

Economic Survey

January - September 2003

Economic Policy Division
Ministry of Finance and Economic Affairs
24th November, 2003

The following symbols have been used throughout this document:

... to indicate that data are not available;

— to indicate that the figure is negligible;

- to indicate that the figure is zero;

n/a to indicate that data are not applicable or cannot be determined;

n/c to indicate that there is no change in the data.

National Accounts estimates and other statistics which appear in this Economic Survey are provisional and subject to revision when all the necessary information becomes available. Figures may not add up due to rounding.

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1. State of the Economy

1. State of the Economy

The Maltese economy has been characterised by a relatively subdued performance since 2001, primarily reflecting the unfavourable international economic environment. Economic conditions remained weak during the first nine months of 2003, particularly in Malta's main trading partners and this impinged significantly on domestic economic activity. Furthermore, certain sectors of the Maltese economy are facing particular challenges arising from increasingly competitive international markets as a result of globalisation. The restructuring process being undertaken domestically, is also affecting the performance of a number of sectors in the domestic manufacturing industry.

The improvement in real Gross Domestic Product (GDP) was domestically led, and primarily reflects the relatively fast pace of increase in Government recurrent and capital outlays. On the other hand, growth in consumers' expenditure recorded a slowdown. Gross investment increased at a substantial rate, but this increase mainly reflects the effects of exceptional transactions occurring in 2002. On the external side, exports remained relatively weak reflecting the subdued foreign demand, while imports picked up. As a result, the contribution of the external sector to domestic economic growth was negative during the Survey period. Within this scenario, the Maltese economy advanced marginally by 0.3 per cent in real terms, during the January-September 2003 period. This performance reflected a contraction in real GDP during the first quarter of the year, which was counteracted by positive growth rates in the second and third quarters of the current year.

The prevailing economic conditions were reflected in weaker labour demand. Indeed, a contraction was recorded in the gainfully occupied population, mainly reflecting job losses within specific sectors of the manufacturing industry. The number of unemployed persons under Part 1 of the Register rose by 462, to reach 5.0 per cent of the labour supply in September 2003, from 4.6 per cent a year earlier. Meanwhile, prices were subdued with the inflation rate following a downward trend during the twelve months to September 2003 to reach 1.1 per cent, from 2.9 per cent a year earlier.

Data for the manufacturing industry indicates a slow recovery in export activity during the Survey period, following contractions in the first nine months of the previous two years. Domestic exports rose by 4.5 per cent, being mainly underpinned by higher exports in the communication, equipment and apparatus sector as global semi-conductor demand gradually recovered. On the other hand, a downturn in

exports was registered by the wearing apparel sector. Total turnover for the industry advanced by 3.2 per cent, although local sales by the manufacturing sector declined.

Tourism activity registered improved performance, as the declines registered in arrivals during 2001 and 2002 have been partly reversed during the first nine months of 2003, up by 1.1 per cent. Gross foreign exchange earnings from tourism increased by 5.4 per cent to reach Lm194.0 million. This had a favourable impact on the current account of the Balance of Payments, which however was offset by developments in the merchandise account. The one-off re-exports of aircraft during the first nine months of 2002 as well as higher imports, particularly of industrial supplies, contributed to this result. The current account deficit amounted to Lm62.6 million during the Survey period, or 4.9 per cent of GDP.

Government's fiscal position was mainly influenced by a contraction in recurrent revenue and an expansion in total expenditure. The decline in recurrent revenue reflected the prevailing economic situation as well as one-off items included in 2002 figures. Increases were recorded both in recurrent as well as in capital expenditure, the latter mainly reflected higher outlays connected with the new hospital. In the light of these developments in the fiscal situation, Government will adopt policy measures to restore public finances to a sustainable level in the medium term. In addition to a stable macroeconomic framework, the pursuit of structural reforms is required in order to enhance the competitiveness of the Maltese economy and enable the achievement of an improved economic performance and standard of living.

Local Scene

Economic Growth

During the first nine months of 2003, real Gross Domestic Product (GDP) rose by a marginal 0.3 per cent. In nominal terms, GDP advanced by 1.0 per cent to reach Lm1,265.5 million. This increase reflected higher domestic demand, as the external balance was negative. Within domestic expenditure, the growth rate in the private consumers' expenditure component slowed down significantly. In real terms, this component grew by a marginal 1.0 per cent compared to 3.9 per cent during the corresponding 2002 period. Consumers' expenditure advanced by Lm12.2 million, or 1.5 per cent in nominal terms. Household disposable income increased by Lm8.3 million, or 1.0 per cent in nominal terms as the growth in employment income was dampened by lower interest income and higher tax revenue. As a result, the savings ratio continued to follow a declining trend, falling to 1.8 per cent during the period under consideration.

At Lm280.8 million, Government consumption was Lm24.1 million, or 9.4 per cent higher than during the first nine months of last year. On the other hand, Government current expenditure expanded at a relatively fast pace during the Survey period. In real terms, this component advanced by 7.9 per cent. A pronounced increase of 25.2 per cent in nominal terms was recorded within the investment component. However, this notable increase mainly reflects exceptional transactions in 2002 which amounted to Lm41.4 million and related to the disposal of aircraft. If this one-off item is excluded, the growth in investment would remain positive but decline significantly in magnitude.

During the Survey period, exports of goods and services decreased by 2.5 per cent in nominal terms and by 1.6 per cent in real terms. It is pertinent to note that this downturn in exports reflects the exceptional transaction included in data for 2002. If this item were excluded, nominal export growth would turn positive, but remain marginal, reflecting the weak international environment which persisted during the Survey period. On the other hand, imports held up fairly well, registering an increase of 3.9 per cent in nominal terms and 4.3 per cent in real terms, being mainly underpinned by a rise in imports of industrial supplies.

Growth Sectors

Nominal GDP at factor cost grew at a subdued rate of 1.5 per cent, to reach Lm1,082.8 million. The main contributors to economic activity as measured by GDP at factor cost were increases in agriculture and fishing, insurance, banking and real estate, private services and public administration. These increases served to counteract the fall recorded within the transport and communication sector and property income. Minor changes were registered within the other sectors of the economy.

Income from employment advanced by Lm21.2 million, or 3.8 per cent during the January-September period of 2003. Average weekly earnings rose by Lm4.72, or 4.3 per cent in nominal terms, whilst in real terms, average weekly earnings rose by 3.1 per cent.

Income from farming, fishing and private services increased by 7.2 per cent, to reach Lm72.7 million. On the other hand, a significant decrease of 10.5 per cent was recorded in income from property mainly reflecting the overall lower interest rates which prevailed during the period under review. At Lm298.3 million, gross trading profits only registered marginal increases from the level recorded for the first nine months of 2002. Gross trading surplus of Government enterprises reached

Lm34.2 million, registering a decline of Lm1.1 million when compared with the level for the January-September 2002 period.

Net investment income from abroad contracted by Lm11.1 million, to Lm23.7 million. As a result of these developments, Gross National Product (GNP) at factor cost advanced marginally by 0.5 per cent, reaching Lm1,106.5 million for the period under review.

Labour Market

During the twelve months to September 2003, the Maltese economy was characterised by an easing of labour market conditions. The labour supply stood at 144,544, reflecting a marginal increase of 84 over September 2002. Meanwhile, the gainfully occupied population declined by 338 to reach 136,602. Consequently, the number of unemployed persons under Part I of the Register edged up by 462. The unemployment rate rose to 5.0 per cent, compared to 4.6 per cent a year earlier. Job losses were concentrated mainly in specific sectors of the manufacturing industry, which led to a decline of 1,126 persons in employment in the private direct production category. This was mitigated by higher employment in private market services which increased by 1,511 to 51,905. Meanwhile, the public sector complement, inclusive of temporary employees, contracted by 646 over the September 2002 level, to 47,285. The privatisation of the Malta International Airport (MIA) plc contributed to these results. These developments in the domestic labour market reflect the increasingly competitive environment in which the Maltese economy is operating in.

Productive Activities

The domestic manufacturing industry is facing a number of challenges emanating from the trade liberalisation process as well as from the process of globalisation. The relatively subdued foreign demand also impacted on the performance of this export-oriented industry. Within this scenario, the local manufacturing industry registered a 3.2 per cent increase in turnover during the Survey period. This follows declines in turnover recorded during the first nine months of the previous two years. This was mainly underpinned by an increase of 4.5 per cent in domestic exports. Higher levels of domestic exports were mainly recorded in the communication equipment and apparatus, printing and publishing, medical and precision equipment, the food and beverages and other transport equipment sectors. Local sales fell marginally to Lm171.0 million during the period under review. Capital outlays remained strong and stood at Lm35.1 million.

Average weekly sales per capita recorded a 7.8 per cent increase and stood at Lm931.96 during January-September 2003. This reflected the higher level of manufacturing turnover as well as the decline in the number of persons employed within the industry. Similarly, average weekly domestic exports per employee advanced by 9.2 per cent during the Survey period, to Lm722.74. Meanwhile, per capita weekly compensation levels increased by 9.7 per cent to reach Lm113.49.

The agriculture and fisheries sector is undergoing a reform programme aimed to re-energise the sector and place it on a sustainable basis. During the period under review, the amount of both beef and pork slaughtered declined whilst an increase was registered in the amount of slaughtered broilers. At Lm6.1 million, the wholesale value of fruit and vegetable sold through organised markets remained relatively stable at the level registered during the first nine months of 2002. The amount of fish landed rose by 13.6 per cent whilst its wholesale value advanced by 15.4 per cent. Meanwhile, the volume of fish exported declined by 22.3 per cent during the Survey period but at Lm1.9 million the value of exports remained relatively stable at the level recorded during the first nine months of 2002.

International competition and local constraints continued to impinge on the performance of the local ship repair and shipbuilding industry. As part of the plan which commenced in 2002, an agreement was reached between the management of the yards and the trade union representing the employees on a new collective agreement, designed to enable the restructuring of the yards, making the shipyards operationally and financially viable in the long term.

Services Activities

The services category constitutes one of the main pillars of the local economy. While the largest contributor to the services category is the tourism industry, financial service activities and related activities are growing in importance. During the period under review, tourist arrivals numbered 911,609, an increase of 1.1 per cent over the comparable period of 2002. Gross earnings from tourism increased by 5.4 per cent during the period under review to Lm194.0 million. Per capita earnings rose by 4.3 per cent to reach Lm212.8, whilst earnings per day stayed fell from Lm21.5 during the first nine months of 2002 to Lm20.6 during the period under review. Employment in tourism related activities amounted to 9,632 employees as at September 2003 from 9,538 a year earlier, being affected by the opening of a new hotel. The positive performance achieved by the cruise liner industry in recent years continued to be consolidated throughout the Survey period, with cruise passenger arrivals reaching 287,525, an 11.7 per cent increase over the first nine months of 2002.

Throughout the Survey period, the Malta Financial Services Authority (MFSA), which is now the sole regulator of the financial services, continued to regulate and promote this sector. A positive performance was registered with respect to the Malta Freeport as transshipment throughput advanced by 4.3 per cent, to 899,704 Twenty Equivalent Units (TEUs).

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. The National Statistics Office (NSO) introduced a new RPI series, with base December 2002, as from January 2002. The spending pattern on which this new Index is based was derived from the Household Budgetary Survey carried out in 2000/1. The inflation rate declined consistently during the Survey period to reach 1.10 per cent. This compares to 2.89 per cent recorded in September 2002. This downward trend in the inflation rate reflected subdued price pressures in most of the sub-indices which make up the RPI, in particular in the Clothing and Footwear, Household Equipment and House Maintenance Costs and Food sub-indices.

A study conducted among a sample of collective agreements reveals that average weekly sectoral wages rose by 3.0 per cent during the twelve months to September 2003. All categories of employment experienced a rise in wages that was equal to, or exceeded the Lm1.75 cost-of-living adjustment (COLA) for 2003. The Wholesale and Retail Trade and the Chemicals sub-sectors recorded the highest wage rises in percentage terms during the Survey period. The analysis also shows that the highest share of employees (48.9 per cent) earned an average weekly wage that exceeded Lm91.50. Furthermore, the largest percentage of workers engaged in market services activities (63.4 per cent) earned, on average, a weekly wage that fell within the over Lm91.50 wage bracket, compared to 34.3 per cent of employees in direct production.

Foreign Trade and Payments

During the first nine months of 2003, trade activity was characterised by a decline in exports and a significant increase in imports. However, the lower level of exports reflects the exceptional transaction relating to the disposal of aircraft worth Lm41.4 million which was included in the figure of re-exports for 2002.

If these exceptional items were excluded, an increase in exports of 2.5 per cent would be recorded. This compares to declines in exports recorded during the corresponding period of the previous two years. The subdued recovery in export

activity reflects the slow growth in income and domestic demand in the world economy. Domestic exports of machinery and transport equipment advanced by 6.0 per cent during the period under review, in line with expectations of a recovery in world demand for semi-conductors. The increase in export activity was primarily directed to the Asian continent.

Imports of goods, on the other hand, increased by 6.0 per cent. This growth was reflected in all categories of imports. However, it is pertinent to note that the increase in imports of industrial supplies represented half the total rise in imports. The sources of higher imports during the Survey period were the European and the Asian continents.

The large extraordinary export transactions included in 2002 and the expansion in imports of goods during the Survey period resulted in an increase of Lm70.0 million in the deficit in the merchandise account. The deterioration in the merchandise account was partly offset by an improvement of Lm10.7 million in the services account. This was underpinned by higher tourist earnings and an improvement in the other service balance which more than offset the deterioration in the transport account. During the Survey period, total exports of goods and services declined by Lm21.6 million to Lm1,054.5 million whilst imports of goods and services increased by Lm38.3 million to Lm1,128.7 million.

The positive balance in the income account declined by Lm10.0 million to Lm25.1 million. The fall in interest rates in Malta and abroad contributed to the decline in both income received and income paid. In fact, most of the deterioration in the income account related to the balance of interest receipts and payments on direct investment debt flows. A higher outflow of dividends and distributed branch profits were also recorded during the first nine months of 2003. A net outflow of Lm13.5 million in net current transfers was recorded in the Survey period, compared to Lm3.0 million during the first nine months of 2002. As a result of these developments, the current account deficit stood at Lm62.6 million during the period under review, or 4.9 per cent of GDP.

Financial Developments

During the first nine months of 2003, Government's fiscal position was characterised by a decline in recurrent revenue coupled with higher total expenditure. Government recurrent revenue dropped by Lm9.0 million to Lm496.6 million, attributable to a decrease in non-tax revenue which more than offset an increase in tax revenue. The inclusion in 2002 of revenue generated by the privatisation of MIA plc and the foreign investment registration scheme contributed to this result. Furthermore, the

rise in tax revenue was relatively low, reflecting the weak domestic economic activity. Total Government expenditure (excluding contribution to the Sinking Fund in respect of local and foreign loans and direct repayment of loans) increased by Lm41.2 million to reach Lm632.4 million. Recurrent expenditure, which constitutes around 79.0 per cent of total expenditure, increased by Lm28.4 million to Lm499.4 million. Meanwhile capital expenditure outlays increased by Lm13.2 million to Lm84.2 million mainly due to higher outlays on the new hospital. Interest on public debt declined marginally to Lm48.8 million, thus accounting for around 8.0 per cent of total expenditure. As a result of these developments, the structural deficit reached Lm135.8 million during the period under review, from Lm85.6 million in the corresponding 2002 period. This resulted in a higher level of public sector borrowing requirement which amounted to Lm139.9 million. It is pertinent to note, that the lower level of public sector borrowing requirement recorded during the first nine months of 2002 reflected both a smaller structural deficit as well as privatisation proceeds.

During the first nine months of 2003, the increase in broad money slowed down to 2.5 per cent from the 9.5 per cent growth rate registered during the commensurate period in 2002. The relative low growth rate of broad money was underpinned by a cutback of 1.9 per cent in residents' time deposits with the banking system. Monetary expansion was driven by growth in both net foreign assets of the banking system and domestic credit. Domestic credit expanded by 3.4 per cent or Lm80.8 million to Lm2,486.9 million during the period under consideration. Both claims on the private and parastatal sectors and net claims on Government contributed to the expansion of domestic credit. Net foreign assets of the banking system increased by 6.4 per cent or Lm83.1 million to Lm1,376.7 million.

Between May and September 2003, the Monetary Policy Council of the Central Bank lowered the Bank's central intervention rate from 3.75 per cent to 3.00 per cent with three successive reductions of 25 basis points. During the period under review, the Maltese Lira appreciated against all major currencies except the Euro, reflecting the latter's appreciation in international foreign exchange markets.

International Scene

According to the International Monetary Fund (IMF), there are now increasing signs of a renewed recovery in the global economy following a series of adverse shocks in the first half of 2003. Industrial production and trade were characterised by slow growth in the second quarter of 2003. This reflects continuing geopolitical uncertainties, particularly the Iraq war, together with the continued aftereffects of the bursting of the equity price bubble, and – particularly in Asia – the impact of

Severe Acute Respiratory Syndrome (SARS). Growth is expected to pick up in the second half of 2003.

Most recently there have been increasing signs of a pickup in activity, particularly in the United States, Japan and some emerging market economies, notably in Asia, especially with the effect of SARS now waning in this latter region. In particular the Asia-Pacific region (which includes countries as diverse as China, India, Indonesia, Taiwan, and Korea) is again poised to be the world's fastest growing region this year. Real GDP growth in the Euro Area was virtually stagnant in the first half of 2003, although the latest data is consistent with a moderate pick up in activity in the second half of this year. The European Union (EU) registered only a slight upturn in economic performance in the relevant period. The IMF projects global economic expansion at 3.2 per cent during 2003 as compared to 3.0 per cent in 2002. Relevant macroeconomic indicators are displayed in Tables 1.1 to 1.6 and in Charts 1.1 and 1.2.

World Output				
annual percentage change				
Table 1.1				
	2000	2001	2002	2003*
World	4.8	2.4	3.0	3.2
Advanced Economies	3.9	1.0	1.8	1.8
United States	3.8	0.3	2.4	2.6
Japan	2.8	0.4	0.2	2.0
Canada	5.3	1.9	3.3	1.9
European Union	3.6	1.7	1.1	0.8
Euro Area	3.5	1.5	0.9	0.5
Germany	2.9	0.8	0.2	—
France	4.2	2.1	1.2	0.5
Italy	3.1	1.8	0.4	0.4
United Kingdom	3.1	2.1	1.9	1.7
Developing Countries	5.7	4.1	4.6	5.0
Countries in Transition	7.1	5.1	4.2	4.9
Central and Eastern Europe	3.9	3.1	3.0	3.4
Russia	10.0	5.0	4.3	6.0
*Projections				
<i>Source: International Monetary Fund</i>				

Outlook for Advanced Economies

Growth in the group of advanced economies, which also includes countries such as Israel, Cyprus, Singapore, Hong Kong and New Zealand, is expected to remain unchanged from the previous year's figure of 1.8 per cent. Inflation in 2003 is anticipated to reach 1.8 per cent, as opposed to the corresponding figure for last year of 1.5 per cent. The current year's unemployment rate is predicted to exceed the 2002 figure of 6.4 per cent, to reach 6.7 per cent. The current account deficit to GDP ratio in 2003 is expected to surpass the 2002 figure and reach an estimated 0.9 per cent.

With respect to monetary and financial conditions prevailing in the major currency areas, an overall lowering of interest rates was recorded in most economies around the world in recent months. In particular, in the United States and the United Kingdom, monetary conditions have eased significantly since early 2002, as a consequence of both lower interest rates and weaker currencies. In the former, the federal funds rate is now at its lowest level in 40 years. In the UK, in response to weakening economic prospects, the Bank of England further lowered the policy interest rate by a quarter of a per cent to 3.5 per cent in July of 2003. In contrast,

Inflation: Consumer Prices

annual percentage change

Table 1.2

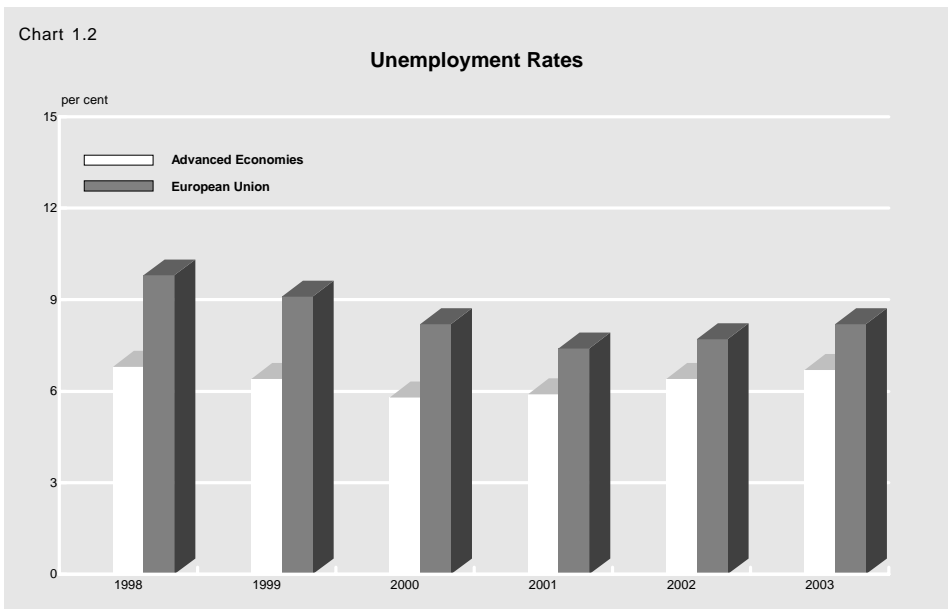
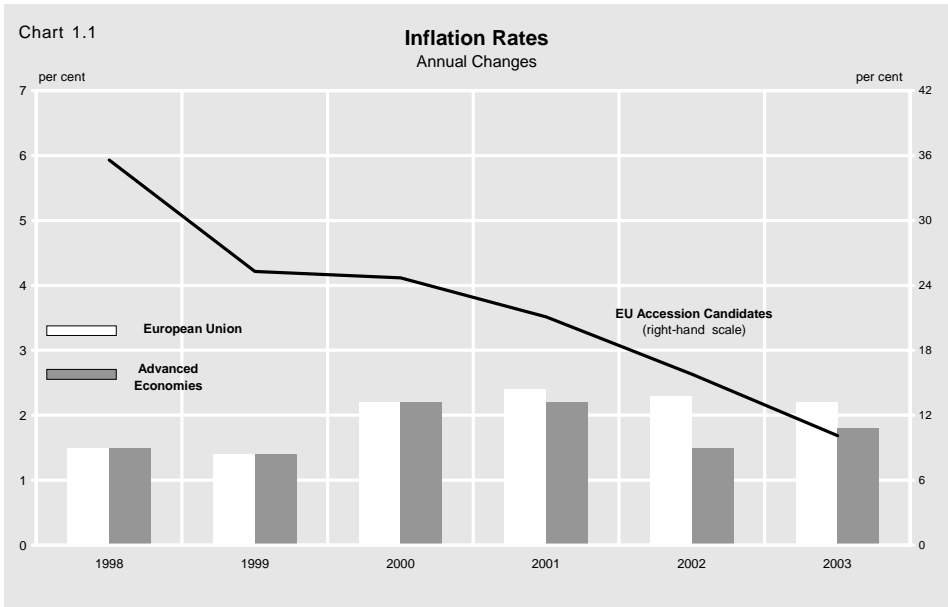
	2000	2001	2002	2003*
Advanced Economies	2.2	2.2	1.5	1.8
United States	3.4	2.8	1.6	2.1
Japan	-0.9	-0.7	-0.9	-0.3
Canada	2.7	2.5	2.3	2.8
European Union ⁽¹⁾	2.2	2.4	2.3	2.2
Euro Area ⁽¹⁾	2.1	2.4	2.3	2.0
Germany ⁽¹⁾	1.4	1.9	1.3	1.0
France ⁽¹⁾	1.8	1.8	1.9	1.9
Italy ⁽¹⁾	2.6	2.7	2.6	2.8
United Kingdom ⁽²⁾	2.1	2.1	2.2	2.8
Developing Countries	5.8	5.8	5.3	5.9
Countries in Transition	20.7	16.2	11.1	9.7
Central and Eastern Europe	12.9	9.7	5.6	4.0
Russia	20.8	20.6	16.0	14.4

*Projections

⁽¹⁾Based on Eurostat's harmonised index of consumer prices

⁽²⁾Retail Price Index excluding mortgage interest

Source: *International Monetary Fund*



Unemployment Rate

percent of labour force

Table 1.3

	2000	2001	2002	2003*
Advanced Economies	5.8	5.9	6.4	6.7
United States	4.0	4.8	5.8	6.0
Japan	4.7	5.0	5.4	5.5
Canada	6.8	7.2	7.6	7.9
European Union	8.2	7.4	7.7	8.2
Euro Area	8.5	8.0	8.4	9.1
Germany	7.8	7.9	8.6	9.5
France	9.3	8.5	8.8	9.5
Italy	10.6	9.5	9.0	9.0
United Kingdom	5.5	5.1	5.2	5.2

*Projections

Source: *International Monetary Fund*

in the Euro Area, monetary conditions have been broadly stable over the same period, with interest rate reductions counteracting the impact of the Euro's appreciation, particularly against the dollar.

Growth in the United States (US) is expected to reach 2.6 per cent, up from the previous year's figure of 2.4 per cent. Whilst the inflation rate is expected to increase to 2.1 per cent, the unemployment rate this year is projected to rise to 6.0 per cent. The US 2003 current account deficit to GDP ratio is also expected to rise from last year's value of 4.6 per cent to 5.1 per cent, fuelled by marked deterioration in the deficit on trade in goods and services. The current account deficit is matched by an equally large general government deficit projected at 6.0 per cent of GDP in 2003, compared with a surplus of 1.2 per cent in 2000 – the largest swing in the fiscal position over three years in at least three decades.

Economic growth in Japan significantly exceeded expectations in the second quarter of 2003. An improved external environment and the pickup in stock prices also continue to indicate a favourable growth projection throughout the rest of 2003, to reach an overall 2.0 per cent as opposed to 0.2 per cent recorded in 2002. The outlook for the Japanese economy however remains clouded by entrenched deflation (albeit somewhat less marked, at -0.3 per cent compared to the previous year's figure of -0.9 per cent) and by persistent weaknesses in corporate, financial and public sector balance sheets. A slight increase in the unemployment rate to 5.5 per cent this year is expected, with a similar marginal increase being manifested in the

Current Account Balance

percent of GDP

Table 1.4

	2000	2001	2002	2003*
Advanced Economies	-0.9	-0.8	-0.7	-0.9
United States	-4.2	-3.9	-4.6	-5.1
Japan	2.5	2.1	2.8	2.9
Canada	2.9	2.4	2.0	1.6
European Union	-0.8	-0.2	0.5	0.5
Euro Area	-0.5	0.2	0.9	0.8
Germany	-1.4	—	2.3	2.4
France	1.4	1.7	1.8	1.2
Italy	-0.5	-0.1	-0.6	-1.1
United Kingdom	-2.0	-1.3	-0.9	-1.0

*Projections

Source: International Monetary Fund

positive current account position. The latter is primarily due to the increased surplus experienced in trade in goods and services.

According to IMF, the rate of economic growth in the European Union is predicted to decline from 1.1 per cent in 2002 to 0.8 per cent during this year, primarily due to a slowdown in the Euro Area which has been deeper and more prolonged than earlier expected. Indeed, despite some optimism generated by increases in equity prices and in business confidence there are still relatively few signs of a broader pickup in real activity.

The ongoing difficulties in the Euro Area can be accounted for by the continued weakness in investment spending, and the poor state of household confidence due to the influence of rising unemployment. On the other hand, while still uneven across the area, consumption has picked up slowly over the past year, complemented by rising real incomes as inflation declines. External trading conditions have also been unfavourable to growth: while exports have been dampened mainly by weak demand among the major economies, the substantial appreciation of the Euro over the past two years may tend to reduce prospects for an export-led recovery.

Contributing to the subpar performance of the Euro Area is the German economy which remains weak for the third year in a row. Both domestic and external weaknesses appear particularly acute in Germany, with low business confidence

being exacerbated by the continued unwinding of the post-reunification construction boom. According to the IMF, Germany's rate of inflation is expected to decline further from 1.3 per cent in 2002 to 1.0 per cent this year. Meanwhile, the unemployment rate is predicted to rise from 8.6 per cent in 2002 to 9.5 per cent, again continuing a strong upward trend following its significant decline observed in the period 1997–2000. The country's current account surplus to GDP ratio is projected to be only marginally higher than the previous year's figure.

Economic growth in France is expected to reach less than half of last year's figure of 1.2 per cent, being underpinned by slower growth in final domestic demand. The 2003 rate of inflation is expected to remain stable at 1.9 per cent, whilst the unemployment rate is expected to reach 9.5 per cent, up from 8.8 per cent in the previous year. The country's current account surplus to GDP ratio is expected to decline by 0.6 percentage points to 1.2 per cent.

The outlook for Italy remains as bleak as it was in 2002, with the rate of growth of real GDP anticipated to remain unchanged from the previous year's level of 0.4 per cent. The rate of inflation is expected to increase slightly from its 2002 figure of 2.6 per cent, while the unemployment rate is anticipated to remain unchanged at 9.0 per cent. The country's current account deficit to GDP ratio is expected to reach 1.1 per cent of GDP, an increase of half a percentage point from the previous year.

Growth in the United Kingdom weakened in the first half of 2003, reflecting a slowdown in investment and, to a lesser extent, private consumption, as well as a deterioration of external demand. Recent indicators, including business surveys and retail sales, point to an improving outlook. Whilst inflation is expected to reach 2.8 per cent in 2003, unemployment is expected to remain stable at the previous year's figure of 5.2 per cent, which remains below the projected overall EU average of 8.2 per cent. The IMF expects the current account deficit to GDP ratio to register only a slight deterioration from the previous year's figure, to reach 1.0 per cent of GDP in 2003. Fiscal policy has provided an important impetus for activity during the current slowdown. Supportive macroeconomic policies, together with relatively favourable domestic conditions such as continued low unemployment, coupled with a gradual improvement in external trade, should support stronger growth in the period ahead.

European Union Candidates

According to the IMF, GDP growth in EU accession candidates is forecasted to reach 3.9 per cent in 2003. Stimulated by the expected recovery in the EU area

and the favourable prospects of enlargement, growth is anticipated to accelerate in 2004 and reach 4.3 per cent, identical to that attained in 2002. Inflation is expected to fall to 10.1 per cent during this year, whilst the current account deficit to GDP ratio is expected to deteriorate to 4.1 per cent. It is noteworthy that the real effective appreciation of the Euro has had considerable impact on countries whose currencies are closely tied to it.

Commodity Markets

Oil prices remain a key factor affecting the global economic outlook. This is clearly evident in the recent sharp movements in oil prices and coinciding changes in the pace of economic activity. The registered decline in oil prices following the war in

EU Accession Candidates
annual percentage change

Table 1.5

	2000	2001	2002	2003*
Real GDP Growth				
EU accession candidates	5.0	—	4.3	3.9
Bulgaria	5.4	4.1	4.8	5.0
Cyprus	5.2	4.1	2.2	2.0
Czech Republic	3.3	3.1	2.0	1.7
Estonia	7.1	5.0	5.8	5.0
Hungary	5.2	3.8	3.3	3.0
Latvia	6.8	7.9	6.1	5.5
Lithuania	4.0	6.5	6.7	5.8
Poland	4.0	1.0	1.4	2.9
Romania	2.1	5.7	4.9	4.7
Slovak Republic	2.2	3.3	4.4	4.0
Slovenia	4.6	2.9	3.2	2.2
Turkey	7.4	-7.5	7.8	5.3
Consumer Prices				
EU accession candidates	24.7	21.1	15.8	10.1
Bulgaria	10.4	7.5	5.8	2.6
Cyprus	4.1	2.0	2.8	3.6
Czech Republic	3.9	4.8	1.8	0.6
Estonia	4.0	5.8	3.6	1.7
Hungary	9.8	9.3	5.3	4.7
Latvia	2.6	2.5	1.9	3.0
Lithuania	1.0	1.3	0.3	—
Poland	10.1	5.5	1.9	0.8
Romania	45.7	34.5	22.5	15.1
Slovak Republic	12.0	7.3	3.3	8.5
Slovenia	8.9	8.4	7.5	5.9
Turkey	54.9	54.4	45.0	26.0

*Projections

Source: International Monetary Fund

Iraq, has been counteracted by a number of supply-side influences, in particular the difficulty in restoring the pre-war rate of Iraq's oil production, political uncertainty in Venezuela and Brazil, and the latest decision by OPEC to reduce their current production ceiling. Analysts however expect oil prices to fall over the medium term and this is expected to provide some support to overall economic recovery.

Non-energy commodity prices were dampened in the first half of 2003 by weakened demand due to war-related uncertainties, SARS-related concerns, and the slower than anticipated pace of economic activity. However, due to the depreciation of the US dollar against other major currencies, non-energy commodity prices rose in dollar terms by 1.6 per cent during the first half of 2003. As the global recovery gains momentum, this is expected to lead to some tightening of non-energy commodity prices towards the end of this year and into next year.

Global semi-conductor sales and other indicators of concurrent activity in the semi-conductor sector have started to recover from setbacks experienced in the first part of the year on account of the tepid pace of global economic activity and SARS-related concerns. The outlook for the sector remains tied to overall economic prospects.

Future Economic Prospects

According to the IMF, whilst the pace and robustness of the recovery is still unclear, however the balance of risks has improved significantly. Nevertheless, the incidence of current account imbalances in the global economy and the continued dependence of the world on the outlook for the United States continue to pose serious downside

European Union Projections

Table 1.6

	2002	2003	2004
Real GDP (% change)	1.1	0.8	2.0
Inflation (% change) ⁽¹⁾	2.3	2.2	1.8
Unemployment Rate (% of labour force)	7.7	8.2	8.3

⁽¹⁾ Based on Eurostat's harmonised index of consumer prices

Source: International Monetary Fund

risks. Current IMF projections, provided in Table 1.6, indicate that real GDP in the EU is expected to grow by 2.0 per cent in the forthcoming year, whilst the inflation rate is anticipated to decline to 1.8 per cent from the current year's value of 2.2 per cent. The EU's rate of unemployment is expected to register only a slight increase of 0.1 percentage points from this year's figure of 8.2 per cent.

2. Economic Growth

2. Economic Growth

During the first nine months of 2003, the Maltese economy increased marginally by 1.0 per cent in nominal terms or by 0.3 per cent in real terms. This subdued economic growth reflected the relatively weak international environment which persisted during most of the period under review especially in Malta's main trading partners. A negative rate of growth in Gross Domestic Product (GDP) during the first quarter of 2003 was counteracted by positive rates of growth during the subsequent two quarters.

Exports, which constitute an important source of growth, remained weak during the first nine months of 2003. In contrast, imports held up fairly well. As a consequence, the external contribution to growth turned strongly negative. As regards the domestic expenditure components, private consumption expenditure recorded a significant slowdown. In addition, the pronounced increase in investment expenditure mainly reflects the effect of exceptional transactions included in 2002 figures. If these one-off items are excluded, growth in investment would remain positive but of a modest magnitude. Indeed, the main source of GDP growth constituted Government current expenditure which expanded at a relatively fast pace during the Survey period.

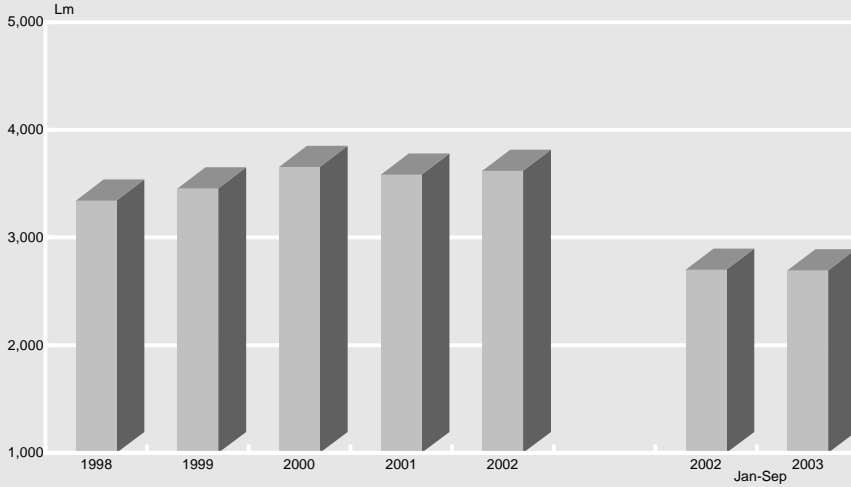
It should be highlighted that the data used for certain components of the Balance of Payments in the compilation of the National Accounts do not directly correspond to other data presented in other Chapters of this Economic Survey. The differences arise due to the fact that the National Statistics Office (NSO) has updated its methodological guidelines in the compilation of the Balance of Payments accounts to confirm with the provisions of the 5th edition of the International Monetary Fund's Balance of Payments Manual. Meanwhile, National Accounts data concerning foreign transactions are still being compiled according to the previous methodology. This discrepancy will be addressed when the NSO updates its methodology for the compilation of the National Accounts with the European System of Accounts (ESA) 1995.

National Expenditure

During the first three quarters of 2003, nominal GDP at market prices advanced by Lm13.1 million, or 1.0 per cent to Lm1,265.5 million. In real terms, GDP increased by 0.3 per cent, to reach Lm1,075.5 million. As a result of this marginal improvement, real GDP per capita stood at Lm2,695.5, practically maintaining the same level as

Chart 2.1

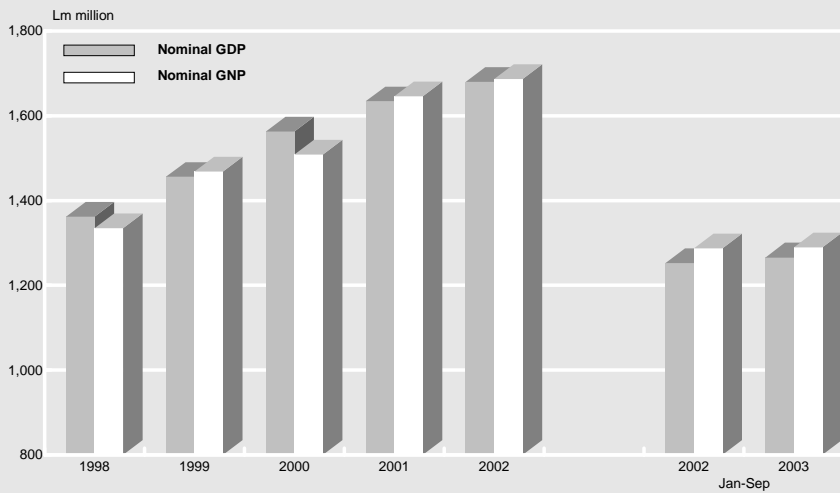
Real Gross Domestic Product* per capita



* Based on total population

Chart 2.2

Nominal GDP and GNP



that recorded during the first nine months of 2002. A series of real GDP per capita since 1998 is illustrated in Chart 2.1.

Chart 2.2 depicts nominal GDP and GNP during the period from 1998 to September 2003. Since GNP includes GDP and net investment income, it is affected by changes in both domestic economic activity as well as by fluctuations in net investment income. A decline of Lm11.1 million was registered in nominal investment income from abroad, during the January-September 2003 period. This mainly reflects a decline in positive net inflows from income on debt and a slight increase in dividends and distributed branch profits sent abroad. Consequently, the nominal growth rate for GNP was lower than that for GDP. A drop of 0.5 per cent was recorded in real GNP. However, as net investment income from abroad remained positive the level of GNP recorded for the Survey period remained above that for GDP.

Aggregate Demand and Supply

Aggregate demand and supply, which are equivalent to total final expenditure stood at Lm2,421.8 million during the period under review, representing an increase of 2.4 per cent in nominal terms. At constant prices, total final expenditure amounted to Lm2,054.3 million, representing a rise of 2.2 per cent over the level recorded during the first nine months of 2002. Table 2.1 provides information on aggregate demand and supply at current and constant market prices whilst the relevant percentage changes are presented in Table 2.2 to facilitate the analysis.

Aggregate demand is made up of the total of consumers' expenditure, Government current expenditure, gross fixed capital formation and exports of goods and services, the latter representing foreign demand. Since inventory changes incorporate the value of physical change in stocks, work in progress and also the national accounting residual, it is disregarded for the purposes of the following analysis. It is pertinent to note, that inventory changes have remained negative and of a significant magnitude since 2001, thus having a notable impact on aggregate demand.

The increase recorded in total final expenditure reflected higher domestic demand, which was partly offset by a decline in the foreign component of aggregate demand. As the Maltese economy is heavily export-oriented, with an exports to GDP ratio above the 80.0 per cent mark, the drop in exports had a dampening effect on the growth of aggregate demand. Exports of goods and services contracted by 2.5 per cent in nominal terms, to Lm1,071.1 million during the Survey period. In real terms, exports of goods and services declined by 1.6 per cent. The share of exports of

GDP by Category of Expenditure

Table 2.1

Lm million

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
At Current Market Prices					
Consumers' Expenditure	996.7	1,044.7	1,081.8	813.0	825.2
Government Current Expenditure	291.2	328.5	340.9	256.7	280.8
Gross Fixed Capital Formation	410.0	379.7	350.7	251.1	314.3
Inventory Changes	33.2	-40.1	-68.0	-55.0	-69.7
Exports of Goods and Services	1,604.3	1,428.1	1,472.9	1,098.9	1,071.1
Total Final Expenditure	3,335.4	3,140.9	3,178.4	2,364.7	2,421.8
Less Imports of Goods and Services	1,772.6	1,506.5	1,498.0	1,112.4	1,156.3
Gross Domestic Product	1,562.8	1,634.4	1,680.4	1,252.4	1,265.5
Net Investment Income from Abroad	-54.3	11.7	6.4	34.8	23.7
Gross National Product	1,508.5	1,646.1	1,686.9	1,287.2	1,289.2
At Constant 1995 Prices					
Consumers' Expenditure	890.1	905.1	928.1	697.5	704.6
Government Current Expenditure	253.6	261.2	267.5	201.4	217.3
Gross Fixed Capital Formation	377.2	335.2	290.5	208.2	255.7
Inventory Changes	29.9	-34.9	-57.7	-46.7	-58.6
Exports of Goods and Services	1,299.4	1,236.3	1,273.6	950.1	935.2
Total Final Expenditure	2,850.1	2,702.8	2,701.9	2,010.5	2,054.3
Less Imports of Goods and Services	1,419.7	1,289.1	1,263.8	938.5	978.8
Gross Domestic Product	1,430.5	1,413.8	1,438.1	1,072.1	1,075.5
Net Investment Income from Abroad	-40.0	13.8	13.1	35.4	26.2
Gross National Product	1,390.5	1,427.5	1,451.2	1,107.4	1,101.6

Source: National Statistics Office

goods and services in total final expenditure fell from 46.5 per cent during the first nine months of 2002 to 44.2 per cent during the corresponding period of 2003.

The domestic component of aggregate demand advanced by 7.5 per in nominal terms, whilst in real terms an increase of 6.4 per cent was registered. Although increases were recorded in each component of aggregate demand, the main factor affecting the level of growth is the increase recorded in Government current expenditure. In nominal terms, this category of expenditure advanced by 9.4 per cent, whilst in real terms an increase of 7.9 per cent was registered. A significant increase of 25.2 per cent was also recorded in nominal gross fixed capital formation. However it is important to highlight that this rate of growth is affected by an exceptional transaction amounting to Lm41.4 million which relates to the disposal of aircraft and which occurred during the second quarter of 2002. It is pertinent to note that this exceptional item was recorded as an increase in re-exports and

GDP by Category of Expenditure
Percentage Changes

Table 2.2

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
At Current Market Prices					
Consumers' Expenditure	8.9	4.8	3.6	4.9	1.5
Government Current Expenditure	6.8	12.8	3.8	6.4	9.4
Gross Fixed Capital Formation	20.6	-7.4	-7.6	-11.2	25.2
Inventory Changes	n/a	n/a	n/a	n/a	n/a
Exports of Goods and Services	21.4	-11.0	3.1	1.0	-2.5
Total Final Expenditure	16.7	-5.8	1.2	1.0	2.4
Less Imports of Goods and Services	26.4	-15.0	-0.6	-1.3	3.9
Gross Domestic Product	7.3	4.6	2.8	3.2	1.0
Gross National Product	2.7	9.1	2.5	4.7	0.2
At Constant 1995 Prices					
Consumers' Expenditure	7.4	1.7	2.5	3.9	1.0
Government Current Expenditure	5.4	3.0	2.4	5.1	7.9
Gross Fixed Capital Formation	17.5	-11.1	-13.3	-16.6	22.8
Inventory Changes	n/a	n/a	n/a	n/a	n/a
Exports of Goods and Services	5.6	-4.9	3.0	0.9	-1.6
Total Final Expenditure	8.4	-5.2	—	-0.2	2.2
Less Imports of Goods and Services	10.4	-9.2	-2.0	-2.7	4.3
Gross Domestic Product	6.4	-1.2	1.7	2.1	0.3
Gross National Product	2.0	2.7	1.7	3.8	-0.5

Source: National Statistics Office

hence boosted the level of exports of goods and services for 2002. Meanwhile, nominal consumers' expenditure advanced marginally by 1.5 per cent in nominal terms, and by 1.0 in real terms.

Aggregate supply, which is the counterpart of aggregate demand, consists of the output of the domestic economy, or GDP, and imports of goods and services. During the Survey period, the foreign component of aggregate supply advanced by 3.9 per cent in nominal terms and by 4.3 in real terms. On the other hand, domestic output advanced by 1.0 per cent in nominal terms and by 0.3 per cent in real terms. The share of imports of goods and services in aggregate supply increased marginally from 47.0 per cent to 47.7 per cent during the January-September 2003 period. The continuous reliance of the domestic economy on imports, reflecting the small size of the economy and the lack of natural resources, manifests itself in a high

import to GDP ratio. During the first nine months of 2003, this ratio reached 91.4 per cent, up from the 88.8 per cent recorded for the same period of 2002.

Private Consumers' Expenditure

During the period under review, consumers' expenditure increased at a relatively subdued rate, compared to the growth rates registered in recent years. In fact, this component of expenditure rose by 1.5 per cent in nominal terms compared to a growth rate of 4.9 per cent recorded for the January-September 2002 period. In real terms private consumption expenditure increased by 1.0 per cent, from 3.9 per cent in the corresponding 2002 period. Nevertheless, as the growth rate in consumers' expenditure was higher than that of nominal GDP, the share of this component of expenditure to GDP rose to 65.2 per cent from 64.9 per cent in the first nine months of 2002.

The marginal increases recorded in private consumers' expenditure during the Survey period mainly resulted from a mixed performance within various categories of consumers' expenditure. Decreases were recorded within the gross rent, fuel and power, clothing and footwear and miscellaneous goods and services categories. On the other hand, notable increases were recorded in medical care and health expenses and in the furniture, furnishings and household equipment category.

After registering a decline during the January-September 2002 period, expenditure by Maltese tourists abroad, which is also included in private consumers' expenditure, advanced by Lm5.4 million, or 10.9 per cent, to reach Lm55.0 million. Furthermore, expenditure by foreign tourists in Malta increased from Lm184.0 million to Lm194.0 million during the January-September 2003 period, representing a rise of 5.4 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. Hence, the improvement in foreign exchange earnings from tourism had a dampening effect on private consumption expenditure.

Table 2.3 provides information on GNP, private final consumption and expenditure by tourist in nominal terms on a per capita basis. Improvements were recorded in private consumption expenditure per head and in tourist expenditure per capita with growth rates of 0.9 per cent and 4.3 per cent, respectively. In contrast, a decline of 0.5 per cent was registered in GNP per capita during the first nine months of 2003.

GNP per Capita, Private Final Consumption Expenditure and Expenditure by Tourists

(at current market prices)

Table 2.3

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
Per Capita (Lm)					
GNP*	3,854	4,172	4,246	3,246	3,231
Private Final Consumption Expenditure*	2,546	2,647	2,723	2,050	2,068
Expenditure by Tourists	220.6	220.9	217.2	204.0	212.8
Per Capita (% change)					
GNP*	2.0	8.3	1.8	3.9	-0.5
Private Final Consumption Expenditure*	8.2	4.0	2.9	4.1	0.9
Expenditure by Tourists	-1.3	0.1	-1.7	-4.4	4.3

*Based on total population

Source: National Statistics Office

A main determinant of expenditure by private households is the change in household disposable income. Household disposable income increased by Lm8.3 million or 1.0 per cent, to reach Lm840.5 million during the first three quarters of 2003. The growth registered in household disposable income was lower than that registered for private consumers' expenditure. As a result, the savings ratio stood at 1.8 per cent during the Survey period, from 2.3 per cent during the January-September 2002 period.

Government Current Expenditure

Government current expenditure rose by Lm24.1 million or 9.4 per cent, to reach Lm280.8 million. In real terms, Government current expenditure advanced by 7.9 per cent. The substantial rise in nominal Government current expenditure was mainly due to higher expenditure on general administration. Increases were also recorded in all other components of Government current expenditure, except for agriculture which registered a downturn. It is significant to highlight that the expenditure on general administration, education and health, together accounts for approximately 75.0 per cent of the total current Government expenditure.

It is important to note that for GDP purposes, Government current 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 Fixed Capital Formation

Nominal gross fixed capital formation for the January-September 2003 period reached Lm314.3 million, registering an increase of 25.2 per cent or Lm63.2 million. In real terms, gross investment increased by 22.8 per cent. This notable increase in nominal investment should be seen in the light of the exceptional amount of Lm41.4 million in the 2002 figures, reflecting a one-off item, the disposal of aircraft. If this exceptional item is excluded, gross investment would have grown by around 7 per cent in nominal terms. Following the expansion in 2000, gross investment had contracted in the following two years. However, latest data suggests that the downturn in investment has now been surpassed and that this important expenditure component has started its road to recovery. During the first nine months of 2003, the ratio of nominal gross investment to GDP increased to 24.8 per cent when compared to the 20.0 per cent registered during the January-September period of 2002. In real terms this ratio stood at 23.8 per cent. Data on gross fixed capital formation at current market prices and constant prices and on the ratio of investment to GDP, is presented in Table 2.4.

Gross Fixed Capital Formation					
Table 2.4					
	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
At Current Market Prices					
Gross Fixed Capital Formation (Lm million)	410.0	379.7	350.7	251.1	314.3
% change	20.6	-7.4	-7.6	-11.2	25.2
GDP (Lm million)	1,562.8	1,634.4	1,680.4	1,252.4	1,265.5
(GFCF/GDP) %	26.2	23.2	20.9	20.0	24.8
At Constant 1995 Prices					
Gross Fixed Capital Formation (Lm million)	377.2	335.2	290.5	208.2	255.7
% change	17.5	-11.1	-13.3	-16.6	22.8
GDP (Lm million)	1,430.5	1,413.8	1,438.1	1,072.1	1,075.5
(GFCF/GDP) %	26.4	23.7	20.2	19.4	23.8

Source: National Statistics Office

The increase registered in nominal gross fixed capital formation is primarily underpinned by an increase in the machinery component, although a rise in the construction component was also recorded during the Survey period. In nominal terms investment related to machinery advanced by 41.1 per cent, whilst investment related to the construction component advanced by 5.0 per cent. In real terms, these two components of expenditure advanced by 38.2 per cent and 4.3 per cent respectively.

Investment outlays undertaken by private enterprises advanced by Lm43.8 million, or 24.6 per cent, to Lm222.2 million. This was underpinned by significant increases recorded in the machinery and equipment component which more than offset the fall recorded within the construction component. It should be highlighted that the exceptional transaction accruing in 2002 was included in the private enterprises category, under the machinery component. As a proportion of total gross fixed capital formation, investment by private enterprises accounted for 70.7 per cent for the January-September 2003 period.

Gross fixed capital formation by Government enterprises amounted to Lm13.4 million, which is 15.3 per cent lower than the level recorded during the first nine months of 2002. Whilst the construction component registered an increase over the comparable period of 2002, partly due to developments within the telecommunications sub-sector, the decline recorded in the machinery and equipment component mainly reflects lower investment outlays within the energy sub-sector. As a proportion of total gross fixed capital formation, investment by Government enterprises accounted for 4.3 per cent for the January-September 2003 period, down from the 6.3 per cent recorded in the comparable period of 2002.

Investment outlays by general Government increased significantly by Lm21.8 million, or 38.4 per cent, to Lm78.7 million. In particular this is attributable to a large advance recorded in the construction component, although improvements were also registered within the machinery and equipment component. In fact, the construction component advanced by 46.0 per cent, mainly reflecting outlays related to the new hospital. The machinery component of general Government investment advanced by 10.7 per cent. General Government investment expenditure accounted for 25.0 per cent of total gross fixed capital formation for the period under review, compared to 22.6 per cent during the first nine months of 2002.

