is also indicative of low national savings relative to investment. Chart 7.9 shows the current account balance as a percentage of GDP since 1999. The deficit in the first nine months of 2004 stood at 10.3 per cent of GDP. A deficit in the current account has been registered throughout this period with the exception of a surplus in the January-September period of 2002, which was related to an exceptional export item.

During 2002 the NSO revised the data related to the conversion of the merchandise trade data for imports which is at c.i.f. values into the methodology used for balance of payments purposes, that is, at f.o.b. This revision has affected the merchandise, transport and other services components. Since the data have been revised as from 1995 onwards, the figures shown in this Chapter are internally comparable. However, such figures are not comparable to those in Economic Surveys published prior to 2002.



The Current Account

In the period under review the current account deficit stood at Lm144.4 million. This represents an increase in the deficit of Lm83.4 million over the comparable level of 2003. However, around 43 per cent of this deterioration was attributable to net re-invested earnings, particularly in the banking sector. Meanwhile, lower net interest earnings from abroad represented a further 29 per cent of the increase in the deficit on the current account. Another 22 per cent of the deterioration in the current account was attributable to higher imports of goods. Also, net current transfers abroad increased, causing the current account deficit to widen by a further 12 per cent. On the other hand, higher net inflows of services, mostly related to tourist earnings, contributed to a narrowing of the current account deficit by about 6 per cent. Developments in the goods, services and income account are presented in Table 7.7.

The Goods and Services Account

The negative balance on the goods and services account deteriorated by Lm16.9 million during the first nine months of 2004. This was underpinned by a significant increase in imports of goods. The increase in imports of goods registered in the Survey period has already been analysed in the section on foreign trade. It is

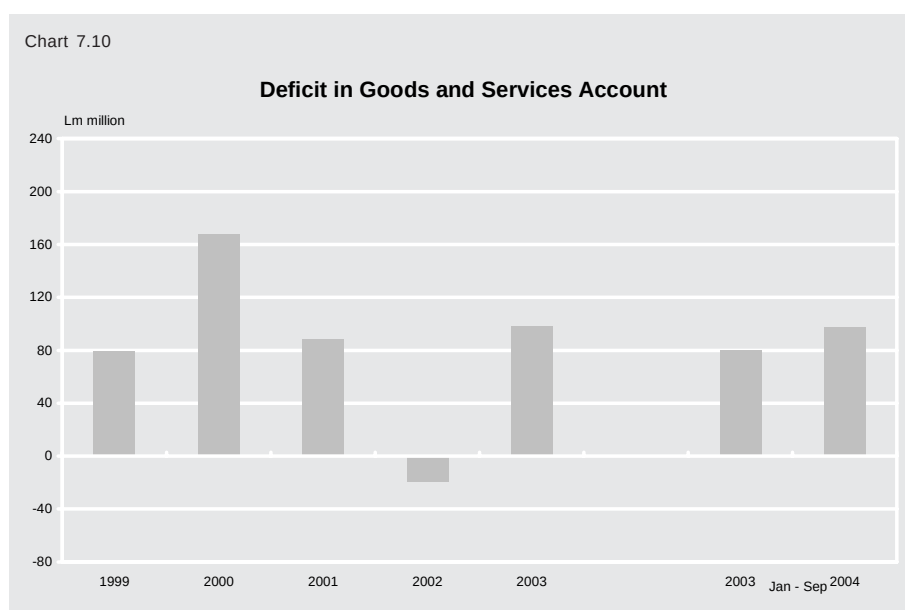
Balance of Payments Goods, Services and Income Account (Net)							
Table 7.7				Lm million			
	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
GOODS							
General Merchandise Transactions	-207.5	-75.5	-133.0	-58.5	-231.0	-62.7	-237.7
Nonmonetary Gold	-7.9	-2.5	-7.0	-2.2	-6.7	-2.1	-5.9
Others	28.0	10.7	34.4	12.1	32.8	8.2	17.2
Total Goods	-187.4	-67.3	-105.6	-48.6	-204.9	-56.6	-226.4
SERVICES							
Transportation	8.3	-3.7	-1.2	-4.9	-12.3	-5.5	-15.7
Travel	146.3	33.2	133.2	46.2	137.3	43.3	144.1
Other Services	-13.6	-4.4	1.7	-1.8	-0.3	0.7	1.0
Total Services	141.0	25.1	133.7	39.5	124.7	38.4	129.3
Total Goods and Services	-46.4	-42.2	28.1	-9.1	-80.2	-18.2	-97.1
INCOME							
Compensation to employees	-0.5	-0.2	0.0	0.1	1.3	0.2	0.8
Investment Income	16.2	-4.4	30.1	-28.0	29.4	-15.5	-26.4
Total Income	15.7	-4.6	30.6	-28.1	30.7	-15.3	-25.6
Total Goods, Services and Income	-30.6	-46.8	58.7	-37.2	-49.5	-33.5	-122.6

Source: National Statistics Office

important to note that imports of goods in the balance of payments have increased by Lm18.1 million. The discrepancy between this figure and the increase of Lm45.0 million recorded in the trade statistics is partly related to the different treatment of the transaction related to the imports of yachts and pleasure boats in the two sets of accounts. The latter is featured in the balance of payments as an adjustment. Chart 7.10 shows the deficit in the goods and services account since 1999.

The deficit in the merchandise account increased by Lm6.7 million. This was underpinned by higher merchandise imports. Higher payments for repairs on goods and lower receipts from bunkering activities led to a further fall in net receipts in the goods account. On the other hand outflows of non-monetary gold have declined marginally during the Survey period. As a result of these developments the deficit in the goods account increased by Lm21.5 million.

An improvement of Lm4.6 million in net receipts on the services account partly compensated for the deterioration in the goods account. This was underpinned by higher tourist earnings, which advanced by Lm6.8 million, or 3.4 per cent, to Lm203.5 million during the period under review. Meanwhile, payments by Maltese tourists abroad remained unchanged at Lm59.5 million, from the corresponding 2003 period.



The improvement in the travel account was partly offset by an increase of Lm3.6 million in payments overseas on transportation services, partly reflecting the increase in imports of goods. Meanwhile net flows from other services improved by Lm1.3 million. Lower net receipts on Government services were more than offset by higher receipts on communication services, other business services and lower payments on royalties and license fees.

The Income Account and Current Transfers

During the period under review, net income from abroad deteriorated by Lm56.3 million from a net inflow of Lm30.7 million in the first nine months of 2003 to a net outflow of Lm25.6 million. The net outflows in the investment income account was the result of higher reinvested earnings (i.e. earnings by foreign owned companies which were reinvested in Malta) and lower interest receipts.

The main item in the income account is the income from direct investments. During the Survey period, outflows in the form of re-invested earnings increased by Lm37.2 million reflecting the increase in profits, particularly in the banking sector. It is pertinent to note that although re-invested earnings do not constitute a physical outflow of funds abroad, they are recorded as an outflow of direct investment income and an offsetting inflow of direct investment in the capital and financial account of the balance of payments. Payments of dividends and

Balance of Payments							
Current Account							
Table 7.8							
Lm million							
	2001		2002		2003		2004
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
GOODS AND SERVICES							
Exports of Goods and Services	1,066.3	332.8	1,117.3	375.3	1,058.9	361.6	1,055.6
Imports of Goods and Services	1,112.6	375.0	1,089.2	384.4	1,139.1	379.8	1,152.7
Goods and Services Account	-46.3	-42.2	28.1	-9.1	-80.2	-18.2	-97.1
INCOME							
Income Received	291.8	81.1	281.9	79.3	245.3	86.1	225.9
Income Paid	276.1	85.7	251.3	107.3	214.5	101.4	251.5
Income Account	15.7	-4.6	30.6	-28.0	30.7	-15.3	-25.6
CURRENT TRANSFERS (Net)							
General Government Transfers	4.1	-0.5	1.8	1.4	7.3	1.6	10.7
Private Transfers	-1.5	1.7	-12.5	-6.8	-18.9	-10.4	-32.5
Total Net Current Transfers	2.6	1.2	-10.7	-5.4	-11.6	-8.8	-21.8
Balance on Current Account	-28.0	-45.6	48.0	-42.6	-61.0	-42.3	-144.4
<i>Source: National Statistics Office</i>							

distributed branch profits fell by Lm4.3 million. As a result, net outflows of income on equity investments increased by Lm31.6 million. Meanwhile, net receipts by way of interest income declined by Lm24.2 million. This was primarily attributable to a fall in interest receipts of Lm19.7 million which exceeded the increase in interest payments abroad of Lm4.6 million. On the other hand, net inflows by way of employee compensation fell by Lm0.5 million.

The negative balance on current transfers has continued to increase and in the first nine months of 2004 the deficit stood at Lm21.8 million, up from Lm11.6 million a year earlier. The developments in current transfers are shown in Table 7.8. Higher private transfers sent abroad caused the net outflow of private transfers to increase by Lm13.6 million. This was partly compensated by a fall of Lm1.4 million in Government transfers abroad and an increase of Lm2.0 million in Government transfers received.

The Capital and Financial Account

The excess of investment over national savings requires the flow of funds from abroad and/or the depletion of foreign exchange reserves. The following provides an analysis of capital flows and the composition of such flows in Malta, as reflected in the financial account of the balance of payments. The analysis relates to annual flows from 2000 till 2003. Data for the January-September period of 2004 were not yet available by the time of publication of this Economic Survey. Table 7.9 shows the capital and financial flows as a percentage of GDP.

Despite another consecutive current account deficit, the accumulation of reserves has generally continued, albeit at a lower rate. During 2003, the stock of reserve assets increased by 3.0 per cent of GDP at current market prices. This indicates that capital inflows continued to finance the excess investment over national savings. The flows recorded in 2002 and 2003 were partly influenced by the Investment Registration Scheme launched in January 2002 and extended in 2003. This affected mostly the value of portfolio investment assets and currencies and deposits held by Maltese residents.

Following the net outflow of direct investment in 2002 related to a loan repayment made by a foreign owned bank to its parent company overseas, a positive balance was recorded in 2003. Net foreign direct investment in 2003 stood at 5.4 per cent of GDP. This was mainly the result of Lm89.8 million in new equity capital and Lm15.8 million in re-invested earnings. Figures for 2003 partly reflected the opening of a subsidiary of a foreign bank in Malta as well as a loan taken by

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

Table 7.9

	2000	2001	2002	2003
Current Account	-12.4	-4.3	0.3	-5.6
Capital Account	0.5	—	0.2	0.1
Financial Account excl. Reserves	5.4	3.7	4.8	3.2
Net Foreign Direct Investment	15.5	6.2	-10.2	5.4
Net Portfolio Investment Equity Flows	1.8	-4.2	1.5	-0.3
Net Portfolio Debt Flows	-21.0	-8.5	-10.5	-31.4
Net Financial Derivatives	...	...	...	0.5
Net Other Investment Flows	9.1	10.2	24.1	29.0
Reserve Assets	5.8	-6.7	-6.9	-3.0
Net Errors and Omissions	0.8	7.2	1.6	5.3

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

Source: National Statistics Office

a resident non-bank firm from abroad. Moreover, inflows of direct investments during 2003 were sustained by the sale of shares to a foreign owned company in the telecommunications sector. Meanwhile around Lm11 million were invested by Maltese nationals abroad during 2003.

The significant net outflow of funds abroad in the form of portfolio investment flows continued in 2003. Most of the outflow recorded is in the form of debt flows rather than equity flows. It mainly consists of holdings by Maltese banks of foreign assets typically in the form of bonds. In 2003 net outflows of portfolio debt were 31.4 per cent of GDP compared to 10.5 per cent in 2002. Net outflows of portfolio equity flows represented 0.3 per cent of GDP. Data for 2003 also includes, for the first time, a measure of financial derivatives. Net foreign liabilities in the form of financial derivatives represented 0.5 per cent of GDP.

During 2003, other investment assets held by domestic banks in the form of long term loans and advances to non-residents increased by Lm230.0 million. However, assets in the form of currency and deposits and other assets fell by Lm210.6 million. Meanwhile liabilities in the form of borrowings, mostly of a long-term nature, increased by Lm358.4 million in 2003. This was more than offset by a fall of Lm388.5 million in liabilities in the form of currency and deposits held by foreign residents with domestic banks. On the other hand, other short-term liabilities increased by Lm572.8 million. Transactions in the

other investment account typically reflect balance sheet transactions of the banking system and thus subject to significant fluctuations.

As a result of these developments, the net increase in liabilities which constitutes an inflow of funds (borrowings) from abroad exceeded the net increase in assets which constitutes an outflow of funds abroad. Net inflows of capital, excluding reserves and including the capital account, stood at 3.3 per cent of GDP in 2003 whilst errors and omissions represented a further net inflow of 5.3 per cent of GDP. The resulting total capital inflows of 8.6 per cent of GDP were used to finance the current account deficit, with the remaining balance constituting an increase in foreign reserves.

The International Investment Position

Table 7.10 shows Malta's international investment position, which represents the stock of external financial assets minus the stock of external liabilities. The position also includes valuation changes from movement in exchange rates and prices and other adjustments. Data for 2003 are provisional estimates and warrant caution in their use and interpretation.

International Investment Position								
Table 7.10	Lm million							
	1996	1997	1998	1999	2000	2001	2002	2003*
Direct Investment Abroad	38.8	54.7	64.3	76.3	88.9	118.1	111.2	120.8
Direct Investment in Malta	303.6	335.3	443.2	771.6	1,044.3	1,157.7	973.4	1,074.2
Assets								
Portfolio Investment Equity	1.7	6.0	2.5	76.2	74.8	54.1	118.7	161.9
Portfolio Investment Debt	539.6	496.7	562.1	794.8	1,159.9	1,313.6	1,617.1	2,231.2
Liabilities								
Portfolio Investment Equity	...	...	2.7	79.9	114.9	17.8	21.0	19.8
Portfolio Investment Debt	82.3	110.2	144.6	132.9	134.4	137.0	126.2	123.8
Financial Derivatives Assets	...	...	...	...	...	...	...	1.8
Financial Derivatives Liabilities	...	...	...	...	...	...	...	10.8
Other Investment Assets	575.9	950.8	1,757.3	2,405.0	2,508.0	2,034.6	2,410.7	2,476.3
Other Investment Liabilities	1,008.6	1,339.7	2,138.9	2,827.1	3,077.1	2,736.4	3,376.8	3,923.5
Reserves								
Reserves	554.1	561.7	640.0	740.3	644.1	760.4	880.9	935.5
International Investment Position								
International Investment Position	315.6	284.6	296.7	281.0	105.2	231.9	641.2	784.5
* Provisional estimates								
Source: National Statistics Office								

The transactions that have taken place in 2003 have already been described in detail in relation to the flows in the capital and financial account. Meanwhile, the composition of portfolio assets of Maltese residents held abroad continues to be biased towards debt rather than equity investments. They are mostly made up of foreign bonds and notes held by the domestic banking system. However, the share of equities in total assets has increased from 0.3 per cent of total portfolio investment assets in 1996 to 6.8 per cent in 2003. Private investors hold most of these equity securities. Meanwhile, the share of portfolio investment liabilities that are equity securities has declined from a high of 46.1 per cent in 2000 to 13.8 per cent in 2003.

The stock of assets and liabilities in the form of other investments typically reflect transactions by foreign banks which take deposits from and lend to non-residents. Assets in the form of loans to non-residents and liabilities in the form of borrowings from abroad are typically of a long-term nature. However, whereas loans represented around 70 per cent of total other investment assets, borrowings represented only about 25 per cent of total other investment liabilities in 2003. Meanwhile, currency and deposits and other investment liabilities constituted around 75 per cent of other investment liabilities. On the other hand, the remaining 30 per cent of assets are mostly made up of currencies and deposits. Therefore, it is possible to conclude that other investment assets are more biased towards the holdings of long term foreign securities whereas other investment liabilities are more biased towards currencies and deposits.

Reserve Adequacy Ratios								
Table 7.11	1996	1997	1998	1999	2000	2001	2002	2003
Imports of Goods and Services (Lm million)	1,186.4	1,173.5	1,248.1	1,371.9	1,740.1	1,487.6	1,473.6	1,518.8
Monthly Import bill (Lm million)	98.9	97.8	104.0	114.3	145.0	124.0	122.8	126.6
Gross International Reserve Coverage (months)*	5.6	5.7	6.2	6.5	4.4	6.1	7.2	7.4
Monetary Base (Lm million)	451.9	485.2	506.1	543.3	564.5	567.6	612.8	623.3
Gross Reserves as a ratio of Monetary Base (per cent)*	122.6	115.8	126.5	136.3	114.1	134.0	143.8	150.1

* 2003 figures are based on estimates of the stock of exchange reserves as documented in Table 7.10

Source: National Statistics Office
Central Bank of Malta

Foreign Reserves

The deficit registered in the current account of the balance of payments in recent years was generally more than offset by capital inflows and hence reserves tended to continue to accumulate. The stock of reserves increased from Lm554.1 million in 1996 to Lm935.5 million in 2003. Reserve accumulation is important in order to maintain confidence in the currency, particularly in the context of Malta's exchange rate peg and in light of the liberalised capital account regime which Malta is now operating in.

An indication of the adequacy of foreign reserves in Malta is provided by the ratio of reserves to the monthly value of total imports of goods and services as shown in Table 7.11. The stock of reserves covers more than 7 months of imports and is thus significantly in excess of the three-month import coverage typically used as a ratio of reserve adequacy. Another indicator of reserve adequacy is provided by the ratio of foreign reserves to the monetary base, which increased to 150.1 per cent in 2003.

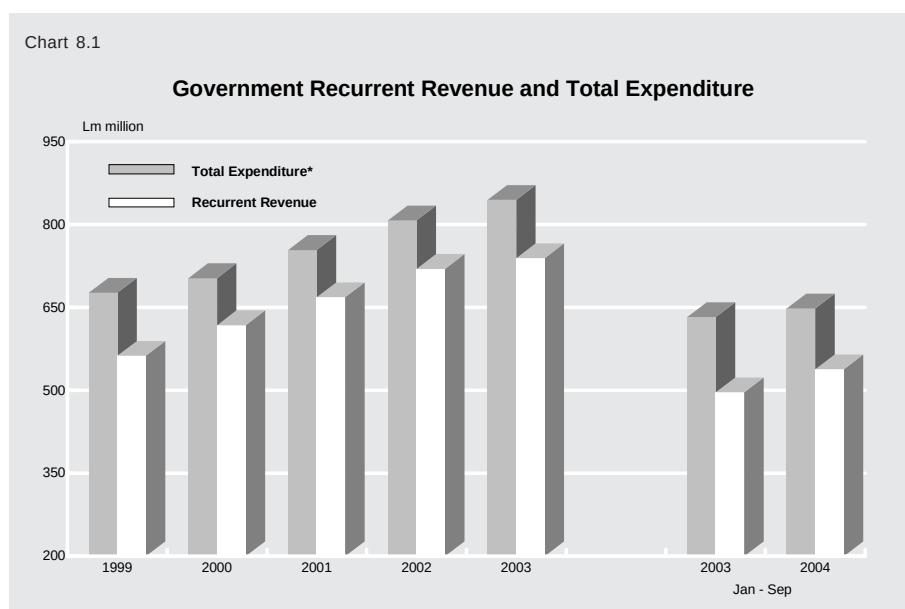
8. Financial Developments

8. Financial Developments

Developments in Government's fiscal position registered in the first nine months of 2004 reflect ongoing efforts to consolidate the public finances. In fact, the structural deficit declined from Lm135.8 million in the first nine months of 2003 to Lm109.9 million during the Survey period. This reduction in the fiscal imbalance was underpinned by an expansion in recurrent revenue which more than offset an increase in total expenditure. Furthermore, the expansion in total expenditure was significantly lower than that registered in previous years. During the Survey period, broad money (M3) continued to expand mainly attributable to more rapid growth in domestic credit which is the main counterpart of broad money. During the first nine months of 2004, the central intervention rate was left unchanged at 3.0 per cent. The Maltese lira remained practically unchanged vis-a-vis the Euro and the US dollars reflecting developments of these currencies on the foreign exchange market. Meanwhile, the Maltese lira weakened against the Sterling but appreciated against the Japanese yen.

Public Finance

Government finance data are based on cash-accounting and thus expenditure and revenue are recorded and contribute to the deficit at the time when cash payments and receipts are effective rather than at the time the underlying



*excluding contributions to Sinking Fund and Direct Loan Repayments

transaction takes place. As a result, caution in the use and interpretation of such data should be exercised since developments in the Government's net financial position may not reflect actual spending and revenue collection. Table 8.1 presents Government's fiscal position during the first nine months of the 2001-2004 period. Meanwhile, recent developments in total expenditure and recurrent revenue are depicted in Chart 8.1.

Revenue

During the Survey period, Government recurrent revenue increased by Lm41.6 million to Lm538.2 million. This expansion in recurrent revenue was attributable to an increase in both tax and non-tax revenue, the latter including grants but excluding extraordinary receipts. Appendix Table 8.1 presents developments in

Government Revenue and Expenditure (January-September)				
Table 8.1	Lm million			
	2001	2002	2003	2004
Recurrent Revenue	466.9	505.6	496.6	538.2
Tax Revenue	408.4	438.9	443.6	472.0
Direct Tax Revenue	234.0	246.8	251.0	258.7
Indirect Tax Revenue	174.4	192.1	192.6	213.3
Non-Tax Revenue	58.5	66.7	53.0	66.2
Total Expenditure	547.9	591.2	632.4	648.1
Recurrent Expenditure	433.6	471.0	499.4	518.2
Interest on Public Debt	45.1	49.2	48.8	54.3
Capital Expenditure	69.2	71.0	84.2	75.6
Productive	27.8	26.4	23.4	17.9
Infrastructure	23.5	21.7	23.6	27.2
Social	17.9	22.8	37.2	30.6
Structural Deficit	(81.0)	(85.6)	(135.8)	(109.9)
Financed by:				
Extraordinary Receipts				
Receipts from sale of shares	0.0	19.0	0.0	0.0
Sinking Funds of Converted Loans	0.0	0.0	2.1	8.9
Sinking Fund Contribution/Direct Loan Repayments	(6.7)	(6.1)	(6.2)	(6.3)
Public Sector Borrowing Requirement	(87.7)	(72.7)	(139.9)	(107.3)
Loans	79.1	0.0	102.1	70.4
Local Loans	79.1	0.0	69.9	70.4
Foreign Loans	0.0	0.0	32.2	0.0

Source: The Treasury

the components of Government revenue for the first nine months of the 2001-2004 period.

Tax revenue, which constitutes around 88 per cent of total recurrent revenue, increased by Lm28.4 million to Lm472.0 million during the first nine months of 2004. This was attributable to both higher direct and indirect tax revenue. Direct tax revenue, which comprises income tax and social security contributions and accounts for around 55 per cent of total tax receipts, increased by Lm7.7 million to Lm258.7 million. Indirect tax revenue constitutes around 45 per cent of total tax receipts and includes customs and excise duties, licences, taxes and fines and Value Added Tax (VAT). During the Survey period, indirect tax revenue increased by Lm20.7 million to Lm213.3 million on account of higher revenue collected from VAT and licences, taxes and fines which exceeded the decline in revenue generated from customs and excise duties.

During the period under review, revenue collected from income tax increased by Lm8.9 million to Lm133.9 million. This increase includes Lm5.6 million as higher capital gains tax partly reflecting changes in the way tax on property is charged announced in the Budget Speech for 2004, particularly with respect to tax on capital transfer. Ongoing efforts to improve efficiency in tax collection also contributed to the increase in income tax revenue. The change in the timing of the payment of salaries to Government employees, as from the beginning of 2004, lowered income tax revenue collection over the first nine months of 2004. This effect on revenue generated from income tax will be reversed by the end of this year.

Social security contributions declined by Lm1.2 million to Lm124.8 million during the Survey period. Higher employment within the private sector resulted in a rise in social security contributions by this sector. However, this increase in revenue was more than offset by lower receipts from contributions during the first nine months of 2004 in relation to public service employees. This was a result of a change in number of payments of their salaries as from the beginning of 2004. However, such lower contributions will be neutralised by year-end.

Revenue generated from customs and excise duties declined by Lm2.5 million to Lm42.4 million. Lower receipts were recorded from import duty on motor vehicles reflecting a fall in imports of motor vehicles. Moreover, revenue collected from excise duties also declined, mainly due to the timing of payments on tobacco products following changes in the duty collection method as from 1st May 2004. Such change in the timing of the inflow of excise duties more than offset additional

revenue generated from an increase in excise duty on tobacco products announced in the Budget Speech for 2004.

During the Survey period, revenue collected from licences, taxes and fines amounted to Lm73.3 million or Lm11.7 million more than that registered in the first nine months of 2003. This increase was mainly underpinned by licence fees received upon the privatisation of the lotteries. Higher receipts from duty on documents on transfer of immovable property following measures as part of the enforcement against tax evasion in the property market also contributed to this outcome. Moreover, higher revenue was collected from airport tax on account of a higher number of Maltese travelling abroad. On the other hand, lower revenue was generated as a result of the complete removal of import levies by 1st May 2004. Moreover, revenue from motor vehicle registration tax also declined reflecting lower imports of motor vehicles.