Foreign Demand and Supply

Exports of goods and services primarily consist of merchandise exports and foreign exchange earnings from tourism. During the Survey period, exports of goods and

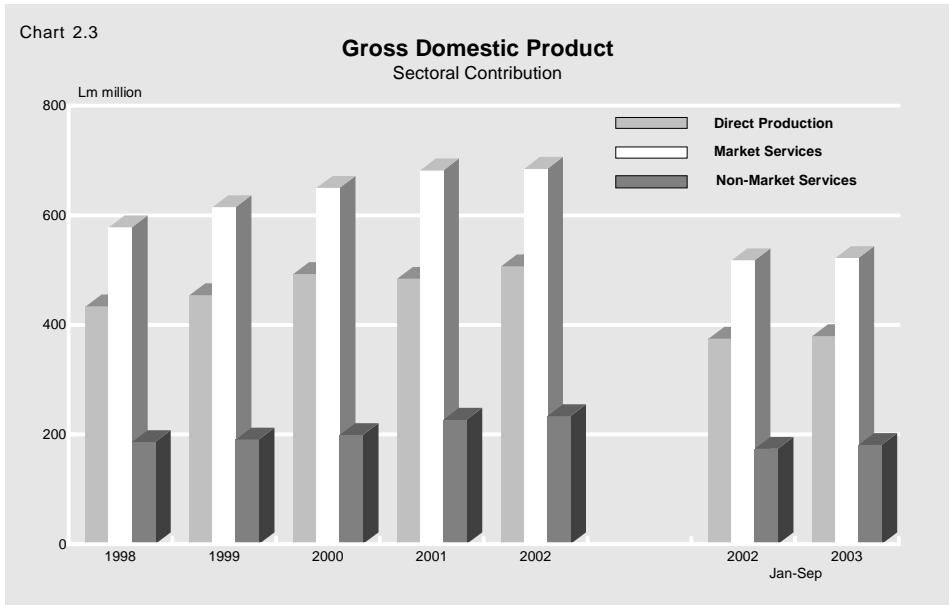
services decreased by 2.5 per cent in nominal terms, to Lm1,071.1 million. This contrasts with the marginal increase recorded during the comparable period of 2002. In real terms, exports of goods and services fell by 1.6 per cent compared to a rise of 0.9 per cent in the first nine months of 2002. It should be noted that this downturn in total nominal exports reflected the exceptional transaction included in 2002 figures. Indeed if this item was excluded, exports of goods and services in nominal terms would have grown by 1.3 per cent. This improvement reflects a slightly higher level of export activity, particularly within the machinery and transport equipment sector, which reflects the slow recovery in the international economic climate as well as the increase of 5.4 per cent in foreign exchange earnings from tourism.

Imports of goods and services advanced by 3.9 per cent in nominal terms, to Lm1,156.3 million during the Survey period. In real terms, imports of goods and services rose by 4.3 per cent. It is noteworthy that the increase in imports recorded for the January-September 2003 period, follows a reduction in imports for the comparable periods of 2001 and 2002. During the Survey period, higher imports were registered in all import categories, with the increase in imports of industrial supplies accounting for around half of the total rise in imports.

Sectoral Contribution to GDP

GDP at factor cost rose by a relatively subdued rate of 1.5 per cent in nominal terms, to reach Lm1,082.8 million during the Survey period. Economic activity as measured by GDP at factor cost was underpinned by increases in agriculture and fishing, insurance, banking and real estate, private services and public administration. These served to counteract the fall recorded within the transport and communication sector, and property income. The other sectors of the economy only registered minor changes when compared to the corresponding period of last year.

An analysis of the broad categories that comprise GDP at factor cost provides a better insight into the structural composition of the domestic economy. Chart 2.3 illustrates the contribution of the direct production, market services and non-market services categories to GDP at factor cost. During the 1998-2003 period, the contribution of the market services activities, which comprises the transport and communication, wholesale and retail trades, insurance, banking and real estate, property income and private services, has exceeded by a considerable margin the contribution of direct production. Furthermore, the importance of this sector to the Maltese economy can be gauged by the ratio of its share in GDP. During the period under review this ratio maintained similar high levels as in previous years, at slightly below 50 per cent.



Direct production, which comprises agriculture and fisheries, construction and quarrying, manufacturing and Government enterprises, accounted for around 35 per cent of total domestic activity. The contribution of market services activities to GDP at factor cost, accounted to around 48 per cent. The share of non-market services, namely public administration, generated about 17 per cent of GDP at factor cost.

Factor incomes in direct production increased by Lm4.7 million, to Lm379.5 million during the Survey period. The bulk of this increase was generated in the agriculture and fisheries sector. Within the direct production category of factor incomes, the manufacturing industry accounted for the largest share reaching 65.0 per cent. Factor incomes in market services stood at Lm521.9 million, registering a marginal increase of 0.7 per cent from the level recorded during the January-September period of 2002. The main sectors contributing to this increase were the insurance, banking and real estate and the private services sectors which more than offset the fall recorded within the transport and communication sector. During the nine months ending September 2003, nominal factor incomes in non-market services reached Lm181.3 million, an increase of Lm7.4 million, or 4.3 per cent. Table 2.5 presents a sectoral breakdown of nominal GDP at factor cost for the 2000 to September 2003 period.

Sectoral Contribution to Gross Domestic Product

Table 2.5

Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Agriculture and Fisheries	24.1	7.2	26.6	9.2	26.3	13.0	29.3
Construction and Quarrying	27.2	9.9	30.9	11.1	36.0	12.3	35.7
Manufacturing	243.2	100.0	242.7	77.4	242.8	83.7	246.5
Public Utilities	62.5	18.8	65.6	20.6	69.7	23.2	68.0
Transport and Communication	70.1	16.9	72.0	18.7	70.2	18.5	62.8
Wholesale and Retail Trades	108.9	39.1	113.1	40.0	115.4	40.0	119.0
Insurance, Banking and Real Estate	87.5	32.2	95.6	37.4	98.4	33.7	109.1
Public Administration	147.6	51.3	168.1	58.6	173.9	59.5	181.3
Property Income	108.7	31.6	109.4	34.1	106.2	31.9	95.0
Private Services	116.1	39.0	121.3	40.0	127.8	42.5	136.1
GDP at factor cost	995.8	346.0	1,045.4	347.1	1,066.6	358.3	1,082.8

Source: National Statistics Office

Factor incomes in the agriculture and fisheries industry registered an increase of Lm3.0 million, to Lm29.3 million. Advances were recorded in both the income component and the profits component, mainly as a result of the activities of the public private partnership initiative dealing with landscaping projects, which commenced in the fourth quarter of 2002. The contribution of agriculture and fisheries to GDP at factor cost was 2.7 per cent during the period under review, from around 2.5 per cent in the recent years.

At Lm35.7 million, factor incomes in the construction and quarrying industry, decreased marginally by Lm0.3 million, or 0.8 per cent, reflecting both lower income from employment and a fall in profits. This performance follows significant growth in this sector over the recent years. Notwithstanding, at 3.3 per cent, the contribution of this sector to GDP at factor cost has practically remained unchanged from the contribution recorded for the January-September 2002 period.

Following a downturn in 2001, the slight improvement recorded in the manufacturing industry (including ship repair and shipbuilding) during 2002 was maintained during the Survey period. Factor incomes in the manufacturing industry rose by 1.5 per cent over the level recorded in the January-September period of 2002. Increases were recorded in both the income and profit components. The recovery in the international economy, though slower than expected, had an impact on the domestic manufacturing industry, in particular, the communication and equipment and apparatus sector. During the period under review, this sector maintained the same profit levels as in the corresponding 2002 period. Besides the global economic environment,

the domestic manufacturing industry is also currently facing a changing international environment, whilst various manufacturing firms have continued with the process of restructuring, in view of the domestic trade liberalisation process. The contribution of the manufacturing industry to GDP at factor cost remained stable at 22.8 per cent during the Survey period.

A decline of Lm1.7 million, or 2.4 per cent, was registered in factor incomes generated by public utilities during the January-September 2003 period. Both employment income and the profitability component registered declines during the period under review, reflecting developments within the telecommunications sector. The drop within the employment income component reflected the implementation of a voluntary early retirement scheme. The decrease in factor incomes registered by Government enterprises was reflected in a lower share of this sector to GDP at factor cost, from 6.5 per cent to 6.3 per cent during the period under review.

Factor incomes, within the transport and communication sector registered a decline of Lm7.4 million, or 10.5 per cent during the Survey period. The income from employment component practically maintained the same level as during the corresponding period of last year. On the other hand, the profits component registered a significant decrease, primarily reflecting the performance of the national airline. The transport and communication sector accounted for 5.8 per cent of GDP at factor cost, down from 6.6 per cent during the corresponding period of 2002.

The wholesale and retail sector advanced by Lm3.6 million during the Survey period to reach Lm119.0 million. This performance was underpinned by advances in both the income and profit components. The increase recorded in employment income was mainly the result of an increase in the number of employees in the sector. Meanwhile, higher profits were generated on imports of consumer goods. The wholesale and retail sector accounted for 11.0 per cent of GDP at factor cost, which is practically the same share as that recorded during the January-September 2002 period.

A significant increase of 10.9 per cent was recorded in the insurance, banking and real estate sector. The main contributor to this increase was higher profitability in the banking sub-sector, while improvements were also recorded within the real estate sub-sector. Significant increases were also recorded within the sectoral income component. This sector's contribution to GDP at factor cost increased to 10.1 per cent from 9.2 per cent during the first nine months of 2002.

Factor incomes in public administration reached Lm181.3 million, an increase of Lm7.4 million, or 4.3 per cent, partly due to higher wages and salaries following the revised public service collective agreement which came into effect in 2003. A significant increase was also registered within various Government authorities reflecting the set up of a number of new entities which are taking over responsibilities previously assigned to Government departments. Public administration as a proportion of GDP at factor cost increased marginally to 16.7 per cent.

At Lm95.0 million, property income registered a decline of Lm11.2 million or 10.5 per cent. This decrease was primarily due to significant reductions in interest from banks accruing to Maltese residents, as a result of the overall lowering of interest rates during the period under consideration. As a proportion of GDP at factor cost, this component of factor income accounted for 8.8 per cent, registering a considerable decline from the 10.0 per cent ratio that was recorded in the January-September 2002 period.

Factor incomes in private services stood at Lm136.1 million, an increase of Lm8.3 million over the level recorded during the nine months ending September 2002. This performance was underlined by higher levels in both the employment income and profit components. The contribution of this sector to GDP at factor cost reached 12.6 per cent for the Survey period, compared to 12.0 per cent for the nine months ending September 2002.

Incomes

During the Survey period, nominal Gross National Product (GNP) at factor cost increased marginally by 0.5 per cent, to Lm1,106.5 million. This slight advance in GNP at factor cost, primarily resulted from a significant fall in net investment income from abroad, which eroded the subdued increase in GDP at factor cost. As a result, the growth rate in GNP at factor cost was lower than the rate of increase in GDP. Whilst improvements were recorded in employment income, income from farming, fishing and private services and gross trading profits, gross trading surplus of Government enterprises and income from property declined. Table 2.6 provides information on nominal factor incomes during the 2000-2003 period.

Income from employment advanced by 3.8 per cent during the January-September period of 2003, compared to a growth rate of 1.7 per cent in the previous corresponding period. It is noteworthy, that the growth rate in employment income decelerated significantly in the third quarter of 2003, reflecting the performance of the labour market. The contribution of employment income in GDP at factor cost

Factor Incomes in Gross National Product

Table 2.6

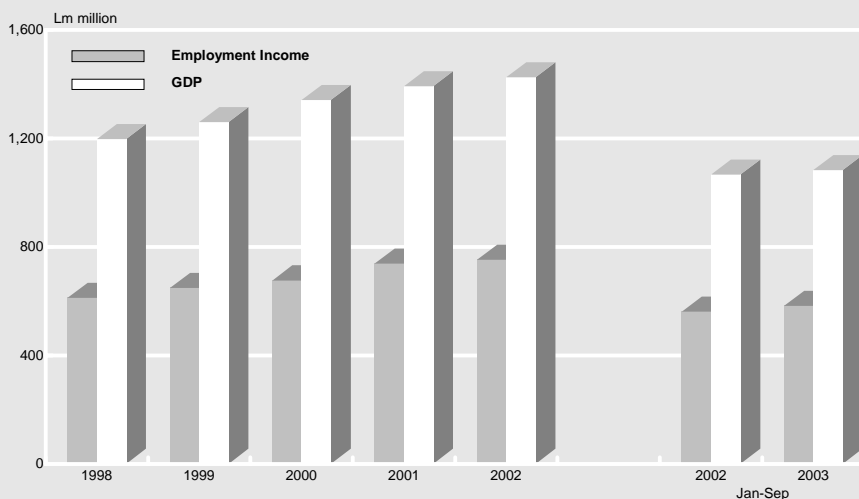
Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Income from Employment	503.0	173.3	551.7	186.1	561.3	191.2	582.5
Income from Farming, Fishing and Private Services	61.9	19.5	65.1	21.5	67.8	25.9	72.7
Gross Trading Profits	293.3	114.2	289.0	96.9	295.9	97.2	298.3
Gross Trading Surplus of Government Enterprises	29.0	7.5	30.1	8.5	35.3	12.1	34.2
Income from Property	108.7	31.6	109.4	34.1	106.2	31.9	95.0
GDP at factor cost	995.8	346.0	1,045.4	347.1	1,066.6	358.3	1,082.8
Net Investment Income from Abroad	18.3	-72.6	16.2	-4.4	34.8	-28.4	23.7
GNP at factor cost	1,014.1	273.4	1,061.6	342.7	1,101.4	329.9	1,106.5
Taxes Net of Subsidies	160.6	60.3	168.2	73.6	185.8	69.8	182.8
GNP at current market prices	1,174.7	333.8	1,229.9	416.2	1,287.2	399.7	1,289.2

Source: National Statistics Office

Chart 2.4

Employment Income and GDP



advanced to 53.8 per cent from the 52.6 per cent recorded during the comparable period of last year. This implies that around half of the factor incomes generated by the local economy primarily arise from wages and salaries and other employment-related benefits. Chart 2.4 illustrates employment income and GDP at factor cost for the 1998 to September 2003 period.

Changes in employment income are reflected in the level of average weekly earnings per employee. Table 2.7 and Chart 2.5 provide information on nominal and real average weekly earnings per employee (excluding employers' National Insurance contributions). Data on real average earnings is also presented using the base year 1995=100. During the Survey period, average weekly earnings per employee reached Lm115.06 in nominal terms, representing an increase of Lm4.72 or 4.3 per cent. In real terms, this represents a rise of 3.1 per cent. This increase compares with a rise of 2.9 per cent and 0.3 per cent in nominal and real terms respectively, during the first nine months of 2002.

Income from farming, fishing and private services amounted to Lm72.7 million during the January-September 2003 period. This represents a rise of Lm4.9 million or 7.2 per cent, reflecting significant increases in both the agriculture and fishing sector and the private services sector. This category of factor incomes accounted for 6.7 per cent of GDP at factor cost, which was slightly higher when compared to the share recorded in the corresponding period of 2002.

At Lm298.3 million, gross trading profits during the Survey period were marginally higher than those recorded in the corresponding period of 2002. A significant increase in the profitability of the insurance, banking and real estate sector, was

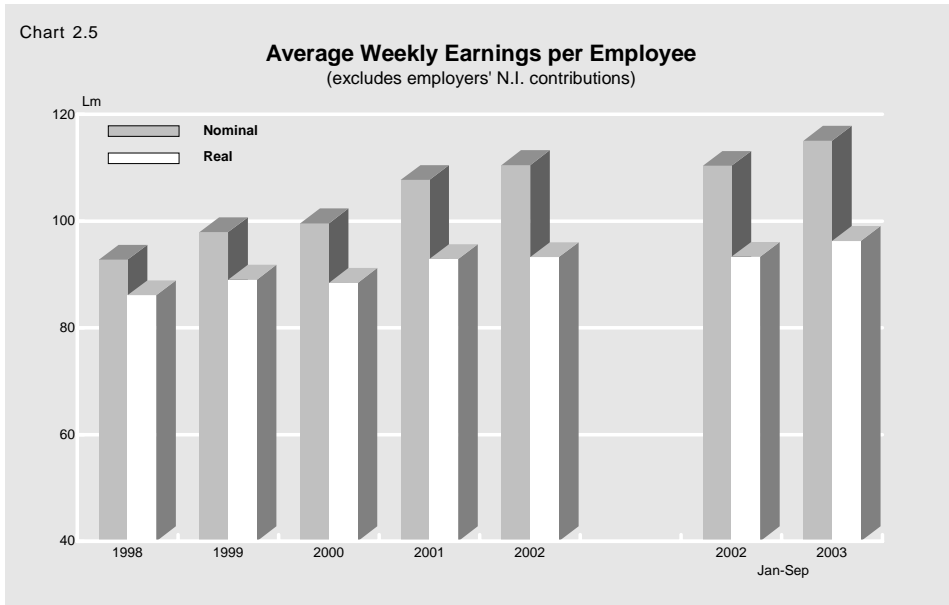
Average Weekly Earnings per Employee*

Table 2.7

	Nominal		Real	
	Value Lm	Change %	Value Lm	Change %
2000	99.60	1.71	88.42	-0.65
2001	107.71	8.14	92.89	5.06
2002	110.51	2.60	93.26	0.40
2002 (Jan/Sep)	110.34	2.87	93.33	0.29
2003 (Jan/Sep)	115.06	4.28	96.26	3.14

*Excludes employers' National Insurance contributions

Source: National Statistics Office
Employment and Training Corporation

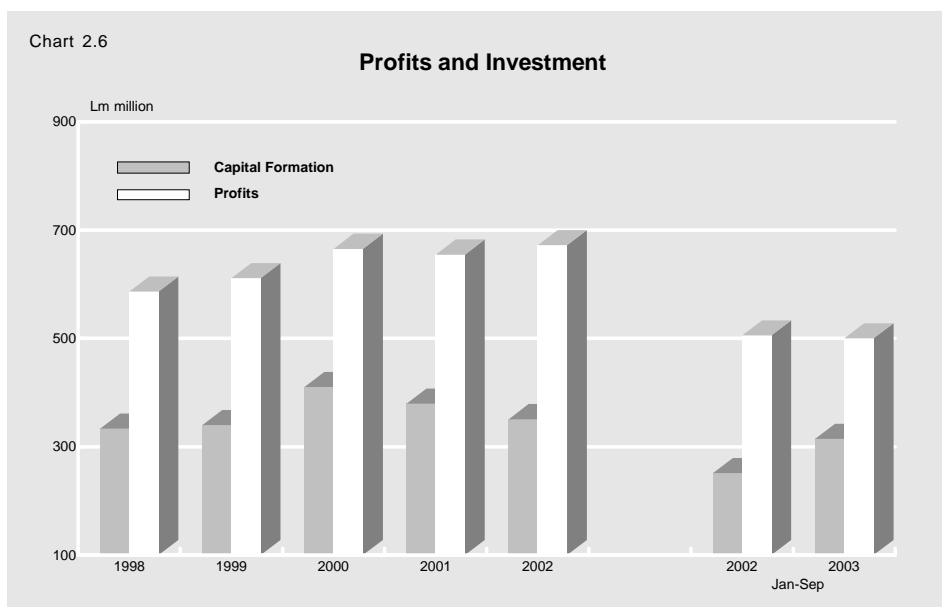


partly offset by a fall within the profits component of the transport and communication sector. The other sectors which make up this profits component remained practically unchanged when compared to the levels registered during the first nine months of 2002.

During the January-September 2003 period the gross trading surplus of Government enterprises stood at Lm34.2 million, a decline of Lm1.1 million when compared with the level registered during the same nine months of 2002. The share of this category of factor incomes in GDP at factor cost remained practically unchanged from that recorded in the same period last year, at 3.2 per cent.

Property income declined by Lm11.2 million, or 10.5 per cent, to Lm95.0 million. The share of this category of factor incomes in GDP at factor cost stood at 8.8 per cent, down from the 10.0 per cent recorded for the corresponding Survey period of 2002.

Total profits generated by the Maltese economy, comprise income from farming, fishing and private services, gross trading profits, gross trading surplus of Government enterprises and property income. The generation of profits within the economy is of crucial importance as investment decisions within the economy are heavily dependent on the generation of profits. However, given the small size of the Maltese economy together with the presence of sizeable international firms



operating from Malta, investment decisions are also influenced by international forces, and in particular the overall performance of foreign markets. The relationship between profits and gross fixed capital formation for the period 1998-2003 is illustrated in Chart 2.6. During the period under review, this ratio stood at 0.63, from the value of 0.50 recorded for the January-September 2002 period. This divergence primarily results from the fact that the level of gross fixed capital formation recorded for 2002 was significantly influenced by extraordinary items. Indeed, in recent years this ratio has fluctuated around 0.6.

During the Survey period, net investment income from abroad stood at Lm23.7 million, representing a significant fall of Lm11.1 million, or 31.9 per cent from the corresponding period of 2002.

Household Disposable Income

During the period under review, household disposable income reached Lm840.5 million, which represents a rise of Lm8.3 million, or 1.0 per cent. This corresponds to an increase of 0.3 per cent in real terms. In per capita terms, real household disposable income practically maintained the same level as that recorded in the January-September 2002 period. Data on the composition of household disposable income is provided in Table 2.8. Household disposable income is computed by deducting direct taxation, including social security contributions, from wages and salaries and other forms of household income.

Household Disposable Income

Table 2.8

Lm million

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
Wages and Salaries	628.8	684.2	698.3	523.3	543.0
Employers' social security contributions	47.5	53.6	54.2	38.0	39.4
Non wage income ⁽¹⁾	382.1	374.2	392.1	293.5	289.4
Net transfers from Government including social benefit payments	174.5	175.9	185.9	139.9	141.1
Net transfer from abroad	7.9	8.0	5.3	4.5	3.1
Gross household income	1,240.9	1,295.8	1,335.7	999.2	1,016.0
Less: direct taxes, incl. social security contributions	198.8	229.6	239.7	167.0	175.5
Disposable income	1,042.0	1,066.2	1,096.0	832.2	840.5
Private consumption	996.7	1,044.7	1,081.8	813.0	825.2
Household savings ⁽²⁾	45.3	21.6	14.2	19.1	15.2
Savings ratio (in per cent of disposable income)	4.3	2.0	1.3	2.3	1.8

⁽¹⁾ Includes income of self-employed persons, rents, dividends and interest

⁽²⁾ Excludes depreciation

Source: National Statistics Office

Wages and salaries increased by Lm19.7 million or 3.8 per cent, reflecting improvements in average wage and salary levels. The contribution of wages and salaries to gross household income stood at 53.4 per cent, compared to 52.4 per cent for the comparable period of last year. This is a clear indication of the importance of this component as a major source of income for households. The rise in wages and salaries was reflected in a rise of Lm1.4 million in employers' social security contributions which reached Lm39.4 million during the Survey period.

Non-wage income, which comprises the income from self-employed persons, rents, dividends and interest, decreased by 1.4 per cent, to Lm289.4 million. This mainly results from the lower interest rates which prevailed during the period under review. Non-wage income accounted for 28.5 per cent of gross household income during the Survey period, down from the 29.4 per cent recorded for this ratio in the comparable period of last year.

Net transfers from Government, which include social benefit payments, advanced by Lm1.2 million, or 0.9 per cent. As a percentage of gross household income, this

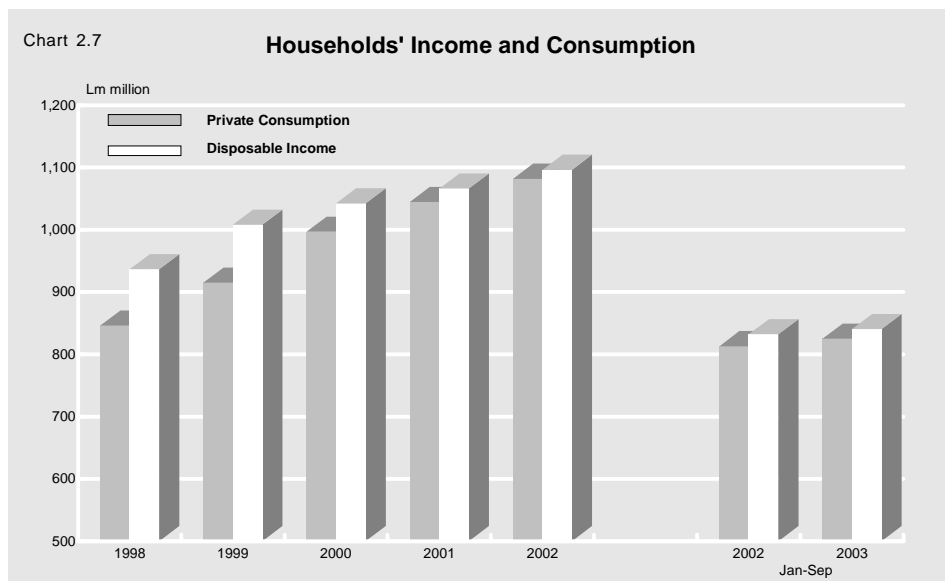
component accounted for 13.9 per cent, practically maintaining the same ratio reached during the comparable nine months of 2002.

A decline of Lm1.4 million was recorded in net transfers from abroad, to Lm3.1 million during the Survey period. The share of this category of household income has followed a downward trend in recent years, falling from around 0.6 per cent in 2000 to 0.3 per cent of total income in the first nine months of 2003.

Direct taxes, including social security contributions, rose by Lm8.5 million, or 5.1 per cent, to reach Lm175.5 million. The proportion of direct taxes in gross household income stood at 17.3 per cent, up from the 16.7 per cent recorded for the January-September 2002 period.

The data in Chart 2.7 illustrates the relationship that exists between private consumption expenditure and household disposable income. During the Survey period, household disposable income increased by Lm8.3 million, or 1.0 per cent, whilst private consumption increased by 1.5 per cent, to Lm825.2 million. Consequently, household savings stood at Lm15.2 million, down from Lm19.1 million recorded a year earlier. As a result, the savings ratio declined to 1.8 per cent.

The savings ratio has followed a general downward trend since 2000, after fluctuating around 10 per cent in the last half of the nineties. A general increase in consumer credit contributed to this development. The decline in household savings,



coupled with the recurring fiscal deficits is being reflected in the current account deficit which is being registered in the Balance of Payments.

International Comparison

The performance of the Maltese economy should be seen within the context of the international environment, which given the openness of the domestic economy impinges significantly upon domestic economic developments. This is particularly of relevance with respect to the country's main trading partners, especially the Member States of the European Union (EU). Table 2.9 shows the growth rates of real GDP for the EU Member States for the four years to 2003, whilst Table 2.10 highlights the composition of economic growth in real terms for the EU.

The weak economic performance observed in the Euro Area and other EU economies at the end of 2002 continued throughout the first half of 2003. This performance and the delay in the recovery expected earlier in 2003, were primarily

Gross Domestic Product				
at constant market prices				
Table 2.9	% change			
	2000	2001	2002	2003*
Austria	3.4	0.8	1.4	0.9
Belgium	3.8	0.6	0.7	0.8
Denmark	2.9	1.4	2.1	0.8
Finland	5.1	1.2	2.2	1.5
France	3.8	2.1	1.2	0.1
Germany	2.9	0.8	0.2	—
Greece	4.4	4.0	3.8	4.1
Ireland	10.1	6.2	6.9	1.6
Italy	3.1	1.8	0.4	0.3
Luxembourg	9.1	1.2	1.3	1.2
Netherlands	3.5	1.2	0.2	-0.9
Portugal	3.7	1.6	0.4	-0.8
Spain	4.2	2.8	2.0	2.3
Sweden	4.4	1.1	1.9	1.4
U.K.	3.8	2.1	1.7	2.0
EU 15	3.6	1.7	1.1	0.8
Euro Area	3.5	1.6	0.9	0.4
Malta	6.4	-1.2	1.7	0.3

*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

	2000	2001	2002	2003*
EU 15				
Private Consumption	3.0	2.0	1.2	1.5
Government Consumption	1.9	2.3	2.7	2.0
Gross Fixed Capital Formation	4.9	0.6	-1.9	-0.4
Exports of Goods and Services	12.1	3.0	1.4	—
Imports of Goods and Services	10.9	2.0	0.7	1.5
Gross Domestic Product	3.6	1.7	1.1	0.8

*Forecast

Source: European Commission

attributed to the undermined consumer and business confidence linked to the geopolitical tensions surrounding the Iraq war. Furthermore, the consumers' uncertainties related to future labour and pension income together with the wealth effects of the prolonged stock market decline affected the recovery prospects negatively.

After a promising rise in the first quarter of 2003, growth in private consumption expenditure fell back in the second quarter. As shown in Table 2.10, private consumers' expenditure is expected to grow by 1.5 per cent in 2003, an increase of 0.3 percentage points over the growth rate recorded in 2002. Government consumption became the main contributor to growth in the second quarter of this year and this component of expenditure is expected to grow by 2.0 per cent in 2003. Investment continued to decline during the first half of the year and it is expected to fall by 0.4 per cent in 2003, following a negative 1.9 per cent in 2002. Exports growth was subdued for most of 2002 and no increases are expected in exports of goods and services in 2003. On the other hand, an increase of 1.5 per cent is expected to be registered for imports of goods and services. Overall, in 2003, GDP growth in the EU 15 is expected to reach 0.8 per cent, compared to 1.1 per cent in the previous year.

3. Employment

3. Employment

During the twelve months to September 2003, the Maltese economy was characterised by an easing of labour market conditions. The labour supply expanded but the increase was marginal, whilst a contraction in the gainfully occupied population was recorded. In particular, job losses were concentrated in specific sectors of the manufacturing industry, while public sector employment also declined. On the other hand, a positive performance was registered in the private market services sector, in terms of job creation. These developments in the domestic labour market reflect the increasingly competitive environment in which the Maltese economy is operating in, both due to the process of globalisation as well as the restructuring process being undertaken domestically.

At the end of September 2003, the labour supply stood at 144,544, reflecting an increase of 84 or 0.1 per cent over September 2002. Meanwhile, the gainfully occupied population declined by 338 to reach 136,602 at the end of the Survey period. Consequently, the number of unemployed persons under Part I of the Register edged up by 462. The unemployment rate rose to 5.0 per cent, compared to 4.6 per cent a year earlier, as highlighted in Table 3.1.

Employment in the private sector, inclusive of temporary employment, increased by 308, to 89,317 at the end of September 2003. Job losses in the manufacturing industry resulted in a decline of 1,126 persons in employment in the private direct production category. In contrast, employment in private market services activities increased by 1,511 to 51,905. Meanwhile, the public sector complement, inclusive of temporary employees, contracted by 646 over the September 2002 level, to 47,285. As a result of these developments, the share of public sector employment in the gainfully occupied population declined by 0.4 percentage points to 34.6 per cent at the end of the Survey period, whilst the share of private sector reached 65.4 per cent. It is pertinent to note that the privatisation of Malta International Airport (MIA) plc. resulted in a shift of around 500 employees from the private market services category to the public sector.

The following analysis of the labour market is based on the latest employment statistics compiled by the Employment and Training Corporation (ETC). During 2003, the ETC has revised provisional data, published earlier, in line with its objective of maintaining a continuous update of labour market data. Hence, the data in this Chapter are not directly comparable with those presented in previous issues of the Economic Survey.

The Labour Force Survey for the Maltese Islands

The Labour Force Survey (LFS) is a household survey carried out by the National Statistics Office (NSO) on a quarterly basis. The LFS provides detailed information regarding the labour market, in addition to other relevant statistics on indicators such as educational levels, salary conditions, hours worked, and activity rates. The LFS is designed according to the concepts and definitions of the European Union's statistical agency, Eurostat, and of the International Labour Organisation (ILO).

It is important to note that the data presented in the LFS is not directly comparable to that used by the Employment and Training Corporation (ETC). In fact, a major difference in this regard, is that the LFS considers all persons aged between 15 and 64, while the employment data compiled by the ETC takes into consideration only the 16 to 61 age bracket. Moreover, the two data sets differ in the definition of unemployment. Whereas the ETC's figures for unemployment are based on a headcount of persons registering for work with the Corporation, the LFS considers all persons who claim to be actively seeking employment as unemployed persons.

According to the latest LFS covering June 2003, the number of employed persons, including the self-employed and part-timers, stood at 148,818, showing a decrease of 215 persons, over June 2002. The number of males in employment amounted to 103,638, an increase of 783 persons or 0.8 per cent over June 2002. On the other hand, female employment fell by 998 persons, or 2.2 per cent, to 45,180. In fact, the female employment rate edged down by 0.9 percentage points, to 33.4 per cent in June 2003. According to the LFS, the male unemployment rate increased by 0.1 percentage points, to 6.4 per cent in June 2003, while the female unemployment rate reached 9.9 per cent, an increase of 1.6 percentage points, from 8.3 per cent in June 2002.

The majority of those employed during June 2003 worked on a full-time basis. In fact, 95.8 per cent of the male gainfully occupied population worked on a full-time basis, whilst among the females this figure reached 79.0 per cent. Additionally, males represented 35.4 per cent of the part-timers while the share of the females stood at 64.6 per cent.

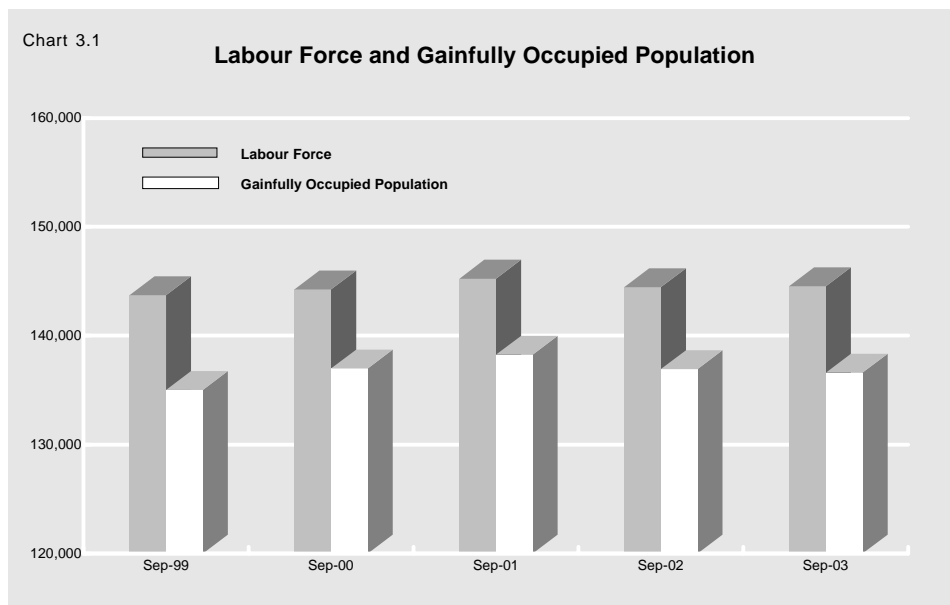
Another relevant information provided by the LFS is the breakdown of employment by economic activity. Employment in the manufacturing sector declined by 3,121 persons or 9.8 per cent when compared to June 2002. Furthermore, during the same period, there was a notable increase of 1,745 in the real estate, renting and business sector, and a drop of 1,366 in the health and social work sector.

The LFS also indicates that the average employee's gross annual salary remained relatively stable during the months between June 2002 and June 2003. The highest paid occupational category, that is, legislators, senior officials and managers, reported an average gross annual salary of Lm8,952, which was slightly more than double that reported by persons engaged in elementary occupations, which stood at Lm4,201. Employees in the financial intermediation sector reported the highest average gross salaries, while persons employed by private households, reported the lowest pay.

Furthermore, it is important to point out that the registered unemployed includes both categories of the unemployment Register. Part I of the Register includes those people who are eligible for work and registering with the ETC as jobless. Meanwhile, Part II incorporates those other categories of people searching for work and which are not considered eligible for inclusion under Part I. These categories include those who were dismissed from work due to disciplinary action or who left their employment at their own free will, those who refused work or training opportunities, those who failed to submit the necessary documents required for registration under Part I and those who were struck off from the register after an inspection by the Law Enforcement personnel. Hence, unemployment under Part I of the Register is used in the economic analysis of the labour market in this Economic Survey.

Labour Market Developments

During the period between September 1999 and September 2003, the labour supply in general registered a gradual upward trend. In fact, as Chart 3.1 and Table 3.1 indicate, the labour supply increased by 1,520 to 145,236 between September 1999 and September 2001. However, during the subsequent year, the labour supply edged down by 776 persons. Although a positive change of 84 persons was recorded during the twelve months to September 2003, it is pertinent to note that this rise is below the average expansion in the labour force recorded in recent years.



Employment Performance

Table 3.1

	1999	2000	2001	2002	2003
	Sep	Sep	Sep	Sep	Sep
Labour Supply	143,716	144,246	145,236	144,460	144,544
Males	104,153	103,911	104,209	103,274	102,933
Females	39,563	40,335	41,064	41,186	41,611
Gainfully Occupied	135,023	136,993	138,252	136,940	136,602
Males	96,872	97,776	98,402	97,200	96,668
Females	38,151	39,217	39,850	39,740	39,934
Total Private Sector	86,504	88,831	89,304	89,009	89,317
Private Direct Production	36,903	37,438	37,855	37,849	36,723
Private Market Services	48,945	50,622	50,700	50,394	51,905
Temporary Employment	656	771	749	766	689
Total Public Sector	48,519	48,162	48,948	47,931	47,285
Public Sector	47,699	47,915	48,694	47,652	46,992
Temporary Employment	820	247	254	279	293
Registered Unemployed*	8,693	7,253	6,984	7,520	7,942
Males	7,281	6,594	5,770	6,074	6,265
Females	1,412	659	1,214	1,446	1,677
% of Labour Supply	6.0	5.0	4.8	5.2	5.5
of which unemployment					
under Part I (%)	5.6	4.6	4.3	4.6	5.0
Self-Employed**	15,648	15,926	15,342	15,322	15,589
Males	13,736	13,969	13,402	13,303	13,515
Females	1,912	1,957	1,940	2,019	2,074
% of Gainfully Occupied	11.6	11.6	11.1	11.2	11.4
Memorandum:					
Total Direct Production***	38,002	38,482	38,881	38,747	37,620
Total Market Services****	58,446	60,337	61,308	61,305	62,480
Total Private Sector Share	64.1%	64.8%	64.6%	65.0%	65.4%
Total Public Sector Share	35.9%	35.2%	35.4%	35.0%	34.6%

*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

Source: Employment and Training Corporation

Between September 1999 and September 2003, the male labour force followed a declining trend, with the only exception being in the year ending September 2001. During this period, the male component of the labour force declined by 1,220. As a result, the proportion of males in the labour force fell from 72.5 per cent in September 1999, to 71.2 per cent in September 2003. Meanwhile, the female labour force increased by 2,048 between September 1999 and September 2003. In fact, female labour supply expanded throughout this period. Between September 2002 and September 2003, the female labour force increased by 425 to 41,611. This rise is relatively lower than the increases recorded in the previous years. The increase in the total labour supply during the year ending September 2003 was thus completely attributable to the female side of the labour force. As a result of these developments, the female share in the labour force increased from 27.5 per cent in September 1999 to 28.8 per cent in September 2003.

After increasing by 3,229 to 138,252 during the two years to September 2001, the gainfully occupied population declined by 1,312 in the following twelve months and a further decrease of 338 was recorded by September 2003. The decline in the gainfully occupied population recorded over the two years ending September 2003 is mainly due to a contraction in the male component. In fact, the male component of the gainfully occupied declined by 1,202 over the year ending September 2002 and by a further 532 over the subsequent year. Meanwhile, the female component of the gainfully occupied population contracted by 110 between September 2001 and September 2002 but in the following twelve months increased by 194 to 39,934 persons.

As a result of these developments in the labour market, the level of unemployment under Part I declined between September 1999 and September 2001 but rose in the subsequent two years. Indeed, between September 1999 to September 2001, the level of registered unemployed edged down by 1,796, to 6,215 at the end of September 2001. However, between September 2001 and September 2003, unemployment increased by 1,018, to reach 7,233. In particular a significant increase in unemployment was recorded during the third quarter of 2003, and the highest level was reached in August, at 7,406 persons. Accordingly, the rate of unemployment under Part I of the Register fell in September 2000 and 2001, but registered increases in the following two years.

Private Sector Employment

During the period from September 1999 to September 2003, the private sector gainfully occupied population, inclusive of temporary employees, registered positive advances, except in the twelve months to September 2002. Overall during this

four-year period, private sector employment expanded by 2,813 to 89,317 persons in September 2003. Up to September 2001, both private direct production and private market services activities generated employment. Indeed, employment in private direct production increased by 952 between September 1999 and September 2001, reaching 37,855, whilst the gainfully occupied population in market services rose by 1,755 over the same period. On the other hand, employment in private direct production registered a marginal decline in September 2002 and declined by 1,126 in September 2003. In contrast, private market services recorded a decrease of 306 between September 2001 and September 2002, but in the subsequent year this sub-sector edged up by 1,511. The share of employment in private direct production in total employment fell from 27.3 per cent in September 1999 to 26.9 per cent in September 2003. On the other hand, private market services accounted for 38.0 per cent of the gainfully occupied population in September 2003, compared to 36.2 per cent in September 1999. This highlights the fact that over the years Malta is increasingly becoming more services-oriented. However, it is also important to point out that around a third of the increase in the level of employment in private market services sector reflects the privatisation process. The counterpart of this is a decline in the employment statistics of the public sector.

During the period from September 1999 to September 2002, both the shares of private direct production and that of private market services in total private sector employment remained relatively stable at a level of around 42.0 per cent and 57.0 per cent respectively. However, during the twelve months to September 2003, the proportion of private sector employees engaged in direct production fell to 41.1 per cent, whilst the share of private sector employees engaged in market services increased to 58.1 per cent.

Meanwhile, the number of temporarily employed persons in the private sector fluctuated from a high of 771 in September 2000 to a low of 656 in September 1999. At the end of September 2003, this category of employment amounted to 689.

The self-employed population increased in the year ending September 2000, declined in the following two years but registered a positive performance in the twelve months to September 2003. In September 2003, the number of self-employed persons rose by 267 over the level recorded a year earlier. Both the male and the female self-employed population recorded an expansion. It is noteworthy that the female self-employment population rose consistently through the period from September 1999 to September 2003, excluding the decline of 17 between September 2000 and September 2001. This general increase is in line with the trend of higher female participation in the gainfully occupied population. However, at 13.3 per cent in

September 2003, the share of females in the self-employed population remains relatively low compared to a share of 29.2 per cent of females in total employment.

Public Sector Employment

During the period between September 1999 and September 2003, public sector employment followed a downward trend, with the exception of the year ending September 2001. At the end of September 2003, total public sector employment, inclusive of temporary employment stood at 47,285, representing a decrease of 1,234 over the level recorded in September 1999. As a result, the share of total public sector employment in the gainfully occupied population declined from 35.9 per cent in September 1999 to 34.6 per cent in September 2003. This is clearly illustrated in Chart 3.2. As highlighted previously, this drop reflects in part the privatisation of state-owned companies.

As Table 3.2 indicates, employment levels in the public sector fell by 646 between September 2002 and September 2003. The number of employees in Government departments declined by 280 over September 2002. Government departments accounted for 63.6 per cent of total public sector employment in September 2003. Meanwhile, companies with a public sector majority shareholding reduced their workforce by 642, thus leading to a fall in the share of this category in total public sector employment of 1.2 percentage points to 15.2 per cent. Around three-fourths of this drop is attributable to the privatisation of MIA plc. On the other hand,

	1999 Sep	2000 Sep	2001 Sep	2002 Sep	2003 Sep
Government Departments	30,573	30,714	30,825	30,349	30,069
Companies with public sector majority shareholding	7,344	7,457	7,990	7,841	7,199
Independent Statutory Bodies	8,174	8,085	8,267	7,855	8,071
Armed Forces & Revenue Security Corps.	1,608	1,659	1,612	1,607	1,653
Temporary Employees	820	247	254	279	293
Apprentices & Trainees	786	242	230	252	232
Student Workers	34	5	24	27	17
Under Graduate Trainees*	-	-	-	-	10
Trainees with fixed contract*	-	-	-	-	34
Total	48,519	48,162	48,948	47,931	47,285

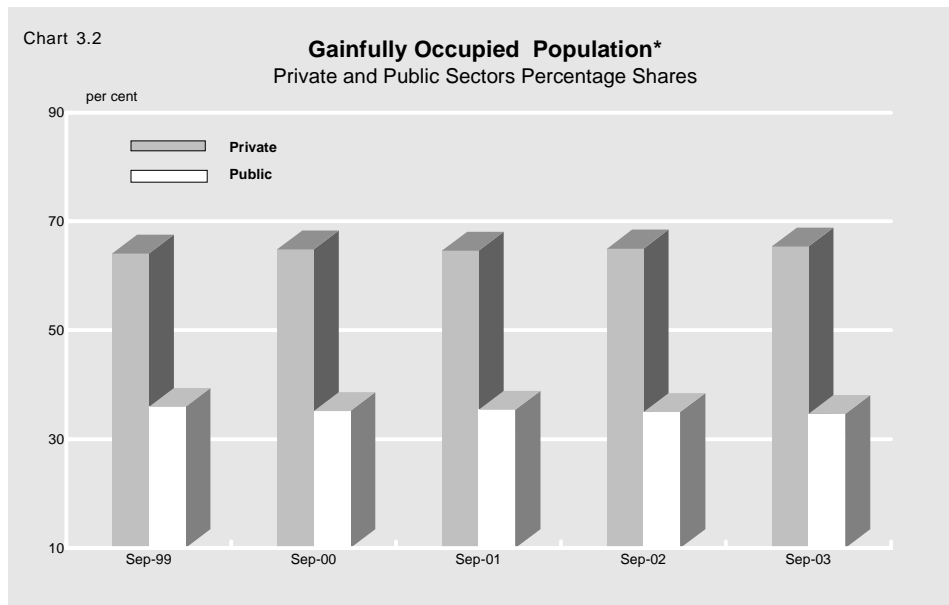
*Included as from October 2002.

Source: Employment and Training Corporation

employment within independent statutory bodies increased by 216, increasing its share by 0.7 percentage points to 17.1 per cent. The setting up of new entities, which took over responsibilities previously executed by Government departments, is resulting in a shift of employees from Government departments to independent statutory bodies. With regard to the employment in the armed forces and revenue security corporations, this has remained relatively stable at around 1,600 persons in recent years, with a share in total public sector employment of 3.5 per cent at the end of September 2003.

The temporary employed population engaged with the public sector increased marginally, hence ending the Survey period at a level of 293. The decline in apprentices and student workers was offset by the inclusion of the undergraduate trainees and the trainees with fixed contracts as temporary employees as from October 2002.

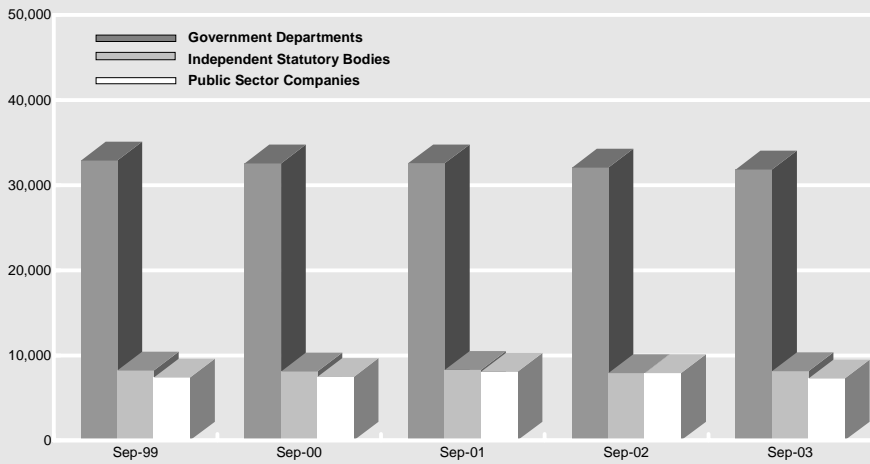
Developments in the different components comprising total public sector employees for the period ranging from September 1999 to September 2003 are highlighted in Chart 3.3.



*including temporary employees

Chart 3.3

Public Sector Employment *

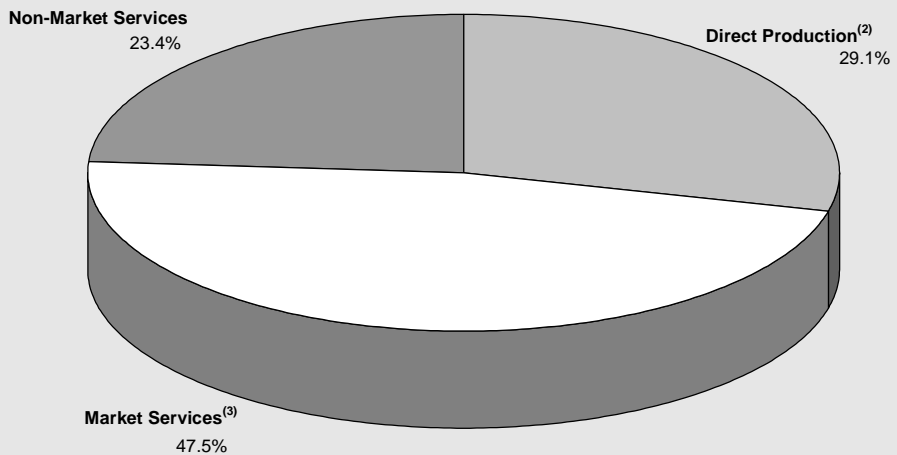


*including temporary employees

Chart 3.4

Gainfully Occupied by Broad Sectors⁽¹⁾ - September 2003

Percentage Share



(1) excluding temporary employees

(2) including electricity and gas services

(3) including Malta Drydocks

The contribution of the market services, direct production and non-market services to the gainfully occupied population as at September 2003, excluding temporary employment, is highlighted in Chart 3.4. This Chart shows clearly that the market services category, which accounts for 47.5 per cent of the gainfully occupied population, is the main contributor to total employment. Meanwhile, the share of employment in direct production and the non-market service categories amounted to 29.1 per cent and 23.4 per cent respectively.

Sectoral Employment

The following section analyses the main developments in the employment performance of economic sectors in both the direct production and market services categories recorded during the twelve months ending September 2003.