Revenue collected from VAT increased by Lm11.5 million to Lm97.6 million. The rise of VAT mainly reflects an increase in the standard VAT rate from 15 per cent to 18 per cent as from 1st January 2004 as well as the introduction of a reduced VAT rate of 5 per cent on confectionery and other edible items, printed matter and medical accessories. Moreover, higher imports of yachts linked to a local registration scheme, which provided for a one-off reduction of VAT until the first quarter of 2004, also contributed to higher VAT revenue. Cash inflow from this item of revenue was also influenced by a change in the timing of the collection of VAT on imported products whereby payments are deferred until the point of sale.

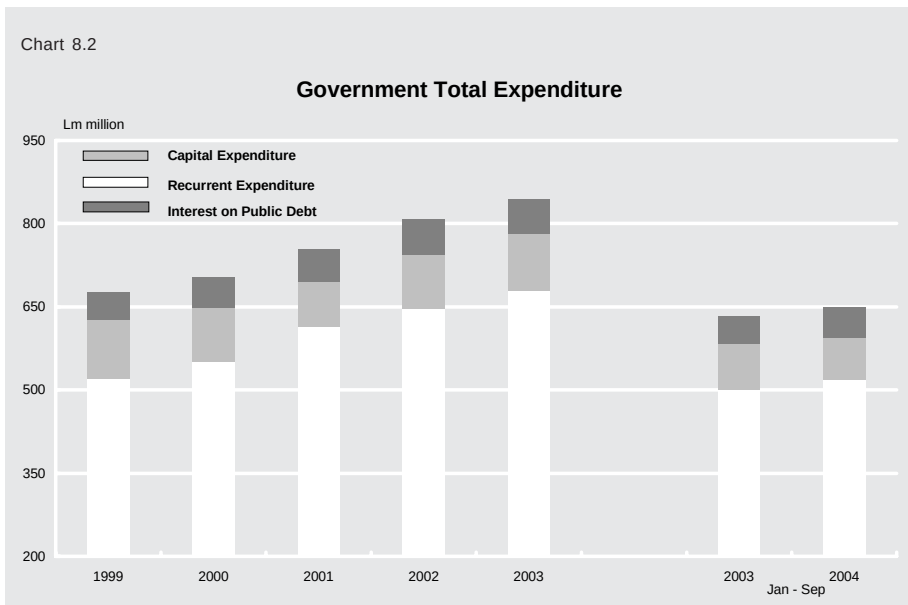
During the Survey period, non-tax revenue increased by Lm13.2 million to Lm66.2 million. The main items of non-tax revenue are the transfer of profits generated by the Central Bank of Malta, rents and grants. Revenue generated by the former declined from Lm24.8 million in the first nine months of 2003 to Lm18.2 million during the period under review. Rents also declined by Lm1.7 million reflecting a change in the timing of cash received in respect of rent of factories. Such delayed payment is expected to be received by the end of this year.

Grants reached Lm15.9 million or Lm13.8 million more than that registered in the first nine months of 2003. This increase mainly comprises funds forthcoming from the European Union on a monthly basis following membership as from 1st May 2004. Additional revenue was generated from dividends on investment, reimbursements and other miscellaneous receipts.

Expenditure

Total Government expenditure comprises recurrent expenditure, capital expenditure and interest on public debt but excludes contribution to the Sinking Fund in respect of local and foreign loans and direct repayment of loans. During the Survey period, total expenditure increased by Lm15.7 million to Lm648.1 million. This was attributable to higher recurrent expenditure and interest on public debt which more than offset a decline in capital outlays. Around 80 per cent of total spending is of a recurrent nature. Recurrent expenditure increased from Lm499.4 million in the first nine months of 2003 to Lm518.2 million during the period under review. This expansion was lower than that registered in previous years. Meanwhile, capital outlays, which constitute around 12 per cent of total expenditure, declined from Lm84.2 million to Lm75.6 million. Interest on public debt accounted for around 8 per cent of total expenditure, rising in absolute terms by Lm5.5 million to Lm54.3 million. Chart 8.2 illustrates trends in total Government expenditure in recent years.

The expansion in recurrent expenditure registered during the Survey period was mainly underpinned by increases in expenditure under Programmes and Initiatives which constitute around 54 per cent of total recurrent expenditure. This category of recurrent expenditure increased by Lm22.0 million to Lm281.6 million. The main items of higher expenditure under this category are social security benefits and a one-time payment by Government to all employees and pensioners as compensation for the increase in the VAT rate announced in the Budget Speech for 2004. Moreover, the introduction for the first time of Malta's



contribution to the EU budget as from 1st May 2004 (which will be more than compensated for by the receipt of funds from the EU) also contributed to this higher expenditure.

The share of Operation and Maintenance expenditure in recurrent outlays stood at around 7 per cent. Approximately half of the expenditure under this category are materials and supplies, most of which relate to the provisions of free medicines under the national health system. Operation and Maintenance expenditure increased by Lm3.1 million, mainly attributable to the provision of free drugs and medicines. Contributions to Government entities, which account for 11 per cent of total recurrent expenditure, increased by Lm1.1 million to Lm57.8 million. This reflects higher expenditure by Government entities such as Malta Enterprise Corporation and the Malta Environment and Planning Authority. Higher expenditure allocated to Industrial Projects and Services Ltd was undertaken in view of lower outlays allocated to the shipyards.

Personal emoluments constitute around 27 per cent of total recurrent expenditure. This category of expenditure declined by Lm7.7 million to Lm138.9 million during the Survey period, reflecting the fact that as from the beginning of this year salaries to public service employees are paid every four weeks rather than on monthly basis. Such impact on expenditure will be neutralised by the end of this year. Moreover, a drop in employment in Government departments also contributed to lower expenditure on personal emoluments. Expenditure registered under the Special Expenditure category amounted to Lm0.5 million during the Survey period, which stays similar to the total recorded during the corresponding 2003 period.

Appendix Table 8.2 presents a detailed breakdown of recurrent expenditure on a cost center basis for the first nine months of the 2001-2004 period. It is pertinent to note that recurrent expenditure is presented according to the cost-centres as prevailing at the beginning of 2004 and thus do not reflect the changes in these cost-centres which took place later on in the year. Developments in capital expenditure are presented in detail in Appendix Table 8.3. The major developments recorded in the separate expenditure categories are discussed below.

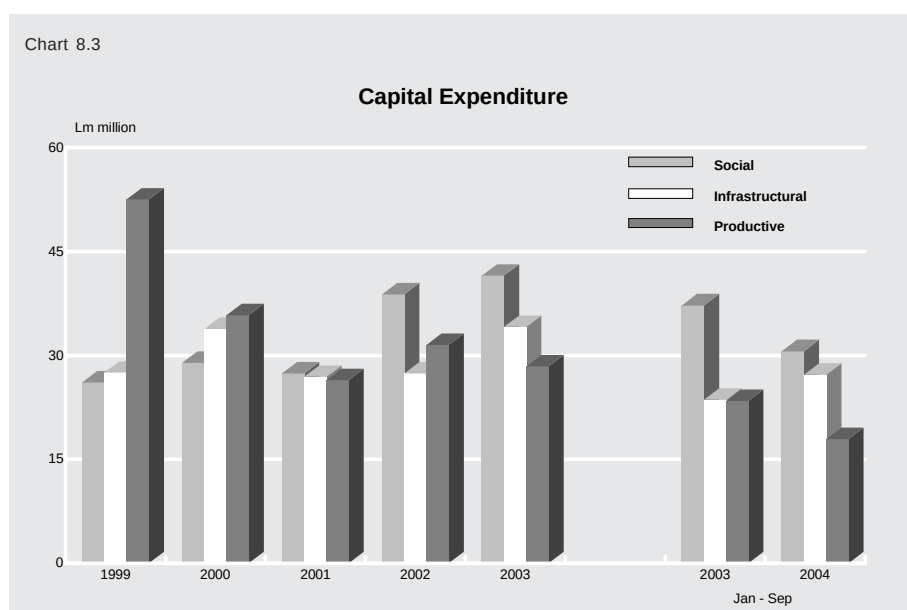
During the Survey period, Government welfare payments increased by Lm5.3 million to Lm155.6 million. This item of expenditure includes retirement pension, children's allowance, social assistance and other benefits and is influenced by developments in wages and cost of living adjustment as well as demographic changes. Expenditure in respect of the Department of Social Security consists

of the State contribution in terms of the Social Security Act, 1987. This item of expenditure declined by Lm0.6 million.

Expenditure by the Treasury Department increased by Lm6.9 million to Lm7.8 million during the first nine months of 2004. This increase was attributable to a one-off payment to compensate for the higher standard VAT rate as announced in the Budget Speech for 2004.

During the first nine months of 2004, expenditure incurred by the Ministry of Finance rose from Lm1.8 million to Lm14.4 million. This higher expenditure reflects Malta's contribution to the EU Budget as from 1st May 2004 which is mitigated by receipt of funds from the EU. Moreover, additional funds were incurred to finance activities of Malta Enterprise Corporation.

Expenditure in respect of Treasury Pensions, which includes outlays in respect of pensions, allowances and gratuities under the Pensions Ordinance (Cap. 39), remained practically unchanged at Lm21.5 million. Expenditure incurred by the Ministry of Gozo declined by Lm1.6 million to Lm13.5 million reflecting lower personal emoluments. The Ministry for Resources and Infrastructure registered a decline of Lm2.1 million in recurrent expenditure. This decline is attributable to lower personal emoluments, which more than offset higher expenditure incurred towards the solid waste management strategy.



During the Survey period, expenditure incurred by the Ministry of Health increased from Lm52.9 million to Lm55.4 million. This rise was mainly attributable to higher expenditure on medicines and medical supplies. Expenditure incurred by the Ministry for Youth and the Arts amounted to Lm3.5 million, mainly consisting of expenditure on culture which was previously included as part of the expenditure by the Ministry of Education.

The Ministry for Social Policy registered a decline of Lm1.6 million in recurrent expenditure during the first nine months of 2004. This reflected the exclusion of expenditure related to the Employment and Training Corporation (ETC) from this cost centre and transferred to the Ministry of Education. Recurrent expenditure by the Ministry of Education remained practically at the levels registered during the corresponding period in 2003. However, it is pertinent to note that this item of expenditure was affected by the exclusion of expenditure related to culture and the inclusion of expenditure related to ETC.

During the first nine months of 2004, capital expenditure decreased by Lm8.5 million to Lm75.6 million. Capital outlays on social development as well as on productive investment declined, offsetting higher investment directed towards infrastructural facilities. The share of investment directed towards social development fell to 40.4 per cent from 44.1 per cent during the first nine months of 2003. Productive investment accounted for 23.6 per cent of total capital expenditure, compared to 27.8 per cent recorded during the corresponding 2003 period. The share of infrastructural investment increased to 35.9 per cent of total capital expenditure, from 28.1 per cent. A detailed breakdown of Government's capital expenditure programme for the first nine months of the 2001-2004 period is presented in Appendix Table 8.3. Meanwhile, Chart 8.3 illustrates developments in capital expenditure.

Capital outlays on productive investment declined by Lm5.6 million and stood at Lm17.9 million. This decline reflected the re-classification to recurrent expenditure of payments to Malta Shipyards Ltd starting in 2004 as part of the restructuring programme for the shipyards. Moreover, the decline in capital expenditure on productive investment also reflected lower capital outlays concerning the development of industries. On the other hand, outlays on public buildings, plant and equipment increased by Lm1.3 million, reflecting capital works and equipment for the Ministry for Rural Affairs and the Environment financed through the Fifth Italian Financial Protocol. Capital outlays on tourism increased by Lm0.3 million to amount to Lm8.6 million.

At Lm27.2 million, capital expenditure on infrastructure was Lm3.6 million higher than the level recorded during the first nine months of 2003. An increase was registered in the funds earmarked for the development of Malta Freeport. Capital outlays allocated under the item Public Buildings, Plant and Equipment increased to Lm18.9 million, up from Lm13.5 million, partly reflecting higher outlays allocated to the Ministry of Foreign Affairs.

Government's capital programme for social investment amounted to Lm30.6 million during the period under review, as compared to Lm37.1 million recorded during the first nine months of 2003. This was underpinned by lower outlays on health expenditure to finance the works carried out in respect of the new hospital. Moreover, capital outlays on education declined by Lm1.1 million to Lm4.1 million, on account of lower capital expenditure by the Foundation for Tomorrow's Schools.

Fiscal Performance

As highlighted above, the first nine months of 2004 were characterised by budgetary consolidation whereby the structural deficit declined from Lm135.8 million to Lm109.9 million. The decline in the structural deficit coupled with higher extraordinary receipts lowered the public sector borrowing requirement

Box 8.1

General Government Statistics based on the European System of Accounts (ESA95)

The Consolidated Fund provides for Government's system of accounting and control for the collection of revenue and the administration of allocated expenditure. Parallel to presenting the statement of the Consolidated Fund periodically, which is the basis of analysis presented in this Chapter, the reclassification of Government finance transactions according to the European System of Accounts (ESA95) is given increasing importance particularly in order to ensure harmonization in the reporting of public finance data at an EU level.

Fiscal data defined according to the ESA95 methodology capture fiscal operations of general Government, which includes the Consolidated Fund, the balances of local councils and extra-budgetary units (EBUs) and other adjustments. EBUs are defined as public non-financial companies having less than 50 per cent of their production costs covered by market sales. These data thus provide a more complete picture of the Government's operations. Moreover, general Government fiscal data are based on accrual-accounting principles rather than cash-based as in the case of the Consolidated Fund.

to Lm107.3 million as compared to Lm139.9 million during the corresponding 2003 period.

Government relies heavily on domestic borrowing to finance the fiscal imbalance. In fact, the proportion of foreign loans to total debt is around 5 per cent with the rest coming from local sources. Resorting to domestic borrowing contributes not only to the development of the local debt market but also in minimising the drawing down of international reserves while limiting exposure to exchange rate risk.

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

as a percentage of GDP

	per cent		
	2001	2002	2003
Austria	0.3	-0.2	-1.1
Belgium	0.6	0.1	0.4
Cyprus	-2.4	-4.6	-6.4
Czech Republic	-5.9	-6.8	-12.6
Denmark	2.1	0.7	0.3
Estonia	0.3	1.4	3.1
Finland	5.2	4.3	2.3
France	-1.5	-3.2	-4.1
Germany	-2.8	-3.7	-3.8
Greece	-3.7	-3.7	-4.6
Hungary	-4.4	-9.2	-6.2
Ireland	0.9	-0.2	0.1
Italy	-2.6	-2.3	-2.4
Latvia	-2.1	-2.7	-1.5
Lithuania	-2.0	-1.5	-1.9
Luxembourg	6.4	2.8	0.8
Netherlands	-0.1	-1.9	-3.2
Poland	-3.8	-3.6	-3.9
Portugal	-4.4	-2.7	-2.8
Slovakia	-6.0	-5.7	-3.7
Slovenia	-2.8	-2.4	-2.0
Spain	-0.4	-0.1	0.4
Sweden	2.8	0.0	0.3
United Kingdom	0.7	-1.7	-3.3
EU 25	-1.2	-2.3	-2.8
Malta	-6.4	-5.9	-9.6

Source: European Commission
National Statistics Office
Ministry of Finance

International Comparison

Table 8.2 presents the budgetary position of the EU Member States for the three years to 2003, whilst Table 8.3 shows the general Government debt position for the EU. It is pertinent to note that the analysis in this section is based on General Government fiscal data according to the ESA95 methodology and is thus not comparable with data presented in other sections of this Chapter.

In 2003, the budgetary position in the EU Member States deteriorated by 0.5 percentage points and reached 2.8 per cent of GDP. The aggregate outcome for the EU 25 results from diverse budgetary performances across Member

General Government Gross Debt as a percentage of GDP			
Table 8.3	per cent		
	2001	2002	2003
Austria	66.1	65.7	64.5
Belgium	108.0	105.4	100.0
Cyprus	64.3	67.4	70.9
Czech Republic	25.3	28.8	37.8
Denmark	49.2	48.8	45.9
Estonia	4.4	5.3	5.3
Finland	43.8	42.6	45.6
France	56.5	58.8	63.7
Germany	59.4	60.9	64.2
Greece	114.7	112.5	109.9
Hungary	53.5	57.2	59.1
Ireland	35.9	32.7	32.1
Italy	110.6	107.9	106.2
Latvia	14.9	14.1	14.4
Lithuania	22.9	22.4	21.4
Luxembourg	5.5	5.7	5.3
Netherlands	52.9	52.6	54.1
Poland	36.7	41.1	45.4
Portugal	55.8	58.4	60.3
Slovakia	48.7	43.3	42.6
Slovenia	28.1	29.5	29.4
Spain	57.5	54.4	50.7
Sweden	54.4	52.6	52.0
United Kingdom	38.8	38.3	39.8
EU 25	62.1	61.6	63.2
Malta	62.2	62.7	70.4

Source: European Commission
National Statistics Office
Ministry of Finance

States. In the case of Germany, France, Italy and Portugal the budgetary positions in 2003 remained weak with nominal deficits ranging from 2.4 per cent of GDP in Italy to 4.1 per cent of GDP in France. In 2003, the nominal deficit has also sharply deteriorated in the Netherlands, Greece and the UK. Nevertheless, in spite of a period of low growth, seven EU 15 Member States had nominal budget positions in balance or in surplus. Overall, the nominal budget balances in 2003 did not worsen or did so only marginally compared to the previous year in the case of Belgium, Denmark, Spain, Ireland, Sweden, Italy and Portugal.

In the case of the new Member States, nominal budget balances in 2003 varied from a deficit of 12.6 per cent in the Czech Republic to a surplus of 3.1 per cent in Estonia. The nominal deficit in 2003 of Cyprus, the Czech Republic, Hungary, Poland and Slovakia, was above the 3 per cent of GDP reference value. Relative to 2002, the budget position remained roughly unchanged or improved in four countries, while it deteriorated in Cyprus, Czech Republic, Lithuania and Poland. Malta's budgetary position deteriorated by 3.7 percentage points reaching 9.6 per cent. However, it is pertinent to note that this outcome was heavily influenced by a one-off transaction relating to the restructuring programme of the shipyards. In fact, this one-off transaction influenced the net borrowing-to-GDP ratio by 3.2 percentage points. If the impact of this transaction were excluded, the general Government deficit ratio would have stood at 6.4 per cent.

The general Government debt ratio for the EU Member States increased by 1.6 percentage points to 63.2 per cent of GDP. In 2003, Belgium, Greece and Italy continued to have debt ratios above 100 per cent of GDP. In addition to these three countries, Austria, Cyprus, France, Germany and Portugal registered debt ratios above the 60 per cent reference value. In 2003, general Government debt in Malta reached 70.4 per cent of GDP. This increase in the general Government debt ratio from 62.7 per cent in 2002 reflected developments in the fiscal imbalance as well as the assumption by Government of liabilities of the shipyards as a result of the restructuring implemented at the end of 2003.

Monetary Developments

During the Survey period, broad money (M3) continued to expand reflecting the prevailing low interest rate environment and thus the low opportunity cost of holding monetary instruments. The acceleration in monetary growth was mainly attributable to more rapid growth in domestic credit which is the main counterpart of broad money. A slower growth in net foreign assets of the banking system was partly offset by a similar slowdown in the growth of the other

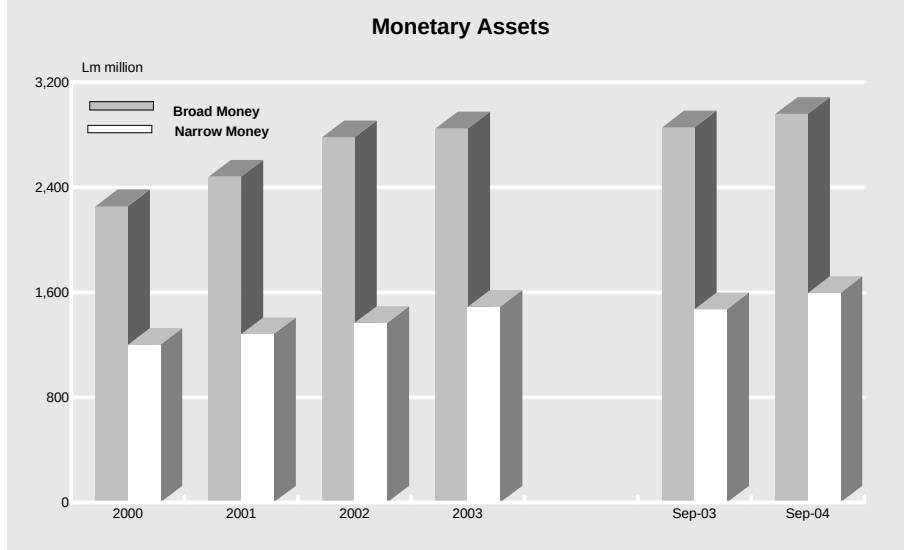
counterparts of broad money. The latter is deducted from broad money thus a lower growth rate contributes to a higher pace of monetary growth.

Monetary Aggregates

During the period under review, broad money, expanded by 3.9 per cent to Lm2,960.2 million, as compared to the 2.7 per cent growth rate registered during the corresponding 2003 period. The relatively higher growth rate in M3 is mainly attributed to the reversal of the decline in residents' time deposits registered in the first nine months of 2004. Table 8.4 presents developments in the monetary

Table 8.4 Monetary Aggregates and Their Counterparts* Lm million						
	2002 (Dec)	2003 (Sep)	Sep 03 - Dec-02 % Change	2003 (Dec)	2004 (Sep)	Sep 04 - Dec-03 % Change
Monetary Aggregates						
Narrow Money (M1)	1,367.4	1,471.2	7.6	1,490.9	1,596.0	7.0
Currency in Circulation	436.8	456.4	4.5	460.4	484.0	5.1
Deposits withdrawable on demand	930.5	1,014.8	9.1	1,030.5	1,111.9	7.9
Intermediate Money (M2)	2,781.5	2,855.5	2.7	2,849.2	2,960.2	3.9
Narrow Money (M1)	1,367.4	1,471.2	7.6	1,490.9	1,596.0	7.0
Savings Deposits redeemable at notice up to 3 months	27.9	29.8	6.6	28.8	29.7	3.1
Time Deposits with agreed maturity up to 2 years	1,386.2	1,354.5	-2.3	1,329.5	1,334.5	0.4
Broad Money (M3)	2,781.5	2,855.5	2.7	2,849.2	2,960.2	3.9
Counterparts of M3						
Domestic Credit	2,401.4	2,476.2	3.1	2,648.7	2,784.2	5.1
Net Claims on central government	539.5	561.7	4.1	568.4	573.4	0.9
Claims on other residents	1,862.0	1,914.5	2.8	2,080.3	2,210.9	6.3
Net Foreign Assets	1,301.3	1,386.1	6.5	1,416.9	1,474.5	4.1
Central Bank of Malta	881.6	943.2	7.0	919.8	928.7	1.0
Banks	419.7	443.0	5.5	497.1	545.9	9.8
Less other counterparts of M3⁽¹⁾	921.3	1,006.9	9.3	1,216.4	1,298.6	6.8
*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						
⁽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 M3 and the sum of domestic credit and net foreign assets						
Source: Central Bank of Malta						

Chart 8.4



aggregates and their counterparts, whilst Chart 8.4 illustrates developments in the monetary aggregates.

Narrow money, (M1), which accounts for just over half of M3, increased by a slightly lower rate compared to that for the first nine months of 2003. Indeed, M1, increased by 7.0 per cent to Lm1,596.0 million, compared to the 7.6 per cent growth rate registered during the corresponding 2003 period. The slowdown in the growth of M1 mainly reflects a relatively lower growth rate in deposits withdrawable on demand which more than offset a higher growth rate in currency in circulation. Currency in circulation, which represents just under a third of M1 accelerated, increasing by Lm23.6 million or 5.1 per cent, as compared to a growth rate of 4.5 per cent during the first nine months of 2003. Deposits withdrawable on demand expanded from Lm1,030.5 million to Lm1,111.9 million, an increase of 7.9 per cent. This increase resulted from higher demand deposits which increased by Lm49.9 million to Lm323.6 million. Savings deposits also expanded, increasing by Lm31.5 million to Lm788.3 million.

Intermediate money, M2, consists of M1 and short-term deposits not withdrawable on demand. During the first nine months of 2004, M2 expanded by Lm111.0 million or 3.9 per cent, compared to the 2.7 per cent growth rate registered during the corresponding 2003 period. The relatively higher growth rate in M2 was underpinned by growth in time deposits with an agreed maturity of up to two years, reversing a contraction registered in the corresponding 2003

period. This growth in time deposits offset a relatively lower growth in deposits redeemable at notice up to three months and the slowdown in the growth of M1 mentioned earlier. Time deposits increased by Lm5.0 million or 0.4 per cent to Lm1,334.5 million compared to the contraction of 2.3 per cent registered during the first nine months of 2003. Savings deposits redeemable at notice up to three months expanded by 3.1 per cent to Lm29.7 million as compared to an increase of 6.6 per cent during the first nine months of 2003. These developments in M2 were influenced by the prevailing low interest rates which encourage savers to shift funds away from long-term deposits into deposits with a shorter maturity included in this aggregate. On the other hand, this effect was lessened by portfolio shifts from short-term time deposits into alternative assets such as bonds and equities. It is pertinent to note that since the amount of marketable instruments, mainly repurchase agreements and debt securities with maturity up to 2 years, is negligible, currently M2 is equal to M3.