Direct Production

Total employment in direct production activities decreased by 1,127 or 2.9 per cent, to 37,620 in September 2003, as shown in Table 3.3 and Chart 3.5. As a result of these developments, the share of the total direct production to the gainfully occupied population amounted to 27.5 per cent. Employment in the public sector within this category has followed a downward trend over the past recent years, reaching the level of 897 in September 2003 from 1,099 four years earlier. The

Employment in Direct Production*

Table 3.3

	1999 Sep	2000 Sep	2001 Sep	2002 Sep	2003 Sep
Agriculture & Fisheries	2,149	2,199	2,162	2,200	2,286
Private	2,149	2,199	2,162	2,200	2,286
Public	-	-	-	-	-
Stone and non-Metallic Quarrying, Construction & Oil Drilling	5,901	6,433	6,759	6,916	6,865
Private	5,759	6,297	6,624	6,783	6,732
Public	142	136	135	133	133
Manufacturing	29,952	29,850	29,960	29,631	28,469
Private**	28,995	28,942	29,069	28,866	27,705
Public	957	908	891	765	764
Total Employment in Direct Production	38,002	38,482	38,881	38,747	37,620
Private	36,903	37,438	37,855	37,849	36,723
Public	1,099	1,044	1,026	898	897

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

**Including electricity and gas sector

Source: Employment and Training Corporation

Changes in Employment in Direct Production*

Table 3.4

	2000-99	2001-00	2002-01	2003-02
	Sep	Sep	Sep	Sep
Agriculture & Fisheries	50	-37	38	86
Private	50	-37	38	86
Public	-	-	-	-
Stone and non-Metallic Quarrying, Construction & Oil Drilling	532	326	157	-51
Private	538	327	159	-51
Public	-6	-1	-2	-
Manufacturing	-102	110	-329	-1,162
Private**	-53	127	-203	-1,161
Public	-49	-17	-126	-1
Total Direct Production	480	399	-134	-1,127
Private	535	417	-6	-1,126
Public	-55	-18	-128	-1

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

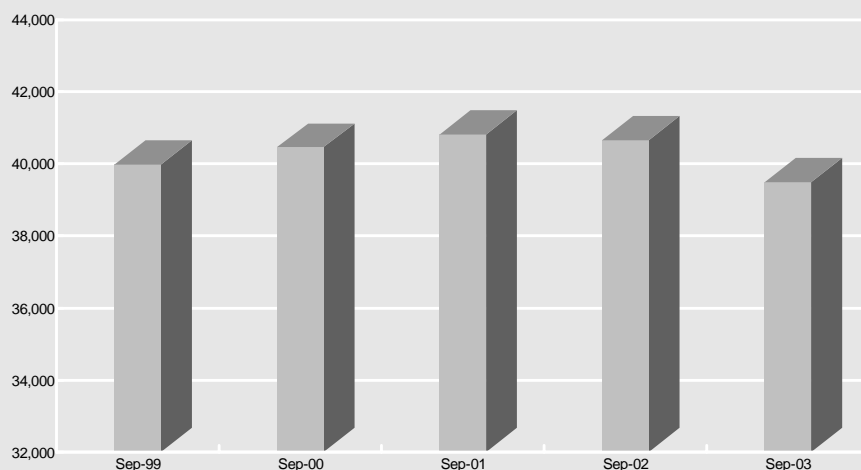
** Including electricity and gas sector

Source: Employment and Training Corporation

Chart 3.5

Direct Production *

Total Sector Employment



*including electricity and gas services

Changes in Manufacturing Employment*

Table 3.5

	2000-99 Sep	2001-00 Sep	2002-01 Sep	2003-02 Sep
Total Change	-102	110	-329	-1,162
Private**	-53	127	-203	-1,161
Public	-49	-17	-126	-1
Total Sectoral Increases	959	606	626	269
Private	959	606	625	269
Public	-	-	1	-
Total Sectoral Decreases	1,061	496	955	1,431
Private	1,012	479	828	1,430
Public	49	17	127	1

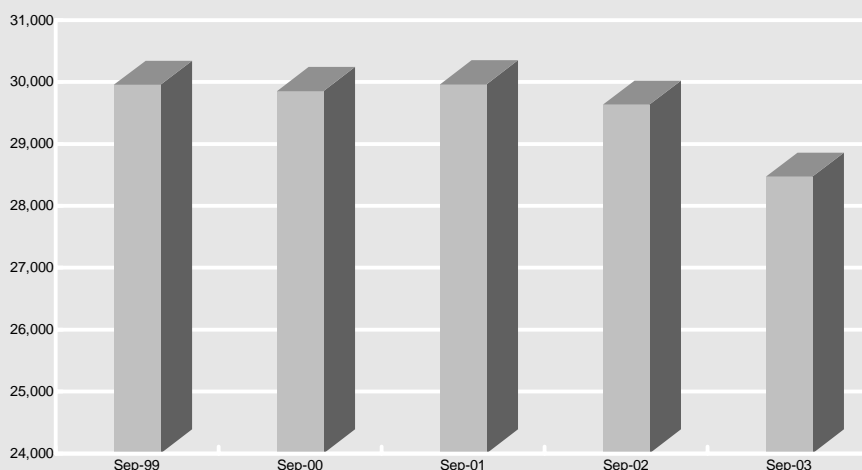
* Excluding temporary employees and public sector employees in the electricity and gas sector

** Including electricity and gas sector

Source: Compiled from Employment and Training Corporation data

Chart 3.6

Manufacturing * Total Sector Employment



*including private sector electricity and gas services

Manufacturing Employment*

Table 3.6

	1999	2000	2001	2002	2003
	Sep	Sep	Sep	Sep	Sep
Food mfg	3,213	3,116	3,055	3,038	3,088
Private	3,190	3,094	3,034	3,019	3,069
Public	23	22	21	19	19
Beverages mfg	1,236	1,269	1,278	1,200	1,275
Private	1,236	1,269	1,278	1,200	1,275
Public	-	-	-	-	-
Tobacco mfg	162	163	177	168	165
Private	162	163	177	168	165
Public	-	-	-	-	-
Mfg of Textiles	1,250	1,084	1,498	1,673	1,415
Private	1,250	1,084	1,498	1,673	1,415
Public	-	-	-	-	-
Mfg of Footwear, Clothing etc	3,424	3,264	3,275	2,897	2,138
Private	3,424	3,264	3,275	2,897	2,138
Public	-	-	-	-	-
Mfg of Wood & Cork	52	39	30	30	22
Private	52	39	30	30	22
Public	-	-	-	-	-
Mfg of Furniture & Fixtures	2,458	2,384	2,322	2,248	2,174
Private	2,458	2,384	2,322	2,248	2,174
Public	-	-	-	-	-
Mfg of Paper products	327	302	322	317	305
Private	327	302	322	317	305
Public	-	-	-	-	-
Printing & Allied mfg	1,574	1,569	1,576	1,668	1,720
Private	1,494	1,518	1,528	1,619	1,672
Public	80	51	48	49	48
Mfg of Leather & Leather Goods	258	215	215	191	184
Private	258	215	215	191	184
Public	-	-	-	-	-
Mfg of Rubber products	985	985	966	929	941
Private	985	985	966	929	941
Public	-	-	-	-	-
Mfg of Chemical products	1,282	1,197	1,174	1,150	1,020
Private	1,282	1,197	1,174	1,150	1,020
Public	-	-	-	-	-
Mfg of Non-Metallic products	1,003	1,014	999	1,028	1,011
Private	1,003	1,014	999	1,028	1,011
Public	-	-	-	-	-

Manufacturing Employment*

Table 3.6

continued

	1999	2000	2001	2002	2003
	Sep	Sep	Sep	Sep	Sep
Mfg of Metal products	1,493	1,382	1,423	1,418	1,372
Private	1,493	1,382	1,423	1,418	1,372
Public	-	-	-	-	-
Mfg of Machinery	678	643	618	830	750
Private	665	643	618	830	750
Public	13	-	-	-	-
Mfg of Electrical Machinery, Appliances & Supplies	5,091	5,803	5,867	5,985	6,056
Private	5,091	5,803	5,867	5,985	6,056
Public	-	-	-	-	-
Mfg of Transport Equipment	2,905	2,683	2,694	2,573	2,581
Private	2,079	1,862	1,885	1,884	1,892
Public	826	821	809	689	689
Miscellaneous and other mfg	2,561	2,738	2,471	2,288	2,252
Private**	2,546	2,724	2,458	2,280	2,244
Public	15	14	13	8	8
Total Manufacturing Employment	29,952	29,850	29,960	29,631	28,469

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

** Including electricity and gas sector

Source: *Employment and Training Corporation*

private sector is the major employer in direct productive activities, having a share of 97.6 per cent. As highlighted in Table 3.4, during the twelve months to September 2003, the private sector reduced its workforce by 1,126 employees.

Employment in the agriculture and fisheries sector increased by 86 persons and stood at 2,286 at the end of the Survey period. On the other hand, the stone and non-metallic quarrying, construction and oil drilling sector, and the manufacturing sector both experienced a decline in their employment levels. Employment in the stone and non-metallic quarrying, construction and oil drilling sector declined by 51 during the twelve months ending September 2002, in contrast to significant increases in the previous three years. However, a more significant decrease was registered in the employment level of the manufacturing sector. In fact, employment in manufacturing declined by 1,162 to 28,469 in September 2003, as depicted in Chart 3.6. As a result of these developments, the share of manufacturing in total employment in direct production stood at 75.7 per cent, while the stone and non-

Sectoral Changes in Manufacturing Employment*

Table 3.7

	2000-99	2001-00	2002-01	2003-02
	Sep	Sep	Sep	Sep
Food mfg	-97	-61	-17	50
Private	-96	-60	-15	50
Public	-1	-1	-2	-
Beverages mfg	33	9	-78	75
Private	33	9	-78	75
Public	-	-	-	-
Tobacco mfg	1	14	-9	-3
Private	1	14	-9	-3
Public	-	-	-	-
Mfg of Textiles	-166	414	175	-258
Private	-166	414	175	-258
Public	-	-	-	-
Mfg of Footwear, Clothing etc	-160	11	-378	-759
Private	-160	11	-378	-759
Public	-	-	-	-
Mfg of Wood & Cork	-13	-9	-	-8
Private	-13	-9	-	-8
Public	-	-	-	-
Mfg of Furniture & Fixtures	-74	-62	-74	-74
Private	-74	-62	-74	-74
Public	-	-	-	-
Mfg of Paper products	-25	20	-5	-12
Private	-25	20	-5	-12
Public	-	-	-	-
Printing & Allied mfg	-5	7	92	52
Private	24	10	91	53
Public	-29	-3	1	-1
Mfg of Leather & Leather Goods	-43	-	-24	-7
Private	-43	-	-24	-7
Public	-	-	-	-
Mfg of Rubber products	-	-19	-37	12
Private	-	-19	-37	12
Public	-	-	-	-
Mfg of Chemical products	-85	-23	-24	-130
Private	-85	-23	-24	-130
Public	-	-	-	-
Mfg of Non-Metallic products	11	-15	29	-17
Private	11	-15	29	-17
Public	-	-	-	-

Sectoral Changes in Manufacturing Employment*

Table 3.7

continued

	2000-99	2001-00	2002-01	2003-02
	Sep	Sep	Sep	Sep
Mfg of Metal products	-111	41	-5	-46
Private	-111	41	-5	-46
Public	-	-	-	-
Mfg of Machinery	-35	-25	212	-80
Private	-22	-25	212	-80
Public	-13	-	-	-
Mfg of Electrical Machinery, Appliances & Supplies	712	64	118	71
Private	712	64	118	71
Public	-	-	-	-
Mfg of Transport Equipment	-222	11	-121	8
Private	-217	23	-1	8
Public	-5	-12	-120	-
Miscellaneous and other mfg	177	-267	-183	-36
Private**	178	-266	-178	-36
Public	-1	-1	-5	-
Total Manufacturing Employment	-102	110	-329	-1,162

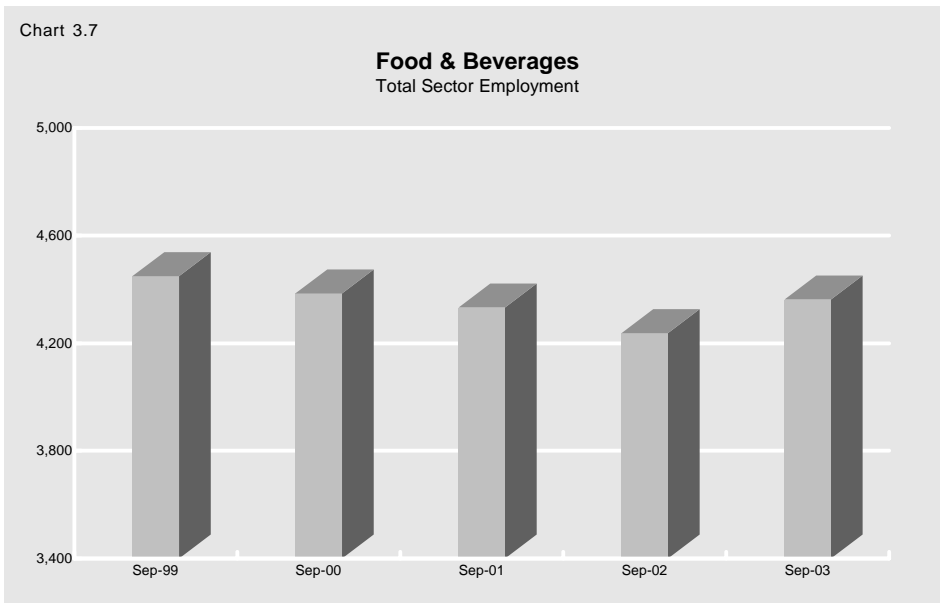
* Excluding temporary employees and public sector employees in the electricity and gas sector

** Including electricity and gas sector

Source: *Employment and Training Corporation*

metallic quarrying, construction and oil drilling accounted for 18.2 per cent of total direct production employment.

The contraction in manufacturing employment registered during the twelve months ending September 2003 was significantly higher than the declines in employment recorded in recent years. This performance resulted from notably higher job losses whilst job creation in manufacturing during the twelve months to September 2003 was considerably lower than that registered in the previous comparable periods. Indeed, as shown in Table 3.5, total sectoral job losses during the twelve months to September 2003, amounted to 1,431, compared to the 955 registered in the corresponding period of 2002. On the other hand, total sectoral job increases amounted to 269, compared to 626 recorded in the previous comparable period of 2002. Over 85 per cent of the net decline in manufacturing was due to job losses in the textiles, footwear and clothing sectors. A number of companies in these sectors, which are primarily export-oriented, closed down or undertook significant downsizing due to an increasingly competitive international environment. Other significant



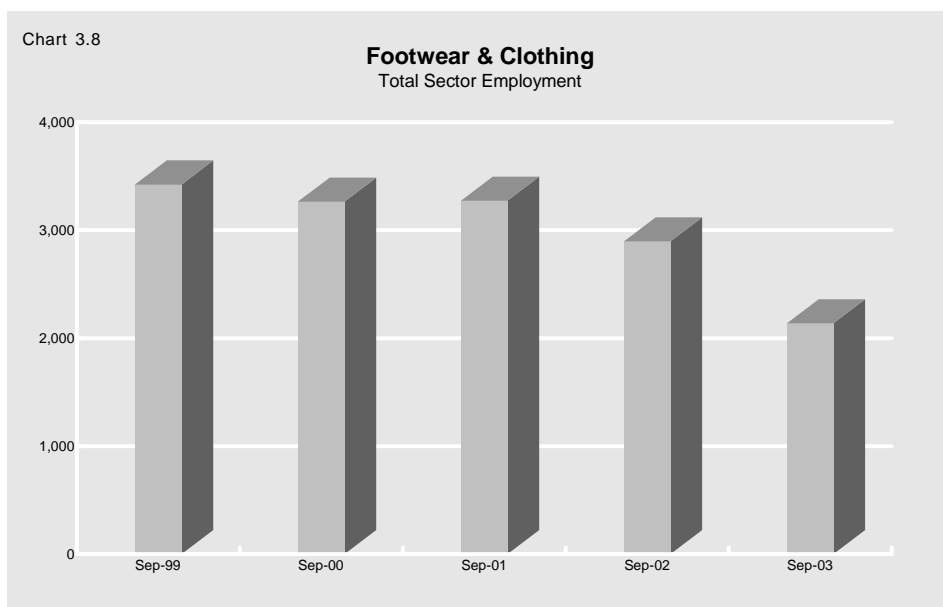
contractions were registered in the furniture and fixtures, chemical products and machinery sectors. On the other hand, a number of sectors registered job creation, namely the food, beverages, printing and allied, and the electrical machinery sectors. These developments in the employment performance of clusters of manufacturing economic activities reflect the challenges being faced by local operators from globalisation or the trade liberalisation process being undertaken domestically. Developments in employment in direct production are highlighted in Tables 3.6 and 3.7.

Food and Beverages

Employment in the food and beverages sectors amounted to 4,363, thus representing an increase of 125 or 2.9 per cent when compared to September 2002. This positive development reflected increases in the level of employment in both the food and the beverages sectors. The share of the food and beverages sectors in total manufacturing employment amounted to 15.3 per cent compared to 14.3 per cent in September 2002. Chart 3.7 shows that the increase in employment in the food and beverages sectors during the twelve months to September 2003 reversed the downward trend in the employment level of these sectors recorded during the September 1999 to September 2002 period.

Textiles, Footwear and Clothing

Employment in the textiles, footwear and clothing sectors declined by 1,017 to 3,553 during the year ending September 2003. As illustrated in Chart 3.8, employment



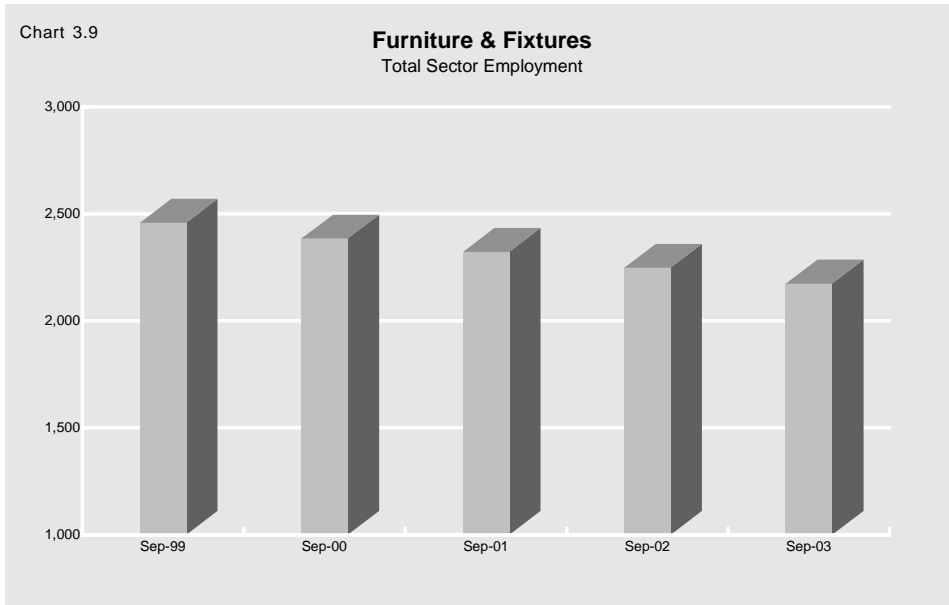
in the footwear and clothing sectors has generally followed a downward trend over recent years. Indeed, the share of the textiles, footwear and clothing sectors in total manufacturing employment has fallen from 15.6 per cent in September 1999 to 12.5 per cent in September 2003. This development is primarily attributable to the increasing competition being faced in international markets by local companies from operators in low-cost countries.

Furniture and Fixtures

Aggregate employment in the furniture and fixtures sector stood at 2,174 at the end of September 2003, representing a decline of 74 or 3.3 per cent over the previous comparable period. Chart 3.9 shows that employment in the furniture and fixtures sector followed a downward trend over the four-year period to September 2003. This reflects the dismantling of the import levies on these products, which was completed by January 2003 and which resulted in increased competition to domestic operators which primarily cater for the local market. At the end of the Survey period, this sector accounted for 7.6 per cent of total manufacturing employment, down from 8.2 per cent in September 1999.

Paper Products and Printing

The number of employees in the paper products and printing sectors amounted to 2,025 in September 2003, reflecting an increase of 40 when compared to September



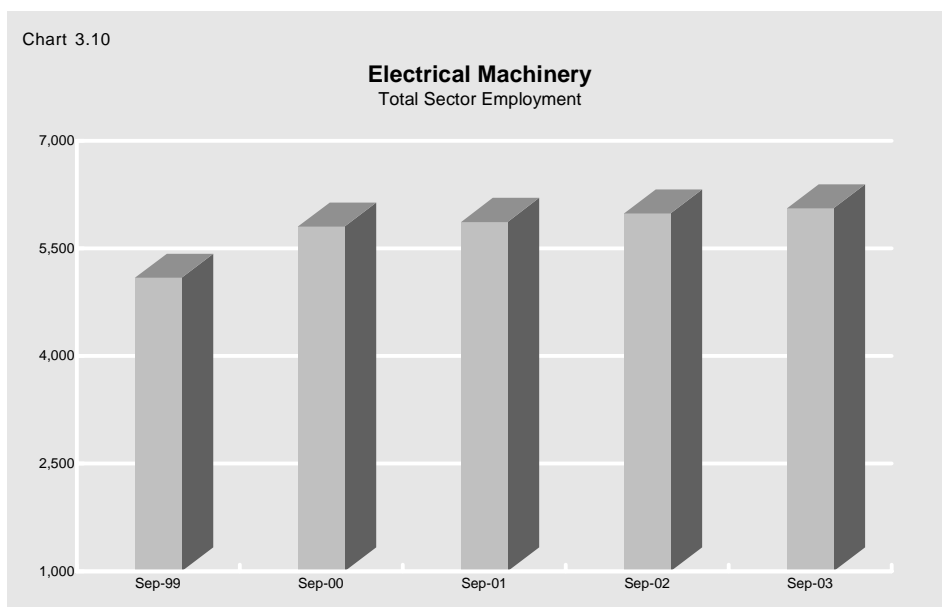
2002. This increase is entirely due to higher employment in the printing and allied sector. Indeed, employment in the printing and allied manufacturing sector edged upwards by 52 during the twelve months to September 2003. On the other hand, employment in the manufacturing of paper products sector declined by 12 persons over September 2002. The paper products and printing sectors accounted for 7.1 per cent of total employment in manufacturing in September 2003. This compares to a share of 6.3 per cent four years earlier.

Chemical Products

Employment in the chemical products sector decreased by 130 or 11.3 per cent to 1,020 at the end of the Survey period. This reduction sustains the general downward trend that persisted over the past recent years. The share of chemical products in total manufacturing employment in September 2003 was equal to 3.6 per cent, from 4.3 per cent in the corresponding month of 1999.

Non-Metallics and Metal Products

At the end of September 2003, employment in the non-metallic and metal sectors stood at 2,383, reflecting a decline of 63 or 2.6 per cent when compared to September 2002. This decline in employment was due to job losses in both sectors. The non-metallic sector reduced its level of employment by 17, whilst the level of employment in the metal products sector declined by 46. The aggregate share of these sectors



in total manufacturing employment has fluctuated at slightly above 8 per cent in recent years and amounted to 8.4 per cent in September 2003.

Machinery, Electrical Machinery, Appliances and Supplies

Employment in the machinery, electrical machinery, appliances and supplies sectors amounted to 6,806 in September 2003, reflecting a marginal decline of 9 over September 2002. This decrease was entirely due to the machinery sector, as its employment level fell by 80 during the twelve months to September 2003. By contrast, the number of employees in the electrical machinery, appliances and supplies sector increased by 71 over the same period. As shown in Chart 3.10, employment in the electrical machinery sector followed an upward trend over the past few years, despite the turbulence in the global electronics market. At the end of the Survey period, the machinery, electrical machinery, appliances and supplies sectors accounted for 23.9 per cent of total manufacturing employment, up from 19.3 per cent recorded in September 1999.

Market Services

During the year ending September 2003, total employment in the market services sector registered a positive turnout. Market services activities have been the main source of job creation in the Maltese economy in recent years. Indeed, as shown in Table 3.8 and Table 3.9, during the Survey period, employment in this sector recorded

Changes in Employment in Market Services*

Table 3.8

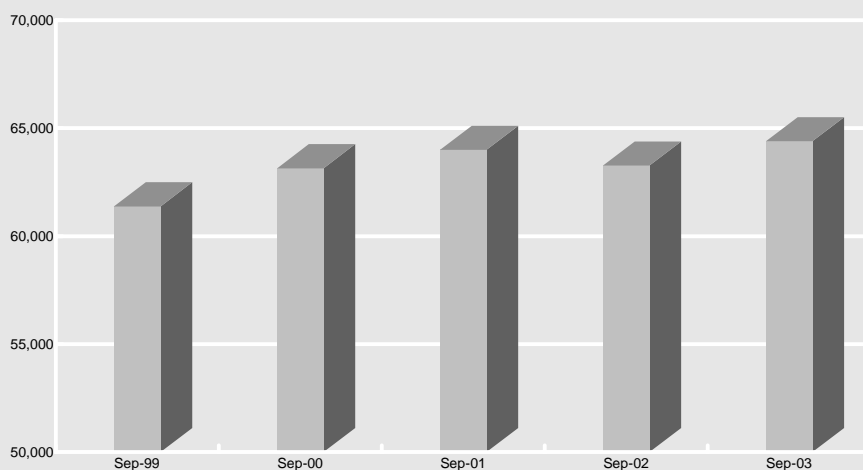
	2000-99 Sep	2001-00 Sep	2002-01 Sep	2003-02 Sep
Total Change	1,891	971	-3	1,175
Private	1,677	78	-306	1,511
Public	214	893	303	-336
Total Sectoral Increases	2,047	2,271	1,110	1,705
Private	1,757	1,258	586	1,705
Public	290	1,013	524	-
Total Sectoral Decreases	156	1,300	1,113	530
Private	80	1,180	892	194
Public	76	120	221	336

*Excluding temporary employees and Malta Drydocks

Source: Compiled from Employment and Training Corporation data

Chart 3.11

Market Services * Total Sector Employment



*including Malta Drydocks

Employment in Market Services*

Table 3.9

	1999	2000	2001	2002	2003
	Sep	Sep	Sep	Sep	Sep
Wholesale & Retail trades	15,328	15,633	15,289	15,429	15,861
Private	15,313	15,633	15,289	15,429	15,861
Public	15	-	-	-	-
Banks & Financial institutions	4,242	4,228	4,140	4,033	4,071
Private	3,845	3,827	3,721	3,579	3,620
Public	397	401	419	454	451
Insurance	835	816	852	839	826
Private	831	811	845	832	819
Public	4	5	7	7	7
Real Estate	529	492	492	475	497
Private	495	454	456	444	467
Public	34	38	36	31	30
Transport	8,145	8,300	7,712	7,503	7,492
Private	5,737	5,855	5,236	5,110	5,111
Public	2,408	2,445	2,476	2,393	2,381
Storage & Warehousing	625	694	740	760	767
Private	171	170	137	148	156
Public	454	524	603	612	611
Communications	2,218	2,383	2,572	2,517	2,285
Private	451	667	806	866	740
Public	1,767	1,716	1,766	1,651	1,545
Community & Business	13,464	14,315	15,762	16,587	17,457
Private	9,670	10,347	11,053	11,398	12,473
Public	3,794	3,968	4,709	5,189	4,984
Recreation services	815	840	1,143	950	890
Private	660	693	1,012	831	776
Public	155	147	131	119	114
Hotels & Catering establishments	9,628	9,812	9,962	9,538	9,632
Private	9,258	9,443	9,501	9,083	9,180
Public	370	369	461	455	452
Other personal services	2,617	2,824	2,644	2,674	2,702
Private	2,514	2,722	2,644	2,674	2,702
Public	103	102	-	-	-
Total Employment in Market Services	58,446	60,337	61,308	61,305	62,480

* Excluding temporary employees and Malta Drydocks

Source: Employment and Training Corporation

an increase of 1,175, reaching the level of 62,480 persons. The contributor to the overall increase in the gainfully occupied population in the market services category was the private sector. In fact, total employment in the private sector increased by 1,511 persons. On the other hand, the public sector reduced its workforce in market services activities by 336, as highlighted in Table 3.8. These developments were influenced by the privatisation of the airport company. Chart 3.11 depicts the trends in employment in the market services category.

Sectoral Changes in Employment in Market Services*

Table 3.10

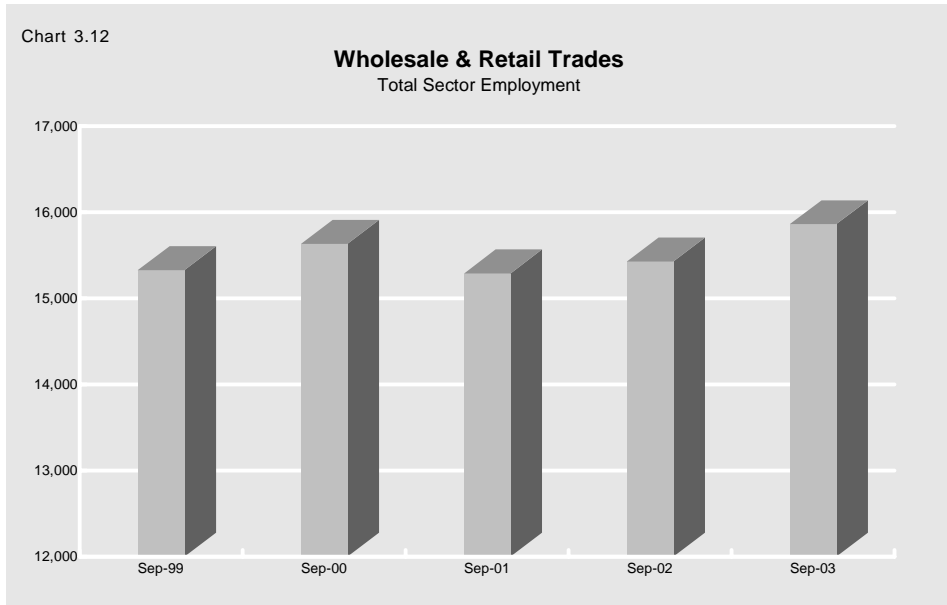
	2000-99	2001-00	2002-01	2003-02
	Sep	Sep	Sep	Sep
Wholesale & Retail trades	305	-344	140	432
Private	320	-344	140	432
Public	-15	-	-	-
Banks & Financial institutions	-14	-88	-107	38
Private	-18	-106	-142	41
Public	4	18	35	-3
Insurance	-19	36	-13	-13
Private	-20	34	-13	-13
Public	1	2	-	-
Real Estate	-37	-	-17	22
Private	-41	2	-12	23
Public	4	-2	-5	-1
Transport	155	-588	-209	-11
Private	118	-619	-126	1
Public	37	31	-83	-12
Storage & Warehousing	69	46	20	7
Private	-1	-33	11	8
Public	70	79	9	-1
Communications	165	189	-55	-232
Private	216	139	60	-126
Public	-51	50	-115	-106
Community & Business	851	1,447	825	870
Private	677	706	345	1,075
Public	174	741	480	-205
Recreation services	25	303	-193	-60
Private	33	319	-181	-55
Public	-8	-16	-12	-5
Hotels & Catering establishments	184	150	-424	94
Private	185	58	-418	97
Public	-1	92	-6	-3
Other personal services	207	-180	30	28
Private	208	-78	30	28
Public	-1	-102	-	-
Total Employment in Market Services	1,891	971	-3	1,175

* Excluding temporary employees and Malta Drydocks

Source: Employment and Training Corporation

Total job gains in market services activities reached 1,705 during the twelve months to September 2003 from 1,110 a year earlier. Meanwhile, total sectoral job losses amounted to 530, down from 1,113 registered in the year ending September 2002. The most significant gains in employment in the market services category were recorded in the wholesale and retail trades, community and business, and hotels and catering sectors, as indicated in Table 3.10. Meanwhile, job losses originated primarily in the communications and the recreation services sectors.

Chart 3.12



Wholesale and Retail Trades

During the twelve months to September 2003, the wholesale and retail trades sector increased its labour complement by 432 or 2.8 per cent, to 15,861. This sector has registered increases in employment in recent years, except for a decline in September 2001 caused by the closure of a major retail chain. Employment trends in this sector for the last few years are shown in Chart 3.12. The wholesale and retail trade sector accounted for 25.4 per cent of the total market services employment at the end of September 2003.

Banks, Financial Institutions, Insurance and Real Estate

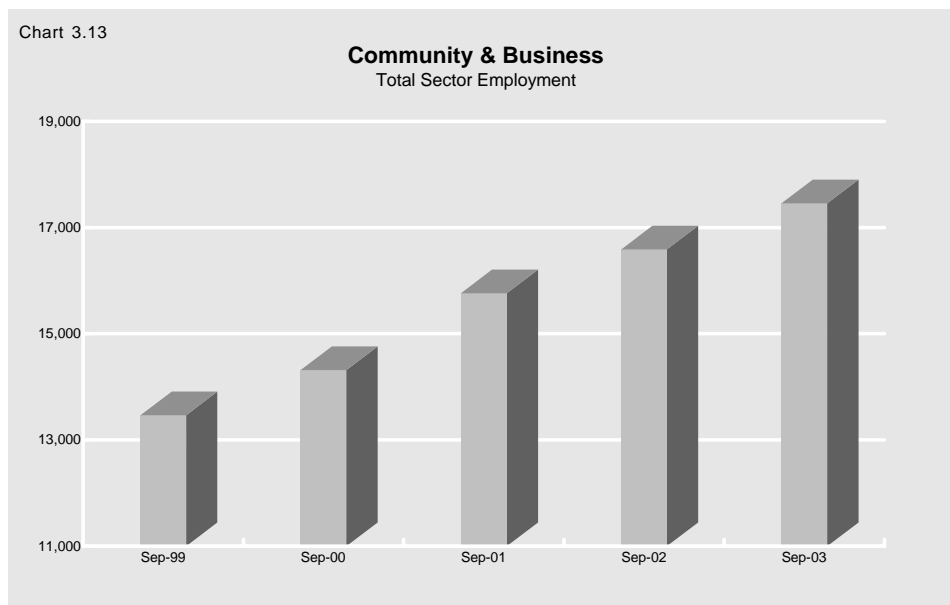
Aggregate employment in the banks, financial institutions, insurance and real estate sectors stood at 5,394 at the end of September 2003, reflecting an increase in jobs of 47, over the corresponding period in 2002. This increase is attributable to higher employment levels in the banks and financial institutions and real estate sectors. On the other hand, employment in the insurance sector declined by 13 over September 2002. It is pertinent to highlight that the increase in the number of employees in the banks and financial institutions represents a reversal of the downturn in employment recorded in the previous years. The banks and financial institutions accounted for 6.5 per cent of total employment in market services activities in September 2003, while insurance and real estate accounted for 1.3 per cent and 0.8 per cent respectively.

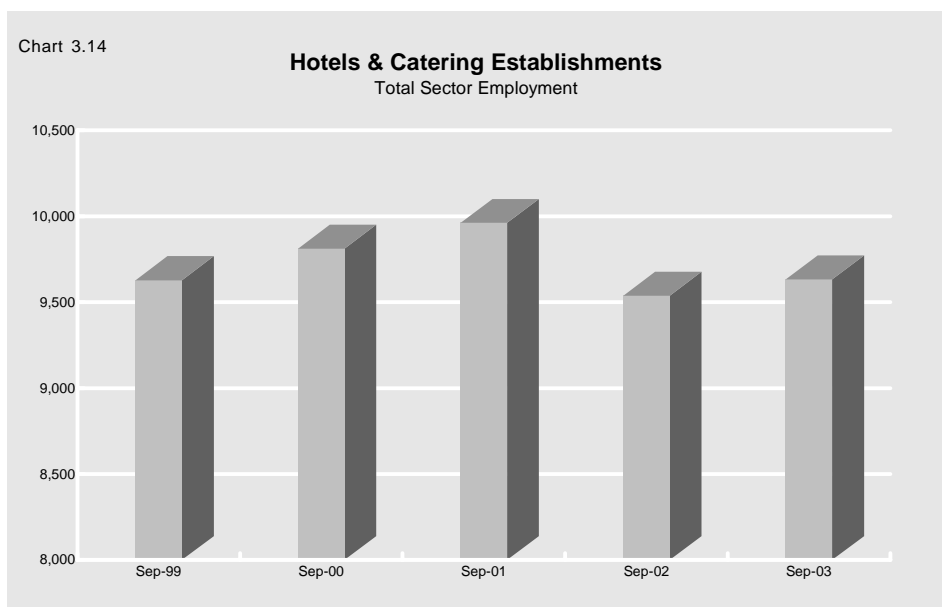
Transport

During the twelve months to September 2003, the labour complement in the transport sector declined by 11, a significantly lower decrease than those registered during the previous two years. The employment level in the sector stood at 7,492 at the end of the Survey period, accounting for 12.0 per cent of total market services employment.

Storage, Warehousing, Communications, Community and Business

Employment in the storage, warehousing, communications, and community and business sectors amounted to 20,509 at the end of the Survey period, representing an increase of 3.2 per cent over September 2002. The storage and warehousing sector recorded a marginal rise in employment whilst the community and business sector continued to follow an upward trend in employment levels. As illustrated in Chart 3.13, employment in the community and business sector increased by 870 or 5.2 per cent during the twelve-month period to September 2003. On the other hand, employment in the communications sector declined by 232 or 9.2 per cent, reaching 2,285 at the end of September 2003. This was the result of reductions in employment in both the private and the public sectors. In the private sector, job losses were due to developments in an important company in the sector in a major company, whilst the decline in the public complement reflected the implementation of voluntary early retirement schemes by the national telecommunications company. At an aggregate level, the storage, warehousing, communications, and community





and business sectors accounted for 32.8 per cent of total market services employment at the end of the Survey period up from 27.9 per cent in September 1999.

Recreation Services, Hotels, Catering Establishments and Others

During the twelve months to September 2003, the recreation services, hotels, catering establishments and other personal services sectors increased their aggregate employment level by 62 or 0.5 per cent, to 13,224. This increase was due to higher employment in the hotels and catering establishments and the other personal services sectors. In fact, employment in the hotels and catering establishments sector increased by 94 or 1.0 per cent. This increase mainly reflects recruitment carried out by a new 5-star hotel. This improvement followed a decline of 424 during the twelve-month period to September 2002, as the tourist industry was under the effects of the events of September 11 as well as due to the temporary closure of a hotel for refurbishment during that period. Chart 3.14 illustrates the developments for employment in this sector during the past years. Employment in the other personal services sector stood at 2,702 an increase of 28 or 1.0 per cent over September 2002. Meanwhile, the recreation services sector registered a decrease in its labour complement of 60 or 6.3 per cent during the twelve-months to September 2003. The recreation services, hotels, catering establishments and the other personal service sectors' share in total market services employment amounted to 21.2 per cent in September 2003, around 1 percentage point lower than the share recorded four years earlier.

Unemployment

The analysis in this section focuses on the registered unemployed under Part I of the unemployment Register. The decline in the gainfully occupied population together with the rise in the labour supply resulted in a higher level of unemployment during the twelve months to September 2003. In fact, the number of registered unemployed persons stood at 7,233 at the end of September 2003, compared to 6,771 a year earlier. As a result, the unemployment rate increased from 4.6 per cent to 5.0 per cent at the end of September 2003. The rise in the number of unemployed persons was reflected in both the male and female components. Whilst male unemployment rose by 220 persons or 4.0 per cent, the female component increased by 242 or 19.5 per cent. Consequently, females accounted for 20.5 per cent of unemployment in September 2003, from 18.4 per cent a year earlier.

Registered Unemployed Classified by Occupation*

at September 2003

Table 3.11

	Registered Unemployed			Percentage Share		
	Males	Females	Total	Males	Females	Total
Non-Manual						
Clerical & related workers	382	400	782	6.6	26.9	10.8
Supervisory	46	12	58	0.8	0.8	0.8
Technological & professional	238	128	366	4.1	8.6	5.1
Miscellaneous non-manual	254	266	520	4.4	17.9	7.2
Total Non-Manual	920	806	1,726	16.0	54.2	23.9
Manual						
Agriculture	96	1	97	1.7	0.1	1.3
Construction	502	2	504	8.7	0.1	7.0
Textiles	10	18	28	0.2	1.2	0.4
Wood working	-	-	-	-	-	-
Printing	14	2	16	0.2	0.1	0.2
Metal working	268	-	268	4.7	-	3.7
Catering	191	20	211	3.3	1.3	2.9
Other services	99	76	175	1.7	5.1	2.4
Labouring	1,406	206	1,612	24.5	13.9	22.3
Miscellaneous	1,994	307	2,301	34.7	20.7	31.8
Total Manual	4,580	632	5,212	79.7	42.5	72.1
Disabled persons	247	48	295	4.3	3.2	4.1
Total	5,747	1,486	7,233	100.0	100.0	100.0

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Registered Unemployed*
by age distribution

Table 3.12

	Registered Unemployed	16 - 24 years %	25 - 49 years %	over 49 years %
1998	7,437	28.7	58.2	13.1
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
2002 (Sep)	6,771	29.0	55.5	15.5
2003 (Sep)	7,233	30.1	55.5	14.4

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

The increase in unemployment is attributable to increases in both the non-manual and manual categories. Non-manual unemployment increased by 119 or 7.4 per cent during the twelve months to the end of the Survey period, primarily attributable to increases in the technological and professionals, and the miscellaneous categories. The share of non-manual unemployment in total unemployment stood at 23.9 per cent at the end of September 2003, marginally above the share recorded a year earlier.

Manual unemployment stood at 5,212, reflecting a rise of 364 or 7.5 per cent over September 2003. The major increases were recorded by the labouring and the miscellaneous categories. As shown in Table 3.11, the share of manual unemployed in total unemployment stood at 72.1 per cent at the end of September 2003. This compares to 71.6 per cent recorded in September 2002. Males accounted for 87.9 per cent of the manual unemployed. On the other hand, the non-manual category of unemployment is more equally split among the genders, with the males accounting for 53.3 per cent.

The number of disabled persons who were registering for employment as at September 2003 amounted to 295 persons, a decline of 21 or 6.6 per cent over the previous comparable period. The share of disabled persons in total unemployment was equivalent to 4.1 per cent, down from 4.7 per cent in September 2002. Raising the participation rate of disabled persons is one of the key objectives of the national labour market policy. In this respect, a number of initiatives were implemented recently, including increased co-operation between the ETC and non-governmental

Table 3.13

Registered Unemployed*
by duration of registration

	Registered Unemployed	under 8 weeks %	9 - 48 weeks %	over 49 weeks %
1998	7,437	13.9	38.1	48.0
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
2002 (Sep)	6,771	19.9	34.0	46.2
2003 (Sep)	7,233	25.1	34.4	40.6

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

organisations in integrating persons with special needs in the labour market and in the provision of specialised employment and training services.

Table 3.12 illustrates the age structure of the unemployed. During the year ending September 2003, the share of youth unemployment, defined as those falling in the 16 to 24 age bracket, increased by 1.1 percentage points, while the share of those over 49 years edged down by the same magnitude to 14.4 per cent in September 2003. The share of the remaining age bracket remained unchanged at 55.5 per cent. In view of the fact that unemployed persons over 40 years of age generally tend to face more difficulties to find a job, the ETC is focusing efforts on this particular age group in its active labour market policies.

The share of those registering for work for more than 49 weeks declined from 46.2 per cent in September 2002 to 40.6 per cent, as shown in Table 3.13. Meanwhile, the proportion of those registering for work for less than eight weeks edged up from 19.9 per cent to 25.1 per cent. These developments reflect the fact that a large part of the increase in unemployment registered between September 2002 and September 2003 occurred in the third quarter of 2003. Meanwhile, the share of those registering for work from 9 to 48 weeks increased by 0.4 percentage points, to 34.4 per cent at the end of September 2003.

4. Productive Activities

4. Productive Activities

In recent years, the domestic manufacturing industry has been facing a number of challenges. On the local front, the trade liberalisation process is removing the protection previously enjoyed by manufacturing firms which cater for the domestic market. These mostly comprise locally-owned small and medium-sized enterprises (SMEs). Levies on imported industrial products were completely eliminated on 1st January 2003, whilst the process of dismantling the levies on imported agro-industrial products has been initiated. On the international front, export-oriented firms, which primarily involve a number of relatively large foreign-owned subsidiaries, are facing challenges posed by increasing globalisation. Furthermore, given the export-orientedness of the Maltese manufacturing industry, the performance of the industry depends on foreign demand and the general global economic outlook.

Since 2001, the weak international economic environment and in particular the subdued global market conditions for electronics, which constitute the main category of domestic manufacturing exports, have had a bearing on local manufacturing activity. In fact, the improvement registered in the global electronics market during the second part of this year was reflected in the performance of exports and employment levels by the local electronics sub-sector during the same period. On the other hand, the economic situation in Malta's main trading partners remained weak. Within this scenario, the local manufacturing industry registered an increase of 4.5 per cent in the level of domestic exports. On the other hand, local sales declined marginally during the period under review. Consequently, total turnover advanced by 3.2 per cent. Net investment in the industry practically remained at the same level recorded during the previous Survey period, at Lm35.1 million. Employment income continued to follow the upward trend registered during the past years and rose by 5.0 per cent during the January-September 2003 period, notwithstanding job shedding in a number of manufacturing sectors.

Value added at factor cost represents an important indicator of the economy's wealth generation capability. Value added per capita for the total manufacturing industry increased by 6.3 per cent in 2002. This was underpinned by increases in both personnel costs per capita and gross operating surplus per capita, with the rate of increase of the latter being of greater magnitude. Value added per capita in real terms increased by 5.2 per cent during 2002. The sectors which contributed most towards aggregate value added were the communication equipment and apparatus, food and beverages, printing and publishing, furniture and other manufacturing, plastic and rubber and wearing apparel sectors.

The agriculture and fisheries sector, despite its modest contribution to domestic economic activity, has important linkages with other economic sectors, besides its social and environmental impact. During the first nine months of this year, the wholesale value of fruit and vegetables sold through organised markets declined marginally when compared to the same period in 2002. On the other hand, the volume and value of fish landings registered an increase from the corresponding figures of last year. Whilst the volume of fish exports registered a decline from the previous year, earnings from these exports in 2003 remained relatively stable.

The ship repair and shipbuilding industry continued to be influenced by international competition and local constraints. As part of the plan which commenced in 2002, in early November 2003 an agreement was reached between the management of the yards and the trade union representing the employees on restructuring and a new collective agreement designed to make the shipyards operationally and financially viable in the long term.

This Chapter first provides an in-depth review of the local manufacturing industry's performance during the nine months to September 2003. Data analysed 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) is based on the results of the monthly survey conducted amongst a representative sample of manufacturing firms, rather than all manufacturing industries. 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. This methodology has been applied to data since 1999.

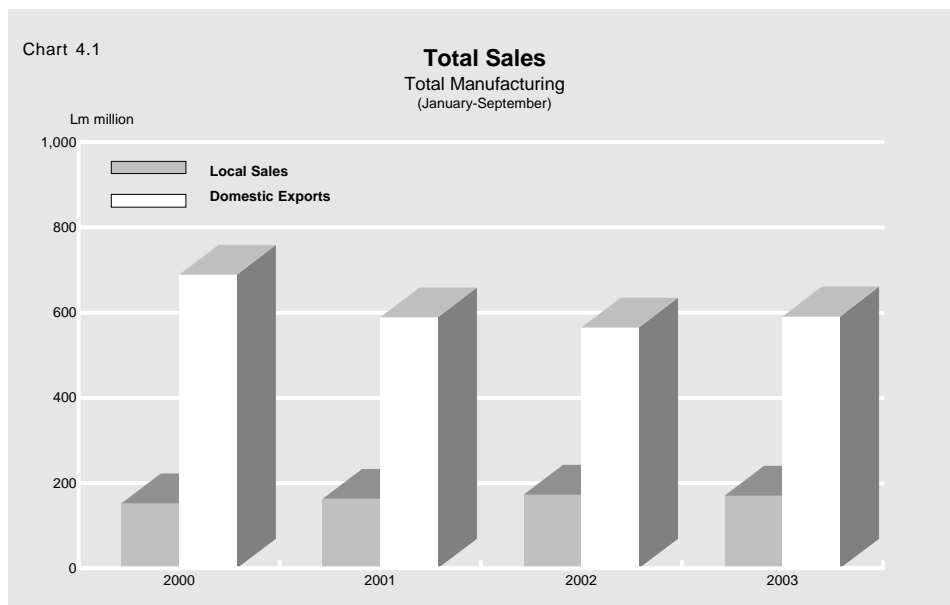
The second part of this Chapter analyses sectoral value added at factor cost for the total manufacturing industry. Data for this section is compiled by the NSO from annual business surveys. Since the data on value added at factor cost is classified by the NSO according to NACE, it is not directly comparable with data on value added that has been published in previous Economic Surveys and 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. The new methodology, which has been applied to data as from 1999, is in line with the Structural Business Statistics Council Regulation 58/97, thereby being comparable to European Union methodology.

Subsequently, the Chapter provides a review of activity in the agriculture and fisheries sector. Finally, it concludes with an analysis of developments in the shipyards during the current year.

Domestic Manufacturing Performance

During the Survey period, total turnover for the industry increased by 3.2 per cent and stood at Lm761.8 million. This follows declines in turnover during the first nine months of 2001 and 2002. This performance was mainly underpinned by an increase of 4.5 per cent in domestic exports, which stood at Lm590.8 million during January-September 2003. The sectors which registered major improvements in domestic exports during the Survey period were the communication equipment and apparatus, printing and publishing, medical and precision equipment, the food and beverages and other transport equipment sector. On the other hand, other sectors registered a downturn in exports during the period under review, namely the wearing apparel, leather, plastic and rubber, fabricated metal and electrical machinery.

Local sales for the total manufacturing industry stood at Lm171.0 million during the Survey period, which was 1.1 per cent lower than the level recorded during the same period last year. This performance should be analysed within the context of increased competition from imports as a result of the trade liberalisation process as well as the relatively subdued domestic economic activity. As a result of these developments, the share of local sales in total manufacturing turnover fell by 1.0



percentage point and stood at 22.4 per cent, while the share of domestic exports in total turnover increased from 76.6 per cent to 77.6 per cent. Chart 4.1 depicts the performance of domestic exports and local sales.

Earnings from employment in the manufacturing industry for the period under review increased by 5.0 per cent and stood at Lm92.8 million, as shown in Chart 4.2. At Lm35.1 million, capital outlays in the manufacturing industry practically maintained the same level registered during the first nine months of 2002, as highlighted in Chart 4.3. In particular, the textiles, printing and publishing, chemicals and communication equipment and apparatus sectors registered contractions in investment. On the other hand, significant increases in investment were recorded in the food and beverage and furniture and other manufacturing sectors.

As illustrated in Chart 4.4, average weekly sales per employee increased by 7.8 per cent during the Survey period and stood at Lm931.96. This resulted from a higher level of turnover as well as a significant decrease in the number of persons employed in the manufacturing industry. Chart 4.5 presents per capita compensation levels, which increased by 9.7 per cent during the period under review and reached Lm113.5 per week.

Chart 4.6 presents the average rates of change in domestic exports and local sales recorded in eleven major sectors within the manufacturing industry during the first nine months of the 1999-2003 period. Positive rates of growth in domestic exports

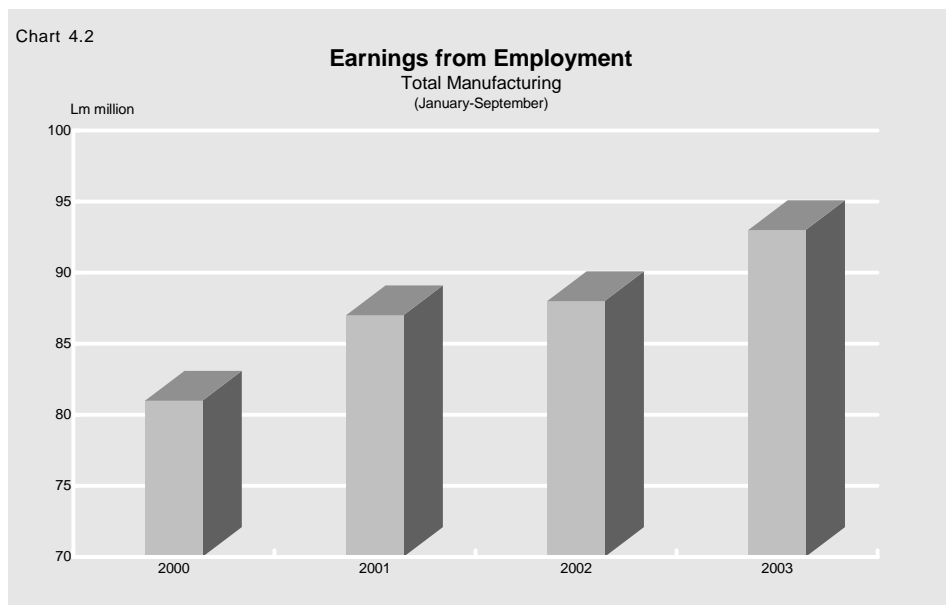


Chart 4.3

Net Investment
Total Manufacturing
(January-September)

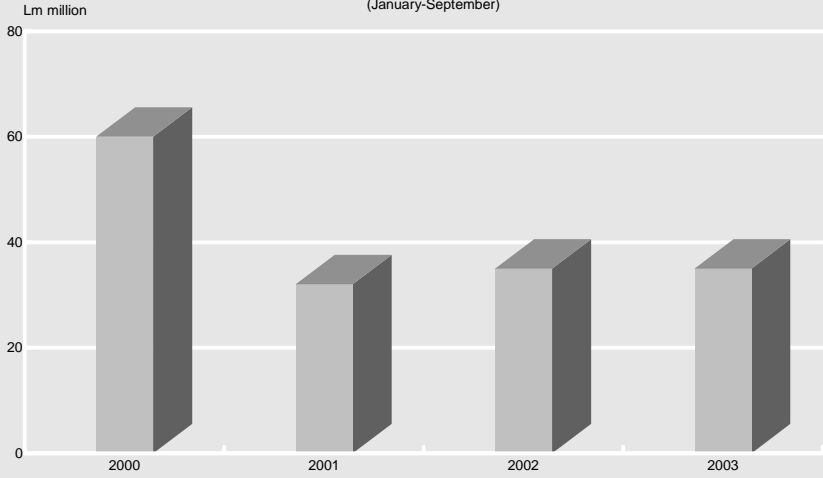


Chart 4.4

Total Manufacturing
Average Weekly Sales per Employee
(January-September)

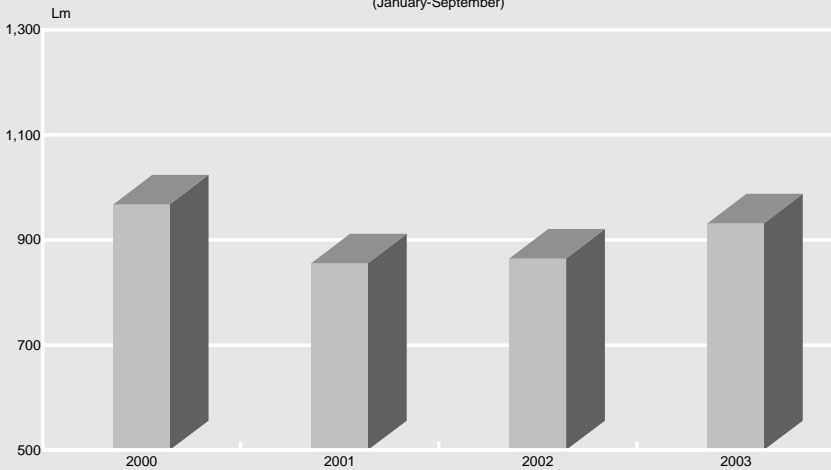


Chart 4.5

Total Manufacturing
Average Weekly Earnings per Employee
(January-September)

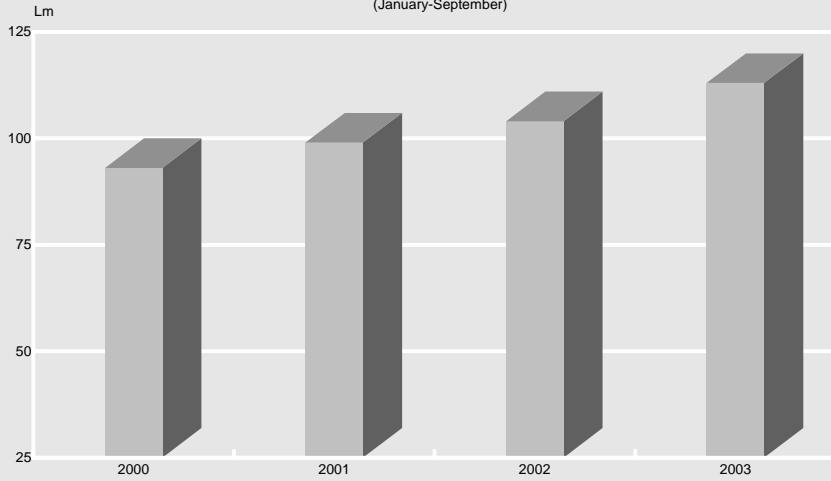
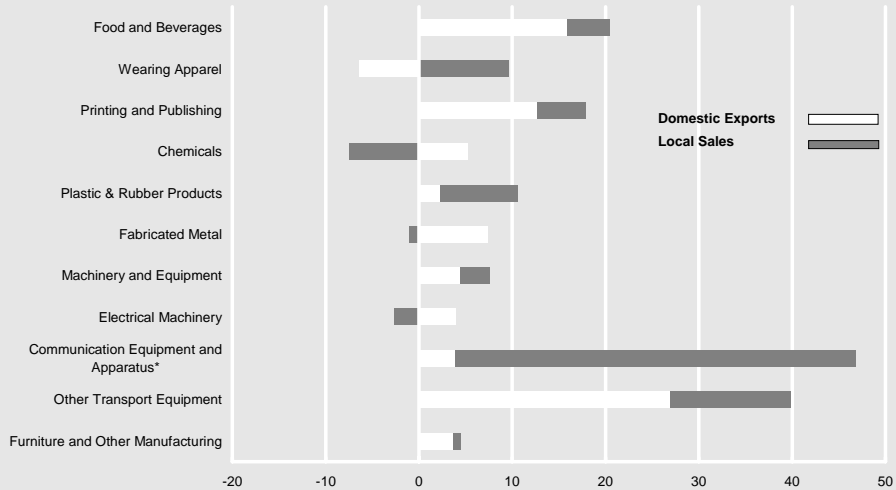


Chart 4.6

Manufacturing
Percentage Average Growth Rate (January-September 1999-2003)



* As from 2002, the communication equipment and apparatus sector includes activities that were previously included in the electrical machinery sector.

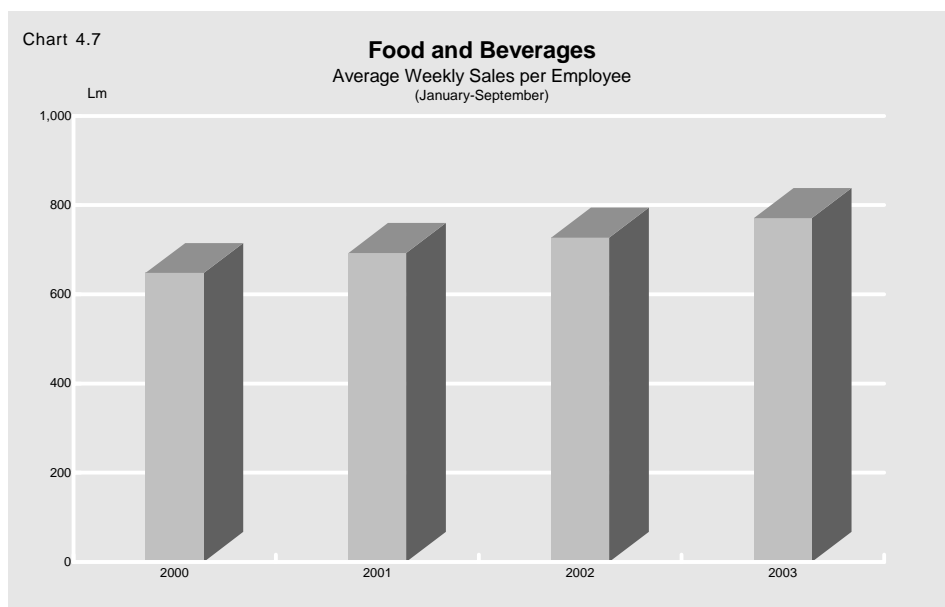
were recorded in all the sectors except for the wearing apparel sector. Furthermore, negative growth rates in local sales were only recorded in the chemicals, electrical machinery and fabricated metal products sectors.

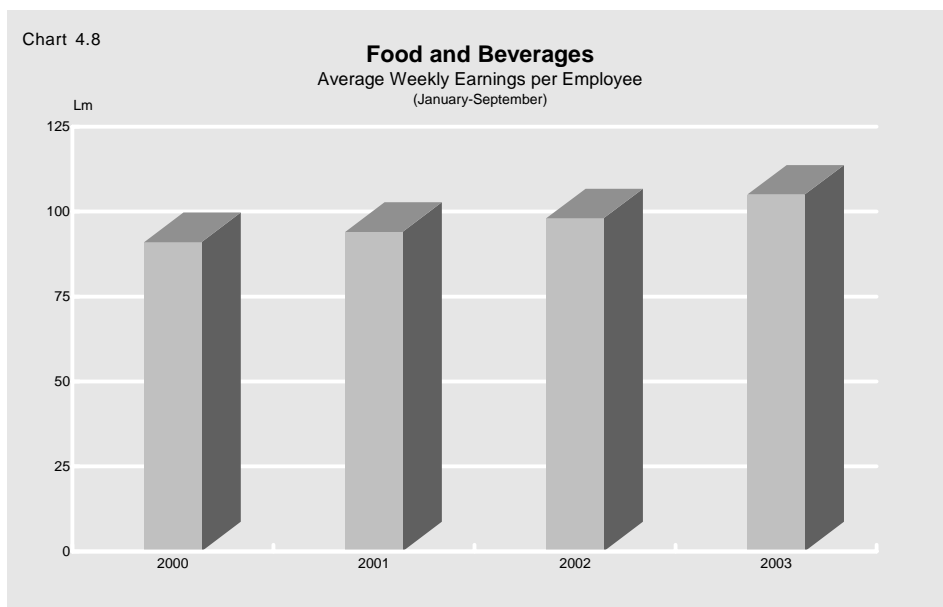
Manufacturing activity in the main sectors within the industry is analysed in the following section. Appendix Table 4.1 at the end of the Chapter provides statistical data on the industrial performance at a sectoral level.

Food and Beverages

One of the most locally oriented sectors in the industry remains the food and beverage sector. This sector directed 83.1 per cent of production towards the local market during the period under review. The beverage sub-sector is largely local-oriented, while the food sub-sector is mainly export-oriented. During the Survey period, the sector's share in total manufacturing turnover stood at 12.5 per cent, being the second largest share of turnover in the industry after the communication equipment and apparatus sector.

Turnover increased by 6.3 per cent and reached Lm95.0 million, being underpinned by an 11.6 per cent increase in domestic exports and a 5.3 per cent increase in local sales. A number of companies in this sector have increased or started to devote a share of their production towards the export market. Net investment in the sector registered a marked increase during the Survey period and reached





Lm5.3 million from Lm2.3 million recorded during the same period last year. Certain companies in this sector have invested in new production processes in order to achieve high operational standards.

Average weekly sales per employee increased by 6.0 per cent and stood at Lm771.04 during the period under review, as illustrated in Chart 4.7. Per capita compensation levels, depicted in Chart 4.8, registered an increase of 7.2 per cent to reach Lm104.97 during the Survey period.

Wearing Apparel

One of the most export-oriented sectors remains the wearing apparel sector which directed around 89 per cent of its production towards the export market. However, this sector has registered a significant downturn during the first nine months of 2003, with turnover declining by 15.7 per cent. This was mainly underpinned by a 16.1 per cent decline in domestic exports. Wages in the sector registered a 22.0 per cent decline during the period under review, reflecting a decrease in employment levels. This was mainly due to the down-sizing or closure of certain firms which faced a reduction in foreign demand and an increasingly competitive international environment. On the other hand, net investment practically maintained the level registered during the previous period and stood at Lm0.4 million.

Chart 4.9

Wearing Apparel
Average Weekly Sales per Employee
(January-September)

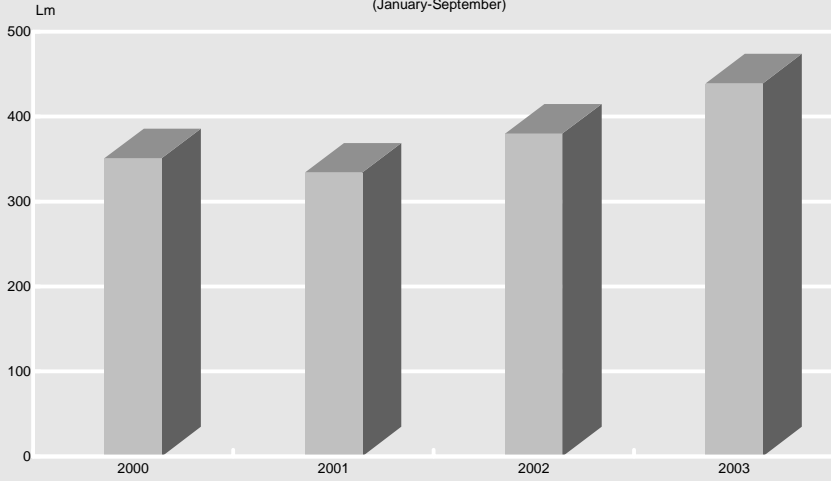
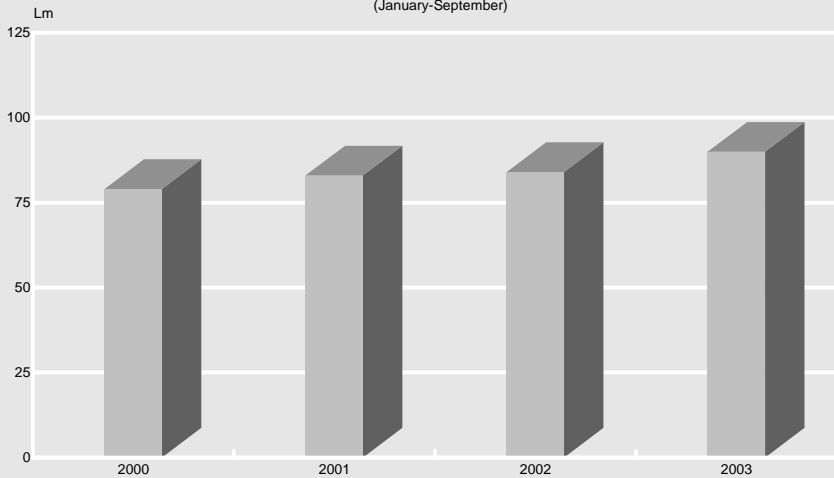


Chart 4.10

Wearing Apparel
Average Weekly Earnings per Employee
(January-September)

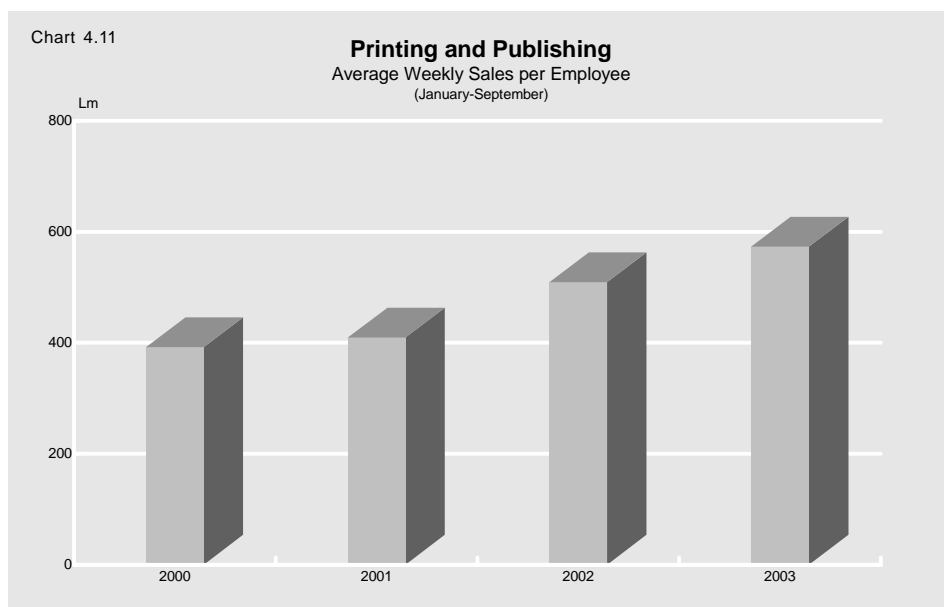


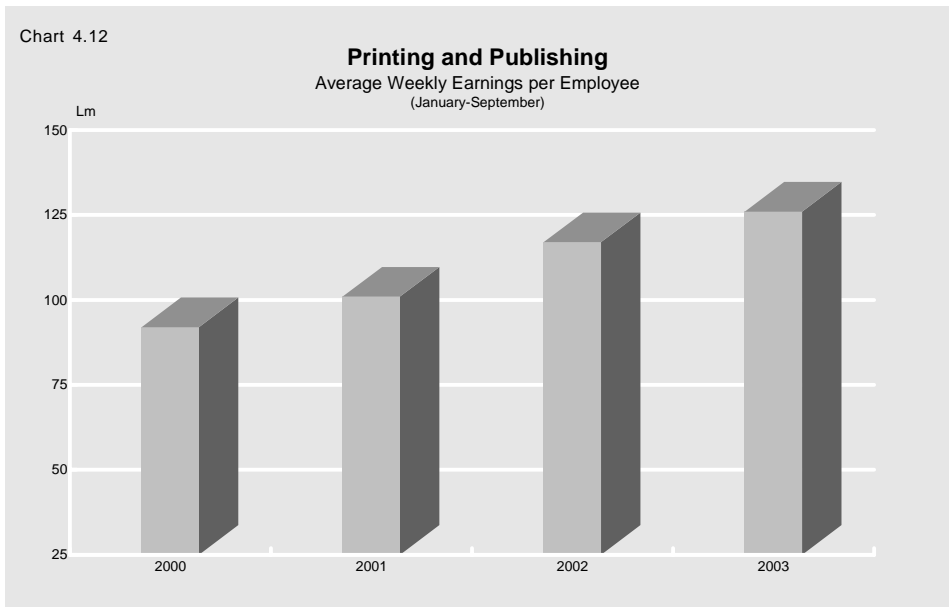
Due to the drop in employment in this sector, average weekly sales per employee increased by Lm58.50 to reach Lm438.74 in September 2003, whilst average weekly domestic exports per employee advanced from Lm338.63 to Lm389.21. Per capita compensation levels rose by 6.8 per cent, and stood at Lm89.81, which is significantly below the average for the manufacturing industry. Charts 4.9 and 4.10 present average weekly sales per employee and per capita compensation levels, respectively.

Printing and Publishing

During the period under review, the printing and publishing sector continued to register growth, with turnover increasing by 16.9 per cent. This performance was mainly underpinned by an increase in domestic exports, while local sales remained at the level recorded during the previous Survey period. The share of output directed towards the export market rose from around 63 per cent to over 68 per cent. Meanwhile, capital outlays during the first three quarters of 2003 registered a decline of Lm0.9 million, to Lm2.4 million.

Chart 4.11 presents average weekly sales per employee for the sector, which registered an increase of 12.5 per cent to reach Lm572.53 during the Survey period. Average weekly domestic exports per employee registered an increase of Lm70.48 and stood at Lm390.22 during the period under review. Furthermore, average per capita compensation levels maintained the upward trend followed during previous years, as illustrated in Chart 4.12. During the Survey period, average weekly





earnings per employee increased by Lm9.09 and reached Lm126.24, which was 11.2 per cent higher than the average recorded for the total manufacturing industry.

Chemicals

The chemicals sector is largely export-oriented, with over 78 per cent of its output directed towards the export market. This sector is made up of a cluster of firms which produce pharmaceuticals and toiletries mainly for the export market and a number of companies which mainly produce paints, detergents and insecticides for the local market.

Total turnover declined by 2.0 per cent during the Survey period, mainly due to a 7.9 per cent decrease in local sales. Domestic exports have remained stable during the first nine months of the last three years, at around Lm20 million. Net investment declined by Lm1.3 million and stood at Lm2.6 million during January-September 2003.

Average weekly sales per employee registered a slight decline during the period under review, to Lm634.67, whilst average weekly domestic exports per employee increased marginally. Per capita compensation levels continued to increase, reaching Lm127.05. Average weekly earnings per employee for the sector were 11.9 per cent higher than the average for the total manufacturing industry.

Plastic and Rubber

Total turnover in the plastic and rubber sector declined by 2.8 per cent to Lm29.0 million. Local sales contracted by 4.9 per cent, whilst domestic exports, which make up over 78 per cent of total production, declined by 4.7 per cent. Capital outlays in the sector practically remained at the level registered since the January-September 2001 period, and stood at Lm2.2 million during the nine months to September 2003.

The sector's average weekly sales per employee registered an increase of Lm31.19 and stood at Lm424.72 during the Survey period. Average weekly domestic exports per employee increased by 5.8 per cent, to Lm333.37. Per capita compensation levels increased by 10.4 per cent and stood at Lm117.28 during the same period. These developments reflect a drop in employment in the sector.

Electrical Machinery

Total turnover in the electrical machinery sector declined by Lm2.1 million and stood at Lm28.1 million during the period under review. This was mainly underpinned by a 17.2 per cent decline in local sales and a decrease of 6.6 per cent in domestic exports, which represent over 96 per cent of total sectoral output. Capital outlays in the sector remained practically unchanged at Lm1.4 million.

Average weekly sales per employee declined by 5.6 per cent and stood at Lm600.51 during January-September 2003, whilst average weekly domestic exports per employee recorded a decrease of 5.2 per cent. Average per capita compensation levels continued to improve, increasing by Lm9.14 to reach Lm122.17.

Communication Equipment and Apparatus

The largest sector in the manufacturing industry in terms of output, exports and investment, remains the communication equipment and apparatus sector. Sectoral turnover, which mainly consists of electronic components and other precision communication products, is greatly affected by the performance of a small number of relatively large foreign subsidiaries. Given the export-orientedness of this sector, its activity is highly dependent on international economic developments, and in particular on market conditions for electronic products.

Following the strong growth registered by this sector in the first nine months of 2000, contractions in output were recorded during the subsequent two years. During the Survey period, an improvement was registered in this sector with total output

Chart 4.13

Communication Equipment and Apparatus

Average Weekly Sales per Employee
(January-September)

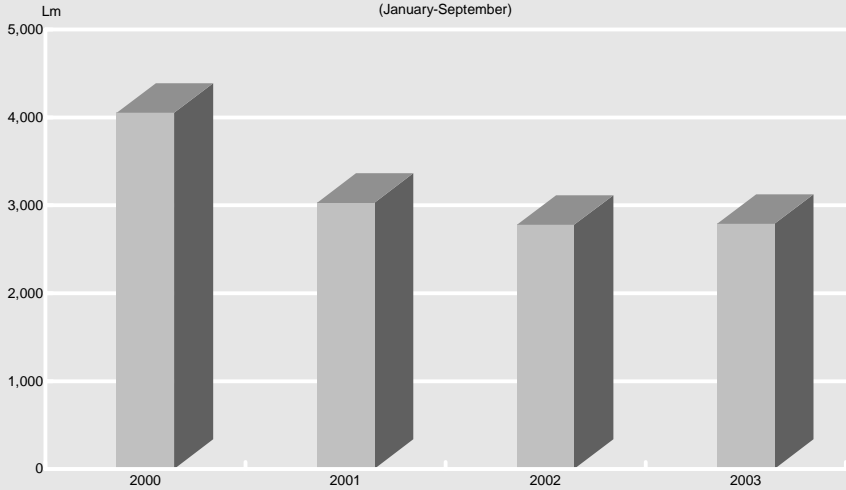
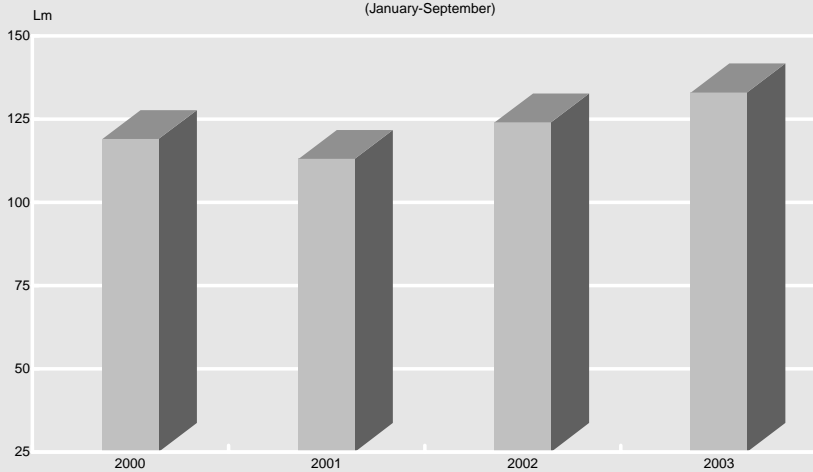


Chart 4.14

Communication Equipment and Apparatus

Average Weekly Earnings per Employee
(January-September)



rising by 6.5 per cent, reflecting the gradual recovery in global semi-conductor demand and other indicators of concurrent activity in the semi-conductor sub-sector which started to realise after the first part of this year. This performance was underpinned by a 6.7 per cent increase in domestic exports. On the other hand, local sales declined by Lm0.4 million and stood at Lm2.0 million during the same period. Furthermore, investment levels stood at Lm14.4 million, which is about the level recorded in the first three quarters of the previous two years. It should be noted that the capital outlays for 2000 were exceptionally high due to the expansion in capacity undertaken by a major firm.

Marginal increases were recorded in average weekly sales per capita and average weekly domestic exports per employee, as the increases in turnover and exports were partly offset by a rise in sectoral employment. Chart 4.13 illustrates average weekly sales per employee. Per capita weekly compensation levels, presented in Chart 4.14, increased by 6.8 per cent and stood at Lm132.69 during the period under review. The communication equipment and apparatus sector had the highest average weekly domestic exports per employee whilst average earnings per employee were around 17 per cent higher than the average for the industry.

Medical and Precision Equipment

The medical and precision equipment sector is made up of three clusters of firms which are involved in the production of medical products, measuring and precision instruments and spectacle frames and sunglasses. The sector is export-oriented, with over 99 per cent of output devoted to the foreign market. Total turnover improved by 15.9 per cent during the period under review, mainly reflecting a 16.1 per cent advance in domestic exports. On the other hand, net investment declined from Lm0.6 million to Lm0.3 million in January-September 2003.

Both average weekly sales per employee and average weekly domestic exports increased by around 22 per cent during the Survey period. Average weekly compensation levels per capita increased by Lm24.37, to reach Lm128.21 in January-September 2003, thus exceeding the average for the total manufacturing industry by 13.0 per cent.

Other Transport Equipment

During past years, the other transport equipment sector has increased its proportion of output directed towards the export market from around 79 per cent in 2000 to over 89 per cent recorded during the Survey period. Turnover and exports approximately doubled during the period under review, reaching Lm11.8 million

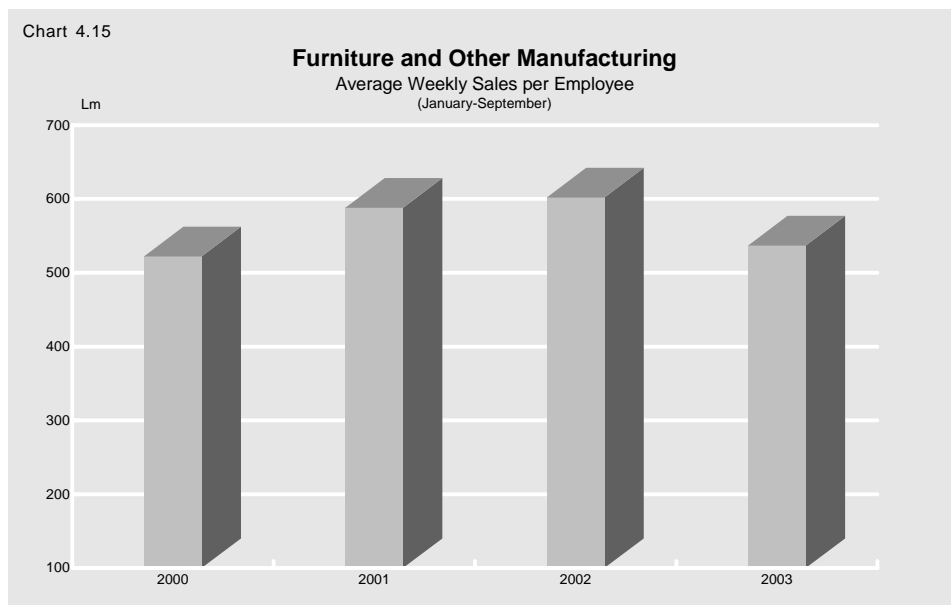
and Lm10.5 million respectively. This was mainly due to the operation of a new company which started operating within the sector, whose activities include servicing and repair of aircraft. An increase was also registered in local sales which rose from Lm0.6 million to Lm1.3 million. Net investment levels for the sector during the January-September 2003 period increased to Lm0.6 million, from negligible levels in the previous years.

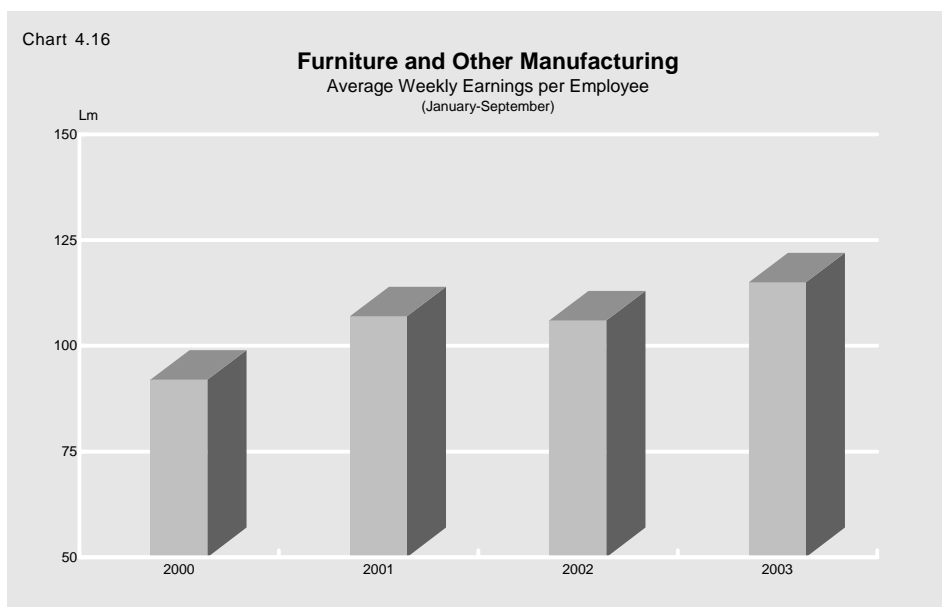
The new company operating in this sector has had a notable impact on average weekly sales, domestic exports and compensation levels per capita. Indeed, whereas in January-September 2002, these indicators were close to the average for the industry, during the Survey period this sector had the second highest domestic exports per employee and the highest average weekly earnings per employee.

Furniture and Other Manufacturing

This sector consists of a cluster of firms producing furniture mainly for the local market and another cluster of firms engaged in the manufacture of toys, games and jewellery items directed to the export market.

During the period under review, turnover in the sector declined by 11.4 per cent, mainly due to a decrease in local sales by the furniture sub-sector. The complete dismantling of levies on imported furniture products which took place in October 2002 led to a decrease in the price of foreign furniture, which has partly contributed





to the decline in demand for local furniture. Domestic exports remained practically at the level recorded during the previous Survey period, as domestic exports within the furniture and jewellery sub-sectors declined whilst exports by the toys and games sub-sector advanced. Capital outlays in the sector increased by Lm1.2 million and at Lm4.0 million was the highest level of investment recorded in the sector during recent years. The increase in investment levels was registered in the toys and games sector, particularly with respect to a foreign-owned company which opened a new factory to cater for an expansion in production levels.

Average weekly sales per employee declined by Lm65.34 and stood at Lm536.89 during the period under review, as shown in Chart 4.15. Furthermore, average weekly domestic exports per employee recorded a marginal increase and stood at Lm384.73 during the January-September 2003 period. Average weekly earnings per employee, which are presented in Chart 4.16, registered an increase of 8.5 per cent during the Survey period and stood at Lm114.93.

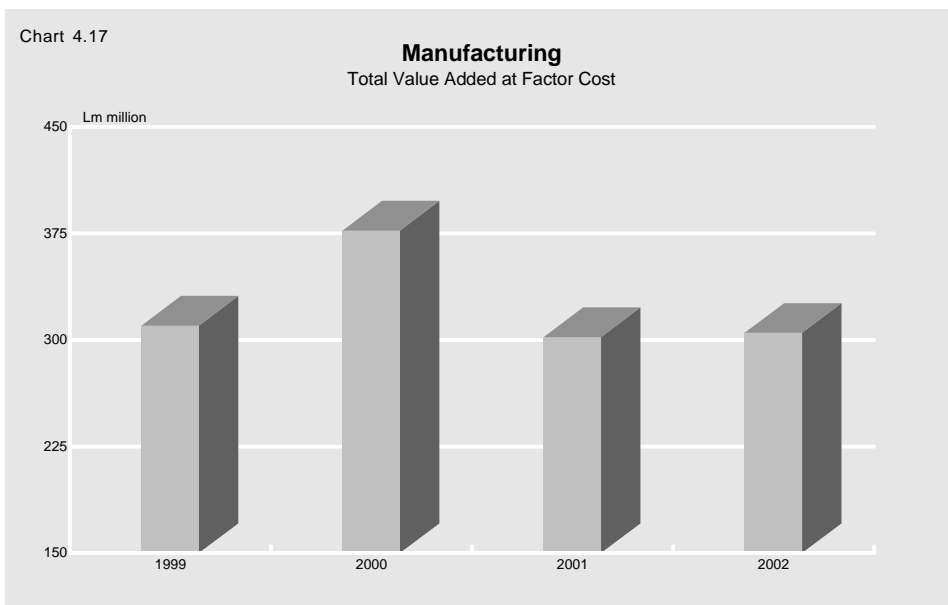
Value Added

This section reviews changes in value added at factor cost for the manufacturing industry during the 1999-2002 period. This analysis is based on data compiled from manufacturers' responses to an annual business statistics questionnaire which follows the Structural Business Statistics Council Regulation 58/97. Under this

methodology, which covers data from 1999, personnel costs and gross operating surplus make up value added at factor cost. Personnel costs consist of wages and salaries and employers' social security costs, whilst gross operating surplus is the surplus generated by operating activities after deducting labour costs. Data on value added compiled under this methodology was published for the first time in the Economic Survey January-September 2002, and due to the change in methodology, it is not directly comparable with value added data published in previous Economic Surveys.

Value added data provides the basis for an analysis of the contribution of various sectors to the domestic manufacturing industry. Chart 4.17 presents the trend followed by total value added at factor cost during the 1999-2002 period. Total manufacturing value added increased by 21.6 per cent in 2000, but in the following year it fell by 19.8 per cent. During 2002, total manufacturing value added rose by a marginal 1.1 per cent, thus returning almost to the 1999 level. These fluctuations primarily reflected changes in gross operating surplus, whilst personnel costs followed a gradual upward trend during the 1999-2002 period.

A better analysis of the manufacturing industry can be made on the basis of value added per capita. Table 4.1 presents value added at factor cost per capita by the sectors within the local manufacturing industry. Total value added per capita reflected developments in aggregate value added. A sharp rise of 25.8 per cent was registered in 2000, followed by a decline of 17.8 per cent in 2001, whilst a rise of 6.3 per cent



was recorded in 2002. Table 4.2 illustrates personnel costs per capita which increased from Lm5,306 in 1999 to Lm5,991 during 2002. At 6.7 per cent, the rate of increase in personnel costs per capita was highest in 2000, but was negligible in 2001. An improvement of 5.8 per cent was recorded in 2002. As highlighted in Table 4.3, the changes in value added at factor cost per capita basically reflected developments in gross operating surplus per capita. This component of value added per capita amounted to Lm4,838 in 2002, which is 6.6 per cent above the level registered in 1999. Chart 4.18 depicts value added at factor cost per capita during the 1999-2002 period.

The share of personnel costs and gross operating surplus in value added per capita stood at around 54 per cent and 45 per cent, respectively during the 1999-2002 period. The only exception was the year 2000 when the sharp rise in gross operating surplus per capita resulted in an increase in its share in value added at factor cost per capita to 54 per cent.

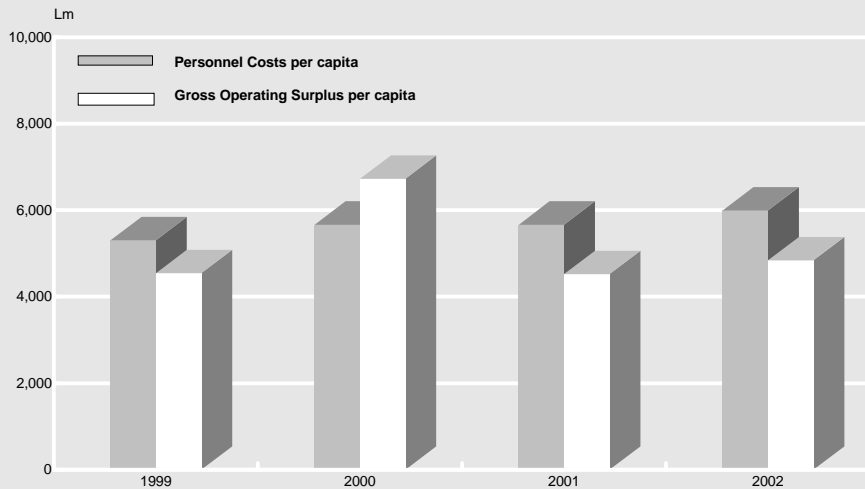
	1999	2000	2001	2002*
Food and Beverages	12,056	11,663	10,503	11,388
Tobacco	21,102	32,432	22,484	19,387
Textiles	5,800	13,363	11,745	13,327
Wearing Apparel	7,145	7,957	6,974	8,567
Leather	5,851	6,340	5,947	6,338
Wood	4,544	5,669	5,420	4,880
Paper	10,861	8,870	7,598	7,633
Printing and Publishing	10,299	12,136	11,582	12,786
Chemicals	22,314	18,200	23,844	26,902
Plastic and Rubber	11,910	12,911	10,847	13,096
Other Non-Metallic Minerals	7,600	8,481	7,555	7,643
Basic Metals	6,072	6,652	7,203	5,265
Fabricated Metal	5,350	7,200	8,572	9,925
Machinery and Equipment	13,583	10,766	12,413	11,365
Office Machinery	765	10,309	11,713	12,143
Electrical Machinery	12,271	11,053	10,436	10,357
Communication Equipment and Apparatus**	24,809	39,485	21,653	19,762
Medical and Precision Equipment	11,572	12,190	10,569	13,517
Motor Vehicle Parts and Accessories	6,217	7,452	6,655	4,999
Other Transport Equipment	3,395	3,587	4,470	3,998
Furniture and Other Manufacturing	7,347	9,459	8,435	8,006
Recycling	8,304	11,535	8,960	8,863
Total Manufacturing	9,846	12,390	10,187	10,829

* Provisional
** 2002 figures cover a company which did not feature in the data of previous years

Source: National Statistics Office

Chart 4.18

Composition of per capita Value Added at Factor Cost



Personnel Costs per capita

Table 4.2

Lm

	1999	2000	2001	2002*
Food and Beverages	4,566	4,964	4,921	5,366
Tobacco	6,591	8,776	8,747	7,485
Textiles	3,276	5,247	5,698	6,429
Wearing Apparel	4,725	4,704	4,954	6,097
Leather	3,991	4,264	4,552	4,854
Wood	3,352	2,930	2,601	2,343
Paper	4,957	5,271	5,296	5,315
Printing and Publishing	5,718	5,572	5,362	5,895
Chemicals	10,640	9,957	12,839	14,710
Plastic and Rubber	6,043	6,527	5,916	7,194
Other Non-Metallic Minerals	3,796	4,029	4,181	4,226
Basic Metals	5,416	5,250	5,585	4,074
Fabricated Metal	3,966	4,286	4,769	5,542
Machinery and Equipment	4,975	4,465	5,285	4,864
Office Machinery	4,870	8,694	6,970	7,571
Electrical Machinery	5,692	6,046	6,698	6,646
Communication Equipment and Apparatus**	6,832	6,928	6,313	5,700
Medical and Precision Equipment	5,231	5,788	5,753	7,362
Motor Vehicle Parts and Accessories	3,576	3,778	3,958	2,985
Other Transport Equipment	6,988	7,809	7,609	8,087
Furniture and Other Manufacturing	4,693	4,729	4,960	4,703
Recycling	3,950	4,223	4,358	4,320
Total Manufacturing	5,306	5,664	5,665	5,991

* Provisional

** 2002 figures cover a company which did not feature in the data of previous years

Source: National Statistics Office

Gross Operating Surplus per capita

Table 4.3

Lm

	1999	2000	2001	2002*
Food and Beverages	7,490	6,699	5,582	6,022
Tobacco	14,511	23,655	13,737	11,902
Textiles	2,524	8,117	6,047	6,898
Wearing Apparel	2,420	3,253	2,020	2,471
Leather	1,860	2,076	1,396	1,484
Wood	1,193	2,740	2,819	2,538
Paper	5,904	3,599	2,302	2,317
Printing and Publishing	4,581	6,565	6,220	6,891
Chemicals	11,674	8,243	11,005	12,192
Plastic and Rubber	5,867	6,383	4,931	5,902
Other Non-Metallic Minerals	3,804	4,453	3,374	3,416
Basic Metals	657	1,402	1,617	1,191
Fabricated Metal	1,384	2,914	3,803	4,383
Machinery and Equipment	8,609	6,301	7,128	6,501
Office Machinery	(4,105)	1,615	4,742	4,571
Electrical Machinery	6,579	5,007	3,739	3,711
Communication Equipment and Apparatus**	17,977	32,557	15,340	14,063
Medical and Precision Equipment	6,341	6,402	4,815	6,155
Motor Vehicle Parts and Accessories	2,641	3,675	2,697	2,014
Other Transport Equipment	(3,593)	(4,222)	(3,139)	(4,089)
Furniture and Other Manufacturing	2,654	4,731	3,475	3,303
Recycling	4,354	7,312	4,602	4,543
Total Manufacturing	4,540	6,726	4,522	4,838

* Provisional

** 2002 figures cover a company which did not feature in the data of previous years

Source: National Statistics Office

Price fluctuations need to be neutralised in order to conduct an analysis of productivity changes within the manufacturing industry. For this reason, data on real value added has been adjusted by the implicit Gross Domestic Product (GDP) deflator having 1995 as the base year. Table 4.4 and Chart 4.19 present data on real value added at factor cost per capita. In real terms, value added per capita increased by 24.8 per cent in 2000, but in the following year it fell by 22.3 per cent. In 2002, real value added per capita increased by 5.2 per cent, and thus reached a level somewhat higher than that recorded in 1999.

Average value added at factor cost per capita for the total manufacturing industry in nominal and real terms is presented in Table 4.5. In the absence of actual value added at factor cost for 2003, a statistical estimate of annual nominal value added at factor cost was derived applying econometric techniques. An implicit GDP deflator was also calculated. Subsequently, a forecast for real value added at factor

Value Added at Factor Cost per capita
in real terms

Table 4.4

Lm

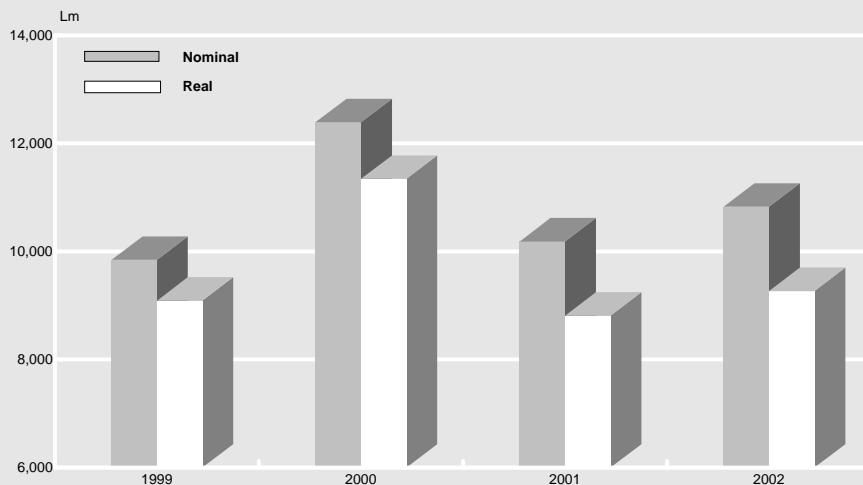
	1999	2000	2001	2002*
Food and Beverages	11,130	10,676	9,085	9,746
Tobacco	19,480	29,686	19,449	16,591
Textiles	5,354	12,232	10,159	11,405
Wearing Apparel	6,596	7,283	6,033	7,332
Leather	5,401	5,803	5,144	5,424
Wood	4,195	5,189	4,689	4,177
Paper	10,026	8,119	6,572	6,532
Printing and Publishing	9,508	11,109	10,019	10,943
Chemicals	20,599	16,659	20,626	23,023
Plastic and Rubber	10,995	11,818	9,383	11,208
Other Non-Metallic Minerals	7,016	7,763	6,535	6,541
Basic Metals	5,605	6,089	6,231	4,506
Fabricated Metal	4,939	6,591	7,415	8,494
Machinery and Equipment	12,539	9,855	10,737	9,726
Office Machinery	706	9,436	10,132	10,392
Electrical Machinery	11,328	10,117	9,028	8,864
Communication Equipment and Apparatus**	22,902	36,143	18,731	16,913
Medical and Precision Equipment	10,683	11,158	9,142	11,568
Motor Vehicle Parts and Accessories	5,740	6,822	5,757	4,278
Other Transport Equipment	3,134	3,283	3,867	3,422
Furniture and Other Manufacturing	6,782	8,659	7,296	6,851
Recycling	7,666	10,558	7,750	7,585
Total Manufacturing	9,090	11,341	8,812	9,267

* Provisional

** 2002 figures cover a company which did not feature in the data of previous years

Source: National Statistics Office

Chart 4.19 **Average Value Added at Factor Cost per capita**
Nominal and Real Terms



Average Value Added at Factor Cost per capita

nominal and real terms

Table 4.5

	1999	2000	2001	2002*	2003 ⁽¹⁾
Average Value Added at factor cost per capita (Lm) at current prices	9,846	12,390	10,187	10,829	11,056
Average Value Added at factor cost per capita (Lm) at constant prices	9,090	11,341	8,812	9,267	9,397
Percentage Change	...	24.8	-22.3	5.2	1.4
Productivity Index 1995=100	102	127	99	104	105

* Provisional

⁽¹⁾ Forecasted

Source: National Statistics Office

cost for 2003 was obtained. The derived average value added at factor cost per capita is forecasted to increase by 1.4 per cent in real terms during 2003.

A productivity index with 1995 as a base year was compiled to reflect the trend in real per capita value added for the 1999-2003 period. The productivity index has increased by 25.0 percentage points during 2000, but fell by 28.0 percentage points in the following year. This trend was reversed in 2002 and increased by a further 1.0 percentage point in 2003.

Sector Analysis

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

The contribution of the food and beverages sector's share to aggregate value added remained the second largest in the industry. The share of this sector in total value added declined in 2000 and although improvements were recorded in the subsequent two years, at 14.6 per cent in 2002, this remains below the share registered in 1999. The sector's value added per capita followed a similar trend. The fluctuations in value added per capita reflected changes in gross operating

Composition of Value Added at Factor Cost

Table 4.6

	per cent			
	1999	2000	2001	2002*
Food and Beverages	17.0	12.3	14.1	14.6
Tobacco	1.1	1.4	1.2	1.0
Textiles	1.0	2.5	3.0	4.2
Wearing Apparel	7.4	6.3	6.5	6.7
Leather	1.7	1.4	1.7	1.4
Wood	0.3	0.3	0.3	0.3
Paper	1.3	0.8	0.9	0.9
Printing and Publishing	6.5	6.1	8.0	9.1
Chemicals	3.6	2.4	3.5	3.4
Plastic and Rubber	6.8	6.7	6.9	7.0
Other Non-Metallic Minerals	3.2	2.9	3.0	3.1
Basic Metals	0.2	0.1	0.1	0.1
Fabricated Metal	2.7	2.4	3.7	4.1
Machinery and Equipment	2.8	1.4	1.8	1.5
Office Machinery	0.0	0.1	0.0	0.0
Electrical Machinery	4.4	3.5	4.3	3.9
Communication Equipment and Apparatus**	21.0	32.1	21.9	21.0
Medical and Precision Equipment	5.0	4.6	4.4	5.1
Motor Vehicle Parts and Accessories	0.2	0.2	0.2	0.1
Other Transport Equipment	4.4	3.6	5.4	4.0
Furniture and Other Manufacturing	9.3	8.6	8.7	8.2
Recycling	0.2	0.2	0.2	0.2
Total Manufacturing	100.0	100.0	100.0	100.0

* Provisional

** 2002 figures cover a company which did not feature in the data of previous years

Source: National Statistics Office

surplus per capita. On the other hand, personnel costs per capita in general followed a gradual upward trend during the 1999-2002 period. The share of personnel costs in value added per capita stood at around 47 per cent during 2001 and 2002. Value added per capita in the food and beverages sector was slightly above the average for the manufacturing industry during 2002.

The wearing apparel sector's share in value added at factor cost stood at 6.7 per cent. This compares to a share of 7.4 per cent in 1999. In contrast, in per capita terms, value added in the sector in 2002 was 19.9 per cent higher than the comparable 1999 figure. This was mainly due to a significant rise of 23.1 per cent in personnel costs per capita in 2002. The share of personnel costs per capita in value added per capita stood at 71.2 per cent, indicating that the sector is relatively labour-intensive. It is pertinent to note that the value added per capita of the wearing apparel sector is around 20 per cent lower than the average for the manufacturing industry.

At 9.1 per cent, the printing and publishing sector was the third sector contributing most to total manufacturing value added at factor cost in 2002. This compares to a share of 6.5 per cent in 1999. This reflects an improved performance by a leading company in this sector. This sector's value added per capita is some 18 per cent higher than the average for the aggregate manufacturing industry. Value added at factor cost per capita increased throughout the 1999-2002 period, with the exception of a decline of 4.6 per cent in 2001. This performance was mainly underpinned by changes in gross operating surplus per capita, whilst the sector's personnel costs per capita remained at a relatively stable level during this four-year period. Since 2000, the share of personnel costs in the sector's value added has remained at around 46 per cent.

The plastic and rubber sector's share in total manufacturing value added at factor cost remained practically unchanged at around 7.0 per cent during the 1999-2002 period. This sector's value added per capita fluctuated between around Lm11,000 and Lm13,000 during this four-year period. The largest change occurred in 2002, when a rise of 20.7 per cent was registered. This was underpinned by an increase of 21.6 per cent in personnel costs per capita and an advance of 19.7 per cent in gross operating surplus per capita. The share of personnel costs in value added per capita was around 55 per cent during 2001 and 2002. Its value added per capita is around 21 per cent above the average for the manufacturing industry.

At 21.0 per cent, the communication equipment and apparatus sector remained the major contributor towards total manufacturing value added. The share of this sector rose sharply to 32.1 per cent in 2000, but in the following year fell back to around the 1999 level. A similar pattern was followed in value added per capita. However, in per capita terms, the sector's value added recorded in 2001 and 2002 has remained below the 1999 level.

The sector's performance in value added at factor cost per head was mainly underpinned by fluctuations in gross operating surplus per capita. On the other hand, personnel costs per capita was relatively more stable during the 1999-2002 period. Nevertheless, it should be noted that personnel costs per capita remained practically unchanged during 2000 but declined by 8.9 per cent in 2001 and by a further 9.7 per cent in the following year. The latter mainly reflects the fact that 2002 figures cover a company which did not feature in the data of previous years. With personnel costs per capita accounting for only 28.8 per cent of value added per capita, the sector remains one of the most capital-intensive sectors in the domestic industry.

Although its share in total manufacturing value added declined by 1.1 percentage points during the 1999-2002 period, at 8.2 per cent, the furniture and other manufacturing sector was the fourth largest contributor to total manufacturing value added during 2002. The value added per capita of the furniture and other manufacturing sector is around three-fourths of the average for the industry. Value added per capita increased by 28.7 per cent in 2000, but declined in the following two years, though in 2002 it remained above the 1999 level. These changes primarily reflected developments in gross operating surplus per capita in the furniture and jewellery sub-sectors. On the other hand, in the four years to 2002, personnel costs per capita did not register any significant fluctuations. With personnel costs making up just under 60 per cent of value added per capita in 2002, the sector remains relatively labour-intensive.

Agriculture and Fisheries

Despite the relatively low contribution of agriculture and fisheries to economic growth, at 2.7 per cent of GDP during the January–September 2003 period, it has very important linkages with other sectors of the Maltese economy. Apart from providing for the welfare of the farming community, agriculture serves to enhance the island's fragile rural landscape. Similarly, the fisheries sector provides a typical seascape in the main fishing villages, which in itself is a tourist attraction.

Agriculture

The Maltese agricultural sector faces a number of structural and natural difficulties such as scarcity of water irrigation, fragmented land ownership, absence of scale economies, an ageing farming population, lack of forage for livestock and undeveloped export distribution facilities. Furthermore, in the past, this sector has operated under import protection. In order to re-invigorate the sector and place it on a more sustainable basis, Government has embarked on an agriculture policy reform delineated in the Special Market Policy Programme for Maltese Agriculture (SMPPMA) which commenced in 2002 and has continued to unfold in the current year. This programme includes the opening-up of the sector by dismantling border tariffs. In fact, as part of the process which commenced in 2002, import levies on a number of agricultural products were reduced during the first nine months of 2003. This is being complemented by assistance earmarked to provide income support during the restructuring phase and also to enable the necessary investment in the sector. During the Survey period, over Lm4.0 million were provided by Government under the agriculture support scheme.

Slaughterings
Beef, Pork and Broilers

Table 4.7

tonnes

	Beef		Pork		Broilers	
	2002	2003	2002	2003	2002	2003
January	119	135	961	992	573	734
February	133	129	831	810	473	671
March	149	113	788	885	482	651
April	187	131	883	913	517	684
May	146	106	895	821	557	509
June	138	123	738	720	441	571
July	174	85	873	802	522	643
August	115	92	822	673	457	535
September	36	128	811	748	539	527
Total	1,197	1,042	7,602	7,364	4,561	5,525

Source: National Statistics Office

Monthly data on the amounts of fresh beef, pork and broilers slaughtered at the Civil Abattoir and in private slaughterhouses during the first nine months of the 2002-2003 period are depicted in Table 4.7. The amount of both beef and pork slaughtered during the first nine months of this year declined when compared to the similar period in 2002. The amount of beef slaughtered decreased by 12.9 per cent to 1,042 tonnes, whilst slaughtering of pork fell by 3.1 per cent to 7,363 tonnes. On the other hand, the quantity of broilers slaughtered during the period under review increased by 21.2 per cent over the previous year, to reach 5,526 tonnes. Pigmear production remained the dominant sector in the meat production industry, accounting for 52.9 per cent of total meat production. Bovine meat production is relatively low as the domestic cattle industry is mainly geared towards the production of milk.

At Lm6.1 million, the wholesale value of fruit and vegetables sold through organised markets remained relatively stable at the level registered during the first nine months of 2002. Similarly, the quantity of fruit and vegetables sold during the first nine months of 2003 totaled 33.3 million kgs, largely at the same level reached during the corresponding period of 2002.

The price and volume indices for fruit and vegetables are presented in Table 4.8. While the vegetable price index for the month of January was lower when compared to the same period last year, prices during the four months between February and May were significantly higher than the corresponding values for 2002. Between

Fresh Fruit and Vegetables Indices

Table 4.8

1995=100

	Fresh Fruit Index		Fresh Vegetables Index	
	Price Index	Volume Index	Price Index	Volume Index
2002				
January	208.25	67.26	205.62	91.21
February	205.46	36.04	142.93	106.87
March	114.00	34.61	125.27	106.80
April	97.73	62.20	166.34	122.98
May	127.63	88.39	97.85	128.44
June	113.10	179.69	88.51	132.71
July	150.88	120.83	79.08	168.66
August	131.35	158.04	93.00	151.85
September	176.25	77.10	101.40	126.40
October	143.02	32.85	115.67	103.20
November	122.84	54.08	110.82	87.89
December	203.33	93.63	112.69	90.46
2003				
January	180.85	50.31	121.97	95.76
February	189.96	27.31	179.54	76.90
March	169.43	26.38	183.09	82.44
April	110.41	54.34	170.93	108.73
May	176.10	74.29	175.25	118.06
June	137.80	160.14	73.94	174.42
July	158.81	122.89	69.38	193.61
August	135.94	169.58	78.10	153.74
September	166.47	142.37	105.60	122.77

Source: National Statistics Office

June and August 2003, the monthly price indices were lower than the corresponding figures for 2002, but stood relatively higher for the month of September. This latter increase mainly reflected higher prices of principal vegetable crops such as potatoes and tomatoes, as well as cauliflowers. The developments in prices of vegetables reflect changes in the production of vegetables. In fact, the volume index for vegetables was higher in 2003 during the months of January, June, July and August but that for February to May and September was relatively lower. This was mainly due to a shortage of cauliflower and a decrease in tomato production when compared to the previous year. A significant drop in production was also recorded in beans, lettuce, marrows and spinach.

With respect to fruit prices, the average price indices during the first three quarters of 2003 were generally higher than those recorded in the corresponding 2002 period, with the exception for January, February and September. The higher price indices

Imports of Major Agricultural Commodities
(January-September)

Table 4.9

Lm million

	2000	2001	2002	2003
Live Animals	0.32	0.31	0.35	0.32
Meat and Edible Offals	6.56	6.31	6.65	7.74
Fish	2.16	4.36	9.34	5.79
Dairy Produce	8.84	9.17	8.78	8.94
Edible Fruits and Nuts	5.91	6.30	6.10	6.18
Cereals	8.22	7.69	7.01	9.26
Preparations of Meat, Fish	5.89	6.45	6.14	6.43
Sugar & Confectionery	3.30	3.87	3.89	3.74
Cereal Prep.	8.28	8.20	8.43	8.67
Veg. and Fruit Prep.	4.37	4.76	5.19	5.63
Misc. Edible Prep.	7.28	6.73	7.85	8.43
Beverages, Spirits, Vinegar	7.11	7.72	8.27	9.36
Feeds	5.26	5.46	5.21	4.81
Total	73.50	77.33	83.21	85.30

Source: National Statistics Office

were primarily due to higher prices of peaches, cherry plums, lemons and nectarines. The fruit volume index was lower during the first half of this year but relatively higher during the third quarter when compared to the corresponding period last year. The increase in the volume index for the third quarter reflected higher volumes of grapes and peaches.