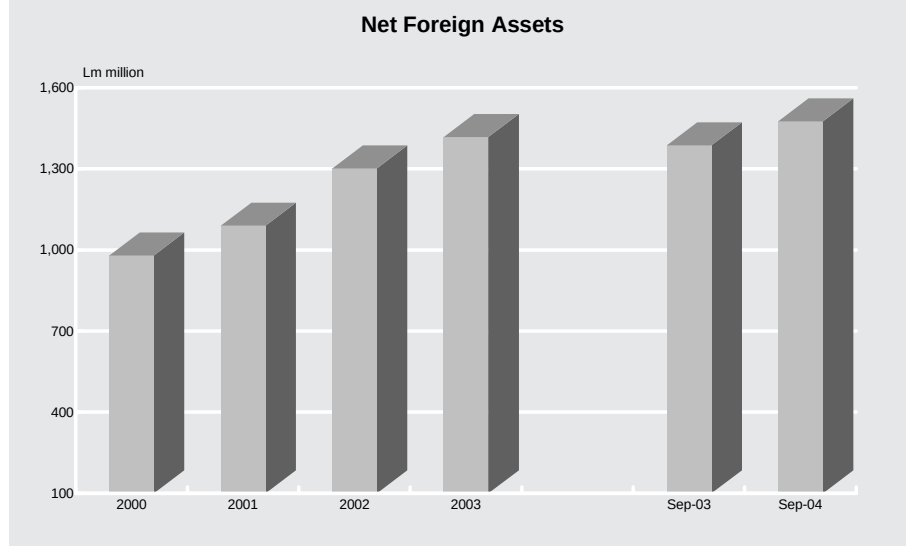
Counterparts of Monetary Expansion

The faster pace in monetary growth registered during the first nine months of 2004, was attributable to a more rapid growth in domestic credit. Moreover, since the other counterparts of M3 category is deducted from broad money the deceleration of the former contributed to the higher pace of monetary growth. On the other hand, during the Survey period, net foreign assets of the banking system increased at a slower rate.

During the first nine months of 2004, domestic credit expanded by Lm135.5 million or 5.1 per cent to Lm2,784.2 million. This growth rate is relatively higher than the 3.1 per cent expansion rate registered during the corresponding period of 2003, attributable to a faster increase in the claims on other residents.

Claims on other residents increased by 6.3 per cent to Lm2,210.9, compared to the 2.8 per cent growth rate registered during the corresponding period in 2003. Claims on other residents consist mainly of loans and advances and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies. At the end of September 2004, loans and advances (including bills discounted) accounted for around 88 per cent of bank claims on other residents, the rest mainly consisting of bank holdings of corporate debt and equity. The increase in claims on other residents was mainly attributable to private sector credit, while loans and advances to public non-financial companies contributed to this increase only marginally. Meanwhile, net claims on central Government increased by Lm5.0 million or 0.9 per cent to Lm573.4 million. This represented a decline when compared to the 4.1 per cent growth rate

Chart 8.5



recorded during the corresponding period in 2003. Banks' claims on Government increased marginally by 0.4 per cent as compared to 8.3 per cent growth rate during the corresponding 2003 period, while net claims on central Government by the Central Bank contracted by 3.0 per cent.

During the period under review, net foreign assets of the banking system continued to expand, though at a slower pace than in the corresponding 2003 period as illustrated in Chart 8.5. In fact, net foreign assets of the banking system increased by 4.1 per cent to Lm1,474.5 million, compared to the 6.5 per cent growth rate registered during the corresponding 2003 period. The expansion in the net foreign assets was mainly attributable to higher banks' holdings which increased by 9.8 per cent from Lm497.1 million to Lm545.9 million. The net foreign assets of the Central Bank accounted for around two-thirds of the combined holdings of the entire banking system at the end of September 2004. The Central Bank's net portfolio expanded by Lm8.9 million, or 1.0 per cent to Lm928.7 million, following a growth rate of 7.0 per cent registered during the corresponding 2003 period.

The other counterparts of M3 increased by Lm82.2 million, or 6.8 per cent, dampening monetary growth. 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.

The Money Market

The Central Bank of Malta's monetary policy strategy aims at price stability through the maintenance of a fixed exchange rate, which is pegged to a currency basket. In this regard, the Central Bank engages in open market operations to influence the level of liquidity in the banking system and thus ensures that monetary conditions are compatible with its monetary policy stance. The Central Bank also trades in foreign currency in response to domestic market conditions. Moreover, the Central Bank adjusts the official interest rates to reflect movements in interest rates abroad. Through these operations the Central Bank maintain an adequate level of external reserves to support the exchange rate peg.

Following an easing of the Central Bank's monetary policy stance during 2003, the central intervention rate was left unchanged at 3.0 per cent during the first nine months of 2004. Hence, during this period, domestic money market interest rates remained broadly stable and close to the rates applied by the Central Bank in its open market operations. Given that these developments took place in the context of an international environment characterised by gradual rises in money market rates abroad, the interest rate premium on short-term Maltese lira assets narrowed.

During the period under review, the Central Bank continued to absorb liquidity from the rest of the banking system through weekly auctions of 14-day term deposits. The Central Bank absorbed Lm2,193.1 million, down from Lm2,606.6 million in the first nine months of 2003. The interest rate paid on these deposits remained 2.95 per cent being the floor of the interest rate band (2.95 per cent - 3 per cent) at which the Central Bank conducts its term deposit auctions.

In order to finance its short-term borrowing requirements, Government resorts regularly to the money market. During the period under review, a total of Lm472.6 million worth of Treasury bills were issued, as compared to Lm644.8 million in the corresponding 2003 period. The bulk of the trading was in Treasury bills with a maturity period of 91 days. Yields in the primary market remained relatively stable reflecting the fact that the central intervention rate was left unchanged during the period under review. The yield on the three-month bill increased only marginally from 2.94 per cent to 2.96 per cent while the yield on the six-month Treasury bill remained stable at around 2.94 per cent. The rate for the one-month and one-year Treasury bill stood at 2.96 per cent and 2.97 per cent, respectively.

Turnover in the secondary market for Treasury bills declined from Lm103.2 million to Lm84.2 million during the period under review. The value of

transactions involving the Central Bank increased from Lm18.5 million to Lm42.8 million. As in the primary market, yields in the secondary market remained broadly unchanged, with the interest rate on the three-month Treasury bill standing at 2.99 per cent.

Following a downward trend in the turnover in the inter-bank market registered in the past years, during the first nine months of 2004 activity in this market increased, with the value of inter-bank loans increasing from Lm46.6 million to Lm185.8 million. At a total of 46 deals, overnight inter-bank deals remained the most popular. Meanwhile, 18 deals and 14 deals were transacted on the 7-day and 14-day tenor, respectively. The interest rate on one-week inter-bank loans remained stable at 2.95 per cent.

The Capital Market

During the first nine months of 2004, Government continued to resort to the capital market for financing the deficit by issuing five different stocks with a total value of Lm115 million. In April, Lm18.7 million in Government bonds were redeemed. This was followed by the issue of Lm40 million MGS 2021 (I) and Lm25 million MGS 2016 (II) (fungible) in May. Moreover, a further issue worth Lm25.8 million was redeemed in July. This redemption was followed by a further three new issues – Lm20 million MGS 2022, Lm17 million MGS 2014 (II) and Lm13 million MGS 2010 (IV) – which took place in August. The participation by the small investor in these new stocks was very significant reflecting the liquidity of the general public. Coupon rates offered ranged from 4.8 per cent to 5.4 per cent.

In contrast with the buoyant activity registered during the first nine months of 2003, there was only one bond issue on the primary market during the period under review. This issue was that of an international financial institution, the European Investment Bank, which in February launched Lm10 million worth of bonds maturing in 2009 with a coupon rate of 3.8 per cent. Demand for these triple-A rated bonds was high and the issue was subsequently listed on the Malta Stock Exchange. On the domestic front, no activity in the corporate debt market was registered by the private sector. In April, Lombard Bank plc launched a bonus issue of 61,363 shares.

Following a decline in the turnover in the secondary market for Government bonds registered during the first nine months of 2003, turnover of Government securities increased from Lm27.9 million to Lm41.5 million during the period under review. A total of 2,490 deals were registered on the Malta Stock Exchange

Government Stocks
Activity on the Secondary Market

Table 8.5

	2004 Jan/Mar	2004 Apr/Jun	2004 Jul/Sep	2004 Jan/Sep
Turnover in Government Stocks:				
Nominal Value (Lm million)	13.4	9.1	15.5	38.0
Market Value (Lm million)	14.8	9.7	17.1	41.5
Number of Transactions	767	715	1,008	2,490
Average Value per Transaction (Lm)*	17,450	12,703	15,401	15,258
Amount sold by CBM (Lm million)**	1.8	0.0	0.0	1.8
Amount bought by CBM (Lm million)**	0.4	0.4	10.3	11.1
* Based on Nominal Values				
** Based on Market Values				

Source: Central Bank of Malta

resulting in an average value per transaction of Lm15,258. The highest turnover was registered in 4.8 per cent MGS 2016 (II), 7.8 per cent MGS 2018, 5.0 per cent MGS 2021 and 6.6 per cent MGS 2019. The latter includes a block trade of around Lm5 million affected on 20th September. As shown in Table 8.5, the value transacted by the Central Bank amounted to Lm12.9 million of total turnover, while other investors took up the remainder.

During the Survey period, turnover in the corporate secondary bond market decreased from Lm7.8 million to Lm6.1 million. The listed bonds with the highest market value of stock transacted were 3.8 per cent European Investment Bank Bonds (2009), 7.25 per cent HSBC subordinate unsecured loan stock (2005) and Malta Government Privatisation plc bonds (2005). As shown in Table 8.6, the listings of corporate bonds reached 28 companies by the end of September 2004.

Activity in the equity market increased from Lm10.2 million to Lm23.6 million. The bulk of the trading activity during the period under review took place in the HSBC Bank Malta plc shares, Bank of Valletta plc shares and Maltacom plc shares.

The Malta Stock Exchange share index closed at 2,861.3 on 30 September 2004, a 38.1 per cent increase over the end of September 2003. The development

Selected Indicators of the Capital Market

Table 8.6

	2004 Jan/Mar	2004 Apr/Jun	2004 Jul/Sep	2004 Jan/Sep
Corporate Bonds*				
Number of Listings**	28	28	28	28
Turnover (Lm million)	2.0	2.4	1.7	6.1
Turnover/GDP (%)	0.4	0.5	0.3	0.4
Equities*				
Number of Issues Outstanding**	13	13	13	13
Turnover (Lm million)	10.1	5.2	8.3	23.6
Turnover/GDP (%)	2.3	1.1	1.7	1.7
Total Listed Securities*				
Total Turnover	12.1	7.6	10.0	29.7
Total Turnover/GDP (%)	2.7	1.6	2.0	2.1
Market Capitalisation (Lm million)**	1,010.3	938.9	1,038.0	1,038.0
MSE Ord. Share Index**	2,765.4	2,524.3	2,861.3	2,861.3

*Including the Alternative Companies listing

**As at end of period

Source: Malta Stock Exchange

in MSE Share index is reflected in the market capitalisation which increased from Lm784.7 million at the end of September 2003 to Lm1,038.0 million at the end of September 2004.

The Maltese Lira

The Maltese lira is pegged to a basket of currencies of low-inflation countries – the Euro, Sterling and the US dollar – thus minimising the impact of imported inflation on consumer prices. During the period under review, the value of the Maltese lira vis-à-vis the Euro as well as against the US dollar remained practically unchanged from the level recorded at the end of 2003. These developments in the Maltese lira exchange rate reflected the fact that the major currency markets have been broadly stable. Indeed, following the record high of the Euro against the US dollar in February 2004 and the beginning of monetary policy tightening in the US, currency volatility diminished. Meanwhile, the Maltese lira weakened against the Sterling but appreciated against the Japanese yen. The developments of the Maltese lira against the major currencies are presented in Table 8.7 and Chart 8.6.