Table 4.9 depicts the major agricultural imports for the first nine months of the 2000–2003 period. The value of agricultural commodities imported during the January–September 2003 period reached Lm85.3 million, an increase of 2.5 per cent over the comparable 2002 period. A higher import value was registered for cereals, beverages, spirits, and vinegar, as well as meat and edible offals, while a notably lower import value was recorded for fish.

Throughout the first nine months of 2003, a total of 4,386 tonnes of agricultural produce was exported as compared to 6,416 tonnes exported during the corresponding 2002 period. Around 98 per cent of the agriculture produce exported consists of potatoes.

Fisheries

The Maltese fishing industry is characterized by both traditional fishing methods as well as fish farming techniques. The domestic fish farming industry, whose main produce includes sea-bass and sea-bream, is primarily export-oriented. During the period under review, 1.5 million fingerlings were imported from France, consisting mainly of sea-bream.

The domestic market is supplied with a variety of fish such as tuna, swordfish and dorado (*lampuki*) through traditional fishing methods. During the first three quarters of this year, the amount of fish landed stood at 728 tonnes, representing an increase of 13.6 per cent from the previous year. The wholesale value of fish landings stood at Lm1.5 million, as compared to Lm1.3 million during the first nine months of 2002. The increase in the wholesale value was mainly due to the increase in the value of shrimp and tuna landings, while decreases were registered in the wholesale value of dorado and swordfish.

	Fresh Fish Index	
	Price Index	Volume Index
2002		
January	139.92	30.51
February	99.14	24.30
March	113.61	10.90
April	184.83	15.67
May	155.24	73.83
June	149.61	81.89
July	145.82	59.78
August	169.26	37.18
September	131.68	116.26
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

Source: National Statistics Office

Exports of Fish

(January - September)

Table 4.11

	2002		2003	
	Qty (Kg)	Value Lm 000	Qty (Kg)	Value Lm 000
Sea-bream/Sea-bass	1,018,117	1,471.4	746,326	1,420.7
Tuna	149,951	343.8	176,583	457.9
Swordfish	34,324	102.6	11,587	34.6
Total	1,202,392	1,917.8	934,496	1,913.2

Source: National Statistics Office

Table 4.10 provides monthly data on average fish prices, expressed as an index (1995=100). The fresh fish price index registered an increase during the periods January to February and between May and June when compared to the corresponding months of last year. On the other hand the price index exhibited a decrease during March and April as well as during the third quarter when compared to the corresponding periods in 2002. The majority of fish was caught between May and September, similar to previous years.

As depicted in Table 4.11, the volume of fish exported during the period under review totaled 934,496 kgs, representing a 22.3 per cent decline when compared to the same period in 2002. Despite this decrease, at Lm1.9 million the value of exports remained relatively stable at the level recorded during the first nine months of 2002. The volume of sea-bream and sea-bass exported declined by 271,791 kgs, while the value of exports declined only marginally to Lm1.4 million. Consequently, the ratio of sea-bream and sea-bass to the total volume of fish-exports fell to 80 per cent. The volume and value of exports of swordfish was also lower during the period under review. On the other hand, the volume and value of exports of tuna increased when compared to the first nine months of 2003.

Shipyards

For the past years, the domestic ship repair and shipbuilding industry experienced difficulties in achieving long-term viability in a highly competitive international climate. The shipyards continue to register notable losses and rely significantly on Government financial assistance.

In September 2001, Government set up a Task Force entrusted with drawing up and implementing a restructuring plan for the shipyards. The resulting restructuring plan, which is spread over 7 years, involves, amongst other things, the gradual scaling down of capacity at the yards in terms of both human and physical resources, as well as training schemes and support to surplus employees seeking alternative occupation.

The restructuring plan started to be implemented in 2002. Early and voluntary retirement schemes proved successful in reducing manpower at the yards by around 700 employees. During 2003 the management of the shipyards concentrated on speeding up the reforms which had been planned in the restructuring plan for the shipyards. The Task Force met a number of times to discuss the remaining issues relating to the finalization of the Collective Agreement, which was signed in November 2003. The new Collective Agreement embodies various reforms in work practices which are needed to improve the productivity of the yards. Agreement was also reached on restructuring in the yards. To this effect, a Bill to make provision for the restructuring of Malta Drydocks and the Marsa Shipbuilding Yard has been presented in parliament. The agreement envisages the absorption of around 1,700 workers by a new, wholly owned Government company - Malta Shipyards Ltd. The remaining 900 workers, who are in excess of the shipyards' needs, are being offered four types of early retirement or voluntary resignation schemes, according to age groups. Those employees who decline this offer would then be integrated into another new, wholly owned Government company, Industrial Projects and Services Ltd, which would then be entrusted with deploying these workers to work assignments where they can be productive, varying from work in the public sector, public-private partnerships and also the private sector. The proposed legislation also incorporates a financial restructuring designed to free the new shipyards' operation from the burden of existing debts and recurrent interest payments.

Table 4.12 provides information on Government assistance granted to the shipyards during the 2000-2003 period. The table indicates that Government assistance to the yards, financed by appropriations from the Consolidated Fund, reached Lm16.7 million during the period under review. This amount comprised Lm4.5 million and Lm12.2 million given in assistance to MSC and MDD respectively. Moreover, Government provided an additional Lm0.8 million to finance the pensions of persons who opted for the early retirement scheme during 2002.

Employment levels at the shipyards have been progressively declining over the 2000-2003 period, as depicted in Table 4.13. Total employment levels in the yards stood at 2,651 on September 2003 as compared to 2,669 in the same month of

Government Assistance

(Contributions through the Consolidated Fund)

Table 4.12

Lm million

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
Malta Shipbuilding	5.1	5.0	5.5	4.2	4.5
Malta Drydocks	5.6	5.1	15.2*	9.5*	12.2*

*Includes funds which in previous years were provided for from the Treasury Clearance Fund

Source: The Treasury

2002. This complement is specifically constituted of 690 employees at Malta Shipbuilding Co Ltd and 1,961 employees at Malta Drydocks.

Despite an increase in turnover in the two shipyards from Lm9.6 million in September 2002 to Lm11.5 million in September 2003, as productivity continued to be low, net losses only reduced marginally from Lm21.4 million in September 2002 to Lm20.9 million in the same period this year.

The commercial ship repair market recovered somewhat during 2003. However, the overcapacity in ship repair facilities in Europe and the Middle East resulted in prices being maintained at the low levels recorded in the last two years. The Maltese shipyards managed to secure some very attractive orders. The USS La Salle contract has once again been won by Malta Drydocks. The conversion work was completed successfully between June and September.

The shipyards also won two important contracts from an international offshore oil services company for the building of two buoys which are being built in the Marsa Yard. There are good prospects that if these contracts are completed successfully others will follow. To achieve the high standards of workmanship demanded on these contracts the yard has had to improve its training and project management capabilities. The conversions market is still rather stagnant with most potential clients reportedly facing financing difficulties for their conversion projects. This has resulted in protracted negotiations with short-listed shipyards for two specific contracts which the local shipyards are targeting.

Employment

Table 4.13

	2000	2001	2002	2002 Sep	2003 Sep
Malta Shipbuilding	823	813	692	693	690
Malta Drydocks	2,791	2,654	1,973	1,976	1,961
Total	3,614	3,467	2,665	2,669	2,651

Source: *Employment and Training Corporation*

Now that agreement on reforms has been reached and the shipyards have shed their excess labour, every effort is being done to redirect the newly-formed company to improving productivity. Marketing efforts are being intensified in all the sectors targeted in the yard, including the servicing of super yachts.

Sampled Manufacturing Firms
(January-September)

Appendix Table 4.1

	2000	2001	2002	2003*
TOTAL MANUFACTURING				
Sales (Lm 000)	842,275	752,101	738,118	761,844
Wages (Lm 000)	81,169	86,632	88,365	92,776
Net Investment (Lm 000)	59,933	31,705	34,952	35,107
Domestic Exports (Lm 000)	689,443	589,354	565,225	590,811
Local Sales (Lm 000)	152,833	162,747	172,893	171,033
Avg. Weekly Sales/Employee (Lm)	967.50	856.27	864.51	931.96
Avg. Weekly Earnings/Employee (Lm)	93.24	98.63	103.50	113.49
Avg. Weekly D.Exp./Employee (Lm)	791.94	670.98	662.01	722.74
FOOD AND BEVERAGES				
Sales (Lm 000)	78,426	85,215	89,332	94,973
Wages (Lm 000)	11,025	11,556	12,027	12,929
Net Investment (Lm 000)	1,407	3,652	2,293	5,347
Domestic Exports (Lm 000)	11,005	11,803	14,413	16,089
Local Sales (Lm 000)	67,421	73,412	74,918	78,884
Avg. Weekly Sales/Employee (Lm)	647.92	693.14	727.24	771.04
Avg. Weekly Earnings/Employee (Lm)	91.08	94.00	97.91	104.97
Avg. Weekly D.Exp./Employee (Lm)	90.92	96.01	117.34	130.62
TOBACCO				
Sales (Lm 000)	23,264	27,339	23,067	23,102
Wages (Lm 000)	760	1,098	817	907
Net Investment (Lm 000)	9	662	484	99
Domestic Exports (Lm 000)	1,148	3,398	177	26
Local Sales (Lm 000)	22,115	23,941	22,890	23,075
Avg. Weekly Sales/Employee (Lm)	3,831.91	4,601.70	3,943.10	3,686.81
Avg. Weekly Earnings/Employee (Lm)	125.19	184.83	139.62	144.73
Avg. Weekly D.Exp./Employee (Lm)	189.11	571.92	30.31	4.22
TEXTILES				
Sales (Lm 000)	4,999	7,174	12,808	12,212
Wages (Lm 000)	1,282	1,516	2,387	2,735
Net Investment (Lm 000)	240	459	1,438	306
Domestic Exports (Lm 000)	2,481	5,006	7,909	9,562
Local Sales (Lm 000)	2,518	2,167	4,900	2,650
Avg. Weekly Sales/Employee (Lm)	259.66	358.08	429.87	368.09
Avg. Weekly Earnings/Employee (Lm)	66.57	75.67	80.12	82.44
Avg. Weekly D.Exp./Employee (Lm)	128.87	249.90	265.44	288.22

Sampled Manufacturing Firms
(January-September)

Appendix Table 4.1

Continued

	2000	2001	2002	2003*
WEARING APPAREL				
Sales (Lm 000)	41,902	42,602	45,921	38,694
Wages (Lm 000)	9,420	10,622	10,156	7,921
Net Investment (Lm 000)	651	1,116	505	371
Domestic Exports (Lm 000)	38,785	38,166	40,896	34,325
Local Sales (Lm 000)	3,117	4,436	5,025	4,368
Avg. Weekly Sales/Employee (Lm)	351.11	334.09	380.24	438.74
Avg. Weekly Earnings/Employee (Lm)	78.94	83.30	84.09	89.81
Avg. Weekly D.Exp./Employee (Lm)	325.00	299.30	338.63	389.21
LEATHER				
Sales (Lm 000)	10,847	12,050	10,808	8,444
Wages (Lm 000)	2,358	2,670	2,182	1,874
Net Investment (Lm 000)	90	154	223	102
Domestic Exports (Lm 000)	10,188	11,468	10,642	8,316
Local Sales (Lm 000)	659	582	166	129
Avg. Weekly Sales/Employee (Lm)	321.53	362.36	388.50	394.88
Avg. Weekly Earnings/Employee (Lm)	69.91	80.30	78.44	87.65
Avg. Weekly D.Exp./Employee (Lm)	301.99	344.87	382.53	388.87
WOOD				
Sales (Lm 000)	495	374	377	387
Wages (Lm 000)	131	127	119	121
Net Investment (Lm 000)	-	2	1	-
Domestic Exports (Lm 000)	48	24	34	21
Local Sales (Lm 000)	447	350	343	366
Avg. Weekly Sales/Employee (Lm)	258.81	195.83	211.61	208.14
Avg. Weekly Earnings/Employee (Lm)	68.72	66.32	66.64	64.98
Avg. Weekly D.Exp./Employee (Lm)	24.87	12.55	19.18	11.07
PAPER				
Sales (Lm 000)	5,888	5,624	5,503	5,617
Wages (Lm 000)	1,193	1,287	1,256	1,334
Net Investment (Lm 000)	761	68	7	13
Domestic Exports (Lm 000)	179	302	234	86
Local Sales (Lm 000)	5,709	5,322	5,269	5,532
Avg. Weekly Sales/Employee (Lm)	479.77	453.48	454.68	511.37
Avg. Weekly Earnings/Employee (Lm)	97.21	103.74	103.76	121.46
Avg. Weekly D.Exp./Employee (Lm)	14.58	24.33	19.34	7.81

Sampled Manufacturing Firms

(January-September)

Appendix Table 4.1

Continued

	2000	2001	2002	2003*
PRINTING AND PUBLISHING				
Sales (Lm 000)	22,770	23,872	30,416	35,562
Wages (Lm 000)	5,314	5,920	7,000	7,841
Net Investment (Lm 000)	1,642	522	3,241	2,362
Domestic Exports (Lm 000)	12,751	13,103	19,104	24,238
Local Sales (Lm 000)	10,019	10,769	11,312	11,324
Avg. Weekly Sales/Employee (Lm)	392.20	408.97	509.06	572.53
Avg. Weekly Earnings/Employee (Lm)	91.52	101.43	117.15	126.24
Avg. Weekly D.Exp./Employee (Lm)	219.63	224.48	319.74	390.22
CHEMICALS				
Sales (Lm 000)	23,922	26,133	26,288	25,759
Wages (Lm 000)	4,380	4,700	4,883	5,156
Net Investment (Lm 000)	1,793	1,456	3,885	2,584
Domestic Exports (Lm 000)	16,741	20,498	20,222	20,172
Local Sales (Lm 000)	7,181	5,635	6,066	5,586
Avg. Weekly Sales/Employee (Lm)	571.48	638.77	641.55	634.67
Avg. Weekly Earnings/Employee (Lm)	104.63	114.88	119.16	127.05
Avg. Weekly D.Exp./Employee (Lm)	399.92	501.04	493.50	497.03
PLASTIC AND RUBBER				
Sales (Lm 000)	28,931	28,684	29,846	29,010
Wages (Lm 000)	7,825	8,169	8,055	8,011
Net Investment (Lm 000)	1,553	2,494	2,303	2,219
Domestic Exports (Lm 000)	23,665	23,983	23,895	22,770
Local Sales (Lm 000)	5,266	4,701	5,951	6,240
Avg. Weekly Sales/Employee (Lm)	365.85	335.23	393.53	424.72
Avg. Weekly Earnings/Employee (Lm)	98.95	95.47	106.21	117.28
Avg. Weekly D.Exp./Employee (Lm)	299.26	280.28	315.07	333.37
OTHER NON-METALLIC MINERALS				
Sales (Lm 000)	8,389	9,351	10,671	10,273
Wages (Lm 000)	1,871	2,030	2,107	2,313
Net Investment (Lm 000)	104	189	318	291
Domestic Exports (Lm 000)	1,398	1,585	1,929	1,228
Local Sales (Lm 000)	6,991	7,766	8,741	9,045
Avg. Weekly Sales/Employee (Lm)	343.62	384.06	417.30	382.31
Avg. Weekly Earnings/Employee (Lm)	76.65	83.37	82.39	86.08
Avg. Weekly D.Exp./Employee (Lm)	57.26	65.11	75.44	45.68

Sampled Manufacturing Firms
(January-September)

Appendix Table 4.1

Continued

	2000	2001	2002	2003*
BASIC METALS				
Sales (Lm 000)	679	455	297	204
Wages (Lm 000)	307	244	220	203
Net Investment (Lm 000)	-	-	2	-
Domestic Exports (Lm 000)	167	122	126	107
Local Sales (Lm 000)	512	333	171	97
Avg. Weekly Sales/Employee (Lm)	233.33	185.39	135.12	109.82
Avg. Weekly Earnings/Employee (Lm)	105.50	99.41	100.34	108.94
Avg. Weekly D.Exp./Employee (Lm)	57.42	49.69	57.23	57.55
FABRICATED METAL				
Sales (Lm 000)	11,419	9,804	11,639	11,441
Wages (Lm 000)	2,859	2,621	2,788	2,795
Net Investment (Lm 000)	646	173	156	346
Domestic Exports (Lm 000)	5,080	4,104	6,601	5,088
Local Sales (Lm 000)	6,338	5,701	5,039	6,353
Avg. Weekly Sales/Employee (Lm)	381.41	359.14	436.11	437.41
Avg. Weekly Earnings/Employee (Lm)	95.51	96.02	104.48	106.85
Avg. Weekly D.Exp./Employee (Lm)	169.69	150.32	247.31	194.53
MACHINERY AND EQUIPMENT				
Sales (Lm 000)	7,982	10,592	8,383	9,568
Wages (Lm 000)	1,241	1,633	1,588	1,596
Net Investment (Lm 000)	68	242	247	380
Domestic Exports (Lm 000)	6,024	8,403	6,172	7,343
Local Sales (Lm 000)	1,958	2,189	2,211	2,225
Avg. Weekly Sales/Employee (Lm)	539.54	634.57	547.41	675.83
Avg. Weekly Earnings/Employee (Lm)	83.86	97.83	103.68	112.73
Avg. Weekly D.Exp./Employee (Lm)	407.19	503.42	403.03	518.68
OFFICE MACHINERY				
Sales (Lm 000)	268	807	909	591
Wages (Lm 000)	59	81	77	66
Net Investment (Lm 000)	-	-	-	1
Domestic Exports (Lm 000)	-	64	332	131
Local Sales (Lm 000)	268	743	577	460
Avg. Weekly Sales/Employee (Lm)	439.36	1,089.31	1,185.49	826.10
Avg. Weekly Earnings/Employee (Lm)	96.64	108.83	100.86	92.54
Avg. Weekly D.Exp./Employee (Lm)	-	86.05	433.18	183.23

Sampled Manufacturing Firms

(January-September)

Appendix Table 4.1

Continued

	2000	2001	2002	2003*
ELECTRICAL MACHINERY				
Sales (Lm 000)	22,869	33,324	30,226	28,119
Wages (Lm 000)	4,498	5,625	5,372	5,721
Net Investment (Lm 000)	1,363	1,951	1,313	1,448
Domestic Exports (Lm 000)	22,463	32,863	29,117	27,201
Local Sales (Lm 000)	405	461	1,109	918
Avg. Weekly Sales/Employee (Lm)	430.31	649.13	635.95	600.51
Avg. Weekly Earnings/Employee (Lm)	84.64	109.56	113.03	122.17
Avg. Weekly D.Exp./Employee (Lm)	422.69	640.14	612.62	580.91
COMMUNICATION EQUIPMENT AND APPARATUS				
Sales (Lm 000)	491,343	368,930	337,773	359,810
Wages (Lm 000)	14,469	13,747	15,108	17,105
Net Investment (Lm 000)	46,419	15,856	15,157	14,351
Domestic Exports (Lm 000)	490,713	368,544	335,308	357,787
Local Sales (Lm 000)	629	385	2,466	2,023
Avg. Weekly Sales/Employee (Lm)	4,054.02	3,028.09	2,778.59	2,791.22
Avg. Weekly Earnings/Employee (Lm)	119.38	112.83	124.28	132.69
Avg. Weekly D.Exp./Employee (Lm)	4,048.82	3,024.92	2,758.30	2,775.52
MEDICAL AND PRECISION EQUIPMENT				
Sales (Lm 000)	15,530	13,179	16,758	19,419
Wages (Lm 000)	4,679	4,491	4,140	4,867
Net Investment (Lm 000)	808	1,763	602	319
Domestic Exports (Lm 000)	15,424	13,081	16,680	19,371
Local Sales (Lm 000)	106	98	77	47
Avg. Weekly Sales/Employee (Lm)	317.55	293.17	420.30	511.55
Avg. Weekly Earnings/Employee (Lm)	95.67	99.89	103.84	128.21
Avg. Weekly D.Exp./Employee (Lm)	315.38	291.00	418.36	510.31
MOTOR VEHICLE PARTS AND ACCESSORIES				
Sales (Lm 000)	986	874	579	522
Wages (Lm 000)	171	170	148	121
Net Investment (Lm 000)	-	16	7	-
Domestic Exports (Lm 000)	873	741	441	385
Local Sales (Lm 000)	113	133	139	137
Avg. Weekly Sales/Employee (Lm)	347.89	332.92	257.54	295.25
Avg. Weekly Earnings/Employee (Lm)	60.34	64.62	65.96	68.70
Avg. Weekly D.Exp./Employee (Lm)	307.94	282.23	195.90	217.95

Sampled Manufacturing Firms
(January-September)

Appendix Table 4.1

Continued

	2000	2001	2002	2003*
OTHER TRANSPORT EQUIPMENT ⁽¹⁾				
Sales (Lm 000)	4,139	4,151	5,477	11,796
Wages (Lm 000)	785	776	714	1,379
Net Investment (Lm 000)	8	23	25	617
Domestic Exports (Lm 000)	3,250	3,408	4,839	10,521
Local Sales (Lm 000)	889	743	638	1,274
Avg. Weekly Sales/Employee (Lm)	521.12	638.59	858.07	1,385.30
Avg. Weekly Earnings/Employee (Lm)	98.82	119.44	111.83	162.00
Avg. Weekly D.Exp./Employee (Lm)	409.18	524.25	758.19	1,235.63
FURNITURE AND OTHER MANUFACTURING				
Sales (Lm 000)	37,227	41,566	41,040	36,343
Wages (Lm 000)	6,541	7,551	7,219	7,780
Net Investment (Lm 000)	2,372	907	2,744	3,952
Domestic Exports (Lm 000)	27,059	28,688	26,154	26,043
Local Sales (Lm 000)	10,168	12,878	14,886	10,300
Avg. Weekly Sales/Employee (Lm)	522.47	587.87	602.23	536.89
Avg. Weekly Earnings/Employee (Lm)	91.80	106.79	105.94	114.93
Avg. Weekly D.Exp./Employee (Lm)	379.76	405.73	383.79	384.73

* Provisional

⁽¹⁾ Excluding Malta Shipbuilding Co. Ltd

Source: National Statistics Office

5. Services Activities

5. Services Activities

The Maltese economy has been characterised by the growing importance of service activities over recent years. Within the services sector, tourism is the major contributor to output, employment and foreign exchange earnings. Moreover, financial services and Freeport-related activities continued to be consolidated and developed.

During the Survey period, an increase of 1.1 per cent was recorded in tourist arrivals, but at 911,609 these remained below the corresponding 2000 and 2001 levels. Gross foreign exchange earnings stood at Lm194.0 million during the first nine months of 2003, an increase of 5.4 per cent over the same period of 2002. Per capita earnings increased to Lm212.8 from Lm204.0 in the corresponding period of 2002, whilst earnings per day stayed fell from Lm21.5 during the first nine months of 2002 to Lm20.6 during the Survey period. Full-time employment in tourism-related activities reached 9,632 employees as at September 2003 compared to 9,538 a year earlier. The positive performance in the cruise liner industry registered in the past recent years has been maintained throughout the Survey period. In fact, cruise passenger arrivals increased by 11.7 per cent to reach 287,525 during the first nine months of 2003.

The Malta Financial Services Authority (MFSA) is the sole regulator of the financial services sector in Malta. During the Survey period, it has continued to promote Malta as a destination for financial services.

The Malta Freeport Corporation Ltd is a leading transshipment terminal in the Mediterranean. During the period under review, the Freeport handled 899,704 Twenty Equivalent Units (TEUs) of transshipment throughput, an increase of 4.3 per cent over the comparable period of 2002.

Tourism

The declines in tourist arrivals registered during 2001 and 2002 have been partly reversed during the Survey period with an improvement of 1.1 per cent being recorded. However, at 911,609, the level of tourist arrivals remains below that recorded during the first nine months of the previous two years. A similar pattern was registered in gross foreign exchange earnings from tourism, which increased by 5.4 per cent to Lm194.0 million during the first nine months of 2003.

On the other hand, the domestic cruise liner industry has continued to expand since 2000, thus sustaining an increasingly important role in the local tourism industry. In fact, cruise passengers increased by 11.7 per cent to 287,525 arrivals, which is the highest historical level. Full-time employment in hotels and catering establishments amounted to 9,632 persons at the end of the Survey period, an increase of 94 persons from September 2002, mainly reflecting the opening of a new 5-Star hotel. There has also been a notable increase in the bed-stock capacity in hotels, complexes, guesthouses and hostels, with a level of 42,123 being registered as at September 2003. The main tourism indicators are presented in Table 5.1.

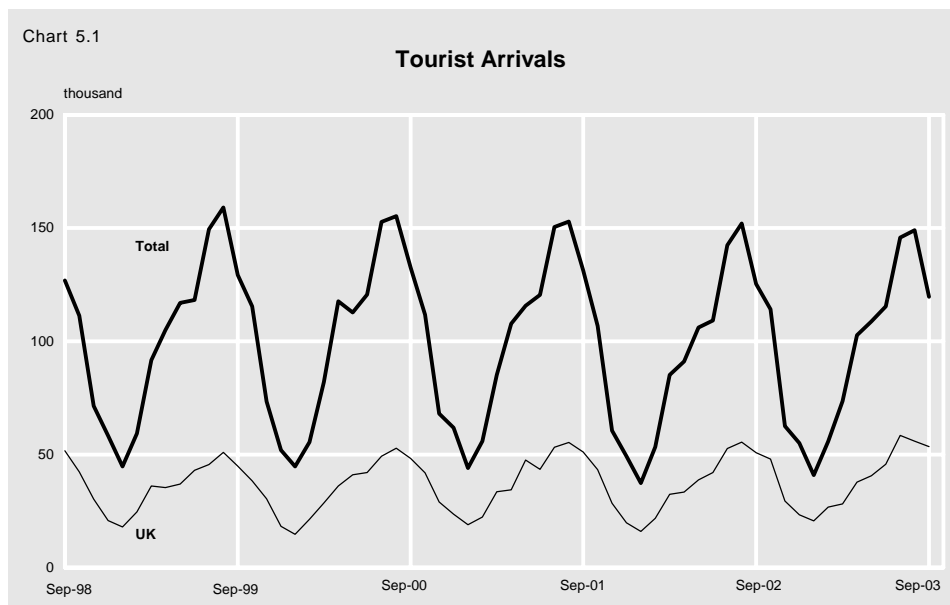
On the international front, although the effects of the adverse geopolitical situation which characterised the international environment following the 11 September 2001 events have gradually dissipated, during the Survey period the Iraq war impinged negatively on the tourism industry. In addition, the local tourism industry was also influenced negatively by the persistent weak economic situation in a number of major tourist markets, in particular Germany. Furthermore, the Maltese tourism industry is facing more intense competition from other destinations. Given the influence of these factors on the domestic tourism industry, the recovery recorded during the first three quarters of the year was relatively subdued. In light of this, efforts are being intensified by the Malta Tourism Authority (MTA) as well as by the tourism industry itself to ensure that Malta maintains a competitive position.

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Tourist Arrivals	974,026	241,687	963,644	216,501	902,073	231,741	911,609
Gross foreign exchange earnings (Lm million)	206.2	62.3	205.5	55.3	184.0	62.3	194.0
Days stayed (000's)	8,169	2,098	9,092	1,975	8,553	2,046	9,423
Cruise Passengers*	124,397	46,385	187,889	71,501	257,294	84,338	287,525
Total full-time employment in hotels and catering establishments**	9,812	9,598	9,962	9,438	9,538	9,387	9,632
Beds in hotels, complexes, guesthouses, and hostels	41,589	40,688	41,629	38,701	39,348	39,940	42,123
* Excluding Maltese cruise passengers							
** includes tourism-related services							
Source: National Statistics Office Employment and Training Corporation							

During the first nine months of 2003, the MTA intensified its activities to promote Malta as a tourism destination. In fact, it is pertinent to note that the MTA received additional funds from the Government throughout the Survey period. The MTA is currently operating under its Second Strategic Plan for the tourism industry for the period 2002-2004. The main aim of this Plan is the achievement of a sustainable tourism level through a wide spread of arrivals throughout the year. In an effort to achieve this, the MTA has a number of offices globally, commissions various advertising campaigns, co-ordinates public relation programmes and participates in a number of trade and consumer fairs. It also plays an important role in promoting conference and incentive travel and attempts to maximise opportunities generated by special interest travel segments. Other key objectives of the MTA are to improve the level of human resources in the tourism industry and to improve the local tourist product.

Monthly Distribution

Data on the monthly distribution of tourist arrivals is shown in Table 5.2. The local tourism industry is characterised by significant seasonality patterns, as illustrated in Chart 5.1. During the Survey period, an increase in arrivals was experienced during the first seven months of the year, with the exception of March. On the other hand, lower tourist inflows were recorded in August and September. The notable decline which occurred in March is largely explained by the timing of Easter which was celebrated in mid April this year as opposed to the end of March



Monthly Tourist Arrivals

Table 5.2

	2000	2001	2002	2003
January	44,717	44,053	37,325	40,852
February	55,488	55,892	53,339	55,739
March	82,066	85,108	85,198	73,582
April	117,640	107,799	91,141	102,741
May	112,802	115,647	106,060	108,748
June	120,703	120,475	109,121	115,367
July	152,763	150,510	142,487	145,849
August	155,321	152,944	152,082	149,036
September	132,526	131,216	125,320	119,696
January/September	974,026	963,644	902,073	911,609
% change	0.1	-1.1	-6.4	1.1
October	111,747	106,855	114,166	
November	68,067	60,498	62,496	
December	61,873	49,148	55,079	
Total	1,215,713	1,180,145	1,133,814	
% change	0.1	-2.9	-3.9	

Source: National Statistics Office

in 2002. In fact, a significant increase in tourist arrivals was registered in April. Furthermore, the outbreak of war in Iraq in March led to the cancellation of a number of arrivals during this month. During the period under review, August remained the peak month accounting for 16.3 per cent of total arrivals.

The distribution of tourist arrivals on a quarterly basis is shown in Table 5.3. While the bulk of tourist arrivals remained those arriving during the third quarter, this share declined by 1.0 percentage point when compared with the third quarter of 2002, reflecting the drops registered in August and September. Similarly, the decline in arrivals recorded in March 2003 resulted in a relatively lower share in the first quarter at 18.7 per cent, compared to 19.5 per cent during the first quarter of 2002. On the other hand, during the second quarter of 2003 the proportion of tourists visiting Malta increased by 1.8 percentage points to 35.8 per cent as compared to 34.0 per cent for the same period of 2002. Nonetheless, there were no major changes in the seasonal pattern of tourist arrivals and the notable imbalance in the distribution of tourist arrivals remains a constraint on human and infrastructural

Quarterly Distribution of Tourist Arrivals

Table 5.3 per cent

	2000	2001	2002	2003
March	18.7	19.2	19.5	18.7
June	36.1	35.7	34.0	35.8
September	45.2	45.1	46.5	45.5

Source: National Statistics Office

resources employed in the industry. In this regard, marketing efforts undertaken by the MTA are focusing on the objective to achieve a reduction in seasonal fluctuations.

Tourist Nationality

While the domestic tourism industry is still relatively dependent on a number of main source markets, significant efforts undertaken over past years to diversify the domestic tourism market were sustained during the Survey period. This includes marketing campaigns in relatively new markets such as Russia and other Eastern European countries.

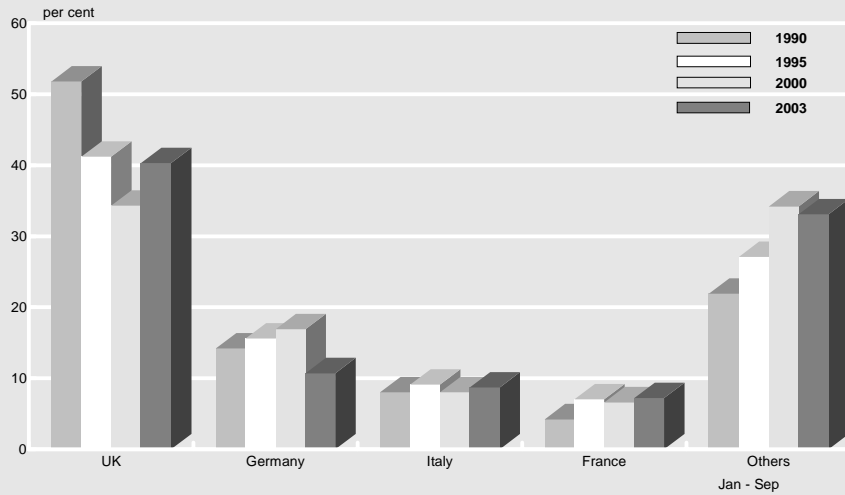
Chart 5.2 depicts the market share of Malta's main source markets for the first three quarters of the 1990-2003 period. While the UK remains the main source market, its relative share has declined from 51.8 per cent during January-September 1990 to 40.3 per cent during the Survey period. On the other hand, the share of the French market increased to 7.2 per cent of total arrivals during the first nine months of 2003, compared to 4.2 per cent during the corresponding period in 1990. Likewise, the share of the other markets category increased from 21.9 per cent during the first three quarters of 1990 to 33.1 per cent over the period under review. The share of the German source market had increased up to 2000 but it has registered contractions in recent years, ending the Survey period at 10.7 per cent. The Italian source market also remained relatively unchanged with arrivals from Italy measuring around 8.7 per cent of total arrivals.

A detailed breakdown of tourist arrivals by nationality is presented in Table 5.4. Arrivals from the UK increased by 23,880 arrivals, or 7.0 per cent, to reach 367,370 during the period under review, thus reversing the decline registered during the first nine months of 2002. This performance reflects the fact that the UK economy has fared better than other EU economies. Indeed, according to the World Trade Organisation (WTO), UK tourism flows have recovered well from the effects of

Chart 5.2

Tourist Market Shares

January-September Arrivals



Tourist Arrivals by Nationality

Table 5.4

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
United Kingdom	334,274	94,506	360,011	91,519	343,490	100,845	367,370
Germany	164,427	40,322	129,992	30,270	111,896	30,210	97,797
Italy	77,785	14,737	80,690	12,874	85,787	15,088	78,969
France	64,562	11,247	70,984	11,685	67,197	12,904	65,423
Netherlands	53,271	10,897	41,797	8,959	36,070	8,325	33,580
Scandinavia*	41,787	10,288	42,077	10,257	34,015	9,242	36,824
Libya	34,737	8,531	24,734	6,283	18,470	4,313	16,226
Belgium	22,685	4,028	19,780	3,915	20,231	3,787	20,359
Austria	23,111	5,008	23,441	4,229	19,939	4,509	24,294
Switzerland	16,328	5,654	19,123	5,242	15,041	5,334	17,482
USA	14,550	4,719	16,676	3,310	15,527	4,553	16,336
Others	126,509	31,750	134,339	27,958	134,410	32,631	136,949
TOTAL	974,026	241,687	963,644	216,501	902,073	231,741	911,609

* Figure includes Denmark, Finland, Norway, Sweden

Source: National Statistics Office

the Iraq war. Furthermore, the MTA continued its strong marketing campaign in the UK throughout the Survey period.

Since 2001, arrivals from Germany have followed a downward trend, reflecting a significant reduction in capacity by a major German tour operator, as well as the subdued economic situation in Germany. During the first three quarters of 2003, arrivals from Germany declined by 12.6 per cent to 97,797. While the MTA continued its promotion campaigns in this important market throughout the Survey period, the persistently weak German economy along with extremely low priced holidays to other destinations, such as Croatia and Spain, contributed towards the decline in the number of German tourists to Malta.

In contrast, a positive performance was registered during the Survey period in the Austrian market with arrivals increasing by 21.8 per cent over the comparable 2002 period to measure 24,294. This was largely due to the securing of a contract with an Austrian travel agency which has increased arrivals from Austria, along with the fact that an Austrian airline company has started operating to and from Malta during 2003.

Although the number of chartered flights to regional towns in Italy was increased and marketing campaigns in various forms, including through television programmes and published promotional material were sustained, arrivals from Italy declined by 7.9 per cent during the Survey period. A drop was also registered in the French source market with arrivals falling by 2.6 per cent during the period under review to reach 65,423. As part of the marketing campaign in France, the Main French Travel Association held its annual conference in Malta in May.

Improvements were experienced in the Scandinavian source market, consisting of Denmark, Finland, Norway and Sweden. Arrivals from this market measured 36,824 during the Survey period, an increase of 2,809 or 8.3 per cent over the same period of 2002. This increase is largely due to a significant surge in arrivals from the Finnish market. On the other hand, a decline was recorded in the Dutch source market. Arrivals from the Netherlands amounted to 33,580 tourists during the first three quarters of 2003 compared to 36,070 registered during the comparable 2002 period. At 20,359 arrivals from Belgium remained relatively unchanged throughout the period under review. Higher arrivals were also recorded from Switzerland. Inflows of Swiss tourists increased to 17,482, compared to 15,041 during the January-September 2002 period, partly reversing the decline registered during the first nine months of 2002.

Arrivals from Libya decreased by 12.1 per cent to 16,226 tourists during the first nine months of 2003. On the other hand, higher arrivals were recorded from the American source market. Arrivals from the US reached 16,336, representing an increase of 5.2 per cent over the first nine months of 2002.

With respect to the 'Others' category, tourist arrivals reached 136,949, representing an increase of 1.9 per cent. The main countries in this group include Australia, Canada, the Czech Republic, Greece, Hungary, the Irish Republic, Russia, Portugal and Spain.

Cruise Passengers

The cruise liner industry continued to expand during the Survey period as Malta is increasingly becoming more attractive as a port of call. During the period under review, cruise passenger arrivals increased by 11.7 per cent to reach 287,525 persons, which is more than double the level recorded in the first nine months of 2000. Ongoing steps have been taken to further promote Malta as a cruise liner destination. In particular, a number of new cruise liner companies started operating through Malta. Moreover, the planned development of the new cruise liner terminal which is underway is a positive step towards exploiting further Malta's potential as a cruise liner destination.

Accommodation

Table 5.5 provides data concerning Malta's accommodation capacity by category of units and beds. The amount and level of accommodation facilities along with occupancy rates constitute an important element in the analysis of the tourism industry. It is pertinent to note that the change in accommodation levels in the Table reflect new accommodation, closure of existing accommodation as well as reclassifications.

By the end of September 2003, there were 131 hotels with a bed-stock capacity of 33,790 beds. This corresponds to an increase of 5 in the number of hotels coupled with an increase in bed-stock capacity of 1,905 beds when compared with December 2002 levels. The 5-Star accommodation category increased by 2 units while the bed-stock level increased by 1,302 beds. Likewise, the 4-Star and 3-Star accommodation levels both increased by two units corresponding to an increase of 567 and 120 beds, respectively. The only category of hotels with a fall in units and bed-stock was that related to the 2-Star accommodation which registered 18 units with 1,174 bed-stock at the end of September 2003.

Main Types of Tourist Accommodation

Table 5.5

	2001 (Dec)		2002 (Dec)		2003 (Sep)	
	Units	Beds	Units	Beds	Units	Beds
Hotels						
Five Star	11	3,750	11	3,738	13	5,040
Four Star	44	15,045	45	15,341	47	15,908
Three Star	47	11,016	51	11,548	53	11,668
Two Star	19	1,261	19	1,258	18	1,174
Total	121	31,072	126	31,885	131	33,790
Villages/ Aparthotels						
Four Star	8	1,924	8	1,924	8	1,920
Three Star	12	2,488	12	2,618	13	2,726
Two Star	13	2,143	15	2,407	15	2,407
Total	33	6,555	35	6,949	36	7,053
Guesthouses						
Comfort	12	295	12	295	12	295
Standard	23	613	24	645	28	749
Total	35	908	36	940	40	1,044
Hostels						
Standard	2	166	2	166	3	236
Total	2	166	2	166	3	236

Source: National Statistics Office

The total number of tourist villages and Aparthotels at the end of the Survey period stood at 36 units with 7,053 bed-stock. This compares to 35 units and 6,949 beds as at December 2002. An increase was also recorded in the accommodation capacity of guesthouses and hostels, which reached 1,044 and 236 beds, respectively, at the end of the Survey period.

Table 5.6 provides data regarding monthly hotel occupancy rates for various types of accommodation. Occupancy rates are influenced by a number of factors including tourist arrivals, length of stay of tourists and bed-stock levels. This makes comparison of occupancy ratios with those registered in previous years inappropriate.

Monthly Accommodation Occupancy Levels - 2003

Table 5.6

per cent

	Hotels				Complexes Villages & Aparthotels
	5 Star	4 Star	3 Star	2 Star	
January	31	27	23	9	22
February	39	51	39	40	52
March	39	56	40	50	60
April	58	67	44	38	73
May	65	66	58	56	61
June	81	76	56	51	56
July	89	96	68	71	85
August	89	91	84	52	80
September	72	78	69	49	71
Average	63	68	54	46	64

Source: National Statistics Office

The 5-Star category of hotel accommodation achieved peak months in both July and August with 89 per cent occupancy rates. July also proved to be the peak month for 4-Star, 2-Star hotels and complexes, villages and aparthotels with 96 per cent, 71 per cent and 85 per cent, respectively. The peak month for the 3-Star hotels was August with 84 per cent occupancy rate.

Another important indicator of the performance of the tourist industry is that related to the average length of stay of tourists. During the Survey period, a rise in the average length of stay was experienced at 10.3 days compared to 9.5 days for the first nine months of the previous year.

Employment

Full-time employment in tourism-related activities as at September 2003 stood at 9,632 persons. This corresponds to 7.1 per cent of the gainfully occupied population. Moreover, private sector employment in hotels and catering establishments amounted to 9,180 persons, representing 17.7 per cent of the persons employed in private market services. This emphasises the importance of the tourism industry to domestic employment. During the Survey period, full-time employment in hotels and catering establishments increased by 1.0 per cent, being affected by the opening of a new 5-Star hotel.

Foreign Exchange Earnings

Tourism earnings is one of the most important sources of foreign exchange generation for the local economy helping to bridge the gap in the domestic merchandise trade account. As such, tourism earnings are an important indicator of the performance of the domestic tourism industry.

Gross foreign exchange earnings for the first nine months of 2003 amounted to Lm194.0 million, an increase of 5.4 per cent from Lm184.0 million registered during the same period last year. This increase in tourism earnings during the Survey period could partly reflect the appreciation of the Euro against the Maltese lira. Per capita earnings stood at Lm212.8 during the Survey period, compared to Lm204.0 for the first three quarters of 2002. However, a decline was recorded in earnings per day stayed which stood at Lm20.6 for the period under review from Lm21.5 for the corresponding period in 2002. Data on foreign exchange earnings from tourism is provided in Table 5.7, while Chart 5.3 depicts tourism earnings per capita.

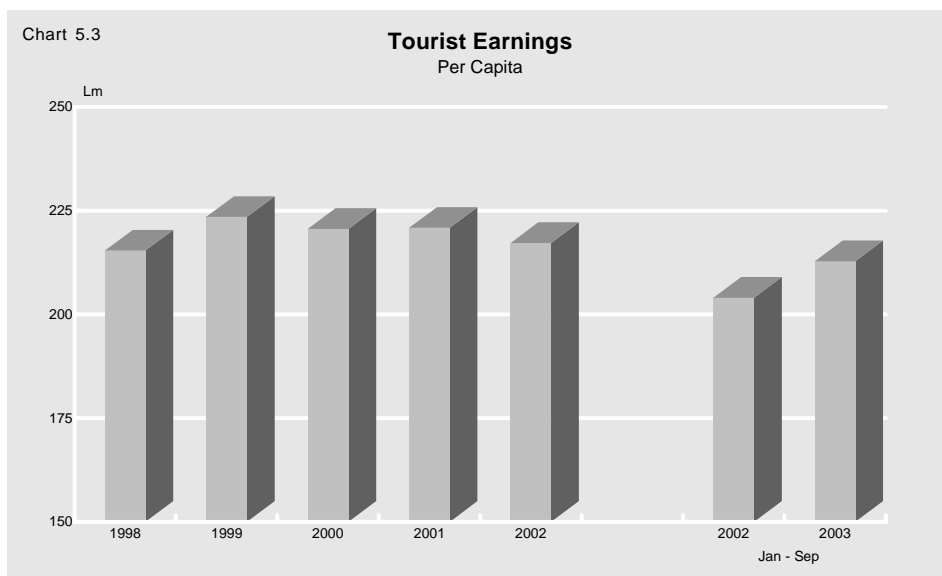
During the Survey period, gross earnings from tourism accounted for 18.4 per cent of exports of goods and services. This compares with 17.1 per cent measured for the first nine months of 2002. An increase in the ratio of foreign exchange earnings from tourism to exports of manufactured goods during the period under review was also registered. This increased from 31.9 per cent for the first three quarters of 2002 to 32.7 per cent during the Survey period. These ratios highlight the important

Earnings from Tourism

Table 5.7

	Gross Earnings (Lm million)	Per Capita Earnings (Lm)	Earnings Per Day Stayed (Lm)	Ratio to exports of goods and services (%)	Ratio to exports of manufactured goods (%)
2000	268.2	220.6	26.1	17.0	27.7
2001	260.7	220.9	23.6	18.6	33.3
2002	246.3	217.2	23.2	17.1	31.7
2002 (Jan/Sep)	184.0	204.0	21.5	17.1	31.9
2003 (Jan/Sep)	194.0	212.8	20.6	18.4	32.7

Source: National Statistics Office



role of the tourism industry in its contribution to the external payments position of the domestic economy.

Malta Financial Services Authority

As of 1 October 2002, the Malta Financial Services Authority (MFSA) took over responsibility for banking regulation and supervision. Furthermore, in January of this year, the MFSA was appointed as the Listing and Competent Authority for the purpose of the Financial Markets Act (Cap. 345). Therefore, the regulatory functions related to financial markets that were previously vested under the capacity of the Malta Stock Exchange have now passed to the MFSA. As the sole regulator for financial services, the MFSA is now well placed to regulate firms that increasingly compete across the traditional boundaries used to define banking, insurance and investment services.

In an effort to strengthen consumer confidence and protection with respect to financial services, two new regulations came into force in the beginning of 2003, concerning the Deposit Guarantee Scheme and the Investor Compensation Scheme. These schemes provide customers of financial institutions with a certain amount of financial compensation in the event of the insolvency of such institutions. The Investor Compensation Scheme provides compensation where licensed investment services providers go out of business and cannot return money held by them on behalf of their clients. The Deposit Guarantee Scheme, on the other hand, provides

a mechanism where depositors may be entitled to compensation in the case of a bank failure. Moreover, a greater emphasis is being placed on consumer protection through the setting up of a consumer compliant manager for the specific purpose of handling financial services complaints.

The number of offshore companies continued to decline during the Survey period given the phased expiry of licences until 2004. In fact, the number of offshore companies registered with the MFSA at the end of September 2003 stood at 152, a significant decline from 306 a year earlier. These offshore companies consisted of one banking company, 35 trading companies and 116 non-trading companies.

During the period under review, 11 new trusts were registered with the MFSA, bringing the total number of trusts as at the end of the third quarter of 2003 to 184. On the other hand, at the end of September 2003, Investment Services (IS) Licences amounted to 89 when compared to 92 during the same period in 2002. Moreover, Collective Investment Schemes (CISs) Licences amounted to 368 at the end of the Survey period. A total of 31 new CISs were registered during the first nine months of 2003.

The situation in the insurance sector remained relatively unchanged to that of the first nine months of 2002. At the end of the third quarter of 2003, there were 14 authorised foreign principles carrying out insurance business in Malta. The total number of registered insurance brokers at the end of the Survey period measured 63, of which 24 were companies while the remaining 39 were individual brokers. Moreover, 31 agents of insurers consisting of 17 local insurers and the remaining foreign insurers were registered with the MFSA as at the end of September 2003.

The MFSA also houses Malta's Companies Registry. During the first nine months of 2003, 1,447 new commercial partnerships were recorded. This represents a 17.6 per cent rise over the corresponding 2002 period.

Malta Freeport Corporation Ltd

The Malta Freeport is among the leading transshipment terminals in the Mediterranean. The Malta Freeport Terminals Ltd handled a total of 968,313 Twenty Equivalent Units (TEUs) during the Survey period, an increase of 4.8 per cent over the corresponding 2002 period. Of the total TEUs handled, transshipment throughput accounted for 92.9 per cent, measuring 899,704 TEUs during the Survey period. This is equivalent to an increase of 4.3 per cent over the comparable previous year's level. Moreover, during the period under review, 1,297 ship calls

Chart 5.4

Transshipment Throughput

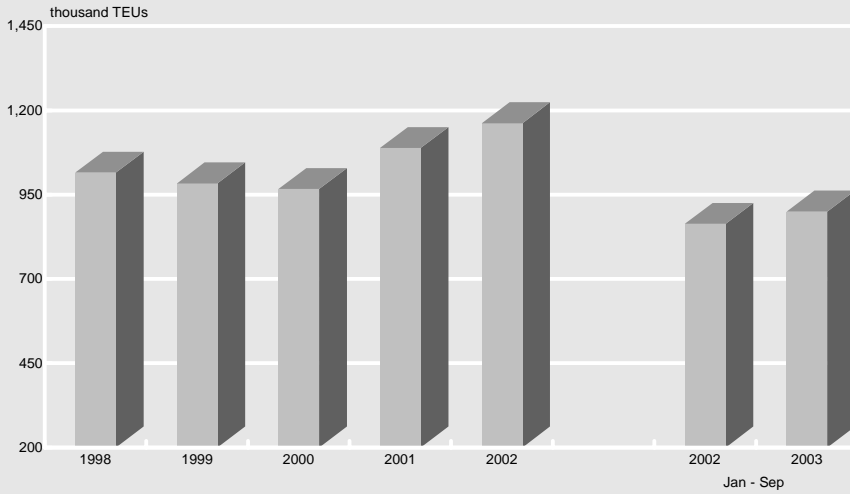
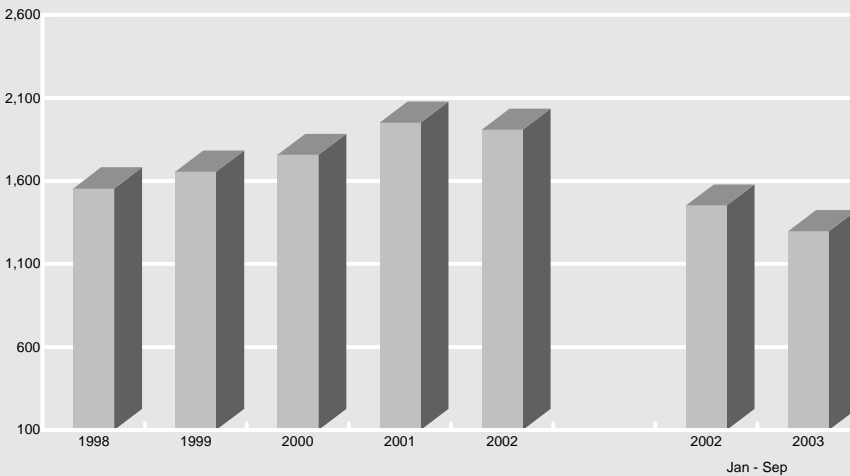


Chart 5.5

Total Ship Calls



were registered at the terminal, from 1,453 a year earlier. The Malta Freeport is expecting to handle approximately 1.3 million TEUs during 2003. Charts 5.4 and 5.5 depict transshipment throughput and total ship calls, respectively.

During the Survey period, the Freeport secured a number of additional carriers, namely the China Shipping Container Line (CNCL) and APL Shipping Line. The China Shipping Container Line chose Malta to act as the hub for their transshipment operations in the Mediterranean and together with Norasia Container Line it has launched a weekly service which is linking Asia with the Mediterranean and the West Coast of North America. This service is expected to generate approximately 100,000 TEUs per annum. Moreover, APL Shipping Line shifted its Mediterranean operations from the Gioia Taura terminal, one of the Freeport's main competitors, to the Malta Freeport. On the other hand, the Yang Ming Line and K Line, which were operating from the Freeport during 2002, decided to introduce direct calls to different ports instead of utilising the services provided by the Freeport. The Freeport is currently connected to approximately 110 ports world-wide, over 60 of which are in the Mediterranean and the Black Sea.

A recent development at the Malta Freeport during the period under review was the introduction of the screening of cargo through the use of a mobile vehicle and cargo inspection system in an effort to reduce the flow of contraband products. The Freeport also continued its project with respect to the development of a new main gate which will help to enhance security measures and which is planned to also help meet increasing traffic demands. It is also pertinent to note that the Freeport has increased its annual handling capacity through the creation of an additional 855 container ground slots at Terminal Two through the development of a Junction Quay.

Oiltanking Malta Ltd is a joint venture company between the Malta Freeport Corporation Ltd and Oiltanking GmbH of Hamburg, which owns 30 per cent and 70 per cent of shares, respectively. While its principal activity is that of storage and blending of oil products, it also provides other services such as product treatment and bunkering services. During the first three quarters of 2003, the Oil Terminal handled 2,371,394 metric tonnes of oil products compared with 2,549,279 metric tonnes handled during the corresponding period of 2002. Moreover, 404 vessels berthed alongside its jetties during the period under review, from 281 vessels a year earlier. Oiltanking Malta Ltd currently has its present capacity fully rented out. The planned development of a fourth jetty will increase its total tank capacity up to 165,000 cubic metres.

A further activity undertaken by the Malta Freeport is the supply of industrial storage facilities in an effort to operate a more efficient regional distribution depot. The level of activity provided through this facility remained high during the Survey period.

6. Prices and Incomes

6. Prices and Incomes

An analysis of domestic inflationary developments together with a comparison of inflation rates in the European Union (EU) Member States is presented in this Chapter. The review of international inflationary developments is crucial in view of the high degree of openness in the domestic economy. The analysis of movements in domestic prices is followed by an in-depth study of the changes in sectoral average weekly wages occurring between September 2002 and September 2003. The analysis of these two topics is carried out in this Chapter in view of interlinkages between changes in prices and changes in wages and the impact that changes in prices and incomes have on the competitiveness of the domestic economy.

During the Survey period, the Maltese economy was characterised by a low and declining inflation rate, reaching 1.10 per cent in the twelve months to September 2003. This compares to 2.89 per cent recorded in September 2002.

A study concerning average wage levels in 212 enterprises employing a total of 31,460 workers shows that the average weekly wage rate increased by 3.0 per cent during the twelve months to September 2003. All categories of employment benefited from a weekly wage increase that exceeded the mandatory cost-of-living compensation of Lm1.75 for 2003. The analysis also shows that the highest wage rises in percentage terms were registered in the Wholesale and Retail Trade sub-sector, followed by the Chemicals sub-sector. The largest share of employees in the entire sample (48.9 per cent) earned on average a weekly wage that exceeded Lm91.50. Furthermore, 63.4 per cent of employees in market services earned on average a weekly wage in excess of Lm91.50, compared to 34.3 per cent of employees engaged in direct production.

Inflation

Percentage changes in the 12-month moving average for the Retail Price Index (RPI) provide the official measure of inflation in Malta. The National Statistics Office (NSO) has introduced a new RPI series, with base December 2002, as from January 2003. The new Index series was compiled as from January 2002. The spending pattern on which the new Index is based was derived from the Household Budgetary Survey (HBS) carried out by the NSO between March 2000 and March 2001. The new HBS provided more updated information on evolving household expenditure patterns as well as changes in consumer preferences and tastes. Accordingly, the respective weightings with regard to the various sub-indices that compose the RPI have been revised to reflect more recent consumption patterns.

Table 6.1 enables a comparison of the different group indices and their respective weightings in the RPI with base year 1995 and in the new RPI with base December 2002. In particular, the share of the Food sub-index, which carried a weighting of 29.92 in the compilation of the RPI with base year 1995 declined to 23.82 with respect to the new RPI. The decline in the share of the Food sub-index is mainly attributable to the income inelasticity of food items whose fluctuations in absolute terms do not move in direct proportion with increases in households' disposable incomes. In contrast, the Transport and Communications sub-index experienced an increase in its weighting from 16.00 to 23.13 in the new RPI series. Increases were recorded in the respective weightings with regards to the Housing, Recreation and Culture and Other Goods and Services sub-indices. Furthermore, there was also a revision in the items previously monitored under the Housing and Fuel, Light and Power sub-indices which have been regrouped under the Housing and Water, Electricity, Gas and Fuels sub-indices. The Durable Household Goods sub-index has also been reclassified to include items falling under the Household Equipment and House Maintenance Costs sub-index.

Index by Commodity Group

Table 6.1

RPI, 1995=100	Weight
Food	29.92
Beverages and Tobacco	7.34
Clothing and Footwear	10.14
Housing	5.27
Fuel, Light and Power	2.53
Transport and Communications	16.00
Education, Entertainment and Recreation	8.31
Durable Household Goods	9.31
Personal Care and Health	6.47
Other Goods and Services	4.71
RPI, December 2002=100	
Food	23.82
Beverages and Tobacco	6.11
Clothing and Footwear	8.24
Housing	7.57
Water, Electricity, Gas and Fuels	2.25
Transport and Communications	23.13
Recreation and Culture	8.84
Household Equipment and House Maintenance Costs	7.65
Personal Care and Health	6.22
Other Goods and Services	6.17

Source: National Statistics Office

The calculation of the 12-month moving average inflation rate necessitates a series of RPI readings expressing price movements in terms of a common base year. 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 utilising a linking coefficient provided by the NSO.

Table 6.2 presents domestic inflation rates for the period January 2000 to September 2003 whilst Table 6.3 shows the monthly RPI readings from the same period in terms of base year 1995. The inflation rates are calculated by comparing the average RPI in the 12 months leading to the month under consideration with the average for the previous 12-month corresponding period. During the twelve months to September 2003, the inflation rate in Malta recorded a significant downward trend, falling consistently in each month from 2.82 per cent in October 2002 to reach 1.10 per cent in September 2003. Chart 6.1 provides a graphical representation of fluctuations in monthly inflation rates for the period between September 1998 and September 2003.

The downward trend in the twelve-month moving average rate of inflation during the twelve months to September 2003 reflected subdued price pressures in most of the sub-indices which make up the RPI. In particular, significant price declines were registered in respect of men's, women's and children's outer clothing falling within the Clothing and Footwear sub-index. The Household Equipment and House Maintenance Costs sub-index also registered a fall in average prices. Moreover, lower average price increases were recorded for the Food sub-index and this had

12-Month Moving Inflation Rate				
(1995=100)				
Table 6.2	per cent			
	2000	2001	2002	2003
January	2.29	2.15	3.27	1.79
February	2.37	2.01	3.48	1.58
March	2.43	1.92	3.62	1.46
April	2.52	1.91	3.65	1.36
May	2.64	1.89	3.64	1.26
June	2.71	1.95	3.54	1.25
July	2.76	2.04	3.39	1.20
August	2.72	2.22	3.14	1.14
September	2.67	2.42	2.89	1.10
October	2.66	2.48	2.82	
November	2.56	2.64	2.55	
December	2.37	2.93	2.19	

Source: National Statistics Office

Retail Price Index

Table 6.3

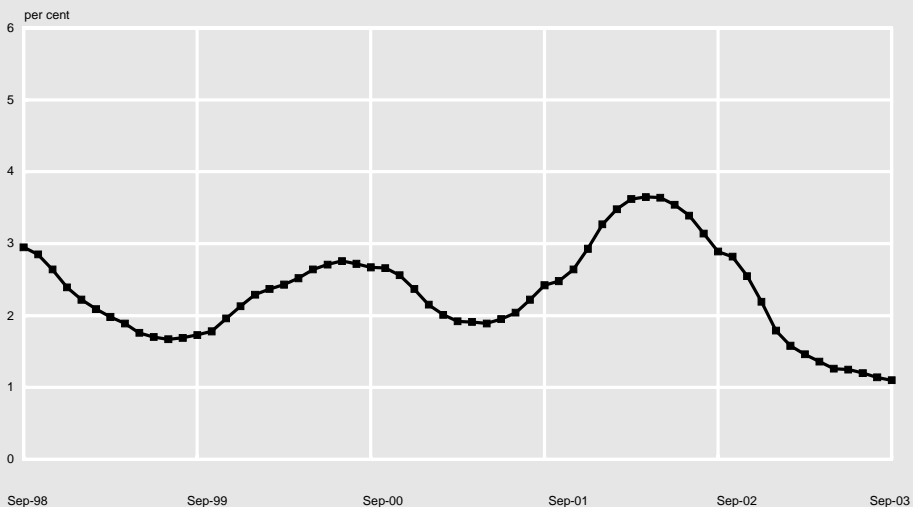
(1995=100)

	2000	2001	2002	2003
January	112.24	112.95	118.23	118.09
February	112.05	113.26	117.44	118.66
March	112.28	113.94	117.55	119.57
April	111.78	114.52	117.75	119.62
May	112.69	115.62	118.47	120.01
June	112.23	115.75	118.03	120.19
July	112.32	116.31	118.44	119.78
August	112.44	117.30	118.90	119.70
September	112.80	117.66	119.18	120.12
October	113.35	116.82	119.40	
November	114.09	118.48	119.29	
December	113.51	118.76	119.14	
 Average Jan-Dec	 112.65	 115.95	 118.49	

Source: National Statistics Office

Chart 6.1

12-Month Moving Inflation Rate



Index by Commodity Group
(Average for January-September)

Table 6.4

(1995=100)

Commodity Group	1999	2000	2001	2002	2003
Food	107.69	109.15	114.72	117.70	119.97
Beverages and Tobacco	128.06	133.51	138.66	149.85	153.32
Clothing and Footwear	93.10	94.04	91.91	91.74	83.82
Housing	111.15	113.41	118.71	122.53	125.11
Water, Electricity, Gas and Fuels	98.79	105.10	104.59	109.98	110.04
Transport and Communications	115.63	124.08	126.12	127.78	131.89
Recreation and Culture	111.33	112.95	116.98	120.77	121.79
Household Equipment & House Maintenance					
Costs	107.71	106.18	105.42	105.71	104.74
Personal Care and Health	112.85	116.78	120.13	123.99	127.80
Other Goods and Services	106.27	106.24	107.15	108.63	112.50

Source: National Statistics Office

a notable impact on the overall inflation rate, due to the significant weighting of this sub-index in the RPI.

In order to gain more insight of the underlying inflationary developments, an analysis is made of particular trends inherent in the various sub-indices that compose the RPI. The separate sub-indices categorised by commodity group, as identified in the new Index, for the first nine months of the 1999-2003 period are provided in Table 6.4.

During the first three quarters of 2003, the Food sub-index recorded an increase of 1.93 per cent when compared to the corresponding period of 2002. As highlighted above, the increase in average food prices was lower than that recorded in the previous year. The lowering of levies on a number of imported foodstuffs also had an impact on average food prices. On the other hand, higher prices of major food items, namely fresh fruits and vegetables and fish, were recorded.

The Beverages and Tobacco sub-index rose by 2.32 per cent during the first nine months of 2003 over the same period of last year. Increases within this sub-index are typically recorded in January mainly due to higher excise taxes on cigarettes and alcohol. Price changes generally become effective in November of each year following an announcement in the Budget, but these movements are reflected in the RPI in January of the following year when readings for the average prices of

beverages and tobacco are taken by the NSO. In January 2003 and April 2003, higher prices for both alcoholic and non-alcoholic beverages were recorded.

Average prices for clothing and footwear declined significantly by 8.63 per cent in the January-September 2003 period over the comparable nine-month period of 2002, contributing to the slowdown in inflation during the period under review. Fluctuations in the average prices for clothing and footwear tend to be subject to seasonal considerations. In general, price increases are recorded in November and May, whilst lower prices are registered in January and August mainly due to seasonal sales. Prices of clothing and footwear fell sharply between January 2003 and December 2002 as there was a higher than usual reduction in prices during the annual sales.

Average prices for items falling within the Housing sub-index increased by 2.11 per cent in the first three quarters of 2003 when compared to the same period in 2002. This sub-index followed a general upward trend over the 1998-2003 period. Significant average price increases recorded in June 2003 in respect of various house maintenance works were partly reversed in September 2003.

During the first nine months of 2003 average prices in respect of water, electricity, gas and fuels increased marginally by 0.05 per cent over the level recorded in the first three quarters of 2002. It is pertinent to note that as from January 2003 Value Added Tax (VAT) was introduced on electricity consumption and on cylinder gas at 5 per cent and 15 per cent respectively. Nonetheless, the introduction of these two measures had no effect on retail prices since the tax was wholly absorbed by the national energy supplier.

The Transport and Communications sub-index was characterised by a general upward trend during the five years to September 2003. During the Survey period, average prices for items falling within this sub-index rose by 3.22 per cent when compared to the same period of last year. It is pertinent to note that an increase in prices was registered in July 2002 as a result of higher prices for petrol and diesel, reflecting developments in international market prices. Price fluctuations for air transport services, motor cars and related maintenance and repairs services further contributed to the rise in the Transport and Communications sub-index. On the other hand, lower average prices in respect of telephone and telephony services were recorded in the first nine months of 2003, reflecting increased competition in the telecommunications sector.

Average prices of items falling within the Recreation and Culture sub-index increased marginally by 0.84 per cent during the January-September 2003 period. Following a rise in average prices recorded in April 2002 and October 2002, this sub-index followed a general downward trend during the first nine months of 2003. This reversed the trend followed by the Recreation and Culture sub-index in the previous four-year period. During the period under review, lower average prices were registered in respect of a range of audio-visual and sports equipment, computers and stationery goods.

The Household Equipment and House Maintenance Costs sub-index declined by 0.92 per cent in the first nine months of 2003 compared to the first nine months of 2002. In particular, lower average prices in respect of carpets, household textiles and appliances contributed to a significant drop in this sub-index in January 2003. Similarly, lower average prices for household textile articles and furniture resulted in a decline in this sub-index in April 2003.

Prices for items falling within the Personal Health and Care sub-index followed a general upward trend during the five-year period to September 2003. During the first three quarters of the current year, this sub-index recorded a rise of 3.07 per cent over the preceding year. Higher average prices in respect of a range of medicinal and toiletry items recorded during May 2003 contributed to the increase in this particular sub-index.

During the period under review, the Other Goods and Services sub-index was characterised by an increase of 3.56 per cent. In particular, the largest percentage increase in this sub-index was recorded in July 2003, brought about by higher price increases in respect of jewellery items and insurance services. This was the largest price hike recorded for the Other Goods and Services sub-index for the past five years. In contrast, declines in average prices of jewellery items were recorded in March and April 2003.

International Comparison

Table 6.5 presents data on inflation rates for EU Member States and Malta as at the end of September 2003. The rates of inflation in the EU are measured by the 12-month moving average of the Harmonised Index for Consumer Prices (HICP). The HICP provides a statistical basis for international comparison of consumer price inflation in Member States since a common methodology is used by each Member State to compile this index. However, the HICP is not directly comparable to Malta's RPI, since the former is adjusted to exclude aspects like health and

Inflation Rates in Europe

at end of September

Table 6.5

per cent

	2000	2001	2002	2003
Austria*	1.7	2.3	1.8	1.4
Belgium	2.2	2.8	1.7	1.4
Denmark	2.8	2.4	2.2	2.3
Finland	2.6	2.9	2.2	1.5
France*	1.6	1.9	1.8	2.1
Germany	1.7	1.7	1.2	1.0
Greece	2.4	3.8	3.8	...
Ireland	4.7	4.4	4.6	4.3
Italy*	2.4	2.5	2.4	2.9
Luxembourg	3.2	3.2	1.7	2.7
Netherlands	2.1	4.6	4.3	...
Portugal	2.3	4.3	3.7	3.6
Spain	3.1	3.2	3.2	3.4
Sweden	1.2	2.3	2.3	2.2
United Kingdom	0.9	1.2	1.1	1.4
EU15*	1.8	2.2	2.0	2.0
Malta ⁽¹⁾	2.7	2.4	2.9	1.1

* Provisional for September 2003

⁽¹⁾Not directly comparable with the EU15 inflation rates

Source: Eurostat

National Statistics Office

education services, and a number of other items. Furthermore, the compilation methodology is also different.

Germany recorded the lowest inflation rate of 1.0 per cent amongst EU Member States in September 2003. Other EU Member States that recorded relatively low inflation rates included the United Kingdom, Austria and Belgium, all with the level of inflation reaching 1.4 per cent in September 2003, followed by Finland (1.5 per cent). In contrast, relatively high inflation rates were reported for Ireland (4.3 per cent), Portugal (3.6 per cent) and Spain (3.4 per cent). The 12-month moving average inflation rate registered for the EU 15 in September 2003 was at the same level as that recorded in September 2002 (2.0 per cent), despite the slowdown in economic growth. The inflation rate for the EU 15 was buoyed up by temporary factors such as the pass-through of oil price increases, weather-induced food price hikes and rises in indirect taxes.

A review of the data presented in Table 6.5 shows that whilst the average inflation rate in the EU 15 has remained stable in 2003, the inflation rate in Malta has registered a notable decline.

Sectoral Wages

This section provides an analysis of developments in sectoral average weekly wage rates between September 2002 and September 2003. The study was conducted using a sample of collective agreements finalised and deposited with the Department of Industrial and Employment Relations until September 2003. The sample consists of 212 firms employing a total of 31,460 persons. Of these, 109 firms are engaged in direct production and employ a total of 15,743 workers, whilst the remaining 103 enterprises operate in the market services sector with a complement of 15,717 employees. Different job grades, as defined in the collective agreements, are classified into four major employment categories namely labourers, skilled tradesmen, clerical and managerial grades. The study excludes definite contracts of employment as well as income derived from production bonuses, overtime payments, social security benefits and allowances and other non-wage income above the basic wage. Consequently, the employees' actual average weekly take-home pay is higher than that reported in this analysis. It is also pertinent to note that, since the information in this study is based on a sample of collective agreements and covers only the basic wage, it is not directly comparable to data based on the gainfully occupied population published in other chapters of the Economic Survey.

Furthermore, the analysis is carried out using a sampling procedure that does not allow a direct comparison between the tables presented in this section and those published in previous issues of the Economic Survey. The inclusion of additional firms as well as changes in employment levels of the respective sampled enterprises alters the individual firms' particular weightings in each category, thus hampering comparability. The introduction of a new collective agreement which involves a reclassification of grades or the insertion of new employees who are in general paid the entry level of any given pay scale may result in lower average weekly wage rates. Nevertheless, this is not expected to have any negative impact on the remuneration of existing employees. Collective agreements included in the sample are grouped according to their respective sub-sector of economic activity whereby each sub-sectoral mean wage is arrived at by averaging minimum and maximum wage scales specified in the individual collective agreements. Cost-of-living adjustments, which stood at Lm1.50 as at September 2002 and Lm1.75 as at September 2003, were subsequently added to these figures. The mean wages are then weighted according to employment levels as at September 2002 in each particular sub-sector.

Average Weekly Wages - September 2002

Table 6.6

Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	85.00	85.50	82.00	91.00	85.20
Food	79.58	89.09	80.58	89.30	81.09
Beverages	88.77	98.78	89.56	103.00	92.49
Tobacco	76.84	93.17	99.59	...	82.50
Textiles, Footwear and Clothing	64.92	80.00	80.97	74.51	66.59
Furniture	75.60	95.64	93.50	102.00	87.77
Paper & Printing	91.35	101.87	90.00	100.88	95.99
Leather & Leather Goods	58.91	65.10	71.75	80.07	60.30
Chemicals	83.46	92.56	92.60	99.16	86.99
Non-Metallic Products	69.75	89.25	...	93.00	83.17
Metal Products	81.58	86.24	82.96	90.43	83.97
Machinery	61.51	78.75	69.71	88.76	71.74
Electrical Machinery	72.93	94.46	83.25	102.22	82.14
Transport Equipment	74.04	83.23	84.80	100.49	86.20
Miscellaneous	75.19	92.16	92.67	102.82	80.54
Electricity & Gas	80.66	94.60	92.87	106.12	89.09
Construction	74.62	96.27	98.81	...	81.90
Wholesale & Retail Trade	72.24	86.35	80.73	92.91	81.07
Banking & OFI	86.79	106.59	104.46	154.00	110.10
Insurance & Real Estate	67.05	69.55	...	...	68.77
Transport	93.96	111.25	100.49	126.32	103.82
Communications	88.04	101.77	84.59	132.53	94.16
Community & Business	76.71	93.49	84.03	137.78	103.76
Recreation Services	86.74	90.26	96.38	102.90	90.91
Hotels & Catering Ests	83.81	89.80	88.56	88.84	86.26
All Firms	77.40	93.68	94.13	119.78	90.66
Direct Production	74.86	92.12	87.17	100.42	81.87
Market Services	83.81	96.04	95.18	131.06	99.47

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

Table 6.6 presents sectoral average weekly wage rates for each employment category as at September 2002. The weighted average wage rate for all firms stood at Lm90.66. Wages in the direct production sector reached Lm81.87, whilst the corresponding figure for the market services sector amounted to Lm99.47. The highest weighted average wage rates were recorded in the market services sector, with the Banking and Other Financial Institutions sub-sector (Lm110.10), the Transport sub-sector (Lm103.82) and the Community and Business sub-sector (Lm103.76) registering the highest pay levels. In contrast, the Leather and Leather Goods sub-sector (Lm60.30) and the Textiles, Footwear and Clothing sub-sector (Lm66.59), both included within the direct production sector, were the least paid

Average Weekly Wages - September 2003

Table 6.7

Lm

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	86.75	87.25	83.75	92.75	86.95
Food	81.63	90.97	82.58	91.05	83.11
Beverages	90.92	101.05	93.10	104.75	94.80
Tobacco	78.59	94.92	101.34	...	84.25
Textiles, Footwear and Clothing	66.67	81.75	82.72	76.26	68.34
Furniture	78.66	99.01	97.25	105.75	91.07
Paper & Printing	93.49	103.80	91.92	102.68	97.99
Leather & Leather Goods	61.27	67.35	73.50	83.61	62.69
Chemicals	87.29	96.43	96.53	103.31	90.88
Non-Metallic Products	71.50	91.00	...	94.75	84.92
Metal Products	85.32	89.36	86.05	92.97	87.37
Machinery	64.46	82.12	71.81	91.60	74.89
Electrical Machinery	76.19	97.88	86.40	105.45	85.42
Transport Equipment	77.25	86.57	88.04	103.81	89.49
Miscellaneous	78.60	96.03	96.85	107.05	84.12
Electricity & Gas	83.66	97.60	95.87	109.12	92.09
Construction	76.37	98.02	100.56	...	83.65
Wholesale & Retail Trade	75.65	91.14	83.94	97.16	84.95
Banking & OFI	88.56	108.34	106.72	156.84	112.39
Insurance & Real Estate	68.80	71.30	...	...	70.52
Transport	97.19	115.81	105.04	129.80	107.85
Communications	90.97	104.89	86.69	135.19	96.72
Community & Business	78.61	95.56	86.26	140.19	105.98
Recreation Services	88.49	92.01	98.13	104.65	92.66
Hotels & Catering Ests	86.10	92.05	90.74	91.10	88.52
All Firms	80.09	96.64	96.85	122.64	93.43
Direct Production	77.62	95.06	90.06	103.47	84.71
Market Services	86.31	99.03	97.87	133.80	102.16

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

sub-sectors. The managerial grade within the Banking and Other Financial Institutions sub-sector recorded the highest average weekly wage of Lm154.00 as at September 2002. On the other hand, the lowest weekly average wage rate in September 2002 amounted to Lm58.91 and was earned by the labourer category in the Leather and Leather Goods sub-sector. This exceeded the National Minimum Wage for the year 2002 (Lm51.38) by Lm7.53 or 14.7 per cent.

Average weekly wages for the different employment categories as at September 2003 are illustrated in Table 6.7. Both Table 6.6 and Table 6.7 share a common employment weighting structure and the same sample of enterprises, hence allowing direct comparison. Consequently, any differences in the corresponding wage rates

reflect the actual change in wages occurring during the Survey period. In September 2003, the weighted average wage rate for all firms stood at Lm93.43. This represents a rise of Lm2.77 from the corresponding figure for 2002 and an increase of Lm1.02 over the statutory minimum weekly wage increase of Lm1.75 for 2003. The weekly average wage in the market services sector advanced by Lm2.69 and reached Lm102.16 as at September 2003. On the other hand, the average weekly wage rate in the direct production sector amounted to Lm84.71, registering an increase of Lm2.84 over the level recorded during the corresponding period of the previous year. As a result the wage gap between the market services and direct production sectors contracted marginally to Lm17.45.

The Banking and other Financial Institutions sub-sector (Lm112.39), the Transport sub-sector (Lm107.85) and the Community and Business sub-sector (Lm105.98) in the market services category remained the highest remunerated sub-sectors in September 2003. All sub-sectors in the direct production sector recorded average weekly wages lower than the average wage rate recorded for all firms in the Survey period, with the exception of the Beverages (Lm94.80) and the Paper and Printing (Lm97.99) sub-sectors. The Leather and Leather Goods (Lm62.69) and the Textiles, Footwear and Clothing (Lm68.34) sub-sectors continued to register the lowest average weekly wage rates in September 2003. Nevertheless, it is noteworthy that the lowest average weekly pay of Lm61.27 registered for the labourer category in the Leather and Leather Goods sub-sector was Lm8.14 or 15.3 per cent higher than the 2003 Minimum Wage (Lm53.13). On the other hand, the highest average weekly wage remained that earned by the managerial category within the Banking and Other Financial Institutions sub-sector (Lm156.84).

Percentage changes in average weekly wages occurring between September 2002 and September 2003 are presented in Table 6.8. The weighted average weekly wage in September 2003 for all firms was 3.0 per cent higher than that registered in September 2002. On a sectoral level, direct production recorded a relatively higher growth rate of 3.5 per cent, whilst the corresponding figure for the market services category reflected a wage inflation of 2.7 per cent. During the Survey period, the labourer category recorded the highest percentage weekly wage increase of 3.5 per cent. Furthermore, the Wholesale and Retail Trade sub-sector experienced the highest growth rate in average weekly wages (4.8 per cent) with the skilled tradesmen category in this sub-sector recording the highest percentage wage rise of 5.6 per cent during the twelve months to September 2003.

Table 6.9 presents the distribution of average weekly wages along the different wage brackets as at September 2003. The dispersion may be indicative of the relative skill-level and specialised expertise needed by each sub-sector. Consequently,

Changes in Average Weekly Wages

September 2003 - September 2002

Table 6.8

per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	2.1	2.0	2.1	1.9	2.1
Food	2.6	2.1	2.5	2.0	2.5
Beverages	2.4	2.3	3.9	1.7	2.5
Tobacco	2.3	1.9	1.8	...	2.1
Textiles, Footwear and Clothing	2.7	2.2	2.2	2.3	2.6
Furniture	4.1	3.5	4.0	3.7	3.8
Paper & Printing	2.3	1.9	2.1	1.8	2.1
Leather & Leather Goods	4.0	3.5	2.4	4.4	4.0
Chemicals	4.6	4.2	4.2	4.2	4.5
Non-Metallic Products	2.5	2.0	...	1.9	2.1
Metal Products	4.6	3.6	3.7	2.8	4.0
Machinery	4.8	4.3	3.0	3.2	4.4
Electrical Machinery	4.5	3.6	3.8	3.2	4.0
Transport Equipment	4.3	4.0	3.8	3.3	3.8
Miscellaneous	4.5	4.2	4.5	4.1	4.4
Electricity & Gas	3.7	3.2	3.2	2.8	3.4
Construction	2.3	1.8	1.8	...	2.1
Wholesale & Retail Trade	4.7	5.6	4.0	4.6	4.8
Banking & OFI	2.0	1.6	2.2	1.8	2.1
Insurance & Real Estate	2.6	2.5	...	...	2.5
Transport	3.4	4.1	4.5	2.8	3.9
Communications	3.3	3.1	2.5	2.0	2.7
Community & Business	2.5	2.2	2.6	1.7	2.1
Recreation Services	2.0	1.9	1.8	1.7	1.9
Hotels & Catering Ests	2.7	2.5	2.5	2.5	2.6
All Firms	3.5	3.2	2.9	2.4	3.0
Direct Production	3.7	3.2	3.3	3.0	3.5
Market Services	3.0	3.1	2.8	2.1	2.7

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

sub-sectors that necessitate superior skills generally pay higher remuneration wages to a larger share of their employees. The largest proportion of employees (48.9 per cent) in the sample under review fell within the highest wage bracket of Lm91.50 and above. This was followed by the Lm81.50-Lm91.49 bracket which accounted for 20.6 per cent of the employees included in the sample. On a sectoral level, the largest share of workers in direct production (34.3 per cent) earned an average weekly wage that was equal to or exceeded Lm91.50. Approximately one-fourth of the employees engaged in direct productive activities fell within the central Lm71.50-Lm81.49 income bracket. In the market services sector slightly more than three-fifths of the employees earned an average weekly pay that stood within

Proportion of Sampled Employees in Wage Ranges

Table 6.9

per cent

Sector \ Wage Range	Up to Lm61.49	Lm61.50- Lm71.49	Lm71.50- Lm81.49	Lm81.50- Lm91.49	Over Lm91.50
Oil Drilling	-	-	-	96.2	3.8
Food	-	-	41.9	39.7	18.4
Beverages	-	-	9.6	18.7	71.7
Tobacco	5.4	1.8	67.0	-	25.9
Textiles, Footwear & Clothing	5.1	78.6	2.9	12.7	0.7
Furniture & Fixtures	4.4	0.6	26.4	9.4	59.1
Paper & Printing	-	2.0	9.7	25.2	63.2
Leather & Leather Goods	67.2	26.6	1.0	5.2	-
Chemicals	0.3	2.9	28.5	10.9	57.5
Non-Metallic Products	-	-	34.5	48.3	17.2
Metal Products	-	13.6	12.7	30.0	43.7
Machinery	31.9	7.3	43.2	10.2	7.3
Electrical Machinery	6.1	6.5	52.0	3.6	31.8
Transport Equipment	-	-	25.4	50.4	24.2
Miscellaneous	1.6	37.8	5.5	28.0	27.1
Electricity & Gas	-	-	-	46.5	53.5
Construction	-	-	66.7	-	33.3
Wholesale & Retail Trade	-	8.1	32.0	27.4	32.5
Banking & OFI	-	-	4.8	2.0	93.2
Insurance & Real Estate	-	100.0	-	-	-
Transport	-	0.5	0.3	7.8	91.4
Communications	-	1.5	3.9	35.1	59.4
Community & Business	1.3	5.5	22.8	18.3	52.1
Recreation Services	-	-	13.5	27.0	59.5
Hotels & Catering Ests.	1.0	0.9	10.9	61.7	25.4
All Firms	2.5	10.3	17.7	20.6	48.9
Direct Production	4.6	18.1	24.6	18.4	34.3
Market Services	0.5	2.4	10.9	22.8	63.4

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

the highest wage bracket. This was followed by 22.8 per cent of the employees earning an average weekly wage between Lm81.50 and Lm91.49.

In the market services sector, the Banking and Other Financial Institutions sub-sector recorded the highest ratio of employees (93.2 per cent) earning wages above Lm91.50 per week, closely followed by 91.4 per cent of the employees engaged in the Transport sub-sector. In the direct production sector, the Beverages sub-sector registered the highest share of employees (71.7 per cent) earning an average weekly wage that was equal to or exceeded Lm91.50 per week. In addition, 4.6 per cent of the employees engaged in direct productive activities included in this study earn on average a weekly wage within the lowest income bracket. In

contrast, only 0.5 per cent of market services employees fell within this wage bracket. Nonetheless, it should be noted that a large number of employees in the direct production sector benefit from production bonuses that increase the actual level of take-home pay when compared to the one reported in this analysis. The divergence in wage rates between the direct production and market services sectors reflects the different operational structures and diverse skills and levels of expertise required in the two main economic sectors. Indeed, around 82.0 per cent of the employees employed in the direct production sector fall under the labourers and tradesmen categories. In contrast only around two-fifths of the employees in the market services sector are employed in the labourer and tradesmen categories, whilst the majority of employees fall in the clerical and managerial grades.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

Developments in the current account of the balance of payments this year reflected both the large extraordinary export transactions included in the first nine months of 2002 and a significant increase in imports of goods in the merchandise account during the Survey period. If extraordinary items are excluded, a mild growth in exports is recorded, reflecting the slow growth rates in foreign demand particularly in the EU. Higher receipts from tourism were also registered during the period under review. Meanwhile, the increase in imports of goods related mainly to the importation of industrial supplies that are used in the manufacturing industry.

Given the openness of the Maltese economy, economic growth is highly dependent on the performance of its external sector. Exports of goods and services are influenced by the international economic environment. Data published by the IMF indicates that real domestic demand growth in advanced economies is expected to be relatively mild in 2003 and a growth rate of 2.1 per cent is expected. The competitiveness of the Maltese economy is another factor affecting external trade. Box 7.1 provides an analysis of Malta's international competitiveness on the basis of the real effective exchange rate as an indicator.

Foreign Trade

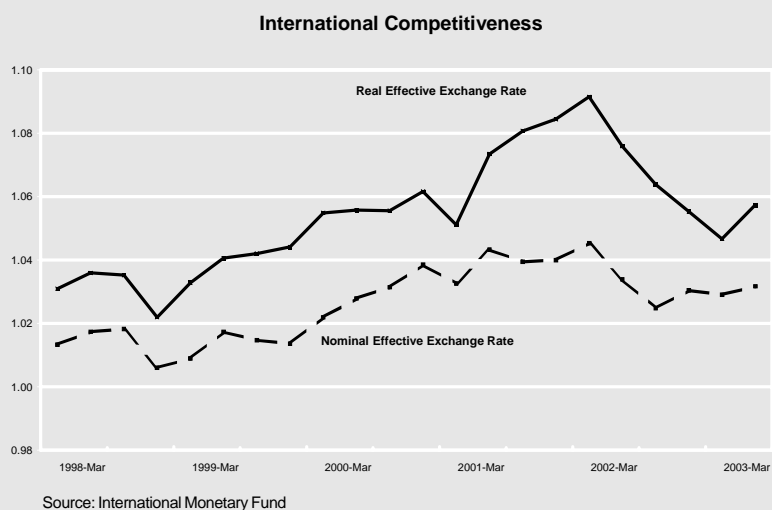
Trade activity during the first nine months of 2003 was characterised by a 6.0 per cent growth in imports coupled with a decline of 3.6 per cent in total exports. As a result Malta's trade gap increased from Lm194.1 million to Lm273.7 million. The decline in total exports was entirely due to a substantial albeit extraordinary fall in re-exports. It is noteworthy that for the corresponding 2002 period, exports included the one-off re-export of passenger aircraft worth Lm41.4 million and the export of a delivery ship worth Lm1.0 million. If exceptional items were excluded, total exports would have recorded an increase of 2.5 per cent. During the Survey period, domestic exports registered an increase of 3.1 per cent. The subdued improvement in export activity compares to declines registered in the corresponding period of the previous two years and reflects the slow improvement in the international economic environment. Developments in international trade are highlighted in Table 7.1 and Chart 7.1.

The rate of import cover, which provides an indication of export earnings per unit of imports, is depicted in Chart 7.2. During the period under review, the rate of import cover stood at 71.5 per cent, compared to 78.6 per cent during the corresponding period of 2002.

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 ratio of 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.

The decline in the real effective exchange rate during 2002 implied a substantial improvement in international competitiveness of Maltese exports. This reflects positive developments in both the value of the Maltese Lira as indicated by the decline in the nominal effective exchange rate and the relative price of foreign consumer goods to domestic consumables. The data available for 2003 indicates that the positive developments in 2002 related to a relatively low inflation and a favourable exchange rate will be maintained for the Survey period. The developments related to price competitiveness are portrayed in the chart below.



Exports

During the Survey period, total exports stood at Lm686.7 million, compared to Lm712.2 million during the corresponding period of last year. The increase in domestic exports was more than offset by the decline in re-exports. Indeed, domestic exports increased by Lm17.9 million to Lm598.4 million whilst re-exports declined by Lm43.4 million, primarily reflecting the exceptional export of aircraft last year. Table 7.2 provides a commodity breakdown of Maltese exports since 2000.

Foreign Trade

Table 7.1

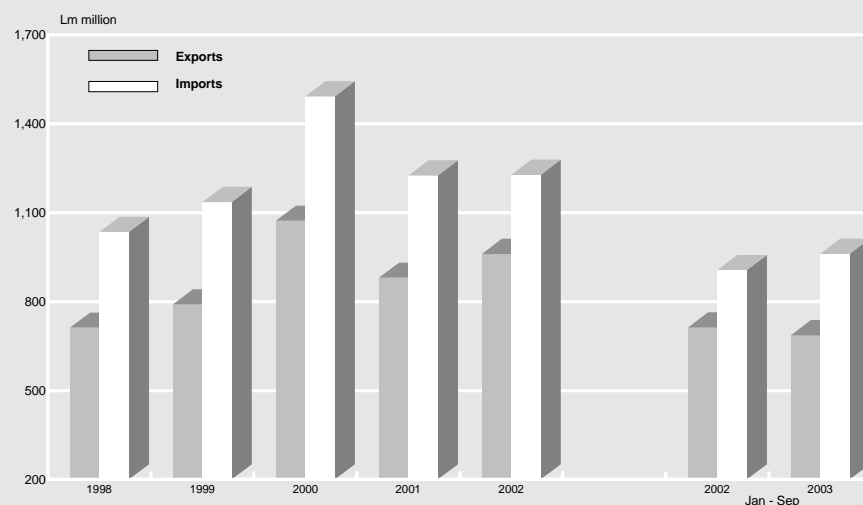
Lm million

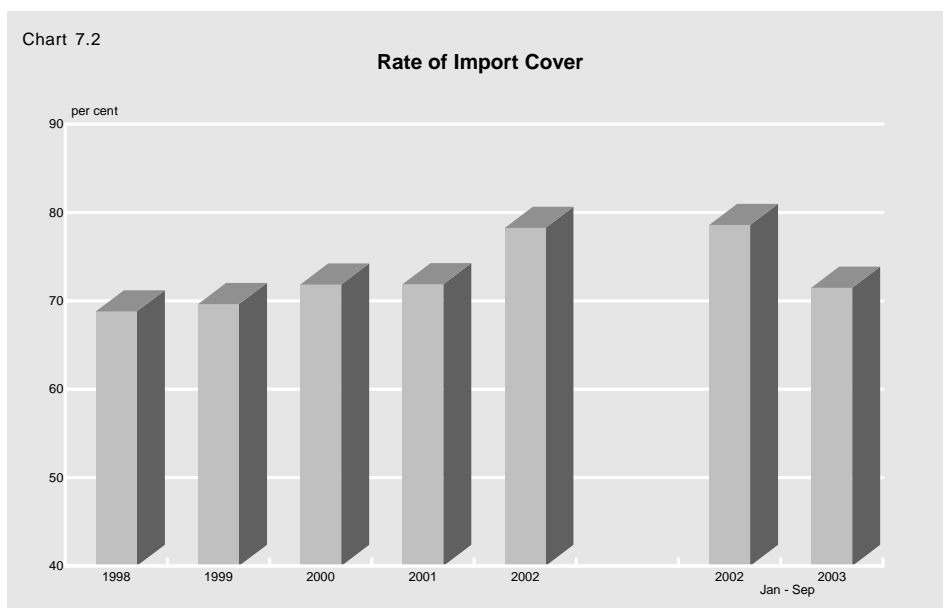
	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Imports (c.i.f.)	1,078.1	414.3	918.8	306.4	906.3	321.2	960.4
Total Exports (f.o.b.)	774.8	297.7	668.3	212.3	712.2	248.5	686.7
Domestic Exports	702.6	274.9	603.1	187.8	580.5	216.8	598.4
Re-exports	72.1	22.8	65.2	24.6	131.7	31.7	88.3
Trade Gap	-303.3	-116.6	-250.5	-94.1	-194.1	-72.7	-273.7
of which:							
Exceptional Item (Exports)	-	-	-	-	42.4	-	-
Exceptional Item (Imports)	-	-	-	-	-	-	-

Source: National Statistics Office

Chart 7.1

Foreign Trade





The rise in domestic exports registered during the Survey period was driven mainly by positive developments recorded in the printed matter, scientific instruments and the machinery and transport equipment sectors. On the other hand, a decline in export revenue from other manufactures, clothing, chemicals and the food and beverages sectors were recorded. Chart 7.3 highlights the contribution of semi-manufacturing, machinery and transport equipment, and other manufacturing towards total domestic exports since 1998 whilst Chart 7.4 illustrates the contribution of the different categories towards domestic exports during the Survey period.

Following contractions in the previous comparable periods, an improvement was recorded in domestic exports of machinery and transport equipment. Exports advanced by 6.0 per cent in line with expectations of a recovery in world demand for semi-conductors that make up the bulk of this sector. Moreover, producer price indices of semi-conductors typically exported from Malta seem to indicate that the severe decline in prices registered recently has been halted, with a marginal increase being recorded for the third quarter of 2003. The machinery and transport equipment category maintained their largest share of domestic exports, increasing from 66.1 per cent in the January-September period of 2002 to 67.9 per cent in the comparable period of 2003.

The first nine months of 2003 saw the further consolidation of the printed matter category, which has recorded considerable increases since the corresponding period

Commodity Breakdown of Exports

Table 7.2

Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Domestic Exports							
Food, Beverages and Tobacco	15.1	5.6	19.8	6.1	19.5	20.7	19.4
Chemicals	9.1	3.9	12.3	3.7	10.8	2.8	9.8
Semi-manufactures	40.4	13.5	37.5	13.1	33.3	11.3	33.4
Machinery and Transport							
Equipment	526.1	209.9	415.2	122.8	383.6	137.5	406.5
Clothing	42.1	15.5	45.7	16.2	49.6	16.7	43.7
Printed Matter	12.8	4.7	13.1	5.0	19.3	8.0	24.1
Toys and Games	17.2	5.7	16.1	4.0	19.8	5.4	20.7
Scientific Instruments	17.4	6.5	17.5	5.9	12.3	4.7	14.0
Other Manufactures	22.4	9.6	26.0	10.9	32.3	9.8	26.7
Total Domestic Exports	702.6	274.9	603.1	187.8	580.5	216.8	598.4
Re-Exports							
Food, Beverages and Tobacco	5.9	1.8	6.1	2.2	11.9	4.4	11.9
Fuels	35.3	11.7	34.5	13.7	39.0	13.2	39.9
Machinery and Transport							
Equipment	18.3	4.6	12.7	4.8	64.2	8.8	21.1
Other	12.6	4.6	11.9	3.9	16.7	5.3	15.5
Total Re-Exports	72.1	22.8	65.2	24.6	131.7	31.7	88.3
Total Exports	774.8	297.7	668.3	212.3	712.2	248.5	686.7

Source: National Statistics Office

of 2000. This sector's share of domestic exports increased in the first nine months of 2003 and stood at 4.0 per cent of domestic exports from 3.3 per cent a year earlier. Domestic exports of scientific instruments expanded by 13.8 per cent to Lm14.0 million, thus partially reversing the substantial decline recorded in the comparable period of 2002. The share of domestic exports in this category to total domestic exports increased marginally and stood at 2.3 per cent in the Survey period.

The clothing category, traditionally the second most significant contributor of export earnings, recorded a decline in domestic exports of 11.9 per cent from Lm49.6 million in the first nine months of 2002 to Lm43.7 million during the Survey period. The share of this category to total domestic exports has followed a downward trend, falling from 15.0 per cent of domestic export revenues in the early nineties to 7.3 per cent in the first nine months of 2003. The decline in importance of this sector reflects increased international competition from low-cost centres.

Chart 7.3

Total Domestic Exports

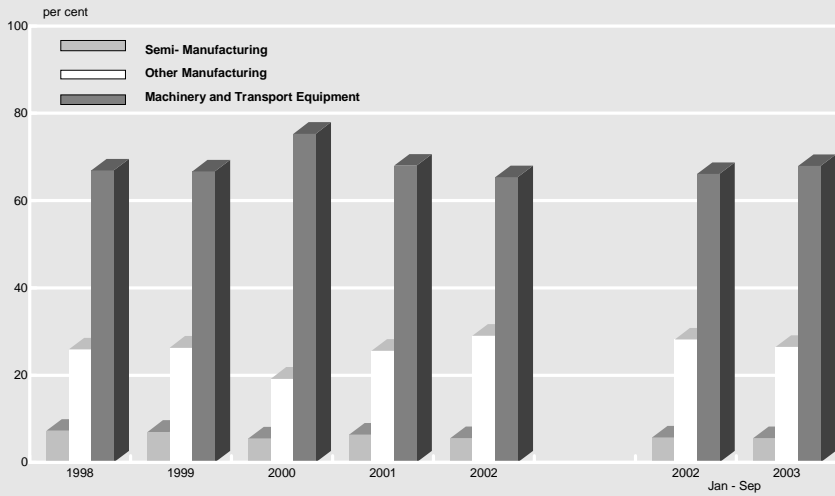
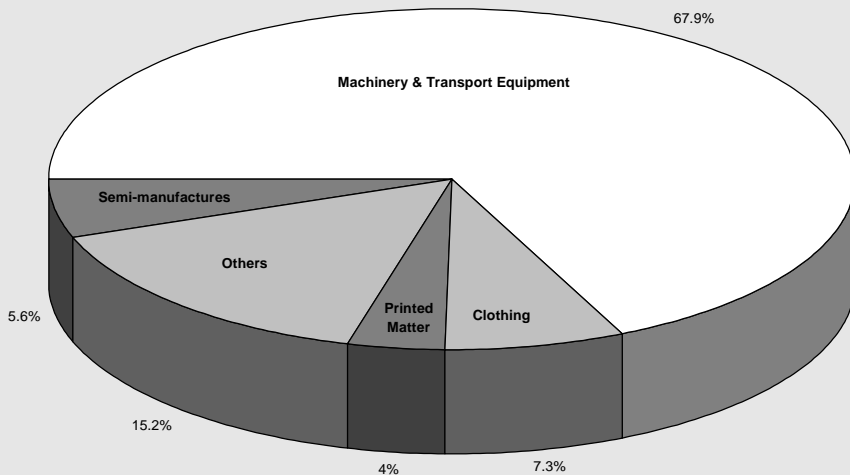


Chart 7.4

**Breakdown of Domestic Exports
January-September 2003**



Following the positive surge in domestic exports of other manufactures recorded during the January-September 2002 period, exports in this category returned to levels registered in previous years.

Developments in re-exports were significantly influenced by the inclusion in 2002 figures of exceptional activity, namely the sale of five passenger aircraft to the US worth Lm41.4 million. As a result, during the first nine months of 2003, the level of re-exports stood at Lm88.3 million, from Lm131.7 million in the corresponding period last year. Meanwhile, re-exports of fuel increased marginally by Lm0.9 million or 2.3 per cent, and other re-exports declined by Lm1.2 million to Lm15.5 million.

Geographical Distribution – Exports

During the Survey period exports to the EU, Africa and America declined whilst exports to Asia increased. Table 7.3 provides further detail on the geographical distribution of Maltese exports. It is noteworthy that the slow recovery in demand in the world economy in general, and the EU in particular, may have been a contributing factor in the decline in exports.

The EU continued to be Malta's major export market, increasing its share from 43.9 per cent to 45.2 per cent of Maltese exports during the Survey period. The economic performance of the EU is expected to remain weak during 2003. According to the IMF, domestic demand in the Euro Area is expected to rise by 1.1 per cent. Exports to this major economic block declined marginally by Lm2.3 million to Lm310.3 million. This included a fall in exports to the Euro Area of Lm2.9 million. While exports directed to Italy, the UK, the Netherlands and Belgium declined, exports to other EU member countries such as France and Germany increased. Chart 7.5 illustrates the distribution of Maltese exports to the EU. Meanwhile, exports to European countries currently outside the EU increased by a further Lm5.2 million to Lm17.7 million during the Survey period and accounted for 2.6 per cent of total Maltese exports.

Exports to the Asian continent increased by Lm14.4 million, or 8.2 per cent, to Lm189.2 million. Following the positive economic growth in Asia in the aftermath of the Asian crisis, the market for Maltese exports in this continent continued to consolidate its position, with its share increasing further from 24.5 per cent during the first nine months of 2002 to 27.6 per cent during the period under review.

The share of exports directed to America declined from 18.4 per cent during the first nine months of 2002 to 14.4 per cent during the period under review reflecting

Total Exports by Main Geographical Areas

Table 7.3

Lm million

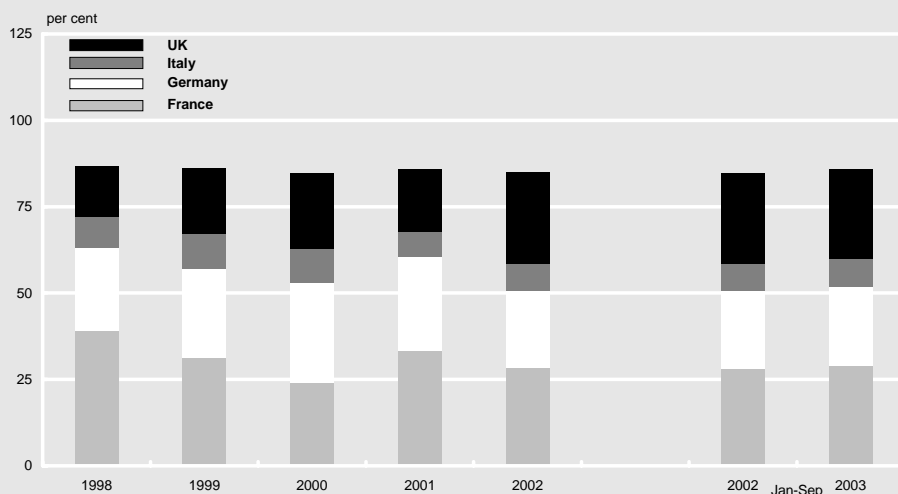
	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Europe	311.8	124.2	331.6	105.6	325.1	116.1	328.1
European Union	261.0	96.7	321.5	99.8	312.6	109.2	310.3
Italy	27.7	8.4	21.9	8.3	25.1	7.6	24.5
Germany	77.8	25.1	87.4	27.4	70.3	23.3	71.5
France	62.3	23.6	113.3	26.9	87.6	32.4	89.4
U.K.	55.7	22.3	53.7	22.5	82.1	30.1	80.8
Netherlands	8.7	3.2	9.7	2.8	8.4	1.9	5.8
Belgium	14.8	6.0	20.4	7.0	23.7	7.0	21.6
Others	14.0	8.2	15.1	4.9	15.5	6.9	16.8
Euro Area*	202.0	73.3	265.4	76.0	227.9	77.8	225.0
Other European countries	50.8	27.4	10.1	5.8	12.5	6.9	17.7
Africa	18.8	6.1	24.0	9.1	34.2	10.6	25.4
America	224.3	82.4	141.3	36.9	131.4	32.3	98.6
USA	212.0	81.4	138.0	36.3	128.3	31.1	92.1
Others	12.3	1.0	3.3	0.6	3.0	1.3	6.5
Oceania	0.5	0.1	0.5	0.1	0.5	0.1	0.4
Asia	175.8	70.9	129.1	45.1	174.8	72.9	189.2
Japan	28.4	12.2	21.3	5.0	20.1	21.5	20.5
Singapore	119.9	46.3	76.1	27.7	116.0	35.9	121.9
Others	27.5	12.5	31.7	12.3	38.7	15.5	46.8
Ships & Aircraft	43.5	14.0	41.8	15.5	46.3	16.5	45.1
Total Exports	774.8	297.7	668.3	212.3	712.2	248.5	686.7
EU Exports as % of Total	33.7	32.5	48.1	47.0	43.9	44.0	45.2

* Greece forms part of the Euro Area as from 2001

Source: National Statistics Office

Chart 7.5

Geographical Distribution - Exports to EU



exceptional re-exports to the US in 2002. However, one should note that, if account were taken of the one-off items, exports to the US would have recorded an increase of Lm5.2 million, or 6.0 per cent, in line with the improvement, albeit slower than expected, of economic growth prospects in the North American continent. According to IMF estimates, real domestic demand in the US is expected to grow by 2.8 per cent in 2003.

Imports

During the first nine months of 2003, total imports increased by Lm54.1 million to Lm960.4 million. The growth in imports registered during the Survey period was reflected in all import categories. Imports of consumer goods advanced by 5.5 per cent, imports of industrial supplies increased by 5.7 per cent while imports of capital goods advanced by 5.1 per cent. Meanwhile, imports of fuel recorded a substantial increase of 10.8 per cent.

The increase in imports of industrial supplies accounted for around half of the total rise in imports. It is important to note that due to the openness of the Maltese economy and the high import content of Maltese manufactures and investment, developments in foreign demand are expected to affect trade not only in the export sector but also in the import sector. The higher imports of industrial supplies may partially reflect future growth prospects in foreign demand for Maltese exports that are thus preceded by higher imports of industrial supplies and capital. The composition of imports and the relation between imports of industrial supplies to exports are analysed in Box 7.2. Meanwhile, Table 7.4 highlights developments in imports by broad economic category.

The importation of consumer goods increased by Lm11.7 million, or 5.5 per cent, to Lm225.3 million. The high growth rates in imports recorded in the 1990s and the last four years reflect the liberalisation of trade, particularly the removal of levies in recent years. Imports of consumer durables recovered from the declines recorded in the first nine months of 2001 and 2002 and advanced by 5.6 per cent, accounting for almost half of the increase in consumer goods imports. Imports of food and beverages and other consumer goods rose by 3.9 per cent and 6.8 per cent respectively. Chart 7.6 gives a breakdown of consumer imports.

Imports of industrial supplies consist mainly of semi-finished goods. During the Survey period these accounted for 94.4 per cent of imports of industrial supplies. Imports in this category recorded an increase of Lm28.6 million and stood at Lm461.3 million during the period under review. A marginal increase in imports of finished

Imports by Broad Economic Category

Table 7.4

Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Consumer Goods							
Food and Beverages	66.2	26.3	69.8	27.2	72.6	27.0	75.4
Durable Goods	87.0	33.3	86.1	31.7	85.4	34.8	90.4
Others	47.5	17.4	47.4	16.9	55.6	18.7	59.4
Total	200.7	77.0	203.3	75.8	213.6	80.4	225.3
Industrial Supplies							
Primary	13.4	4.7	13.1	4.6	18.3	5.2	15.0
Semi-finished	589.8	235.0	452.3	149.4	432.7	147.2	461.3
Finished	13.3	4.4	11.2	3.9	11.1	6.8	12.2
Total	616.5	244.0	476.6	157.9	462.1	159.2	488.5
Capital and Others							
Capital Goods	176.4	60.5	151.6	47.8	148.7	49.9	156.3
Fuel	76.6	29.7	78.7	22.0	73.8	29.0	81.8
Non-specified and Gold	8.0	3.0	8.7	2.8	8.1	2.6	8.5
Total	260.9	93.3	239.0	72.6	230.6	81.5	246.6
Total Imports	1,078.1	414.3	918.9	306.3	906.3	321.2	960.4

Source: National Statistics Office

Box 7.2: The Composition of Import Flows and its relation to Export Growth

Despite the yearly increases in imports of consumer goods reflecting increases in income and trade liberalisation, the share of imports of this category of expenditure has declined over the past years. Whereas imports of consumer goods accounted for almost 27.0 per cent of total imports in 1980, the corresponding share in the last fourteen years averaged 21.0 per cent. On the other hand, the 1990s were characterised by a relatively higher share of imports of industrial supplies and capital goods. The share of industrial supplies increased from 50.5 per cent in 1980 to an average of 56.4 per cent in the 1990s. In the last four years, however, the share of industrial supplies to total imports averaged 52.7 per cent. The 1990s were also characterised by a higher share of imports of capital goods compared to their level in 1980. In 2003, imports of capital goods accounted for 16.3 per cent of total imports. The high share of industrial supplies and capital goods reflects Malta's lack of material resources for production and investment.