Movements in the Exchange Rates of the Maltese Lira

Table 8.7

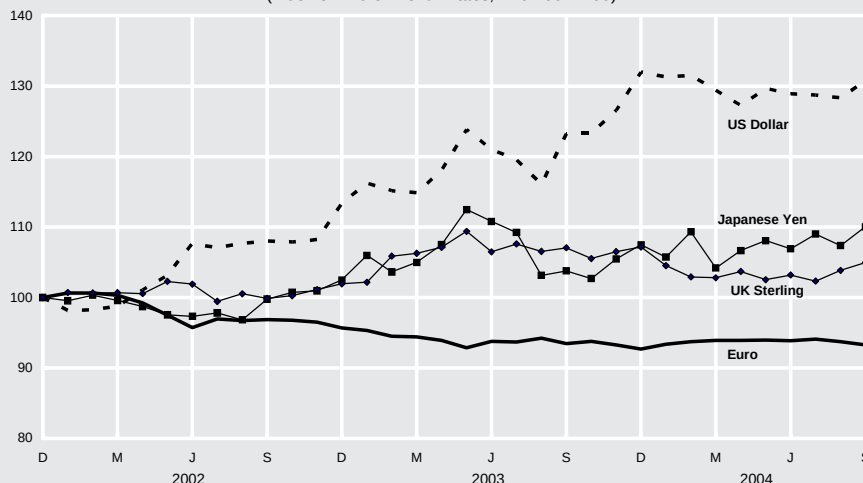
Currency	End of Period	Exchange Rate	% change over Previous Period
US Dollar	Dec-01	2.2121	-3.16
	Dec-02	2.5074	13.34
	Dec-03	2.9197	16.44
	Sep-04	2.8921	-0.95
Sterling	Dec-01	1.5258	-0.31
	Dec-02	1.5553	0.19
	Dec-03	1.6351	5.13
	Sep-04	1.6012	-2.07
Japanese Yen	Dec-01	290.443	10.75
	Dec-02	297.662	2.49
	Dec-03	312.160	4.87
	Sep-04	319.573	2.37
Euro	Dec-01	2.4989	1.75
	Dec-02	2.3910	-4.32
	Dec-03	2.3163	-3.12
	Sep-04	2.3315	0.66

Source: Central Bank of Malta

Chart 8.6

Exchange Rate Movements of the Maltese Lira

(Index of End of Month Rates, End 2001=100)



Given the large dependence of the Maltese lira on the Euro, the currency stability of the Euro against the US dollar caused the Maltese lira to remain relatively stable against these two currencies. The Maltese lira, which stood at EUR2.3163 at the end of 2003, reached a low EUR2.3158 on January 5. Subsequently, the Maltese lira gained ground during the first few months of the year to reach EUR2.3598 on June 18, followed by a drop to end the third quarter at EUR2.3315.

Following an appreciation of the Maltese lira against the US dollar of 16.4 per cent during 2003, minimal movements were registered during the period under review reflecting the stability of this major currency. The Maltese lira declined from a high USD3.0114 on February 18 to a low USD2.7783 on April 26. The Maltese lira recovered slightly to end the third quarter at USD2.8921.

The appreciation of the Maltese lira against the Sterling registered during 2003 was partly reversed as the Maltese lira dropped by 2.1 per cent against this currency. From a high of GBP1.6331 on January 5, the value of the Maltese lira declined to a low GBP1.5462 on April 13 and June 18. By the end of September, the Maltese lira recovered slightly to end the quarter at GBP1.6012.

During the Survey period, the Maltese lira registered an increase of 2.4 per cent against the Japanese yen. The Maltese lira appreciated against the Japanese yen during the beginning of the year to reach a high of Yen325.09 on March 15 but depreciated to reach a low of Yen296.75 on April 5. By the end of September, the Maltese lira strengthened to end the third quarter at Yen319.57.

Government Revenue
(January-September)

Appendix Table 8.1

Lm thousand

	2001	2002	2003	2004
Tax Revenue	408,378	438,895	443,598	472,009
Direct Tax Revenue	234,001	246,818	250,969	258,690
Income Tax	113,447	125,541	125,001	133,894
Social Security	120,554	121,277	125,968	124,796
Indirect Tax Revenue	174,377	192,077	192,630	213,318
Customs and Excise Duties	38,937	44,137	44,942	42,420
Licences, Taxes and Fines	52,125	64,721	61,624	73,325
Value Added Tax	83,315	83,219	86,064	97,573
Non-Tax Revenue	58,514	66,661	52,985	66,208
Fees of Office	4,448	10,571	4,214	4,144
Reimbursements	4,792	4,790	3,525	5,802
Rents	7,955	6,966	8,087	6,354
Dividends on Investments	2,657	13,222	2,616	3,637
Repayment of, and Interest on				
Loans made by Government	1,048	31	66	14
Lotteries	5,337	0	0	0
Miscellaneous Receipts	4,036	2,343	5,696	10,197
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	25,902	25,682	24,783	18,233
Grants	456	1,173	2,115	15,944
Recurrent Revenue	466,892	505,555	496,583	538,217
Extraordinary Receipts	0	19,048	2,137	8,899
Loans	79,059	0	102,129	70,448
Total Revenue	545,951	524,602	600,849	617,565

Source: The Treasury

Government Recurrent Expenditure*

(January-September)

Appendix Table 8.2

Lm thousand

	2001	2002	2003	2004
Office of the President	525	563	532	597
House of Representatives	737	711	646	824
Office of the Ombudsman	120	150	120	130
National Audit Office	350	550	600	650
Office of the Prime Minister	2,933	3,012	3,098	3,712
Public Service Commission	103	98	100	98
Armed Forces of Malta	8,783	8,961	9,617	9,016
Information	836	865	872	389
Government Printing Press	0	0	0	400
Electoral Office	776	1,151	2,340	1,143
Ministry for Social Policy	4,338	4,586	5,535	3,893
Social Security	39,139	39,024	40,570	39,949
Social Security Benefits	134,341	141,788	150,258	155,561
Family and Social Welfare	421	447	541	487
Care of the Elderly	8,835	9,461	10,170	10,274
Housing	485	561	551	808
Industrial and Employment Relations	452	379	396	421
Ministry of Education	22,897	24,858	27,770	27,843
Education	35,080	35,823	36,984	35,406
Libraries and Archives	455	486	504	474
Ministry of Finance	1,104	1,651	1,841	14,374
Treasury	820	963	902	7,827
Pensions	19,841	20,817	21,088	21,528
Inland Revenue	3,767	3,978	3,549	3,798
Customs	3,817	4,627	3,920	3,648
V.A.T.	2,252	2,333	2,419	2,465
Contracts	258	250	268	271
Ministry for Resources and Infrastructure	17,121	17,413	17,711	15,581
Ministry for Tourism	1,953	1,998	1,958	1,898
Ministry for Transport and Communications	1,980	3,359	3,554	4,416
Civil Aviation	496	588	432	404
Economic Policy	387	582	634	468
Commerce	1,465	1,432	1,782	2,132
Consumer and Competition	268	305	397	327

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 continued

Lm thousand

	2001	2002	2003	2004
Ministry for Justice and Home Affairs	1,798	1,410	2,845	1,935
Police	10,961	11,181	12,242	11,736
Correctional Services	1,733	1,766	1,819	1,821
Civil Protection	849	944	935	1,028
Government Property Division	658	603	1,885	952
Registration	538	519	633	629
Ministry for Rural Affairs	5,737	6,379	12,313	13,022
Ministry for Gozo	14,267	14,520	15,175	13,532
Ministry of Health	45,522	50,423	52,891	55,409
Local Councils	7,907	5,436	5,541	5,372
Judicial	2,525	2,692	2,722	2,921
Ministry of Foreign Affairs	4,893	5,370	5,709	5,467
Ministry for Information Technology	0	0	0	29,631
Ministry for Youth and the Arts	0	0	0	3,483
[Youth and Sport]	791	783	801	0
[Ministry for Economic Services]	9,943	29,040	30,513	0
[Ministry of Justice and Local Government]	793	1,371	1,700	0
[Museums]	948	1,027	0	0
[Culture and the Arts]	1,061	814	0	0
[Environment Protection]	1,196	443	0	0
[Joint Office]	2,716	2,483	0	0
[Roads]	394	0	0	0
[Licensing and Testing]	395	0	0	0
[Statistics]	846	0	0	0
Recurrent Expenditure	433,601	470,974	499,383	518,150

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

*Cost-centres as prevailing at the beginning of 2004

Source: *The Treasury*

Government Capital Expenditure
(January-September)

Appendix Table 8.3

Lm thousand

	2001	2002	2003	2004
Productive Investment	27,830	26,446	23,437	17,860
Ship Repair and Shipbuilding	6,611	10,419	4,459	0
Development of Industries	9,252	3,714	4,694	2,231
Agriculture and Fisheries	193	566	1,379	1,236
Tourism	7,458	7,904	8,351	8,628
Public Buildings, Plant and Equipment	4,184	3,803	4,342	5,663
Capital Expenditure for Gozo	132	41	212	102
Infrastructure	23,473	21,700	23,612	27,190
Roads	4,123	7,089	5,172	3,215
Sewers	1,716	1,836	1,885	1,061
Development of Malta Freeport	7,050	2,872	2,206	3,457
Public Buildings, Plant and Equipment	10,057	9,357	13,469	18,944
Capital Expenditure for Gozo	527	547	880	513
Social	17,917	22,817	37,129	30,583
Education	3,357	3,567	5,144	4,089
Culture	55	287	165	220
Sports	306	500	545	400
Health	11,247	15,489	27,520	22,175
Care of the Elderly	72	54	133	320
Housing	1,747	1,699	1,568	1,297
Public Buildings, Plant and Equipment	960	979	1,843	1,972
Capital Expenditure for Gozo	173	242	211	110
Total Capital Expenditure	69,220	70,963	84,178	75,633

Source: The Treasury

Population

Table I

	1996	1997	1998	1999	2000	2001	2002	2003	2002 Jan/Sep	2003 Jan/Sep	2004 Jan/Sep
Maltese Population (000's)											
Males (000's)	374.0	376.5	378.5	380.2	382.5	385.1	386.9	388.9	386.4	388.4	390.3
Females (000's)	185.3	186.7	187.7	188.6	189.7	191.0	192.0	192.9	191.6	192.7	193.7
% Increase per annum	188.6	189.8	190.8	191.6	192.8	194.1	194.9	195.9	194.6	195.7	196.6
	0.8	0.7	0.5	0.4	0.6	0.7	0.5	0.5	0.5	0.5	0.5
Natural Increase per annum	2,179	1,947	1,444	1,211	1,298	924	774	830	...	...	...
Crude Birth Rate (per 1000 population)	13.2	12.8	11.9	11.3	11.1	10.0	9.8	10.0	7.2	7.3	6.8
Crude Mortality Rate (per 1000 population)	7.4	7.7	8.0	8.1	7.7	7.6	7.8	7.9	6.0	6.0	5.8
Crude Marriage Rate (per 1000 population)	6.3	6.4	6.3	6.3	6.7	5.7	5.8	6.0	4.5	4.7	4.9
Infant Mortality Rate (per 1000 births)	10.7	6.4	5.3	7.2	6.1	4.4	6.0	5.9	6.4	7.3	7.9
Life Expectancy (at birth)											
Males	74.9	74.9	74.4	75.1	74.3	76.1	75.7	76.4	...	...	...
Females	79.8	80.1	80.1	79.3	80.2	80.9	80.5	80.4	...	...	...
Life Expectancy (at age 65)											
Males	14.7	14.6	14.5	15.1	15.0	15.4	15.0	15.7	...	...	...
Females	18.4	18.4	17.9	17.6	18.4	18.6	19.0	18.7	...	...	...