This suggests that the growth rate of imports during the 1990s and in the past four years was associated mostly with increased investment expenditure and manufacturing activity rather than consumption. It is noteworthy that the combined average growth rate of imports of industrial supplies and capital goods during the 1990s was approximately 6.0 per cent whereas the growth rate in exports in the comparable period was 9.5 per cent. However, during the last four years the growth rate in exports was only slightly higher than the combined growth rate in imports of industrial supplies and capital goods. In the period under review export growth excluding exceptional items was 2.5 per cent whilst the combined growth rate in imports of industrial supplies and capital goods stood at 5.6 per cent.

Chart 7.6

Breakdown of Consumer Imports

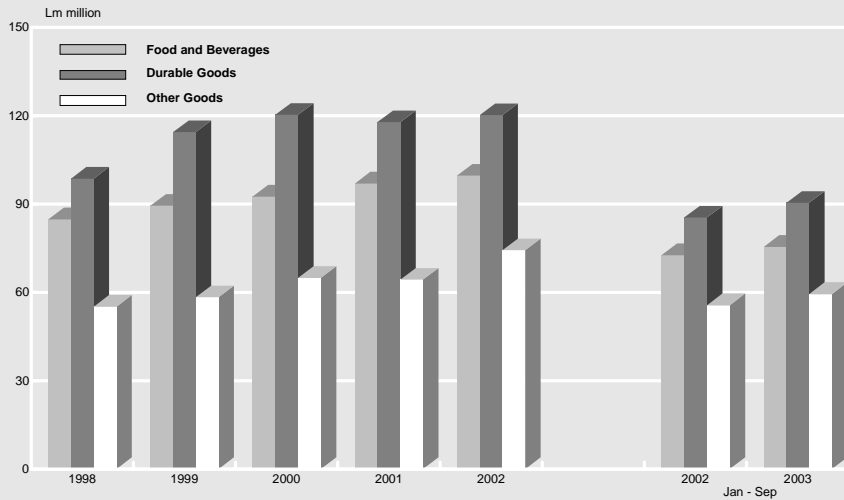
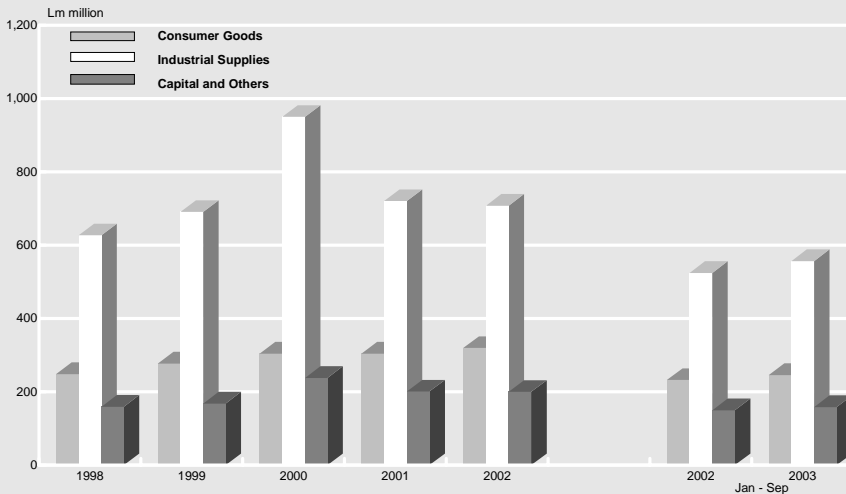


Chart 7.7

Total Imports



industrial supplies was recorded whilst imports of primary supplies declined by Lm3.3 million.

Following the downturn recorded in the last two years, imports of capital goods recovered and in the first nine months of 2003 stood at Lm156.3 million. This represents an increase of 5.1 per cent over the comparable period of last year. This increase is reflected in the recovery of investment expenditure recorded in the period under review.

During the Survey period imports of fuel stood at Lm81.8 million. Expenditure on fuel imports was Lm8.0 million higher than the corresponding expenditure last year. This was primarily underpinned by an increase in the quantity of fuel imported. The composition of imports is illustrated in Chart 7.7.

Geographical Distribution – Imports

During the first nine months of 2003, imports from the EU, other European countries, and Asia increased whilst declines were registered in imports from the American and African continents. Table 7.5 provides information on the geographical distribution of imports since 2000.

Imports from the EU in the first nine months of 2003 increased by Lm33.5 million to Lm643.9 million. Most of this increase came from Italy. Higher imports from Germany, France and the Netherlands were recorded whilst imports from the UK declined. The EU maintained its position as Malta's major source of imports, representing 67.0 per cent of total imports. Imports from the Euro Area stood at Lm540.5 million, an increase of Lm35.6 million. Chart 7.8 highlights the share of imports from Malta's major trading partners within the EU to total imports from this economic block.

Imports from Asia stood at Lm154.5 million, an increase of Lm21.0 million. The share of imports from Asia advanced to 16.1 per cent, reversing the significant decline in this continent's share recorded during the first nine months of 2001 and 2002.

Imports from America continued on their negative trend and fell by a further Lm4.8 million to Lm89.2 million. As a result, the share of imports from the American continent declined to 9.3 per cent. At Lm79.7 million, imports from the US were at their lowest levels in the last four years.

Imports by Main Geographical Areas

Table 7.5

Lm million

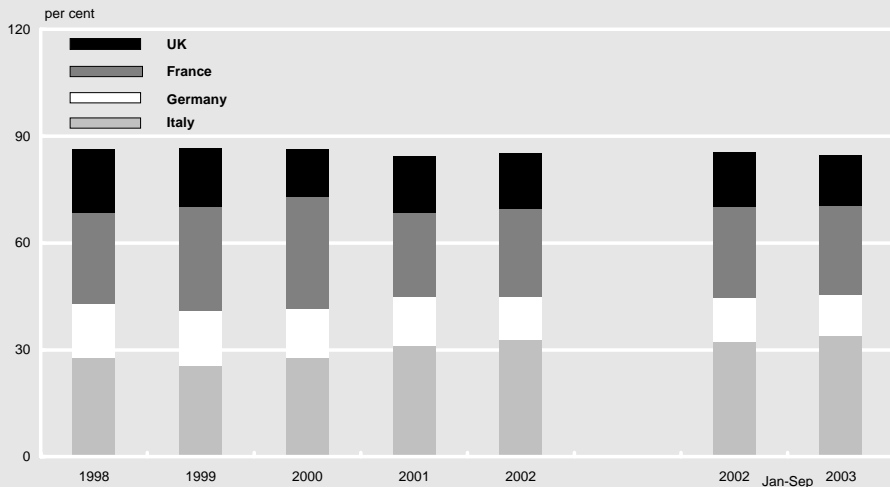
	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
Europe	674.9	272.9	622.7	212.4	661.6	230.0	701.5
European Union	640.2	254.7	581.6	197.5	610.4	214.5	643.9
Italy	183.0	66.8	182.1	61.3	197.7	74.0	217.8
U.K.	88.2	31.5	89.4	33.7	93.8	33.9	91.3
Germany	90.0	32.1	79.8	27.6	74.3	24.2	75.6
France	192.1	89.8	138.5	45.6	155.3	49.8	159.6
Netherlands	21.5	8.2	21.0	7.4	20.8	7.7	22.2
Others	65.4	26.3	70.7	21.9	68.3	24.7	77.3
Euro Area*	538.2	217.7	480.9	159.9	504.9	176.0	540.5
Other European Countries	34.7	18.3	41.1	14.9	51.2	15.5	57.7
Africa	18.3	5.8	20.7	7.9	12.3	5.0	9.4
America	117.7	53.4	113.7	43.7	94.0	33.4	89.2
USA	109.6	48.9	101.7	40.0	84.7	30.6	79.7
Others	8.1	4.5	12.0	3.6	9.3	2.8	9.5
Oceania	4.2	1.4	5.5	1.3	4.9	1.3	5.7
Asia	263.0	80.8	156.2	41.1	133.5	51.5	154.5
Japan	22.5	6.9	19.7	6.5	21.0	6.9	21.1
Singapore	172.5	47.7	71.2	10.8	37.2	14.6	47.5
Others	68.0	26.2	65.4	23.8	75.3	30.0	85.9
Total Imports	1,078.1	414.3	918.8	306.4	906.3	321.2	960.4
EU Imports as % of Total	59.4	61.5	63.3	64.5	67.3	66.8	67.0

* Greece forms part of the Euro Area as from 2001

Source: National Statistics Office

Chart 7.8

Geographical Distribution - Imports from EU



Trade Balances with Various Countries

Table 7.6

Lm million

	2000	2001	2002	2002 Jan/Sep	2003 Jan/Sep
European Union	-537.1	-357.6	-403.0	-297.8	-333.5
Austria	-8.8	-10.2	-7.8	-5.9	-6.2
Belgium	4.1	12.1	-10.4	-13.5	5.5
Denmark	-7.3	-6.7	-7.4	-5.1	-5.8
Finland	8.1	5.5	1.8	0.3	1.7
France	-196.0	-43.9	-85.1	-67.7	-70.2
Germany	-19.2	7.4	-5.0	-4.1	-4.1
Greece	-5.7	-6.1	-6.8	-5.3	-4.0
Ireland	-12.8	-6.7	-2.6	-2.3	-4.1
Italy	-213.7	-213.2	-239.1	-172.6	-193.2
Luxembourg	—	-0.1	-0.3	-0.1	-0.2
Netherlands	-17.8	-15.9	-18.3	-12.4	-16.4
Portugal	-2.1	-2.2	-1.9	-1.3	-3.2
Spain	-22.6	-26.0	-26.8	-19.4	-21.2
Sweden	-1.8	-4.7	-4.8	-3.6	-1.6
United Kingdom	-41.6	-46.9	-15.5	-11.7	-10.6
Other Countries					
USA	134.9	32.6	44.1	43.6	12.4
Japan	11.3	0.1	13.6	-0.9	-0.6
Singapore	-54.1	21.9	100.2	78.9	74.4
Libya	-0.6	2.2	24.0	19.6	15.8
China	-24.0	-24.0	-25.2	-18.1	-23.6

Source: National Statistics Office

Geographical Distribution – Trade Balances

Table 7.6 shows Malta's trade balances with a number of countries. The trade balance with the EU deteriorated from Lm297.8 million to Lm333.5 million. The negative balance with France and Italy deteriorated whilst that with the UK improved. The trade balance with Germany remained unchanged from the level recorded in the January-September period of 2002. Meanwhile, the trade balance with the US declined from a positive balance of Lm43.6 million to Lm12.4 million during the Survey period.

Balance of Payments

The current account deficit stood at Lm62.6 million during the first three quarters of 2003. Developments in the merchandise account had a significant impact on the current account balance during the period under review. It is important to note that about half of the deterioration in the current account balance was attributable to

the one-off re-export of aircraft recorded in first nine months of 2002. Higher imports of goods in the merchandise account also contributed to this result.

Data presented in this Chapter is compiled in conformity with the specifications set out in the Fifth Edition of the International Monetary Fund's Balance of Payments Manual. Hence it is not comparable to data on balance of payments components in other Chapters of this Survey, which are not compiled according to the same methodology. Furthermore, it should be highlighted that 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 comparable to each other. However, such figures are not comparable to those published in Economic Surveys published prior to 2002.

The Current Account

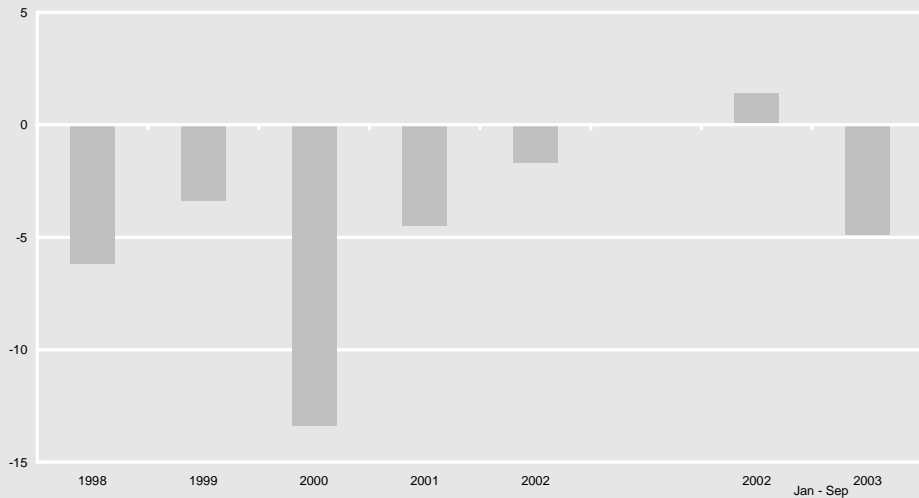
Developments in the current account of the balance of payments during the last decade reflect high domestic absorption relative to national income. This is typical of a small open economy like Malta that has to import most of its industrial supplies and goods for domestic consumption and investment. In turn, the high level of domestic absorption relative to the income level is also indicative of low national savings relative to investment. The downward trend in household savings and the recurring fiscal deficits are contributing to the shortfall in the current account. Chart 7.9 shows the current account balance as a percentage of GDP since 1998. The deficit in the first nine months of 2003 stood at 4.9 per cent of GDP. A deficit in the current account has been registered throughout this period with the exception of a surplus of 1.4 per cent of GDP in the January-September period of 2002. However, this surplus was the result of exceptional re-export items. Developments in the goods, services and income account are presented in Table 7.7.

The Goods and Services Account

The deficit generally recorded in the merchandise account increased from Lm158.6 million in the first nine months of 2002 to Lm228.6 million in the comparable period of 2003. Chart 7.10 shows the deficit in the goods and services account since 1998. The rise in export activity net of extraordinary items was insufficient to finance Malta's import bill related to manufacturing supplies, capital expenditure and private consumption expenditure. The resulting higher trade gap contributed to the deterioration of the merchandise account. Further details concerning trade flows are provided in the previous section in this Chapter.

Chart 7.9

Current Account Balance (per cent of GDP)



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

Table 7.7

Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
GOODS							
General Merchandise Transactions	-261.9	-99.5	-207.5	-75.5	-158.6	-60.6	-228.6
Nonmonetary Gold	-7.0	-2.9	-7.9	-2.5	-7.0	-2.2	-6.7
Others	31.0	9.3	28.0	10.7	33.7	11.9	32.9
Total Goods	-237.8	-93.1	-187.4	-67.3	-132.0	-51.0	-202.4
SERVICES							
Transportation	-1.4	-6.9	8.3	-3.7	-2.7	-5.5	-15.6
Travel	140.6	39.6	146.3	33.2	134.5	45.7	139.0
Other Services	-2.8	-5.3	-13.6	-4.4	-14.1	-4.2	5.0
Total Services	136.4	27.3	141.0	25.1	117.6	36.0	128.3
Total Goods and Services	-101.4	-65.8	-46.4	-42.2	-14.3	-15.0	-74.1
INCOME							
Compensation to employees	0.7	0.5	-0.5	-0.2	0.3	0.1	1.3
Investment Income	18.3	-72.6	16.2	-4.4	34.8	-28.4	23.7
Total Income	19.0	-72.1	15.7	-4.6	35.1	-28.4	25.1
Total Goods, Services and Income	-82.5	-137.9	-30.6	-46.8	20.8	-43.3	-49.1

Source: National Statistics Office

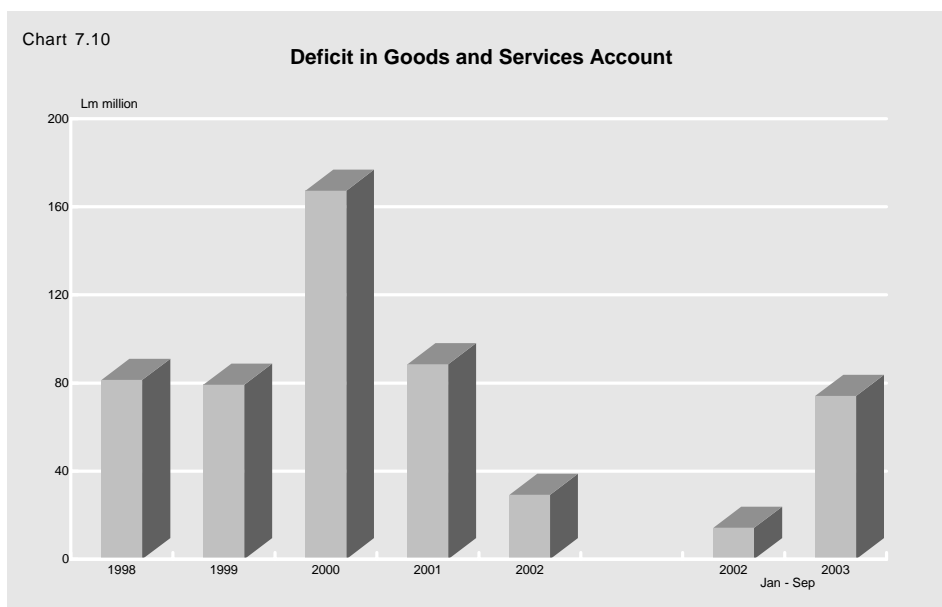
The larger deficit in the merchandise account was partly offset by an improvement of Lm10.7 million or 9.1 per cent in the services account. Receipts from the services account represent approximately one third of total exports of goods and services. Inflows in the services account remained practically unchanged from the previous year's levels. The improvement in the services account is thus related entirely to a decline in outflows which stood at Lm228.0 million during the Survey period of 2003 from Lm238.6 million in January-September 2002. The increase in net inflows in the services account reflected an improvement in the balance on the travel account and on the other services category which more than offset the deterioration in the transport account. Net inflows during the first three quarters of 2003 stood at Lm128.3 million.

The transport bill deteriorated from a net outflow of Lm2.7 million to a net outflow of Lm15.6 million. Receipts declined by Lm12.9 million whilst payments remained unchanged from their level in 2002.

The travel account constitutes the major source of export revenue in the services sector. Tourism earnings advanced by Lm10.0 million, or 5.4 per cent, to Lm194.0 million. This reflected a higher per capita expenditure by tourists visiting Malta. Meanwhile, the higher inflows from tourist earnings were partially offset by expenditure by Maltese tourists abroad, which increased by Lm5.4 million to Lm55.0 million during the period under review.

The Other Services category include communication services, insurance services, financial services, computer services, royalties and license fees, cultural and recreational services, Government services and other services. During the period under review, net inflows in the Other Services category recorded an improvement of Lm19.1 million to Lm5.0 million. More than 80 per cent of this improvement reflected lower outflows. In particular, net outflows in the other business services category declined by Lm15.1 million to a net inflow of Lm11.2 million. This development is mainly related to lower payments and higher receipts for miscellaneous business, professional and technical services.

Total exports of goods and services registered a decline of 2.0 per cent during the Survey period. If exceptional items recorded in 2002 are excluded, exports of goods and services advanced by 2.0 per cent. On the other hand, imports of goods and services advanced by 3.5 per cent. The ratio of exports of goods and services to imports of goods and services stood at 93.4 per cent, down from 98.7 per cent during the Survey period of 2002. However, if exceptional items are excluded, the ratio for the corresponding period in 2002 would have been 94.8 per cent.



The Income Account and Current Transfers

The income account represents the earnings on foreign and domestic labour working outside the jurisdiction of their nationality together with the earnings on direct investments, portfolio investments and other investments in the financial account of the balance of payments. Income on debt flows typically takes the form of interest receipts and payments whereas income on equity takes the form of dividends and distributed profits. Recorded in the direct investment income account are the distributed earnings as well as undistributed profits of foreign investments in Malta that are not sent abroad. The latter are recorded as an outflow in the investment income account with the corresponding double entry as an inflow of direct investment in the financial account.

As highlighted in Table 7.8, net inflows in the income account during the period under review declined from Lm35.1 million to Lm25.1 million. Most of the decline is related to lower net income from direct investment inflows as payments of dividends and distributed branch profits abroad increased by Lm4.5 million whilst outflows in the form of reinvested earnings declined by Lm8.3 million. Moreover, net interest receipts on direct investment debt flows also recorded a decline of Lm8.5 million to Lm75.8 million. Interest receipts declined by Lm41.2 million whilst interest payments declined by Lm32.8 million, possibly reflecting the decline in both domestic and foreign interest rates.

Balance of Payments

Current Account

Table 7.8

Lm million

	2000		2001		2002		2003
	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep	Oct/Dec	Jan/Sep
GOODS AND SERVICES							
Exports of Goods and Services	1,163.8	409.0	1,066.3	332.8	1,076.1	367.1	1,054.5
Imports of Goods and Services	1,265.2	474.9	1,112.6	375.0	1,090.4	382.1	1,128.7
Goods and Services Account	-101.4	-65.8	-46.3	-42.2	-14.3	-15.0	-74.1
INCOME							
Income Received	347.1	41.2	291.8	81.1	288.3	81.0	241.9
Income Paid	328.2	113.2	276.1	85.7	253.2	109.3	216.8
Income Account	19.0	-72.1	15.7	-4.6	35.1	-28.4	25.1
CURRENT TRANSFERS (Net)							
General Government Transfers	1.6	-1.3	4.1	-0.5	1.8	1.4	8.3
Private Transfers	7.0	3.8	-1.5	1.7	-4.7	-4.2	-21.8
Total Net Current Transfers	8.6	2.5	2.6	1.2	-3.0	-2.8	-13.5
Balance on Current Account	-73.8	-135.4	-28.0	-45.6	17.8	-46.2	-62.6

Source: National Statistics Office

For the second consecutive year current transfers recorded a net outflow. During the Survey period, inflows of current transfers were Lm32.7 million lower whilst outflows were Lm22.2 million lower than the corresponding period last year. Net transfers to General Government increased by Lm6.5 million whilst net outflows of current private transfers rose by Lm17.1 million. As a result, net outflows of current transfers increased from Lm3.0 million to Lm13.5 million.

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. An analysis of the capital and financial account of the balance of payments is relevant within this context. Apart from providing the means of financing transactions on the current account, the flows recorded in the capital and financial account can have an effect on real economic variables. Flow reversals can have destabilizing effects and consequently lead to a contraction in real income whilst the better allocation of savings can lead to higher investment income in the future. 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 stocks and flows from 1995 till 2002. Data for the January-September period of 2003 were not yet available by the time of publication of this Economic Survey.

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

Table 7.9

	1995	1996	1997	1998	1999	2000	2001	2002
Current Account	-11.2	-12.2	-5.9	-6.2	-3.4	-13.4	-4.5	-1.7
Capital Account	0.4	1.8	0.3	0.8	0.7	0.5	—	0.2
Financial Account excl. Reserves	0.8	6.2	3.1	8.2	11.1	4.3	7.3	5.6
Net Foreign Direct Investment	3.9	8.1	1.9	7.2	21.3	16.7	7.1	-11.2
Net Portfolio Investment Equity Flows	-0.1	0.1	-0.3	0.1	-0.5	-0.5	-1.0	-0.3
Net Portfolio Debt Flows	-14.0	-3.6	3.6	-2.5	-13.3	-21.5	-11.0	-10.1
Net Other Investment Flows	11.0	1.6	-2.1	3.4	3.6	9.6	12.3	27.3
Reserve Assets	9.7	2.5	-0.2	-5.4	-6.6	6.2	-7.1	-7.3
Net Errors and Omissions	0.3	1.7	2.8	2.6	-1.8	2.3	4.2	3.2

* 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

Despite the relatively low national savings in the Maltese economy the accumulation of reserves has generally continued. The increase in reserves of 7.3 per cent of GDP in 2002 is in fact the highest increase since 1995. This implies that capital inflows are financing the excess investment. Net inflows of capital, excluding reserves and including the capital account, have increased by a further 5.8 per cent of GDP in 2002. Since 1995, net capital inflows averaged 6.4 per cent of GDP, with the highest level of 11.8 per cent of GDP being recorded in 1999 and the lowest level of 1.2 per cent of GDP being recorded in 1995.

The net financial flows recorded in Table 7.9 indicate that foreign direct investment flows, portfolio debt flows and other investment flows have been increasing considerably throughout the years, partly reflecting the liberalization process. The significant increase in capital flows in the last four years also reflects transactions by international banks, which take deposits from and lend to non-residents. In addition, the Investment Registration Scheme launched in January 2002 and the sale of equity in Malta International Airport plc to foreign investors contributed to the higher inflows in 2002.

The net outflow of direct investment of 11.2 per cent of GDP recorded in 2002 is related to a loan repayment made by a foreign owned bank to its parent company

overseas. Lower reinvested earnings were more than offset by an increase in equity capital whilst direct investment abroad declined.

The significant net outflow of funds abroad in the form of portfolio investment flows continued in 2002. Most of the outflow recorded is in the form of debt flows rather than equity flows. In 2002 net outflows of portfolio debt were 10.1 per cent of GDP compared to 11.0 per cent in 2001. During 2002 the outflow of portfolio investments in the form of debt securities was caused by an outflow of assets in the form of bonds and notes held by banks which more than offset the inflow of assets in the form of money market instruments held by banks.

Significant increases in inflows of other investments were recorded during 2002. Other investment inflows were 27.3 per cent of GDP compared to 12.3 per cent in 2001. This was underpinned by a notable net increase in short-term liabilities and a significant net decline in short-term assets held by banks.

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 2002 are estimated on the basis of transactions that have taken place in 2002 as indicated by the capital flows in the balance of payments. Such data exclude valuation changes and other adjustments and thus are only indicative and warrant caution in their use and interpretation.

The transactions that have taken place in 2002 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 abroad is biased towards debt rather than equity investments. 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.

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 Lm580.7 million in 1995 to Lm882.3 million in 2002. Reserve accumulation is important in order to maintain confidence in the exchange rate regime, particularly in the context of the

International Investment Position

Table 7.10

Lm million

	1995	1996	1997	1998	1999	2000	2001	2002*
Direct Investment Abroad	11.4	38.8	54.7	64.3	76.3	88.9	113.1	113.3
Direct Investment in Malta	198.1	303.6	335.3	443.2	766.7	1,039.2	1,147.6	959.3
Assets								
Portfolio Investment Equity	1.3	1.7	6.0	2.5	10.1	17.8	34.5	43.1
Portfolio Investment Debt	489.9	539.6	496.7	562.1	777.5	1,118.4	1,307.0	1,471.9
Liabilities								
Portfolio Investment Equity	n/a	n/a	n/a	n/a	n/a	n/a	0.2	4.1
Portfolio Investment Debt	8.5	8.6	25.4	49.0	38.9	41.9	41.3	36.4
Other Investment Assets	362.1	575.9	950.8	1,757.3	2,403.8	2,828.0	2,025.5	2,234.4
Other Investment Liabilities	832.0	1,082.3	1,428.2	2,261.2	2,960.6	3,539.5	2,925.8	3,592.5
Reserves	580.7	554.1	561.7	640.0	740.3	644.1	760.4	882.3
International Investment Position	406.8	315.6	281.0	272.7	241.7	76.6	125.6	152.8

* Estimated by adding the capital flows to the stock levels of the previous year.
Data do not include revaluation changes and other adjustments.

Source: National Statistics Office

Reserve Adequacy Ratios

Table 7.11

	1995	1996	1997	1998	1999	2000	2001	2002
Imports of Goods and Services (Lm million)	1,208.1	1,186.4	1,173.5	1,248.1	1,371.9	1,740.1	1,487.6	1,472.5
Monthly Import bill (Lm million)	100.7	98.9	97.8	104.0	114.3	145.0	124.0	122.7
Gross International Reserve Coverage (months)*	5.8	5.6	5.7	6.2	6.5	4.4	6.1	7.2
Monetary Base (Lm million)	447.5	451.9	485.2	506.1	543.3	564.5	567.6	612.8
Gross Reserves as a ratio of Monetary Base (per cent)*	129.8	122.6	115.8	126.4	136.3	114.1	134.0	144.0

* 2002 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

exchange rate peg currently in place and in light of the capital account liberalisation programme. 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 144.0 per cent in 2002.

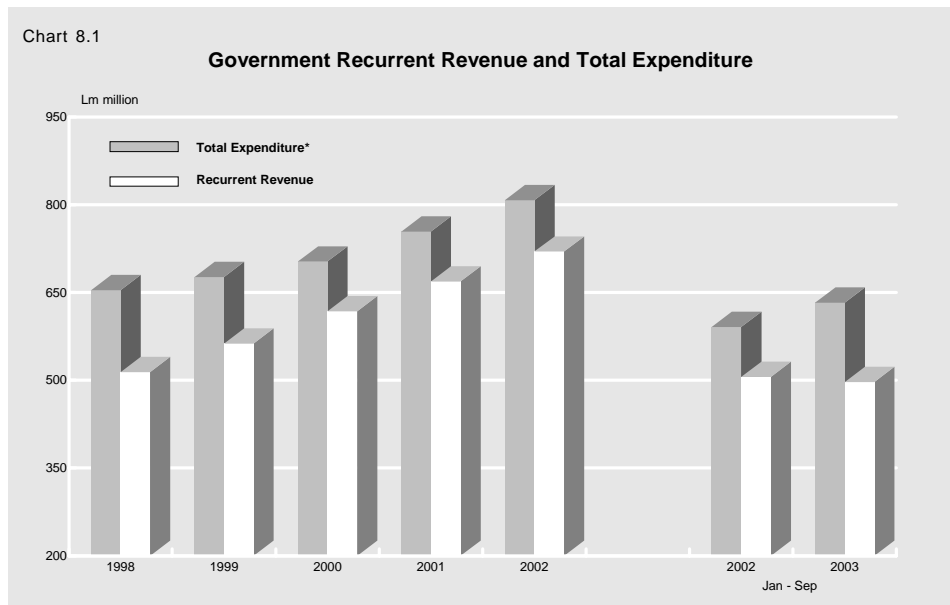
8. Financial Developments

8. Financial Developments

During the Survey period, Government's fiscal position was characterized by a contraction in recurrent revenue coupled with an expansion in total expenditure. The structural deficit, which is defined as the difference between total expenditure and recurrent revenue, stood at Lm135.8 million during the first nine months of the year, as compared to Lm85.6 million during the corresponding period of the preceding year. In the monetary sector, total monetary assets continued to expand, albeit at a slower pace. Increases in both domestic credit and the net foreign assets stimulated monetary expansion. During the Survey period, the Central Bank's intervention rate was repeatedly lowered reflecting the general world financial environment. The Maltese lira appreciated against all major currencies except the Euro, which has been consistently strong in the international financial environment.

Public Finance

It is pertinent to note that when using and interpreting Government finance data, caution must be applied since Government's financial transactions are registered on a cash basis rather than on an accrual basis. Therefore, changes in the timing of Government's cash transactions can erroneously indicate changes in underlying trends for Government's net financial position. Developments in public finances during the first nine months of the 2000-2003 period are presented in Table 8.1.



*excluding contributions to Sinking Fund and Direct Loan Repayments.

Government Revenue and Expenditure
(January-September)

Table 8.1

Lm million

	2000	2001	2002	2003
Recurrent Revenue	447.5	466.9	505.6	496.6
Tax Revenue	387.0	408.4	438.9	443.6
Direct Tax Revenue	216.5	234.0	246.8	251.0
Indirect Tax Revenue	170.5	174.4	192.1	192.6
Non-Tax Revenue	60.5	58.5	66.7	53.0
Total Expenditure	503.7	547.9	591.2	632.4
Recurrent Expenditure	402.8	433.6	471.0	499.4
Capital Expenditure	58.3	69.2	71.0	84.2
Productive	25.4	27.8	26.4	23.4
Infrastructure	16.8	23.5	21.7	23.6
Social	16.1	17.9	22.8	37.2
Interest on Public Debt	42.6	45.1	49.2	48.8
Structural Deficit	(56.2)	(81.0)	(85.6)	(135.8)
Financed by:				
Extraordinary Receipts				
Receipts from sale of shares	12.0	-	19.0	-
Sinking Funds of Converted Loans	-	-	-	2.1
Sinking Fund Contribution/Direct Loan Repayments	(7.0)	(6.7)	(6.1)	(6.2)
Public Sector Borrowing Requirement	(51.2)	(87.7)	(72.7)	(139.9)
Loans	-	79.1	-	102.1
Local Loans	-	79.1	-	69.9
Foreign Loans	-	-	-	32.2

Source: The Treasury

Meanwhile, Chart 8.1 illustrates trends in total expenditure and recurrent revenue in recent years.

Revenue

Government recurrent revenue is composed of tax and non-tax revenue including grants but excluding extraordinary revenue. During the Survey period, recurrent revenue declined by Lm9.0 million to Lm496.6 million. This decline was attributable to lower non-tax revenue which more than offset an increase in tax revenue. A detailed breakdown of Government revenue for the first nine months of the 2000-2003 period is presented in Appendix Table 8.1.

Tax revenue, which constitutes the main source of Government revenue, increased by Lm4.7 million to Lm443.6 million. Registering an expansion of 1.1 per cent, tax receipts increased at a somewhat slower pace than recorded in previous years, reflecting the prevailing economic situation. The increase in tax receipts was mainly attributable to higher direct tax revenue, which comprises of social security contributions and income tax. In fact, direct tax revenue increased by Lm4.2 million to Lm251.0 million during the period under review. Meanwhile, indirect tax revenue, comprising of customs and excise duties, licences, taxes and fines and Value Added Tax, registered an increase of Lm0.5 million to Lm192.6 million.

Social security contributions increased from Lm121.3 million to Lm126.0 million during the Survey period. Expansions in revenue generated from social security during the first nine months of 2002 and 2003 were relatively low when compared with the expansions registered in years previous to 2002, reflecting the performance in the labour market. Income tax revenue amounted to Lm125.0 million, thus remaining essentially at last year's level. It is pertinent to highlight that the revenue from income tax generated during the first nine months of 2002 captured an exceptional source of revenue namely capital gains tax generated by the privatization of Malta International Airport (MIA) plc. If this exceptional source of revenue is excluded, the upward trend in receipts from income tax registered in previous years is maintained during the Survey period. During the first nine months of 2003, higher average incomes coupled with ongoing efforts to improve efficiency in tax collection contributed to increase income tax revenue. As from the beginning of this year, the adjustment in the income bands for tax purposes implied that the tax payable on every level of income was reduced. This contributed to a lower yield of income tax revenue.

During the Survey period, revenue generated from customs and excise duties increased by Lm0.8 million to reach Lm44.9 million. Higher revenue from excise duties was recorded following the announcement of an increase in excise duty on cigarettes in the Budget Speech for 2003. On the other hand, revenue collected from excise duty on petroleum declined, mainly attributable to the shift towards the consumption of unleaded petrol as this type of fuel attracts less excise duty.

Revenue collected from licences, taxes and fines declined by Lm3.1 million to Lm61.6 million. It is pertinent to note that for the corresponding 2002 period this item of revenue included exceptional receipts from duty on documents generated by the privatization of MIA plc. A decline was recorded in receipts from levies on imported goods reflecting the completion of the last phase of the three-year programme for the dismantling of levies on imported industrial goods as well as the

reduction of levies on agricultural products. In addition, the decline in this category of revenue was also attributable to lower receipts from oil rental fees.

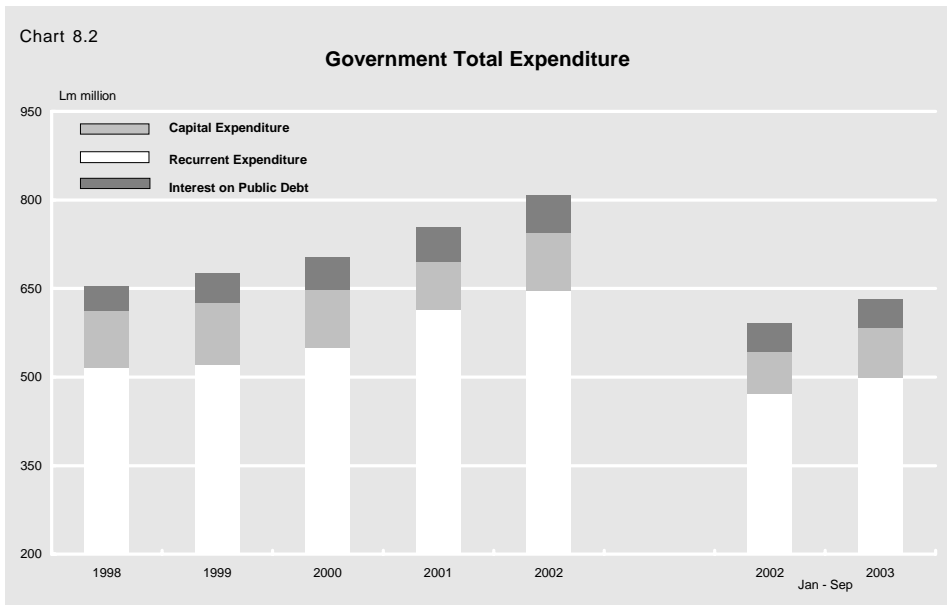
Revenue generated from Value Added Tax amounted to Lm86.1 million or Lm2.8 million more than that registered in the first nine months of 2002. Gross VAT receipts increased by around Lm5.4 million, as compared to Lm2.4 million during the corresponding period of 2002. Refunds, which amounted to around 17 per cent of gross VAT receipts, increased by around Lm2.6 million, thus partially offsetting the increase in gross VAT receipts.

During the period under review, the main components of non-tax revenue were the transfer of profits generated by the Central Bank of Malta and rents. In contrast, during the first nine months of 2002, dividends on investment and fees of office were also main sources of non-tax receipts. Dividends on investment amounted to Lm2.6 million, or Lm10.6 million less than that recorded during January-September 2002. This decline was mainly attributable to the exceptionally high dividends on investment generated by the privatization of MIA plc during the first nine months of 2002. Fees of office amounted to Lm4.2 million during January-September 2003, a decline of Lm6.4 million. It is pertinent to note that during the first nine months of 2002 this category of revenue reflected receipts amounting to Lm5.9 million collected under the foreign investment registration scheme. A similar scheme is being implemented in the fourth quarter of 2003.

During the period under review, grants received amounted to Lm2.1 million comprising funds forthcoming from the European Union as pre-accession funds.

Expenditure

During the first nine months of 2003, total Government expenditure (excluding contribution to the Sinking Fund in respect of local and foreign loans and direct repayment of loans) increased by Lm41.2 million to reach Lm632.4 million. Total expenditure comprises recurrent expenditure, capital expenditure and interest on public debt. Recurrent expenditure which constitutes around 79 per cent of total expenditure, increased by Lm28.4 million to Lm499.4 million. Meanwhile, capital expenditure outlays increased by Lm13.2 million to Lm84.2 million. Capital expenditure accounted for around 13 per cent of total expenditure. Interest on public debt declined marginally to Lm48.8 million, accounting for around 8 per cent of total expenditure. Chart 8.2 depicts trends in total Government expenditure since 1998.



The increase in recurrent expenditure recorded during the first nine months of 2003 is mainly attributable to higher expenditure incurred on the Programmes and Initiatives category. The outlay in respect of this category increased by Lm19.3 million, to Lm259.6 million. This is attributable to increases in expenditure on various items including the Electoral Commission activities, social security benefits, social security state contribution, the agriculture support scheme and the public private partnership aimed to improve Malta's landscape. The expenditure incurred on the Contributions to Government Entities category increased from Lm47.2 million in the January-September 2002 period to Lm56.6 million during the period under review. The increase in this category of recurrent expenditure is mainly attributable to Government entities, the expenditure for which during 2002 was included within the respective recurrent categories. Such entities included Heritage Malta, Malta Council for Culture and the Arts and Mount Carmel Hospital. Moreover, additional expenditure was incurred in relation to the operations of Malta Drydocks and the Malta Environment and Planning Authority. Reflecting the accounting treatment of Government entities, expenditure on the Operational and Maintenance category and on personal emoluments practically remained at the levels registered during the corresponding period in 2002.

A detailed breakdown of Government recurrent and capital expenditure on a cost centre basis for the first nine months of the 2000-2003 period is presented in Appendix Table 8.2 and 8.3, respectively. The major fluctuations registered in the separate expenditure categories are discussed below.

Expenditure by the Department of Social Security which mainly constitutes of the State contribution in terms of the Social Security Act (Cap. 318), increased by Lm1.5 million. Meanwhile, Government welfare payments increased by Lm8.5 million to reach Lm150.3 million, largely attributable to higher outlays with respect to retirement pensions, social assistance and other benefits. This item of expenditure is affected by factors outside Government control such as demographic changes, wage and inflationary developments.

Expenditure in respect of the Ministry of Education and the Education Division amounted to Lm64.8 million, up from Lm62.5 million during the first nine months of 2002. Higher expenditure was incurred in respect of personal emoluments incurred by the Education Division. Moreover, higher expenditure was incurred with respect to the University of Malta and the development of Malta College of Arts, Science and Technology.

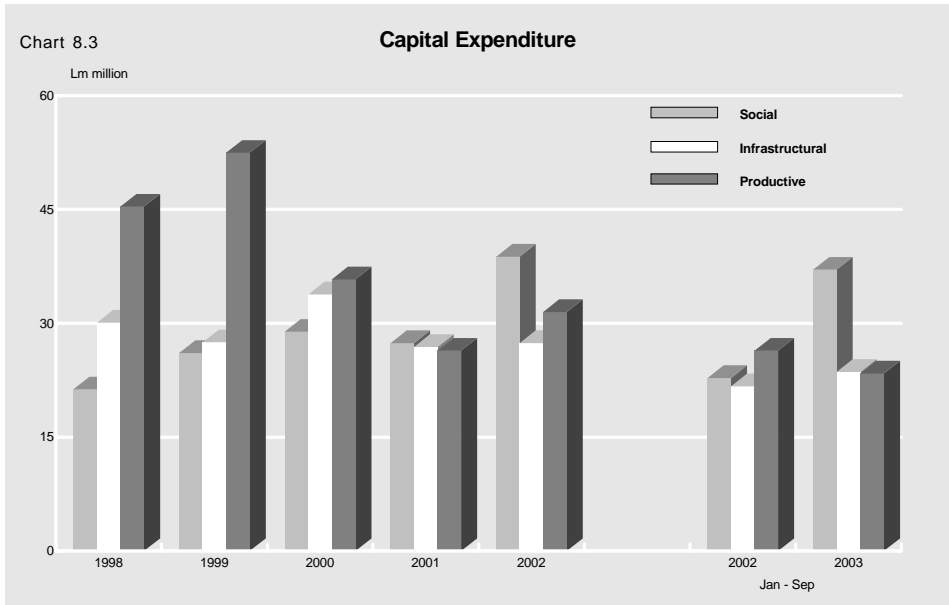
During the first nine months of 2003, expenditure under the Treasury pensions category reached Lm21.1 million, up from Lm20.8 million. This category of expenditure includes outlays in respect of pensions, allowances and gratuities under the Pensions Ordinance (Cap. 93).

Expenditure incurred by the Ministry for Economic Services increased from Lm29.0 million to Lm30.5 million. Higher expenditure was incurred in respect of operations of Malta Drydocks, as well as pensions emerging from the 2002 voluntary retirement schemes.

The Ministry of Health registered an increase of Lm2.5 million in recurrent expenditure. This increase is attributable to a combination of higher outlays in respect of Mount Carmel Hospital, in addition to higher personal emoluments incurred by this Ministry.

During the Survey period, expenditure incurred by the Ministry of Agriculture and Fisheries totaled Lm12.3 million compared to Lm6.4 million in the corresponding period in 2002. This higher expenditure reflects the implementation of the agriculture support scheme initiated in 2002. Moreover, additional funds were incurred with respect to the public private partnership aimed to improve Malta's landscape.

Expenditure in respect of Government Property Division increased by Lm1.3 million to Lm1.9 million during the first nine months of 2003. This reflected the inclusion of expenditure related to the Joint Office (appearing as a separate category in 2002) within this item of expenditure. The Ministry of Home Affairs and the Environment



has increased its expenditure by Lm1.4 million to Lm2.8 million. This increase has been primarily incurred to finance activities of the Malta Environment and Planning Authority.

The capital expenditure programme increased from Lm71.0 million during the first nine months of 2002 to Lm84.2 million during the period under review. This was underpinned by a notable increase in capital outlays on social development, particularly aimed towards the new hospital project. Meanwhile, an increase was also registered in investment directed towards infrastructural facilities. On the other hand, a decline in productive investment was recorded. These developments were reflected in a rise in the share of investment directed towards social development, to 44.1 per cent, from 32.2 per cent recorded during the first nine months of 2002. Infrastructural investment accounted for 28.1 per cent during January-September 2003, as compared to 30.6 per cent during the corresponding 2002 period. The proportion of productive investment in the total capital programme also declined to 27.8 per cent from 37.3 per cent recorded for the first nine months of 2003. These developments are depicted in Chart 8.3 whilst Appendix Table 8.3 presents a breakdown of Government's capital expenditure programme.

Government's capital programme for productive investment declined by Lm3.0 million to Lm23.4 million, mainly due to lower outlays earmarked towards the ship repair and shipbuilding industry. It should be noted that outlays incurred during the corresponding 2002 period related to the voluntary early retirement scheme

implemented as part of the restructuring plan for this industry. Meanwhile, an increase was registered in the funds earmarked towards the development of industries, while higher investment has also been allocated towards agriculture and fisheries. Investment towards the development of tourism stood at Lm8.4 million during the first three quarters of 2003, up from Lm7.9 million. This outlay was primarily administered by the Malta Tourism Authority.

During the period under review, capital outlays on infrastructural projects increased by Lm1.9 million to Lm23.6 million. This was underpinned by higher expenditure allocated under the item public buildings, plant and equipment, which increased from Lm9.4 million to Lm13.5 million. This rise was attributable to higher outlays allocated to public transport, namely the subsidy on the purchase of new route buses and the route buses ticketing machines. Furthermore, additional funds allocated under this item of capital expenditure have been earmarked to finance Government construction projects.

At Lm37.1 million, capital expenditure on social investment was Lm14.3 million higher than the level recorded during the January-September 2002 period. Expenditure on health increased to Lm27.5 million, up by Lm12.0 million, largely reflecting higher outlays allocated to finance the works carried out in respect of the new hospital. Capital expenditure on education amounted to Lm5.1 million. Additional funds were allocated to the development of Malta College of Arts, Science and Technology and the upgrading and refurbishment of schools. Moreover, capital outlays allocated under the item Public Buildings, Plant and Equipment increased to Lm1.8 million, up from Lm1.0 million. This increase was attributable to higher funds incurred in respect of waste management services.

Fiscal Performance

As highlighted above, during the first nine months of 2003, Government's fiscal position was characterized by expansions in both recurrent and capital expenditure. At the same time, recurrent revenue contracted, reflecting the prevailing economic situation as well as the inclusion in 2002 of revenue generated by the privatization of MIA plc and the investment registration scheme. As a result of these developments, the structural deficit reached Lm135.8 million during the period under review, from Lm85.6 million in the corresponding 2002 period. This resulted in a higher level of public sector borrowing requirement which amounted to Lm139.9 million. It is pertinent to note that the level of public sector borrowing requirement recorded during the first nine months of 2002 reflected both a lower level of structural deficit as well as higher extraordinary receipts, namely receipts from the sale of shares.

The way in which shortfalls in Government's fiscal position are financed is of particular relevance since different methods of financing lead to different macroeconomic effects and costs. Government relies heavily on a non-monetary way of financing the deficit by the issuing of domestic public debt. During the first nine months of 2003, a foreign loan was undertaken to finance the new hospital project. Nonetheless, the high dependence on domestic borrowing to finance the deficit has been maintained. By resorting to domestic borrowing, Government finances the deficit without drawing down international reserves and without increasing the exposure to exchange rate risk.

General Government Consolidated Gross Debt*

as a percentage of GDP

Table 8.2

	2000	2001	2002
Austria	66.8	67.3	67.6
Belgium	109.6	108.5	105.8
Denmark	47.3	45.4	45.2
Finland	44.5	43.8	42.7
France	57.2	56.8	59.0
Germany	60.2	59.5	60.8
Greece	106.2	107.0	104.9
Ireland	39.3	36.8	33.3
Italy	110.6	109.5	106.7
Luxembourg	5.5	5.4	5.6
Netherlands	55.8	52.8	52.7
Portugal	53.3	55.6	58.1
Spain	60.5	56.9	54.0
Sweden	52.8	54.4	52.4
U.K.	42.1	38.9	38.4
Cyprus	54.6	55.6	58.6
Czech Republic	16.6	23.3	27.1
Estonia	5.1	4.8	5.8
Hungary	55.5	53.4	56.3
Latvia	13.9	15.7	15.2
Lithuania	24.3	23.4	22.7
Poland	37.2	37.3	41.8
Slovakia	46.9	48.1	42.6
Slovenia	27.6	27.5	28.3
Malta	61.3	66.1	66.6

*General Government Consolidated Gross Debt is based on ESA 95 methodology

Source: Eurostat
European Commission

Table 8.2 presents the General Government Consolidated Gross Debt as a percentage of GDP for the European Union Member States as well as for the acceding countries. It is pertinent to note that the General Government Consolidated Gross Debt is based on ESA 95 methodology and is thus not comparable with data presented in previous editions of this publication. General Government Consolidated Gross Debt includes both Government debt as well as the debt of other central Government bodies commonly referred to as extra-budgetary units.

The debt-to-GDP ratio is influenced by the level of fiscal deficit and financial operations such as privatization receipts which alleviate Government's borrowing requirement. Moreover, the level of economic growth also influences the debt-to-GDP ratio. The General Government Gross Debt ratio for Malta has increased from 61.3 in 2000 to 66.6 per cent in 2002.

Monetary Developments

During the Survey period, total monetary assets, or broad money, continued to expand, albeit at a slower pace when compared to the first nine months of 2002. Monetary expansion was driven by growth in both net foreign assets of the banking system and domestic credit.

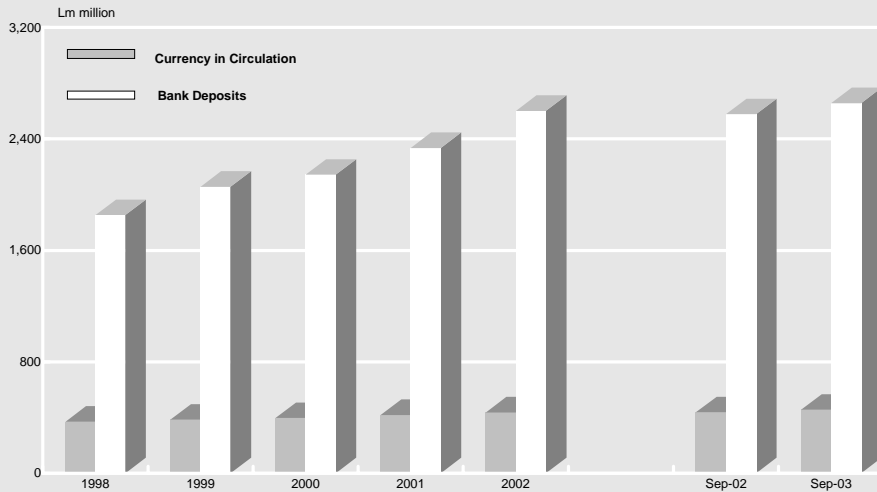
Monetary Aggregates

During the first nine months of 2003, broad money, which consists of money in circulation and residents' deposits with the banking system, increased by 2.5 per cent to Lm3,113.2 million, compared to the 9.5 per cent growth rate registered during the corresponding 2002 period. The relative lower growth rate of broad money was underpinned by a cutback of 1.9 per cent in residents' time deposits with the banking system, as compared to a growth rate in time deposits of 13.1 per cent during the first nine months of 2002. Developments in the main monetary indicators are represented in Table 8.3 and Chart 8.4.

Narrow money (M1), which reflects demand for liquid balances, increased by 8.4 per cent to Lm736.9 million, compared to the 7.0 per cent growth rate registered during the corresponding 2002 period. The increase in M1 is attributed to a significant increase in demand deposits held by households as well as private firms and public non-financial enterprises with the banking system. Demand deposits increased by Lm37.2 million, or 15.3 per cent, as compared to the 11.7 per cent growth rate registered during the first nine months of 2002. At 4.5 per cent, the growth rate of

Chart 8.4

Monetary Assets



Monetary Indicators

Table 8.3

Lm million

	2001 (Dec)	2002 (Sep)	Sep 02 - Dec-01 % Change	2002 (Dec)	2003 (Sep)	Sep 03 - Dec-02 % Change
Broad Money	2,752.9	3,015.3	9.5	3,038.1	3,113.2	2.5
Narrow Money	635.5	679.9	7.0	680.1	736.9	8.4
Demand Deposits	216.6	241.9	11.7	243.3	280.5	15.3
Currency in Circulation	418.9	438.0	4.6	436.8	456.4	4.5
Quasi Money	2,117.5	2,335.4	10.3	2,358.0	2,376.3	0.8
Savings Deposits	671.4	700.8	4.4	712.8	761.6	6.9
Time Deposits	1,446.0	1,634.7	13.1	1,645.2	1,614.7	-1.9
Determinants of Monetary Growth						
Domestic Credit	2,328.3	2,385.2	2.4	2,406.1	2,486.9	3.4
Claims on Private & Parastatal Sectors	1,853.2	1,899.4	2.5	1,908.2	1,963.6	2.9
Claims on Government	475.1	485.8	2.3	498.0	523.3	5.1
Net Foreign Assets	1,083.5	1,315.7	21.4	1,293.6	1,376.7	6.4
Monetary Authorities	760.4	840.6	10.5	873.9	935.7	7.1
All Banking Institutions	323.1	475.0	47.0	419.7	441.0	5.1

Source: Central Bank of Malta

currency in circulation remained relatively constant at the level registered during the comparable period of 2002.

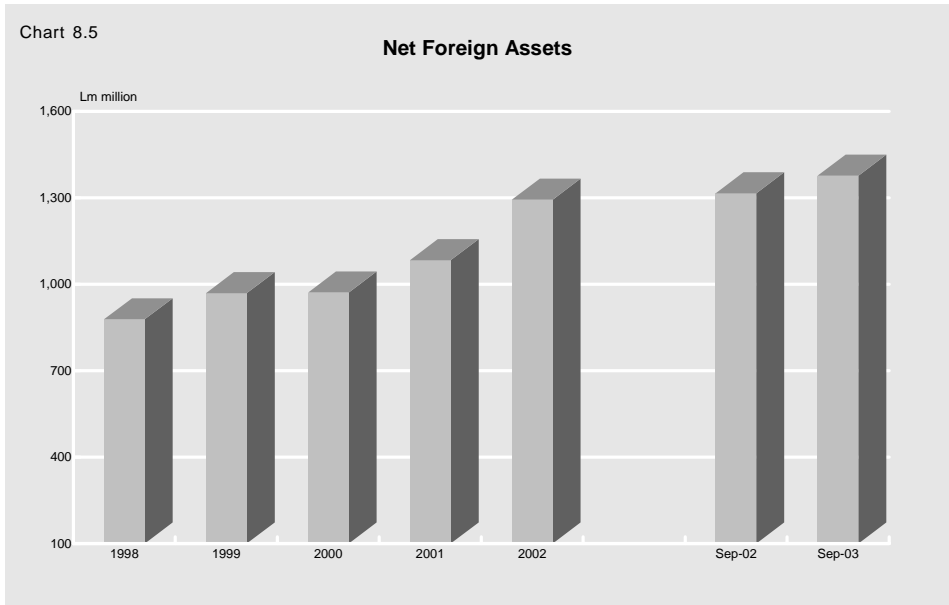
Following a significant expansion rate registered during the January-September 2002 period, the rate of growth of quasi money stood at a relatively low 0.8 per cent during the period under review. The lower growth rate in quasi money was underpinned by a decline in time deposits. This decline followed a significant rate of increase in time deposits attributed to higher capital inflows from abroad during the first nine months of 2002. Time deposits fell by Lm30.5 million, or 1.9 per cent to Lm1,614.7 million during the Survey period. This decline may have been partly the result of the low interest rate environment prevailing in these recent years inducing investors to prefer shorter-term deposits as well as the availability of other capital market instruments that offer higher interest rates. On the other hand, savings deposits continued to expand at a relatively high rate. Between January and September of 2003, savings deposits increased from Lm712.8 million to Lm761.6 million, an increase of 6.9 per cent.

Determinants of Monetary Expansion

Monetary expansion registered during the Survey period was driven mainly by an augmentation in both the net foreign assets and domestic credit. The rate of growth of net foreign assets slowed down when compared to that registered in the corresponding 2002 period. On the other hand, domestic credit increased at a higher rate. The determinants of monetary expansion are shown in Table 8.3.

Domestic credit expanded by Lm80.8 million or 3.4 per cent to Lm2,486.9 million during the period under review. Both claims on the private and parastatal sectors and net claims on Government contributed to the expansion of domestic credit. Claims on the private and the parastatal sector expanded by 2.9 per cent to Lm1,963.6 million, compared to the 2.5 per cent growth rate registered during the commensurate period in 2002. This was primarily attributable to higher claims on the private sector, largely resulting from the surge in loans to finance housing, as the corporate sector preferred the capital market for funding purposes. Net claims on Government, expanded by Lm25.3 million or 5.1 per cent to Lm523.3 million. This exhibits an increase over the 2.3 per cent growth rate recorded during the corresponding period in 2002.

During the first nine months of 2003, net foreign assets of the banking system increased by Lm83.1 million, or 6.4 per cent to Lm1,376.7 million as can be seen in Chart 8.5. This growth rate is relatively below the 21.4 per cent expansion rate registered during the corresponding period of 2002. Net foreign assets of the



monetary authorities expanded by 7.1 per cent as compared to a growth rate of 10.5 per cent during the corresponding 2002 period. These reflected developments in the balance of payments. The growth rate of 47.0 per cent in the net foreign assets of all banking institutions registered during the first nine months of 2002 was not maintained during the period under review as the net foreign assets of all banking institutions expanded by a relatively subdued 5.1 per cent. This also reflects a deceleration in non-bank capital inflows partly in relation to the repatriation of residents' foreign holdings which during 2002 was boosted by the Investment Registration Scheme. Moreover, the lowering of interest rates may have also contributed to the slowdown in the rate of growth of net foreign assets.

The Money Market

During the Survey period, the Central Bank continued to operate in the domestic financial market to influence the liquidity in the banking system and, hence, ensure that short-term money market interest rates reflect the monetary policy stance. In concordance with this policy objective, the monetary authorities continued to resort to open market operations, as an indirect instrument, to influence the supply of money and credit in the economy. During the period under review, the Monetary Policy Council of the Central Bank repeatedly lowered the Bank's central intervention rate. Between May and September, the central intervention rate was lowered from 3.75 per cent to 3.00 per cent with three successive reductions of 25 basis points. These reductions reflect monetary policy easing in view of the significant

premium in favour of the Maltese lira interest rates and further growth in the official external reserves. Moreover, the subdued growth of the domestic economy in an environment characterized by low inflation also reinforced the lowering of interest rates. As a result of the lowering of interest rates, the absorption rate band was lowered to 2.95 – 3.00 per cent whilst the injection rate band was revised to 3.00 – 3.05 per cent.

The excess short-term liquidity characterizing the banking system persisted in the period under review, with the Central Bank holding regular auctions of 14-day term deposits to absorb surplus funds. A total of Lm2,606.6 million were absorbed through auctions of term deposits during the first nine months of the year, up from Lm1,496.9 million during the corresponding period of 2003. The interest rate paid on these deposits declined from 3.70 per cent at the end of 2002 to 2.95 per cent at the end of September 2003. No reverse repo agreements were undertaken by the Central Bank during the Survey period. Thus, the interest rate charged on reverse repos reflected the decline in the central intervention rate and declined from 3.80 per cent to 3.05 per cent during the first nine months of 2003.

Government continued to resort to short-term debt issues to finance its short-term financing requirements. The volume of Treasury Bills issued increased from Lm514.5 million during the January-September 2002 period, to Lm648.8 million during the period under review reflecting Government's fiscal position. The maturities of the Bills issued ranged from 91 days to 365 days. The bulk of the trading was on the 91-day tenor. The primary market yield for Treasury Bills declined steadily in line with the falling interest rates. The 91-day Treasury Bill rate declined from 3.67 per cent to 3.15 per cent. Likewise, the 182-day Treasury Bill rate declined from 3.80 per cent to 3.11 per cent. The primary market yield for the 1-year Treasury Bill rate went down from 4.40 per cent to 3.13 per cent.

In the first nine months of the year, at Lm103.1 million, trading of Treasury Bills on the secondary market reached the level registered during the corresponding 2002 period. The Central Bank of Malta is constantly diluting its role of market-maker in the secondary market for Bills and therefore increasing the involvement of other participants.

During the period under review, turnover in the inter-bank market which provides banks with short term funds, followed the downward trend registered in the past years. In fact, the inter-bank transactions amounted to Lm46.6 million between January and September 2003, compared to Lm75.3 million in the first nine months of 2002. This reflects the excess liquidity in the banking system. The interest rate charged on seven-day inter-bank loans declined from 3.76 per cent at the end of

2002 to 3.21 per cent at the end of September 2003. A total of six deals were transacted on an overnight tenor while on the 7-day and 14-day tenor there were nine and seven deals recorded respectively.

The Capital Market

The Government is relying more on non-monetary capital market instruments to fulfil its current deficit as well as to roll over maturing debt. During the first nine months of 2003, the Government issued a total of Lm118.8 million worth of stocks on the primary market with two issues in March and another two in July. These new stocks had maturities ranging between eleven and twenty years. The coupon rates of these stocks varied between 5.1 and 5.9 per cent, notably lower than coupon rates of stocks issued during the first nine months of 2002 in line with the lowering of the official interest rates. Demand for these bonds, which were issued primarily to replace former maturing stock, was remarkably high.

Significant activity in the corporate debt market was registered as the private sector, induced by the low interest-rate scenario prevailing during the period, tapped the primary market through issues of bonds as banks pursue cautious lending policies. In February, International Hotels Investments plc launched two bond issues valued in total at Lm9.4 million. One of these issues was denominated in Euros and amounted to EUR8.1 million. Moreover, in July, Mariner Finance plc issued EUR9.0

Government Stocks				
Activity on the Secondary Market				
Table 8.4				
	2003	2003	2003	2003
	Jan/Mar	Apr/Jun	Jul/Sep	Jan/Sep
Turnover in Government Stocks:				
Nominal Value (Lm million)	3.8	7.9	13.7	25.5
Market Value (Lm million)	4.1	8.6	15.2	27.9
Number of Transactions	500	531	1,063	2,094
Average Value per Transaction (Lm)*	7,618	14,908	12,923	12,160
Amount bought by CBM (Lm million)**	0.1	0.3	0.4	0.8
* Based on Nominal Values				
** Based on Market Values				
Source: Central Bank of Malta				

Selected Indicators of the Capital Market

Table 8.5

	2003 Jan/Mar	2003 Apr/Jun	2003 Jul/Sep	2003 Jan/Sep
Corporate Bonds/Stocks*				
Number of Listings**	25	25	26	26
Turnover (Lm million)	3.0	2.6	2.0	7.5
Turnover/GDP (%)	0.8	0.6	0.4	0.6
Equities*				
Number of Issues Outstanding**	13	13	13	13
Turnover (Lm million)	3.0	3.0	4.3	10.2
Turnover/GDP (%)	0.8	0.7	1.0	0.8
Total Listed Securities*				
Total Turnover	10.0	14.1	21.8	45.9
Total Turnover/GDP (%)	2.5	3.3	4.9	3.6
Market Capitalisation (Lm million)**	1,637.8	1,646.5	1,754.6	1,754.6
MSE Ord. Share Index**	1,884.7	1,920.0	2,071.2	2,071.2

* Including the Alternative Companies listing

** As at end of period

Source: Malta Stock Exchange

million worth of bonds. There were no new issues of equities during the Survey period.

Turnover of Government securities in the secondary market declined to Lm27.9 million during the first nine months of 2003, compared to Lm39.3 million during the commensurate 2002 period. The preponderance of the activity in the secondary market for Government stocks took place in the third quarter of 2003. As shown in Table 8.4, a total of 2,094 deals were registered at the Malta Stock Exchange during the first nine months of this year, resulting in an average value per transaction of Lm12,160. The most popular stocks dealt in during this period were the 5.9 per cent MGS 2015 (II) and the 5.5 per cent MGS 2023. In line with its policy to reduce its involvement as a provider of market-making facilities, the Central Bank was not involved in the secondary market for Government stocks during the period under review.

During the January-September 2003 period, the total market turnover of listed securities increased from Lm24.8 million to Lm45.9 million. Trading in corporate bonds and stocks listed on the Malta Stock Exchange diminished marginally to Lm7.5 million from Lm7.9 million in the first three quarters of 2002. Total listings

of corporate bonds reached 26 companies. As indicated in Table 8.5, the average value of transaction in the corporate secondary bond market, including the alternative companies listing, stood at Lm5,423. The highest market value of stock transacted was that of the Malta Government Privatisation plc (2005) bond.

The market turnover of equities traded during the first nine months of 2003 declined to Lm10.2 million from Lm16.9 million registered during the corresponding 2002 period. The bulk of the trading activity took place in the HSBC Bank Malta plc shares, Bank of Valletta plc shares and Maltacom plc shares.

The Malta Stock Exchange Share Index, which captures price movements of Ordinary shares listed on the Exchange, increased by over 13 per cent to 2,071.2 in September 2003. This reflects the increase in the total market capitalisation to Lm1,754.6 million at the end of September 2003, from Lm1,561.7 million a year earlier.

The Maltese Lira

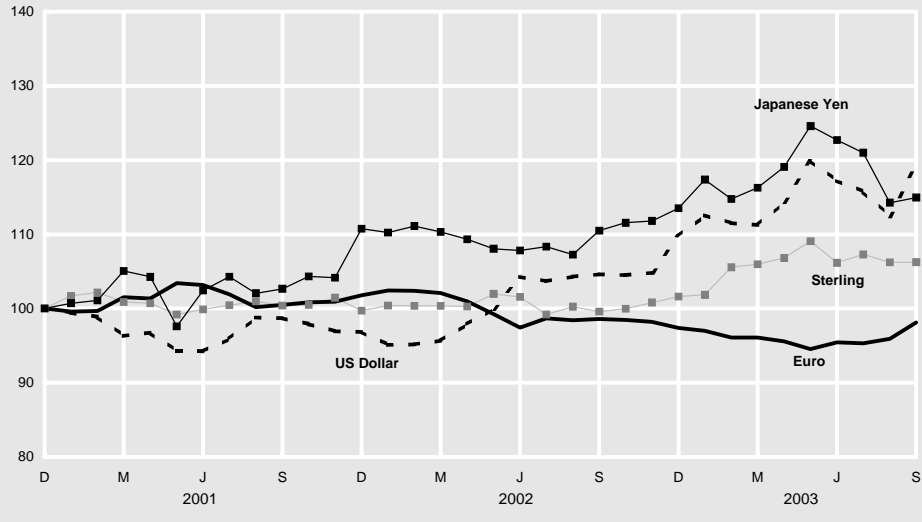
During the period under review, the Maltese lira continued to weaken against the Euro and to strengthen against the other major currencies reflecting the persistent appreciation of the Euro on international foreign exchange markets. At the same time, a weakening of the dollar was registered in the international arena, mainly due to lower than expected economic growth in the United States and geopolitical uncertainty. Given the large weight of the Euro in the Maltese lira basket of 70 per cent, the strengthening of the European currency against the US dollar caused the Maltese lira to weaken against the Euro and to strengthen against the US dollar. Meanwhile, there were also relative changes in the external value of the Maltese lira against the Japanese yen and the Sterling. Table 8.6 and Chart 8.6 illustrate the movements of the Maltese lira against the major currencies.

The depreciation of the Maltese lira against the Euro registered during 2002 was sustained as the Maltese lira dropped by 2.3 per cent against the Euro during the first nine months of 2003. From a high of EUR2.39 on January 8, the Maltese lira declined to a low of EUR2.32 on May 27. By the end of September, the Maltese lira recovered slightly to end the third quarter at EUR2.34.

Following minimal changes registered last year against the Sterling, the Maltese lira gained substantial ground against the British currency during the Survey period. In fact, the Maltese lira gained 5.0 per cent against the Sterling during the first nine months of 2003. The Maltese lira appreciated against the Sterling during the first five months of the year from a low of £1.55 recorded on January 6 to a high of

Chart 8.6

Exchange Rate Movements of the Maltese Lira
(Index of End of Month Rates, End 2000=100)



Movements in the Exchange Rates of the Maltese Lira

Table 8.6

Currency	End of Period	Exchange Rate	% change over Previous Period
US Dollar	Dec-00	2.2843	-5.72
	Dec-01	2.2121	-3.16
	Dec-02	2.5074	13.34
	Sep-03	2.7259	8.71
Sterling	Dec-00	1.5305	2.15
	Dec-01	1.5258	-0.31
	Dec-02	1.5553	0.19
	Sep-03	1.6334	5.02
Japanese Yen	Dec-00	262.254	5.90
	Dec-01	290.443	10.75
	Dec-02	297.662	2.49
	Sep-03	301.433	1.27
Euro	Dec-00	2.4559	1.86
	Dec-01	2.4989	1.75
	Dec-02	2.3910	-4.32
	Sep-03	2.3351	-2.34

Source: Central Bank of Malta

£1.68 on May 27. By the end of September, the lira depreciated to end the third quarter at £1.63.

The value of the Maltese lira vis-à-vis the Japanese yen increased by 1.3 per cent from the level recorded at the end of 2002. The Maltese lira appreciated against the Japanese yen during the beginning of the year to reach a high of Yen326.69 on May 30. Subsequently, the lira lost ground to reach a nine-month low of Yen295.50 on September 3.

During the Survey period, the Maltese lira registered an increase of 8.7 per cent against the US dollar. The Maltese lira started from a low US\$2.48 on January 3 and appreciated to a peak of US\$2.76 on June 16.

Government Revenue
(January-September)

Appendix Table 8.1

Lm thousand

	2000	2001	2002	2003
Tax Revenue	386,993	408,378	438,895	443,600
Direct Tax Revenue	216,480	234,001	246,818	250,969
Income Tax	104,463	113,447	125,541	125,001
Social Security	112,017	120,554	121,277	125,968
Indirect Tax Revenue	170,513	174,377	192,077	192,631
Customs and Excise Duties	41,714	38,937	44,137	44,942
Licences, Taxes and Fines	51,260	52,125	64,721	61,625
Value Added Tax	77,539	83,315	83,219	86,064
Non-Tax Revenue	60,454	58,514	66,661	52,983
Fees of Office	3,280	4,448	10,571	4,214
Reimbursements	5,137	4,792	4,790	3,525
Rents	6,736	7,955	6,966	8,087
Dividends on Investments	2,740	2,657	13,222	2,616
Repayment of, and Interest on				
Loans made by Government	98	1,048	31	66
Lotteries	4,374	5,337	-	-
Miscellaneous Receipts	3,093	4,036	2,343	5,694
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	27,112	25,902	25,682	24,783
Grants	6,001	456	1,173	2,115
Recurrent Revenue	447,447	466,892	505,555	496,583
Extraordinary Receipts	12,000	-	19,048	2,137
Loans	-	79,059	-	102,129
Total Revenue	459,446	545,951	524,602	600,849

Source: *The Treasury*

Government Recurrent Expenditure
(January-September)

Appendix Table 8.2

Lm thousand

	2000	2001	2002	2003
Office of the President	461	525	563	532
House of Representatives	620	737	711	646
Office of the Ombudsman	120	120	150	120
National Audit Office	450	350	550	600
Office of the Prime Minister	1,901	2,933	3,012	3,098
Public Service Commission	86	103	98	100
Armed Forces of Malta	8,078	8,783	8,961	9,617
Information	778	836	865	874
Electoral Office	638	776	1,151	2,341
Ministry for Social Policy	3,938	4,338	4,586	5,535
Social Security	36,099	39,139	39,024	40,570
Social Security Benefits	129,829	134,341	141,788	150,258
Family and Social Welfare	419	421	447	541
Care of the Elderly	7,324	8,835	9,461	10,170
Housing	302	485	561	551
Industrial and Employment Relations	396	452	379	396
Ministry of Education	18,073	22,897	24,858	27,770
Education	30,689	35,080	35,823	36,984
Libraries and Archives	406	455	486	505
Youth and Sport	751	791	783	801
Ministry of Finance	719	1,104	1,651	1,841
Treasury	6,405	820	963	902
Pensions	14,878	19,841	20,817	21,088
Inland Revenue	3,716	3,767	3,978	3,550
Customs	3,355	3,817	4,627	3,920
V.A.T.	3,820	2,252	2,333	2,419
Contracts	215	258	250	268
Ministry for Resources and Infrastructure	16,305	17,121	17,413	17,711
Ministry for Tourism	1,908	1,953	1,998	1,959
Ministry for Transport and Communications	1,756	1,980	3,359	3,556
Civil Aviation	461	496	588	432
Economic Policy	-	387	582	633
Commerce	-	1,465	1,432	1,782
Ministry for Economic Services	901	9,943	29,040	30,515
Consumer and Competition	-	268	305	398

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 (cont'd)

Lm thousand

	2000	2001	2002	2003
Ministry for Home Affairs	1,732	1,798	1,410	2,845
Police	9,497	10,961	11,181	12,242
Correctional Services	1,429	1,733	1,766	1,819
Civil Protection	787	849	944	935
Government Property Division	570	658	603	1,885
Registration	496	538	519	633
Ministry of Agriculture and Fisheries	4,922	5,737	6,379	12,313
Ministry for Gozo	12,400	14,267	14,520	15,176
Ministry of Health	42,868	45,522	50,423	52,892
Ministry of Justice and Local Government	655	793	1,371	1,700
Local Councils	8,348	7,907	5,436	5,541
Judicial	2,139	2,525	2,692	2,722
Ministry of Foreign Affairs	4,429	4,893	5,370	5,710
[Museums]	813	948	1,027	-
[Culture and the Arts]	1,067	1,061	814	-
[Environment Protection]	1,094	1,196	443	-
[Joint Office]	2,415	2,716	2,483	-
[Roads]	220	394	-	-
[Licensing and Testing]	317	395	-	-
[Statistics]	584	846	-	-
[Industry]	348	-	-	-
[Trade]	457	-	-	-
[Water]	9,383	-	-	-
Recurrent Expenditure	402,765	433,601	470,974	499,396

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

Source: *The Treasury*

Government Capital Expenditure

(January-September)

Appendix Table 8.3

Lm thousand

	2000	2001	2002	2003
Productive Investment	25,381	27,830	26,446	23,437
Ship Repair and Shipbuilding	6,776	6,611	10,419	4,459
Development of Industries	8,606	9,252	3,714	4,694
Agriculture and Fisheries	525	193	566	1,379
Tourism	5,794	7,458	7,904	8,351
Public Buildings, Plant and Equipment	3,628	4,184	3,803	4,342
Capital Expenditure for Gozo	52	132	41	212
Infrastructure	16,755	23,473	21,700	23,612
Roads	2,385	4,123	7,089	5,172
Sewers	1,959	1,716	1,836	1,885
Development of Malta Freeport	4,430	7,050	2,872	2,206
Public Buildings, Plant and Equipment	7,391	10,057	9,357	13,469
Capital Expenditure for Gozo	590	527	547	880
Social	16,127	17,917	22,817	37,129
Education [and Environment]	4,917	3,357	3,567	5,144
Culture [Museums]	157	55	287	165
Sports	128	306	500	545
Health	6,955	11,247	15,489	27,520
Care of the Elderly	242	72	54	133
Housing	1,303	1,747	1,699	1,568
Public Buildings, Plant and Equipment	2,229	960	979	1,843
Capital Expenditure for Gozo	196	173	242	211
Total Capital Expenditure	58,263	69,220	70,963	84,178

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

Source: *The Treasury*

Statistical Annex

Population

Table I

	1995	1996	1997	1998	1999	2000	2001	2002	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep
Maltese Population (000's)											
Males (000's)	371.2	374.0	376.5	378.5	380.2	382.5	385.1	386.9	384.6	386.4	388.3
Females (000's)	183.9	185.3	186.7	187.7	188.6	189.7	191.0	192.0	190.7	191.6	192.7
% Increase per annum	187.3	188.6	189.8	190.8	191.6	192.8	194.1	194.9	193.8	194.6	195.6
	0.5	0.8	0.7	0.5	0.4	0.6	0.7	0.5	0.8	0.5	0.5
Natural Increase per annum	1,905	2,179	1,947	1,444	1,211	1,298	924	774	...	...	...
Crude Birth Rate (per 1000 population)	12.4	13.2	12.8	11.9	11.3	11.1	10.0	9.9	7.5	7.2	7.2
Crude Mortality Rate (per 1000 population)	7.3	7.4	7.7	8.0	8.1	7.7	7.6	7.8	5.7	6.0	6.3
Crude Marriage Rate (per 1000 population)	6.2	6.3	6.4	6.3	6.3	6.7	5.7	5.8	4.4	4.5	4.9
Infant Mortality Rate (per 1000 births)	8.9	10.7	6.4	5.3	7.2	6.1	4.4	6.0	3.8	6.4	6.4
Life Expectancy (at birth)											
Males	74.9	74.9	74.9	74.4	75.1	74.3	76.1	75.7	...	...	...
Females	79.5	79.8	80.1	80.1	79.3	80.2	80.9	80.5	...	...	...
Life Expectancy (at age 65)											
Males	15.3	14.7	14.6	14.5	15.1	15.0	15.4	15.0	...	...	...
Females	17.5	18.4	18.4	17.9	17.6	18.4	18.6	19.0	...	...	...

Source: National Statistics Office

Table II
Social Indicators

	1995	1996	1997	1998	1999	2000	2001	2002
GDP at current market prices per capita (Lm)*	3,032	3,161	3,365	3,536	3,760	4,007	4,158	4,244
Quality of Life*								
Telephones per 1000 population	459.9	483.0	483.1	495.7	508.7	528.4	534.0	521.7
Motor Vehicle Licences per 1000 population ⁽¹⁾	506.8	545.1	593.6	595.2	614.5	630.6	643.8	657.8
Education								
Number of schools	326.0	341.0	347.0	340.0	350.0	331.0	319.0	303.0
Number of teachers (000)	7.0	7.3	7.6	7.7	7.9	8.2	8.4	8.5
Number of pupils/students (000) of which:	96.4	96.5	99.7	99.1	101.1	100.1	100.0	98.5
University students (Day Courses)	5,166	5,637	5,770	6,183	6,064	5,554	6,281	5,852
Electricity								
Total Generated (000 Mwh)	1,640.5	1,654.7	1,703.4	1,745.1	1,853.5	1,914.0	1,988.2	2,057.3
Number of Consumers (000)**	199.5	202.7	206.9	207.5	217.6	226.9	213.8	220.0
Domestic Consumption (million kwh)**	425.7	430.4	461.8	502.0	463.7	539.8	540.3	...
Water								
Total annual production (million m ³)	51.6	51.2	43.7	39.9	37.3	32.7	33.6	34.1
Average daily consumption (000 m ³)	141	138	119	108	102	90	92	93
Social Security								
Total Payments (Lm million)	175.9	191.9	211.1	227.8	237.3	251.9	266.7	275.3
Total Contributions (Lm million)	115.5	126.2	142.2	135.7	144.3	162.0	179.1	181.1
Welfare Gap (Lm million)	60.4	65.7	68.9	92.1	93.0	89.9	87.7	94.2

*Based on Average Total Population

**Refer to Financial Year

⁽¹⁾In the course of the change of number plates, a large number of motor vehicles were declared no more road worthy

Source: National Statistics Office

The Treasury

Factor Incomes in Gross National Product

Lm million

Table III

	1995	1996	1997	1998	1999	2000	2001	2002	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep
Income from Employment	517.5	559.6	579.9	611.4	648.8	676.3	737.8	752.5	551.7	561.3	582.5
Income from Farming, Fishing and Private Services	58.8	58.3	62.5	72.8	76.1	81.3	86.7	93.8	65.1	67.8	72.7
Gross Trading Profits	296.9	310.5	317.4	326.7	338.6	407.4	385.9	393.2	289.0	295.9	298.3
Gross Trading Surplus of Govt. Enterprises	25.9	23.3	40.2	52.2	54.3	36.4	38.6	47.4	30.1	35.3	34.2
Income from Property	89.9	101.2	117.4	134.9	142.0	140.3	143.5	138.1	109.4	106.2	95.0
GDP at factor cost	988.9	1,052.9	1,117.5	1,197.9	1,259.9	1,341.8	1,392.5	1,424.9	1,045.4	1,066.6	1,082.8
Net investment Income from Abroad	12.0	3.2	4.1	-27.4	12.4	-54.3	11.7	6.4	16.2	34.8	23.7
GNP at factor cost	1,000.9	1,056.1	1,121.6	1,170.6	1,272.4	1,287.6	1,404.3	1,431.3	1,061.6	1,101.4	1,106.5
Taxes Net of Subsidies	156.6	148.4	170.8	164.4	196.2	220.9	241.8	255.6	168.2	185.8	182.8
GNP at current market prices	1,157.5	1,204.5	1,292.3	1,334.9	1,468.5	1,508.5	1,646.1	1,686.9	1,229.9	1,287.2	1,289.2
Sectoral Contribution to GDP (%)											
Direct Production ⁽¹⁾	36.9	35.5	35.7	36.2	36.1	36.7	34.8	35.6	35.0	35.1	35.0
Market Services ⁽²⁾	46.4	47.2	48.0	48.3	48.8	48.4	49.0	48.0	48.9	48.5	48.2
Non-Market Services ⁽³⁾	16.6	17.3	16.3	15.5	15.1	14.8	16.3	16.4	16.1	16.3	16.7

⁽¹⁾ Includes agriculture and fisheries, manufacturing, ship repair and shipbuilding, construction and quarrying and government enterprises

⁽²⁾ Includes transport and communications, wholesale and retail trades, insurance, banking and real estate, private services and property income

⁽³⁾ Includes public administration

Source: National Statistics Office

National Income and Expenditure

Table IV

Lm million

	1995	1996	1997	1998	1999	2000	2001	2002	2001	2002	2003
									Jan/Sep	Jan/Sep	Jan/Sep
GNP at constant prices	1,157.5	1,195.6	1,254.8	1,273.0	1,362.8	1,390.5	1,427.5	1,451.2	1,066.9	1,107.4	1,101.6
GDP at constant prices	1,145.5	1,191.2	1,249.0	1,291.8	1,344.2	1,430.5	1,413.8	1,438.1	1,050.1	1,072.1	1,075.5
GNP at current market prices	1,157.5	1,204.5	1,292.3	1,334.9	1,468.5	1,508.5	1,646.1	1,686.9	1,229.9	1,287.2	1,289.2
% annual increase of GNP	10.5	4.1	7.3	3.3	10.0	2.7	9.1	2.5	4.7	4.7	0.2
GDP at current market prices	1,145.5	1,201.3	1,288.2	1,362.3	1,456.1	1,562.8	1,634.4	1,680.4	1,213.7	1,252.4	1,265.5
% annual increase of GDP	11.4	4.9	7.2	5.8	6.9	7.3	4.6	2.8	5.0	3.2	1.0
Aggregate Consumption	935.6	1,024.7	1,067.6	1,115.0	1,187.6	1,287.9	1,373.2	1,422.7	1,016.1	1,069.7	1,106.0
current market prices	935.6	1,005.2	1,014.1	1,023.4	1,069.6	1,143.7	1,166.3	1,195.6	863.1	898.9	921.9
constant prices	81.7	85.3	82.9	81.8	81.6	82.4	84.0	84.7	83.7	85.4	87.4
Ratio (%) of consumption to GDP at m.p.											
Government Consumption											
current market prices	235.2	259.8	264.1	269.0	272.6	291.2	328.5	340.9	241.2	256.7	280.8
constant prices	235.2	254.9	252.0	242.0	240.6	253.6	261.2	267.5	191.7	201.4	217.3
Ratio (%) of government consumption to GDP at m.p.	20.5	21.6	20.5	19.7	18.7	18.6	20.1	20.3	19.9	20.5	22.2
Private Consumption											
current market prices	700.4	764.9	803.5	846.0	915.0	996.7	1,044.7	1,081.8	774.9	813.0	825.2
constant prices	700.4	750.3	762.1	781.4	829.0	890.1	905.1	928.1	671.4	697.5	704.6
Ratio (%) of private consumption to GDP at m.p.	61.1	63.7	62.4	62.1	62.8	63.8	63.9	64.4	63.8	64.9	65.2
Ratio (%) of private consumption to disposal income	89.1	90.2	91.9	90.3	90.8	95.7	98.0	98.7	95.7	97.7	98.2
Gross Fixed Investment											
current market prices	365.2	345.3	326.4	333.6	340.0	410.0	379.7	350.7	282.7	251.1	314.3
constant prices	365.2	334.5	319.3	308.5	320.9	377.2	335.2	290.5	249.6	208.2	255.7
Ratio (%) fixed investment to GDP at m.p.	31.9	28.7	25.3	24.5	23.4	26.2	23.2	20.9	23.3	20.0	24.8
Fixed investment (real) in:											
Machinery and equipment (Lm million)	257.2	217.6	210.5	204.6	222.8	275.8	218.6	164.5	164.1	113.7	157.2
Dwellings and construction works (Lm million)	108.0	116.9	108.8	103.8	98.1	101.3	116.6	126.0	85.6	94.5	98.6

Source: National Statistics Office

Labour

Table V

	1995	1996	1997	1998	1999	2000	2001	2002	2001 Sep	2002 Sep	2003 Sep
Labour Supply	137,770	140,267	140,274	141,186	142,608	144,016	144,885	144,379	145,236	144,460	144,544
Gainfully Occupied	131,950	133,195	132,581	133,276	134,302	136,828	137,452	136,863	136,252	136,940	136,602
Males	94,241	97,493	96,558	96,460	96,478	97,689	97,933	97,164	98,402	97,200	96,668
Females	34,709	35,702	36,023	36,816	37,824	39,139	39,519	39,699	39,850	39,740	39,934
Private Direct Production	38,026	37,647	37,095	37,103	36,770	37,571	37,974	37,705	37,855	37,849	36,733
of which:											
Agriculture and Fisheries	2,226	2,163	2,181	2,180	2,175	2,203	2,150	2,215	2,162	2,200	2,286
Stone and non-Metallic Quarrying, Construction and Oil Drilling	6,090	6,345	6,053	5,835	5,888	6,398	6,708	6,803	6,624	6,916	6,732
Manufacturing	29,710	29,139	28,861	29,088	28,707	28,970	29,116	28,887	29,069	28,866	27,705
Private Market Services	42,884	43,939	44,937	45,462	49,042	50,059	49,820	50,528	50,700	50,394	51,905
of which:											
Wholesale and Retail Trades	14,740	14,898	15,095	15,217	15,592	15,683	15,358	15,596	15,289	15,429	15,861
Banking, Insurance and Real Estate	2,936	3,025	3,213	3,291	5,077	5,028	4,949	4,865	5,022	4,855	4,906
Transport, Storage and Communications	6,164	6,128	6,111	6,184	6,436	6,171	6,082	6,085	6,179	6,124	6,007
Hotels and Catering Establishments	8,638	8,737	8,988	8,814	9,132	9,260	9,033	8,969	9,501	9,083	9,180
Others	10,406	11,151	11,530	11,956	12,805	13,917	14,398	15,013	14,709	14,903	15,951
Public Sector	50,122	50,632	50,263	49,730	47,422	47,992	48,482	47,556	48,694	47,652	46,992
of which:											
Government Departments	30,235	30,621	30,188	30,529	30,498	30,488	30,778	30,327	30,825	30,349	30,069
Armed Forces	1,609	1,568	1,526	1,467	1,447	1,505	1,454	1,450	1,465	1,463	1,510
Revenue Security Corps & Airport Co.*	365	378	374	155	152	149	147	144	147	144	143
Independent Statutory Bodies	10,124	10,239	10,304	8,223	8,141	8,182	8,396	8,011	8,267	7,855	8,071
Companies with Public Sector majority s/hld of which:	7,789	7,826	7,871	9,356	7,184	7,757	7,881	7,796	7,990	7,841	7,199
Direct Production	1,837	1,612	1,481	1,452	1,066	1,039	1,024	898	1,026	898	897
Market Services	5,952	6,214	6,390	7,904	6,118	6,665	6,751	6,812	6,964	6,943	6,302
Temporary Employment	918	977	286	981	1,068	1,206	1,176	1,074	1,003	1,045	982
Registered Unemployed**	5,820	7,072	7,693	7,910	8,306	7,188	7,433	7,516	6,984	7,520	7,942
Males	4,917	5,830	6,475	6,775	7,090	6,142	6,161	6,174	5,770	6,074	6,265
Females	903	1,242	1,218	1,135	1,216	1,046	1,272	1,342	1,214	1,446	1,677
Per cent of Labour Supply	4.2%	5.0%	5.5%	5.6%	5.8%	4.9%	5.1%	5.2%	4.8%	5.2%	5.5%
of which unemployment under Part I (%)	3.8%	4.5%	5.1%	5.3%	5.4%	4.6%	4.7%	4.7%	4.3%	4.7%	5.0%
Self Employed	16,314	16,169	15,963	15,706	15,744	15,421	15,296	15,340	15,342	15,322	15,589

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

Tourism

Table VI

	1995	1996	1997	1998	1999	2000	2001	2002	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep
Tourist Arrivals (000's)	1,116.0	1,053.8	1,111.2	1,182.2	1,214.2	1,215.7	1,180.2	1,133.8	963.6	902.1	911.6
of which from:											
United Kingdom	461.2	398.9	436.9	448.8	422.4	428.8	451.5	444.3	360.0	343.5	367.4
Italy	97.4	89.4	90.2	90.6	92.7	92.5	93.6	100.9	80.7	85.8	79.0
Germany	187.8	184.1	193.0	203.2	212.4	204.7	160.3	142.1	130.0	111.9	97.8
Libya	37.2	51.0	39.3	37.5	45.0	43.3	31.0	22.8	24.7	18.5	16.2
Scandinavian Countries ⁽¹⁾	38.5	40.4	39.2	40.0	50.6	52.1	52.3	43.3	42.1	34.0	36.8
Other	294.0	290.0	312.5	362.2	391.1	394.3	391.5	380.4	326.1	308.4	313.4
Cruise Passengers (000's)	77.2	69.2	126.6	144.1	187.8	170.8	259.4	341.6	187.9	257.3	287.5
Gross Income (Lm million)	232.8	228.9	249.8	254.6	271.4	268.2	260.7	246.3	205.5	184.0	194.0
as ratio (%) of exports of goods and services	22.0	22.3	23.3	21.8	21.0	17.0	18.6	17.1	19.3	17.1	18.4
Total Sector Employment in											
Hotels and Catering Establishments	9,030	9,125	9,354	9,174	9,485	9,598	9,438	9,387	9,962	9,538	9,632
% of Gainfully Occupied	6.8	6.9	7.1	6.9	7.1	7.0	6.9	6.9	7.2	7.0	7.1
Travel Abroad (000's)	170.9	167.9	171.7	166.7	175.8	194.8	164.9	156.7	139.4	126.2	130.3
Estimated Expenditure (Lm million)	75.4	78.9	73.6	74.9	80.1	88.0	81.2	66.1	59.2	49.5	55.0
Days Stayed⁽²⁾ (000's)	10,919	10,665	10,939	11,326	11,658	10,267	11,067	10,599	9,092	8,553	9,423
% of which spent in :											
5 star	3.1	3.4	4.7	6.3	6.2	8.6	8.2	8.5	7.9	8.3	8.8
4 star	21.9	23.0	24.1	25.2	26.1	23.8	26.2	29.6	25.1	28.6	29.9
3 star	15.6	13.5	14.2	13.1	12.9	12.5	14.8	16.4	13.9	16.0	16.4
2 star	1.8	3.4	3.8	3.3	2.5	2.1	1.8	1.7	1.8	1.8	1.6
1 star	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-	-	-
Unclassified	-	0.2	-	0.3	0.7	0.4	0.2	0.1	0.3	0.1	0.4
Guest Houses	1.0	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.8
Flats/Private Residences	30.1	31.3	29.7	28.7	29.4	31.7	32.4	33.8	33.3	35.0	27.2
Complexes/Tourist Village/Aparthotels	26.4	24.4	22.8	22.3	21.5	20.4	15.6	9.4	17.0	9.7	14.9

⁽¹⁾Figures include Denmark, Finland, Norway, Sweden.

⁽²⁾With the removal of departure cards as from 1 January 2000, accommodation data is being compiled from arrival cards.

Source: National Statistics Office
Employment & Training Corporation

Foreign Trade

	Lm million											
	1995	1996	1997	1998	1999	2000	2001	2002	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep	
Imports and Exports												
Imports (cif)	1,037.7	1,007.8	984.2	1,034.9	1,135.8	1,492.4	1,225.2	1,227.5	918.8	906.3	960.4	
Consumer goods	236.2	244.2	254.3	248.4	276.8	304.2	304.3	319.7	223.0	232.0	245.7	
Industrial supplies	621.3	596.2	573.6	627.0	690.9	950.1	720.4	707.7	543.5	524.5	556.5	
Capital goods and others	180.2	167.4	156.3	159.6	168.0	238.0	200.5	200.0	152.3	149.7	158.1	
Domestic Exports (fob)	629.7	569.9	563.9	664.8	712.5	977.5	790.9	960.7	603.1	580.5	598.4	
of which manufactures ⁽¹⁾	625.4	565.4	558.0	660.0	707.4	971.0	782.0	776.2	597.4	576.3	593.0	
Re-Exports (fob)	45.2	54.2	65.0	47.2	78.5	94.9	89.8	163.4	65.2	131.7	88.3	
Trade Gap	-362.7	-383.7	-355.3	-322.9	-344.8	-420.0	-344.5	-266.8	-250.5	-194.1	-273.7	
as % of GDP at current market prices	-31.7	-31.9	-27.6	-23.7	-23.7	-26.9	-21.1	-6.2	-20.6	-15.5	-21.6	
Selected Groupings												
European Union:												
Imports	754.3	691.1	702.8	717.1	743.0	894.8	779.1	824.9	581.6	610.4	643.9	
Exports	482.2	355.1	341.3	375.7	385.5	357.7	421.4	421.8	321.5	312.6	310.3	
United Kingdom:												
Imports	161.6	144.1	145.1	128.2	123.8	119.7	123.1	127.7	89.4	93.8	91.3	
Exports	50.7	52.0	51.2	54.6	73.2	78.0	76.2	112.2	53.7	82.1	80.8	
Italy:												
Imports	284.8	196.7	199.1	199.4	189.9	249.7	243.5	271.7	182.1	197.7	217.8	
Exports	205.0	77.9	35.7	33.4	39.0	36.1	30.2	32.7	21.9	25.1	24.5	
Germany												
Imports	126.2	94.8	98.3	108.3	113.6	122.1	107.4	98.5	79.8	74.3	75.6	
Exports	101.3	90.2	85.2	89.7	99.4	102.9	114.8	93.6	87.4	70.3	71.5	
France:												
Imports	86.6	159.8	163.0	184.3	217.1	281.9	184.1	205.1	138.5	155.3	159.6	
Exports	82.4	93.4	121.7	147.4	120.4	85.9	140.2	120.0	113.3	87.6	89.4	
America:												
Imports	72.3	77.4	88.3	99.6	104.8	171.1	157.4	127.4	113.7	94.0	89.2	
Exports	69.9	97.6	106.5	131.7	172.7	306.7	178.3	163.7	141.3	131.4	98.6	
Africa:												
Imports	37.4	47.6	24.9	21.7	32.1	24.0	28.6	17.3	20.7	12.3	9.4	
Exports	20.4	18.5	29.7	26.1	26.9	24.9	33.0	44.8	24.0	34.2	25.4	
Asia:												
Imports	138.7	144.5	127.3	153.6	205.2	343.8	197.3	185.0	156.2	133.5	154.5	
Exports	74.7	116.2	104.2	150.2	164.8	246.8	174.2	247.7	129.1	174.8	189.2	

⁽¹⁾Including shipbuilding

Source: National Statistics Office

Table VIII
Balance of Payments

	1995	1996	1997	1998	1999	2000	2001	2002	2001	2002	2003
							Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep
Trade Balance ⁽¹⁾ (Lm million)	-285.8	-302.1	-277.9	-260.6	-285.2	-331.0	-254.7	-182.9	-187.4	-132.0	-202.4
Imports (f.o.b.) (Lm million)	973.7	941.2	919.9	969.0	1,070.3	1,418.7	1,155.3	1,153.4	866.5	851.8	900.7
Exports ⁽²⁾ (f.o.b.) (Lm million)	687.9	639.1	642.0	708.4	805.0	1,087.7	900.6	970.5	679.2	719.8	698.2
Services-Net (Lm million)	134.8	140.6	176.6	179.3	186.1	163.7	166.2	153.7	141.0	117.6	128.3
Transport-net (Lm million)	-10.6	-14.2	-4.2	4.7	0.4	-8.4	4.6	-8.2	8.3	-2.7	-15.6
Travel-net (Lm million)	157.4	150.0	176.2	179.7	191.2	180.2	179.5	180.2	146.3	134.5	139.0
Other Services-net (Lm million)	-12.0	4.8	4.5	-5.1	-5.6	-8.1	-17.9	-18.3	-13.6	-14.1	5.0
Income-Net (Lm million)	14.0	4.3	3.4	-25.4	12.9	-53.1	11.1	6.8	15.7	35.1	25.1
Compensation of Employees-net (Lm million)	2.1	1.1	-0.7	2.0	0.5	1.2	-0.6	0.3	-0.5	0.3	1.3
Investment Income-net (Lm million)	12.0	3.2	4.1	-27.4	12.4	-54.3	11.7	6.4	16.2	34.8	23.7
Current Transfers-Net (Lm million)	9.1	11.1	21.4	22.3	17.0	11.2	3.8	-5.8	2.6	-3.0	-13.5
General Government-net (Lm million)	-0.8	-0.4	1.7	1.0	-3.5	0.3	3.6	3.2	4.1	1.8	8.3
Private-net (Lm million)	9.9	11.5	19.7	21.3	20.5	10.8	0.2	-9.0	-1.5	-4.7	-21.8
Current A/C-Net (Lm million)	-127.9	-146.2	-76.6	-84.5	-49.3	-209.2	-73.6	-28.3	-28.0	17.8	-62.6
Trade Balance ⁽¹⁾ as % of GDP at m.p.	-24.9	-25.1	-21.6	-19.1	-18.2	-21.2	-15.6	-10.9	-15.4	-10.5	-16.0
Imports as % of GDP at m.p.	11.8	11.7	13.7	13.2	12.8	10.5	10.2	9.1	11.6	9.4	10.1
Investment Income as % of GDP at m.p.	1.0	0.3	0.3	-2.0	0.9	-3.5	0.7	0.4	1.3	2.8	1.9
Current a/c Balance as % of GDP at m.p.	-11.2	-12.2	-5.9	-6.2	-3.4	-13.4	-4.5	-1.7	-2.3	1.4	-4.9
Capital A/C-Net (Lm million)	4.5	21.0	3.2	11.1	10.4	8.3	0.7	2.7	-0.4	1.2	...
Financial A/C-Net (Lm million)	119.6	104.9	37.6	38.3	65.0	165.3	4.6	-27.2	8.0	-35.0	...
Direct Investment-net (Lm million)	44.8	97.4	24.8	97.9	310.0	261.1	115.6	-188.5	-83.3	-84.6	...
Portfolio Investment-net (Lm million)	-162.1	-42.1	42.4	-32.2	-201.3	-343.0	-196.8	-174.5	126.9	-145.5	...
Other Investment-net (Lm million)	125.9	19.0	-26.9	46.2	52.5	149.7	201.1	457.7	11.8	276.1	...

⁽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

	1995	1996	1997	1998	1999	2000	2001	2002	2001 Jan/Sep	2002 Jan/Sep	2003 Jan/Sep
Government Recurrent Revenue (Lm million)	463.8	468.3	514.1	513.7	562.3	617.7	668.6	719.8	466.9	505.6	496.6
Increase/(Decrease) % per annum	11.4	1.0	9.8	(0.1)	9.5	9.9	8.2	7.7	4.4	8.3	(1.8)
of which:											
Tax Revenue (Lm million)	380.5	381.8	434.8	432.2	481.0	541.2	593.7	634.7	408.4	438.9	443.6
Direct Tax Revenue (Lm million)	215.2	219.5	252.7	246.2	272.6	311.5	345.4	371.3	234.0	246.8	251.0
Indirect Tax Revenue (Lm million)	165.3	162.3	182.1	186.0	208.4	229.7	248.4	263.4	174.4	192.1	192.6
Non-Tax Revenue (Lm million)	83.3	86.5	79.3	81.5	81.3	76.5	74.9	85.1	58.5	66.7	53.0
Total Government Expenditure (Lm million)	517.0	571.5	632.8	653.7	676.2	702.8	753.9	807.5	547.9	591.2	632.4
Increase/(Decrease) % per annum	10.6	10.5	10.7	3.3	3.4	3.9	7.3	7.1	8.8	7.9	7.0
% of GDP	45.1	47.6	49.1	48.0	46.4	45.0	46.1	48.1	45.1	47.2	50.0
of which:											
Recurrent Expenditure (Lm million)	427.8	475.4	497.2	516.4	520.0	549.8	614.6	646.0	433.6	471.0	499.4
Capital Expenditure (Lm million)	70.3	73.5	103.4	96.8	106.1	98.6	80.6	97.7	69.2	71.0	84.2
% of Total Government Expenditure	13.6	12.9	16.3	14.8	15.7	14.0	10.7	12.1	12.6	12.0	13.3
Interest on Public Debt (Lm million)	18.9	22.6	32.2	40.5	50.1	54.4	58.7	63.8	45.1	49.2	48.8
Structural Deficit (Lm million)	(53.2)	(103.2)	(118.7)	(140.0)	(113.9)	(85.1)	(85.3)	(87.7)	(81.0)	(85.6)	(135.8)
Financed by:											
Extraordinary Receipts (Lm million)	14.6	-	0.1	35.4	75.5	24.7	22.0	40.6	-	19.0	2.1
Receipts from sale of shares (Lm million)	14.6	-	0.1	35.4	73.3	12.0	-	27.3	-	19.0	-
Sinking Funds of Converted Loans (Lm million)	-	-	-	-	2.2	12.7	22.0	13.3	-	-	2.1
Sinking Fund Contribution/Direct Loan Repayment (Lm million)	(5.8)	(7.2)	(8.9)	(12.2)	(14.7)	(13.4)	(12.7)	(11.8)	(6.7)	(6.1)	(6.2)
Public Sector Borrowing Requirement (Lm million)	(44.4)	(110.4)	(127.5)	(116.8)	(53.1)	(73.8)	(76.0)	(58.9)	(87.7)	(72.7)	(139.9)
Loans (Lm million)	33.2	73.2	170.6 ⁽¹⁾	110.0	84.0	-	106.8	10.6	79.1	-	102.1

⁽¹⁾ Includes loan to finance Malta Drydocks

Source: The Treasury

Banking and Finance

Table X

	1995	1996	1997	1998	1999	2000	2001	2002	2001	2002	2003
							Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep	Jan/Sep
Money Supply (Lm million)	436.8	454.1	479.9	523.6	581.1	594.7	635.5	680.0	640.5	679.4	736.9
as % of GDP at current market price	38.6	37.8	37.3	38.4	39.9	38.2	38.9	40.5	52.8	54.1	58.2
of which:											
Currency in Circulation (Lm million)	351.8	362.1	363.8	369.5	384.6	396.3	418.9	436.8	413.6	438.0	456.4
% Increase/(Decrease) per annum	(3.9)	2.9	0.5	1.6	4.1	3.0	5.7	4.3	5.0	5.9	4.2
Demand Deposits (Lm million)	85.0	92.0	116.1	154.1	196.6	198.4	216.6	243.3	227.0	241.4	280.5
% of Money Supply	19.5	20.3	24.2	29.4	33.8	33.4	34.1	35.8	35.4	35.5	38.1
Quasi Money (Lm million)	1,254.6	1,414.2	1,567.1	1,699.0	1,860.7	1,944.2	2,117.5	2,358.0	2,047.0	2,335.4	3,276.3
% Increase per annum	13.4	12.7	10.8	8.4	9.5	4.5	8.9	11.4	8.2	14.1	1.8
of which:											
Savings Deposits (Lm million)	510.8	537.3	574.1	585.1	637.4	629.4	671.4	712.8	643.8	700.8	761.6
Time Deposits (Lm million)	743.8	876.9	993.0	1,113.8	1,223.3	1,314.8	1,446.0	1,645.2	1,403.2	1,634.7	1,614.7
% of Quasi Money	59.3	62.0	63.4	65.6	65.7	67.6	68.3	69.8	68.5	70.0	68.0
Domestic Credit (Lm million)	1,224.8	1,429.6	1,644.7	1,815.8	1,991.0	2,184.2	2,328.3	2,406.1	2,332.1	2,384.9	2,486.9
of which:											
Claims on Government (Lm million)	179.9	239.1	321.5	356.0	358.1	411.8	475.1	498.0	482.9	485.8	523.3
Claims on Private and Parastatal Sector (Lm million)	1,044.9	1,190.5	1,323.3	1,459.8	1,632.9	1,772.4	1,853.2	1,908.2	1,849.2	1,899.1	1,963.6
Ratio of Advances to Deposits (%)	70.3	72.0	71.0	72.4	71.8	76.1	80.7	72.8	82.0	74.5	72.7
Official Reserves of the Monetary Authorities (Lm million)	580.7	554.1	561.7	640.0	740.3	640.5	760.4	873.9	688.9	840.6	935.7
Increase/(Decrease) % per annum	(15.9)	(4.6)	1.4	13.9	15.7	(13.5)	18.7	14.9	(1.2)	22.0	11.3
Imports of Goods as % of official reserves	178.7	181.9	175.2	161.7	153.4	233.0	161.1	140.5	133.4	107.3	102.3
Total External Reserves ⁽¹⁾ (Lm million)	812.9	754.1	735.2	864.1	969.1	970.8	1,083.5	1,293.6	997.0	1,315.6	1,376.7
% Increase/(Decrease) per annum	(7.4)	(7.2)	(2.5)	17.5	12.1	0.5	11.6	19.4	2.0	32.0	4.6

⁽¹⁾Includes balances denominated in foreign currencies held in court and other deposits account, immovable property, pious foundation account, trust funds account and the Consolidated Fund as well as foreign investments

Source: Central Bank of Malta
National Statistics Office