Source: National Statistics Office

Table II

Social Indicators									
	1996	1997	1998	1999	2000	2001	2002	2003	
GDP at current market prices per capita (Lm)	...	...	...	...	4,305	4,379	4,448	4,617	
Quality of Life									
Motor Vehicle Licences per 1000 population	...	...	595.2	614.5	630.6	643.9	657.8	673.9	
Internet Subscriptions per 1000 population	...	33.5	58.8	63.8	83.1	130.1	168.6	195.7	
Mobile Phone Subscriptions per 1000 population	...	39.3	49.0	62.5	289.8	559.0	696.9	725.0	
Fixed Telephone Lines per 1000 population	473.5	483.1	495.7	508.7	521.7	526.5	521.7	520.9	
Education									
Number of schools	341	347	340	350	331	319	303	303	
Number of teachers (000)	7.3	7.6	7.7	7.9	8.2	8.4	8.5	8.7	
Number of pupils/students (000)	96.5	99.7	99.1	101.1	100.1	100.0	98.5	103.4	
of which:									
University students (Day Courses)	5,637	5,770	6,183	6,064	5,554	6,281	5,852	6,692	
Electricity									
Total Generated (000 Mwh)*	1,657.5	1,685.9	1,720.5	1,840.3	1,916.6	1,943.4	2,055.1	2,208.0	
Number of Consumers (000)*	202.7	206.9	207.5	217.6	226.9	213.8	220.0	234.5	
Domestic Consumption (million kwh)*	430.4	461.8	502.0	463.7	539.8	540.3	561.9	623.7	
Water									
Total annual production (million m ³)	51.2	43.7	39.9	37.3	32.7	33.6	34.1	34.2	
Average daily consumption (000 m ³)	138	119	108	102	90	92	93	94	
Social Security									
Total Payments (Lm million)	191.9	211.1	227.8	237.3	251.9	266.7	275.4	292.2	
Total Contributions (Lm million)	126.2	142.2	135.7	144.3	162.0	179.1	181.1	188.4	
Welfare Gap (Lm million)	65.7	68.9	92.1	93.0	89.9	87.7	94.2	103.8	

*Refer to Financial Year

Source: National Statistics Office
The Treasury

Factor Incomes in Gross National Income

Table III	Lm million									
	2000	2001	2002	2003	2000 Jan/Sep	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep	2004 Jan/Sep	
Compensation of employees Gross operating surplus and mixed income Taxes on production and imports Subsidies	749.3	811.2	823.6	854.1	560.5	609.6	616.6	640.4	647.4	
	744.1	713.9	731.1	774.6	556.0	537.9	549.1	584.9	584.6	
	214.4	229.8	249.9	257.1	157.1	160.2	183.0	179.6	195.7	
	23.0	27.3	37.3	39.7	17.4	14.4	24.5	29.4	23.8	
Gross Domestic Product at market prices	1,684.9	1,727.6	1,767.3	1,846.1	1,256.0	1,293.3	1,324.2	1,375.5	1,404.0	
Net Income from Abroad	-53.1	11.1	2.5	15.4	19.0	15.8	30.6	30.8	-29.3	
Gross National Income at market prices	1,631.8	1,738.7	1,769.8	1,861.5	1,275.0	1,309.1	1,354.8	1,406.3	1,374.7	
Sectoral Contribution to Gross Value Added (at basic prices)										
Agriculture, hunting and forestry ⁽¹⁾	2.4	2.6	2.6	2.3	2.4	2.6	2.6	2.3	2.3	
Industry ⁽²⁾	30.2	27.2	27.1	27.2	29.8	27.3	27.2	27.3	25.4	
Services Activities	67.5	70.2	70.3	70.5	67.7	70.1	70.2	70.4	72.3	

⁽¹⁾Includes fishing and operation of fish hatcheries and fish farms⁽²⁾Includes energy and construction

Source: National Statistics Office

Gross National Income and Expenditure

Table IV

Lm million

	2000	2001	2002	2003	2000 Jan/Sep	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep	2004 Jan/Sep
GNI at current market prices	1,631.8	1,738.7	1,769.8	1,861.5	1,275.0	1,309.1	1,354.8	1,406.3	1,374.7
% annual increase of GNI	...	6.6	1.8	5.2	...	2.7	3.5	3.8	-2.2
GDP at current market prices	1,684.9	1,727.6	1,767.3	1,846.1	1,256.0	1,293.3	1,324.2	1,375.5	1,404.0
% annual increase of GDP	...	2.5	2.3	4.5	...	3.0	2.4	3.9	2.1
GDP at constant prices	1,684.9	1,644.4	1,687.8	1,682.0	1,256.0	1,239.2	1,268.7	1,250.6	1,258.1
Total Final Consumption Expenditure									
current market prices	1,388.7	1,444.1	1,469.8	1,510.9	1,026.7	1,058.7	1,107.9	1,127.5	1,178.8
constant prices	1,388.7	1,380.9	1,388.6	1,411.2	1,026.7	1,014.8	1,049.9	1,055.3	1,070.3
Ratio (%) of consumption to GDP at m.p.	82.4	83.6	83.2	81.8	81.7	81.9	83.7	82.0	84.0
General Government Final Consumption Expenditure									
current market prices	323.1	354.0	372.9	388.0	241.4	257.4	282.3	293.7	309.0
constant prices	323.1	324.1	336.4	341.8	241.4	235.4	254.9	259.1	264.7
Ratio (%) of government consumption to GDP at m.p.	19.2	20.5	21.1	21.0	19.2	19.9	21.3	21.4	22.0
Private Final Consumption Expenditure⁽¹⁾									
current market prices	1,065.6	1,090.1	1,096.9	1,122.9	785.3	801.3	825.6	833.8	869.8
constant prices	1,065.6	1,056.8	1,052.2	1,069.4	785.3	779.4	795.0	796.2	805.6
Ratio (%) of private consumption to GDP at m.p.	63.2	63.1	62.1	60.8	62.5	62.0	62.3	60.6	62.0
Ratio (%) of private consumption to disposal income	97.7	96.3	96.9	97.4	...	92.9	95.5	94.4	97.6
Gross Fixed Capital Formation									
current market prices	379.7	360.5	263.6	375.0	281.5	271.8	184.1	283.3	287.7
constant prices	379.7	347.5	244.8	346.0	281.5	262.0	171.8	261.3	262.9
Ratio (%) fixed investment to GDP at m.p.	22.5	20.9	14.9	20.3	22.4	21.0	13.9	20.6	20.5

⁽¹⁾Including NPISH final consumption expenditure

Source: National Statistics Office

Table V

Labour

	1996	1997	1998	1999	2000	2001	2002	2003	2002 Sep	2003 Sep	2004 Sep
Labour Supply	140,267	140,834	141,186	142,608	144,016	144,885	144,837	144,409	145,241	144,922	145,414
Gainfully Occupied	133,195	133,141	133,276	134,302	136,828	137,452	137,321	136,234	137,721	136,980	137,274
Males	97,493	97,065	96,460	96,478	97,689	97,933	97,484	96,245	97,760	96,968	96,692
Females	35,702	36,076	36,816	37,824	39,139	39,519	39,827	39,989	39,941	40,012	40,582
Private Direct Production	37,647	37,095	37,103	36,770	37,571	37,974	37,836	36,591	38,025	36,818	36,686
of which:											
Agriculture and Fisheries	2,163	2,181	2,180	2,175	2,203	2,150	2,231	2,285	2,219	2,292	2,278
Stone and Non-Metallic Quarrying, Construction and Oil Drilling	6,345	6,053	5,835	5,888	6,398	6,708	6,802	6,866	6,853	6,844	7,016
Manufacturing	29,139	28,861	29,088	28,707	28,970	29,116	28,803	27,440	28,953	27,882	27,392
Private Market Services	43,939	44,937	45,462	49,042	50,059	49,820	51,254	52,066	50,954	52,177	53,312
of which:											
Wholesale and Retail Trades	14,898	15,095	15,217	15,592	15,683	15,358	15,709	16,016	15,593	15,993	16,430
Banking, Insurance and Real Estate	3,023	3,213	3,291	3,077	3,028	4,949	4,869	4,879	4,888	4,889	4,860
Transport, Storage and Communications	6,128	6,111	6,184	6,436	6,171	6,082	6,077	5,936	6,204	6,005	6,043
Hotels and Catering Establishments	8,737	8,988	8,814	9,132	9,260	9,033	9,014	8,930	9,144	9,132	9,175
Others	11,151	11,550	11,956	12,805	13,917	14,398	15,585	16,305	15,125	16,158	16,804
Public Sector	50,632	50,263	49,730	47,422	47,992	48,482	47,160	46,597	47,692	47,000	46,386
of which:											
Government Departments	30,621	30,188	30,529	30,498	30,488	30,778	30,327	30,276	30,349	30,082	30,022
Armed Forces	1,568	1,526	1,487	1,447	1,505	1,454	1,450	1,541	1,463	1,510	1,491
Revenue Security Corps & Airport Co.*	378	374	155	152	149	147	144	143	144	143	138
Independent Statutory Bodies	10,239	10,304	8,223	8,141	8,182	8,396	7,981	8,353	7,895	8,066	8,510
Companies with Public Sector majority s/hldg	7,826	7,871	9,356	7,184	7,757	7,358	7,258	6,284	7,841	7,199	6,225
of which:											
Direct Production	1,612	1,481	1,452	1,066	1,039	1,024	898	199	898	897	179
Market Services	6,214	6,390	7,904	6,118	6,665	6,751	6,360	6,085	6,943	6,302	6,046
Temporary Employment	977	846	981	1,068	1,206	1,176	1,071	980	1,050	985	890
Registered Unemployed**	7,072	7,693	7,910	8,306	7,188	7,433	7,516	8,175	7,520	7,942	8,140
Males	5,830	6,475	6,775	7,090	6,162	6,161	6,174	6,806	6,074	6,265	6,505
Females	1,242	1,218	1,135	1,216	1,046	1,272	1,342	1,569	1,446	1,677	1,635
Per cent of Labour Supply	5.0%	5.5%	5.6%	5.8%	5.0%	5.1%	5.2%	5.7%	5.2%	5.5%	5.6%
of which unemployment under Part I (%)	4.5%	5.1%	5.3%	5.4%	4.6%	4.7%	4.7%	5.2%	4.7%	5.0%	5.1%
Self Employed	16,169	15,963	15,706	15,744	15,421	15,296	15,480	15,854	15,472	15,645	15,907

Note: Employment data has been revised

*As from May, 1998 employees at the Airport Co. & the Air Traffic Controllers are added on to Government Departments

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

Source: Employment and Training Corporation

Table VI

Tourism

	1996	1997	1998	1999	2000	2001	2002	2003	2002 Jan/Sep	2003 Jan/Sep	2004 Jan/Sep
Tourist Arrivals/Departures^{(a)(2)} (000's)	1,053.8	1,111.2	1,182.2	1,214.2	1,215.7	1,180.2	1,132.5	1,118.2	887.3	899.1	920.0
of which from:											
United Kingdom	398.9	436.9	448.8	422.4	428.8	467.2	467.4	473.1	354.1	371.1	354.4
Italy	89.4	90.2	90.6	92.7	92.5	95.3	88.3	92.7	77.8	81.4	89.7
Germany	184.1	193.0	203.2	212.4	204.7	166.4	148.7	125.4	112.5	96.4	100.6
Libya	51.0	39.3	37.5	45.0	43.3	32.4	25.0	17.5	19.5	14.3	11.1
Scandinavian Countries ⁽³⁾	40.4	39.2	40.0	50.6	52.1	50.4	40.0	46.9	29.8	35.3	50.2
Other	290.0	312.5	362.2	391.1	394.3	369.1	383.1	362.6	293.6	300.6	314.6
Cruise Passengers (000's)	69.2	126.6	144.1	187.8	170.8	259.4	341.6	383.6	257.3	287.5	196.4
Gross Income (£m million)	228.9	249.8	254.6	271.4	268.2	280.7	245.7	261.5	184.0	196.7	203.5
as ratio (%) of exports of goods and services	22.3	23.3	21.8	21.0	17.0	18.6	16.5	18.4	16.7	18.6	19.3
Total Sector Employment in											
Hotels and Catering Establishments	9,125	9,354	9,174	9,485	9,598	9,438	9,432	9,338	9,599	9,584	9,590
% of Gainfully Occupied	6.9	7.1	6.9	7.1	7.0	6.9	6.9	6.9	7.0	7.0	7.0
Travel Abroad (000's)	167.9	171.7	166.7	175.8	194.8	164.9	156.7	174.4	126.2	130.3	159.6
Estimated Expenditure (£m million)	78.9	73.6	74.9	80.1	88.0	81.2	66.4	80.9	49.5	59.5	59.4
Days Stayed / Nights Spent⁽⁴⁾ (000's)	10,665	10,939	11,326	11,558	10,267	11,067	10,599	11,293	8,553	9,423	9,054
% of which spent in :											
5 star	3.4	4.7	6.3	6.2	8.6	8.2	8.5	8.4	8.3	8.4	8.6
4 star	23.0	24.1	25.2	26.1	23.8	26.2	29.6	27.9	28.6	27.9	31.8
3 star	13.5	14.2	13.1	12.9	12.5	14.8	16.4	15.6	16.0	15.6	17.7
2 star	3.4	3.8	3.3	2.5	2.1	1.8	1.7	1.8	1.8	1.8	1.2
1 star	0.1	0.1	0.1	0.1	0.1	-	-	0.0	-	0.0	-
Unclassified	0.2	-	0.3	0.7	0.4	0.2	0.1	0.2	0.1	0.2	0.1
Guest Houses	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Flats/Private Residences	31.3	29.7	28.7	29.4	31.7	32.4	33.8	33.1	35.0	33.1	31.6
Complexes/Tourist Village/Aparthotels	24.4	22.8	22.3	21.5	20.4	15.8	9.4	12.6	9.6	12.6	8.4

⁽¹⁾As from 2001, tourism data is based on the Inbound Tourism Survey, and therefore 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⁾Including Denmark, Finland, Norway, Sweden

⁽⁴⁾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

Source: National Statistics Office
Employment & Training Corporation

Foreign Trade

Table VII

	Lm million									
	1996	1997	1998	1999	2000	2001	2002	2003	2002 Jan/Sep	2004 Jan/Sep
Imports and Exports										
Imports (cif)	1,007.8	984.2	1,034.9	1,135.8	1,492.4	1,225.2	1,227.5	1,281.3	906.3	960.4
Consumer goods	244.2	254.3	248.4	276.8	304.2	304.3	319.7	336.6	232.0	245.5
Industrial supplies	596.2	573.6	627.0	690.9	950.1	720.4	707.7	734.0	524.5	545.3
Capital goods and others	167.4	156.3	159.6	168.0	238.0	200.5	200.0	210.7	149.7	158.4
Total Exports	624.1	628.9	712.0	791.0	1,072.4	880.7	968.4	928.3	719.9	684.6
of which manufactures ⁽¹⁾	619.5	622.9	707.0	779.6	1,065.7	871.3	897.1	911.3	576.3	679.0
Trade Gap	-383.7	-355.3	-322.9	-344.8	-420.0	-344.5	-259.1	-186.4	-275.8	-318.9
as % of GDP at current market prices	...	...	...	...	-24.9	-19.9	-14.7	-19.1	-14.7	-20.1
Selected Groupings										
EU 15*										
Imports	691.1	702.8	717.1	743.0	894.8	779.1	824.9	867.3	610.4	642.6
Exports	355.1	341.3	375.7	385.5	357.7	421.4	421.8	411.1	320.3	309.5
EU 25*										
Imports	697.7	708.7	725.0	750.5	902.8	788.5	833.3	877.0	616.4	649.6
Exports	360.6	344.4	390.7	388.1	364.3	433.9	440.9	429.9	327.4	323.3
United Kingdom:										
Imports	144.1	145.1	128.2	123.8	119.7	123.1	127.7	118.6	93.8	89.7
Exports	52.0	51.2	54.6	73.2	78.0	76.2	112.2	109.0	82.1	80.7
Italy:										
Imports	196.7	199.1	199.4	189.9	249.7	243.5	271.7	294.4	197.7	218.1
Exports	77.9	35.7	33.4	39.0	36.1	30.2	32.7	31.5	25.1	24.5
Germany										
Imports	94.8	98.3	108.3	113.6	122.1	107.4	98.5	101.0	74.3	75.7
Exports	90.2	85.2	89.7	99.4	102.9	114.8	93.6	95.2	70.3	70.8
France:										
Imports	159.8	163.0	184.3	217.1	281.9	184.1	205.1	218.9	155.3	159.6
Exports	93.4	121.7	147.4	120.4	85.9	140.2	120.0	87.6	89.4	104.6
America:										
Imports	77.4	88.3	99.6	104.8	171.1	157.4	127.4	115.9	94.0	91.2
Exports	97.6	106.5	131.7	172.7	306.7	178.3	163.7	143.2	131.4	98.6
Africa:										
Imports	47.6	24.9	21.7	32.1	24.0	28.6	17.3	10.8	12.3	9.1
Exports	18.5	29.7	26.1	26.9	24.9	33.0	44.8	35.1	34.2	25.2
Asia:										
Imports	144.5	127.3	153.6	205.2	343.8	197.3	185.0	210.2	133.5	154.4
Exports	116.2	104.2	150.2	164.8	246.8	174.2	247.7	255.2	174.8	189.1

*As from 2004 considered by country of consignment

⁽¹⁾Including shipbuilding

Source: National Statistics Office

Table VIII
Balance of Payments

	1996	1997	1998	1999	2000	2001	2002	2003	2002 Jan/Sep	2003 Jan/Sep	2004 Jan/Sep
Trade Balance ⁽¹⁾ (Lm million)											
Imports (f.o.b.) (Lm million)	-302.1	-277.9	-260.6	-265.2	-331.0	-254.7	-154.2	-261.5	-105.6	-204.9	-226.4
Exports ⁽²⁾ (f.o.b.) (Lm million)	639.1	642.0	708.4	805.0	1,087.7	900.6	999.2	943.0	746.2	696.1	692.6
Services-Net (Lm million)											
Transport-net (Lm million)	140.6	176.6	179.3	186.1	163.7	166.2	173.2	163.1	133.7	124.7	129.3
Travel-net (Lm million)	-14.2	-4.2	4.7	0.4	-8.4	4.6	-6.1	-17.9	-1.2	-12.3	-15.7
Other Services-net (Lm million)	150.0	176.2	179.7	191.2	180.2	179.5	179.4	180.5	133.2	137.3	144.1
	4.8	4.5	-5.1	-5.6	-8.1	-17.9	0.0	0.4	1.7	-0.3	1.0
Income-Net (Lm million)											
Compensation of Employees-net (Lm million)	4.3	3.4	-25.4	12.9	-53.1	11.1	2.6	15.4	30.6	30.7	-25.6
Investment Income-net (Lm million)	1.1	-0.7	2.0	0.5	1.2	-0.6	0.0	1.5	0.1	1.3	0.8
	3.2	4.1	-27.4	12.4	-54.3	11.7	2.6	13.9	30.6	29.4	-26.4
Current Transfers-Net (Lm million)											
General Government-net (Lm million)	11.1	21.4	22.3	17.0	11.2	3.8	-16.1	-20.4	-10.7	-11.6	-21.8
Private-net (Lm million)	-0.4	1.7	1.0	-3.5	0.3	3.6	3.2	8.9	1.8	7.3	10.7
	11.5	19.7	21.3	20.5	10.8	0.2	-19.3	-29.3	-12.5	-18.9	-32.5
Current A/C-Net (Lm million)											
	-146.2	-76.6	-84.5	-49.3	-209.2	-73.6	5.4	-103.3	48.0	-61.0	-144.4
Trade Balance ⁽¹⁾ as % of GDP at m.p.											
Visible Balance as % of GDP at m.p.	...	...	...	...	-19.6	-14.7	-8.7	-14.2	-8.0	-14.9	-16.1
Investment Income as % of GDP at m.p.	...	...	...	...	9.7	9.6	9.8	8.8	10.1	9.1	9.2
Current a/c Balance as % of GDP at m.p.	...	...	...	...	-3.2	0.6	0.1	0.8	2.3	2.2	-1.8
	...	...	...	...	-12.4	-4.3	0.3	-5.6	3.6	-4.4	-10.3
Capital A/C-Net (Lm million)											
	21.0	3.2	11.1	10.4	8.3	0.7	2.7	2.4	1.4	2.0	...
Financial A/C-Net (Lm million)											
	104.9	37.6	38.3	75.0	188.2	-50.6	-36.8	3.7	-33.6	-34.8	...
Direct Investment-net (Lm million)	78.2	15.8	99.1	321.3	261.3	106.7	-180.8	100.2	-81.6	7.8	...
Portfolio Investment-net (Lm million)	-42.1	42.4	-10.1	-201.5	-324.7	-218.9	-159.4	-576.8	-132.7	-481.3	...
Other Investment-net (Lm million)	38.2	-17.9	22.9	51.4	154.0	177.0	425.2	535.0	261.7	501.1	...

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

⁽²⁾Includes ship repairing

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																					
	1996	1997	1998	1999	2000	2001	2002	2003	2002	2003	2004										
							Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep										
Government Recurrent Revenue (Lm million)	468.3	514.1	513.7	562.3	617.7	668.6	719.8	739.2	505.6	496.6	538.2										
Increase/(Decrease) % per annum	1.0	9.8	(0.1)	9.5	9.9	8.2	7.7	2.7	8.3	(1.8)	8.4										
of which:																					
Tax Revenue (Lm million)	381.8	434.8	432.2	481.0	541.2	593.7	634.7	668.3	438.9	443.6	472.0										
Direct Tax Revenue (Lm million)	219.5	252.7	246.2	272.6	311.5	345.4	371.3	393.6	246.8	251.0	258.7										
Indirect Tax Revenue (Lm million)	162.3	182.1	186.0	208.4	229.7	248.4	263.4	274.6	192.1	192.6	213.3										
Non-Tax Revenue (Lm million)	86.5	79.3	81.5	81.3	76.5	74.9	85.1	70.9	66.7	53.0	66.2										
Total Government Expenditure (Lm million)	571.5	632.8	653.7	676.2	702.8	753.9	807.5	844.7	591.2	632.4	648.1										
Increase/(Decrease) % per annum	10.5	10.7	3.3	3.4	3.9	7.3	7.1	(1.6)	7.9	7.0	2.5										
% of GDP	...	...	...	...	41.7	43.6	45.7	45.8	44.6	46.0	46.2										
of which:																					
Recurrent Expenditure (Lm million)	475.4	497.2	516.4	520.0	549.8	614.6	646.0	677.7	471.0	499.4	518.2										
Capital Expenditure (Lm million)	73.5	103.4	96.8	106.1	98.6	80.6	97.7	104.0	71.0	84.2	75.6										
% of Total Government Expenditure	12.9	16.3	14.8	15.7	14.0	10.7	12.1	12.3	12.0	13.3	11.7										
Interest on Public Debt (Lm million)	22.6	32.2	40.5	50.1	54.4	58.7	63.8	63.0	49.2	48.8	54.3										
Structural Deficit (Lm million)	(103.2)	(118.7)	(140.0)	(113.9)	(85.1)	(85.3)	(87.7)	(105.5)	(85.6)	(135.8)	(109.9)										
Financed by:																					
Extraordinary Receipts (Lm million)	0.0	0.1	35.4	75.5	24.7	22.0	40.6	2.1	19.0	2.1	8.9										
Receipts from sale of shares (Lm million)	0.0	0.1	35.4	73.3	12.0	0.0	27.3	0.0	19.0	0.0	0.0										
Sinking Funds of Converted Loans (Lm million)	0.0	0.0	0.0	2.2	12.7	22.0	13.3	2.1	0.0	2.1	8.9										
Sinking Fund Contribution/Direct Loan Repayment (Lm million)	(7.2)	(8.9)	(12.2)	(14.7)	(13.4)	(12.7)	(11.8)	(12.7)	(6.1)	(6.2)	(6.3)										
Public Sector Borrowing Requirement (Lm million)	(110.4)	(127.5)	(116.8)	(53.1)	(73.8)	(76.0)	(58.9)	(116.1)	(72.7)	(139.9)	(107.3)										
Loans (Lm million)	73.2	170.6 ⁽¹⁾	110.0	84.0	0.0	106.8	10.6	132.1	0.0	102.1	70.4										
⁽¹⁾ Includes loan to finance Malta Drydocks																					

⁽¹⁾ Includes loan to finance Malta Drydocks

Source: The Treasury

Table X
Monetary Aggregates and Their Counterparts*

	2000	2001	2002	2003	2003 Sep	2004 Sep
Broad Money (M3) (Lm million)	2,256.3	2,481.1	2,781.5	2,849.2	2,855.5	2,960.2
Intermediate Money (M2)	2,256.3	2,481.1	2,781.5	2,849.2	2,855.5	2,960.2
% Increase per annum	...	10.0	12.1	2.4	...	3.7
of which:						
Narrow Money (M1)	1,201.6	1,282.9	1,367.4	1,490.9	1,471.2	1,596.0
Currency in Circulation	396.3	418.9	436.8	460.4	456.4	484.0
% Increase/ (Decrease) per annum	...	5.7	4.3	5.4	...	6.0
Deposits withdrawals on demand	805.3	864.0	930.5	1,030.5	1,014.8	1,111.9
Deposits redeemable at notice up to 3 months	24.7	26.3	27.9	28.8	29.8	29.7
Deposits with agreed maturity up to 2 years	1,030.0	1,171.9	1,386.2	1,329.5	1,354.5	1,334.5
Domestic Credit	2,180.0	2,324.1	2,401.4	2,648.7	2,476.2	2,784.2
of which:						
Net Claims of Central Government	446.4	512.0	539.5	568.4	561.7	573.4
Claims on other residents	1,733.5	1,812.1	1,862.0	2,080.3	1,914.5	2,210.9
Net Foreign Assets	979.5	1,089.6	1,301.3	1,417.0	1,386.1	1,474.5
Increase/(Decrease) % per annum	...	11.2	19.4	8.9	...	6.4
of which:						
Central Bank of Malta	649.3	766.5	881.6	919.8	943.2	928.7
Other Monetary Financial Institutions	330.3	323.1	419.7	497.1	443.0	545.9
Other Counterparts to Broad Money	903.2	932.6	921.3	1,216.4	1,006.9	1,298.6

*In October 2003, the definitions of the main monetary aggregates and their counterparts were revised in accordance with ECB Regulation 2003/13.

Thus, data prior to October 2003 are estimates based on this regulation.

Source: Central Bank of Malta
National Statistics Office