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Malta—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

MALTA

Recent Economic Developments

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and Ling Hui Tan (all EU1)

Approved by European I Department

April 4, 1997

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Malta: Basic Data

I. Social and Demographic Indicators

Land area	316 square kilometers (122 square miles)
Population (in thousands, 1995)	372
GDP (1995, at current prices)	Lm 1,143.8 million
GDP per capita (1995)	Lm 3,074 or US\$8,712
Infant mortality rate (1995)	8.9 per 1,000 births
Life expectancy (years)	74.9 (male); 79.5 (female)

II. Economic Indicators, 1991-96

	1991	1992	1993	1994	1995	<u>Estimated</u> 1996
Real economy (change in percent)						
Real GDP	6.3	4.7	4.5	4.0	9.0	3.7
Domestic demand	4.9	0.1	4.8	4.1	13.4	5.5
Retail prices 1/	2.6	1.6	4.1	4.2	4.0	3.0
GDP deflator	3.3	3.6	2.8	4.3	2.9	2.8
Unemployment rate (percent of labor force)	3.4	3.8	4.2	4.2	3.4	3.7
Public finance (percent of GDP)						
Public sector borrowing requirement 2/	3.7	3.2	4.3	7.1	6.6	12.3
Government budget deficit 3/	5.9	3.1	3.2	5.2	4.0	8.6
Government debt	26.3	27.9	32.8	33.3	36.1	42.1
Money and credit (end period, percentage change)						
Base money	6.8	6.3	0.2	7.7	7.4	0.2
Broad money	8.8	9.3	10.3	14.9	7.7	8.0
Domestic credit	20.5	9.1	12.9	12.7	26.6	18.4
Interest rates (period average)						
Three-month Treasury bill	4.5	4.6	4.6	4.4	4.9	5.0
Government bonds (12-year)	7.0	7.8	7.8	7.8	7.8	7.8
Balance of payments (percent of GDP)						
Trade balance	-24.6	-19.9	-24.3	-23.3	-23.5	-24.1
Current account balance	-0.3	1.1	-3.4	-4.9	-11.7	-11.8
Official reserves						
(in millions of U.S. dollars)	1,439	1,315	1,391	1,876	1,648	1,501
(in months of imports)	6.7	6.8	6.7	7.5	5.6	5.3
Exchange rate						
Regime	Pegged to a basket of currencies comprising the ecu, pound sterling, and U.S. dollar.					
Nominal effective exchange rate (1990=100)	100.2	99.0	93.0	93.4	94.5	93.4
Real effective exchange rate (1990=100)	97.9	94.6	89.6	91.1	93.0	91.6
Current rate (March 20, 1997)	US\$2.62 per Maltese lira					

Sources: Central Office of Statistics; Central Bank of Malta; Ministry of Economic Planning and Finance, IMF, *International Financial Statistics*; and Fund staff estimates.

1/ A new retail price index was introduced in January 1996. The estimate of retail price inflation for 1996 is sensitive to the choice of base period used to splice the old and new price indices.

2/ Public sector includes general government and state enterprises, but not parastatals.

3/ Asset sales are treated as a financing item.

I. DOMESTIC ECONOMY

1. Over the past 10 years, the Maltese economy has evolved from a heavily regulated system to one in which market mechanisms play a more central role in the allocation of resources: price and import controls have been mostly eliminated, domestic financial markets have been gradually deregulated, and major tax and tariff reforms have been implemented. Against the background of these structural changes, macroeconomic performance has generally been strong, with real GDP growing at an average rate of 5.8 percent per annum during 1987-94 and exports of goods and services expanding at an average rate of 9 percent per annum in volume terms over the same period.

2. The brisk pace of GDP growth was maintained in 1995-96 (Chart 1). However, the strong output growth was accompanied by a sharp deterioration in the external accounts, reflecting, in the main, a decline in national savings, from 27½ percent of GDP in 1992-93 to some 20 percent of GDP in 1995-96. Factors contributing to these developments included a marked loosening in the fiscal stance; accelerated growth in bank lending, linked in part to financial market deregulation and intensified competition among banks; and 1995 tax/tariff reforms that included the introduction of the VAT (which brought a large amount of previously undeclared economic activity to light) and the reduction/elimination of tariffs on a wide range of imported goods.

A. Output and Expenditure

3. After averaging 4.4 percent growth per annum in the first half of the 1990s, real GDP grew by 9 percent in 1995. The pickup in activity was driven primarily by an increase in domestic demand, although part of the recorded GDP growth—an estimated 2-3 percentage points—reflected improved coverage of economic activities resulting from the introduction of the VAT. The expansion in domestic demand was accompanied by a deterioration in the foreign balance, as the tourism sector turned in a disappointing performance and imports of consumer goods surged in response to the tariff reductions implemented at the beginning of the year (Tables A1 and A2). The pace of output growth eased to an estimated 4 percent in 1996: although consumption remained strong, fixed investment levels eased marginally as several investment projects were completed, and the foreign balance worsened, due primarily to continued weakness in the tourism sector.

4. Consumption expenditure grew by 10.2 percent in real terms in 1995—up from an average of 4 percent growth during 1991-94—and remained buoyant in 1996 (Chart 2). Rapid growth in private consumption (some 11.2 percent in real terms in 1995) was fueled by a high level of consumer confidence, an increase in the quantity and variety of imported goods that

CHART 1
MALTA
MAIN DEVELOPMENTS, 1989-96
(In percent)

Sources: Data provided by the Maltese authorities; staff estimates; and IMF, World Economic Outlook.

CHART 2
MALTA
DOMESTIC DEMAND, 1989 - 96

Sources: Data provided by the Maltese authorities; and staff estimates.

became available following the tariff reductions,¹ and a rapid expansion in consumer credit; improved recording of private services, following the introduction of fiscal receipts in connection with the VAT, was also a factor. The surge in private consumption continued into 1996, as domestic credit continued to expand and income tax reductions introduced in midyear provided a boost to household disposable income. Figures for the first three quarters of 1996 indicate a 9.3 percent real increase in private consumption relative to the same period in 1995. Public consumption also grew strongly in the last two years, by some 7.5 percent in 1995 and 5.9 percent in 1996. As in previous years, expenditure outlays on health and education absorbed the largest share of current expenditure in 1995-96.²

5. **Investment expenditure** has expanded vigorously since 1993. The expansion was initially led by the private sector, but public investment also picked up after 1993 (Chart 3). Fixed investment by the private sector increased by an average of 18.6 percent per annum during 1993-95, accounting for over three-quarters of total fixed investment during that period (Table A3). Private investment in construction more than doubled between 1994 and 1995, reflecting various projects undertaken in the retail and catering sectors; the construction or refurbishment of several four- and five-star hotels; and the construction of a number of private hospitals. Investment in plant and machinery by the private sector also rose significantly, due to higher levels of activity by several manufacturing industries (e.g., beverages, machinery, and paper and printing) and once-off expenditures such as the purchase of a floating dock by a local shipping company and the purchase of aircraft by the national airline.³ The level of private fixed investment eased in 1996, as several large projects in the tourism and health services industries were completed, and fewer once-off investment expenditures were made. In the first nine months of 1996, private investment was 7.7 percent lower compared with the same period in 1995.

6. After a slow period in 1991-93, public investment—i.e., investment by the general government and public enterprises such as Enemalta, Telemalta, and Malta Freeport Corporation—picked up in 1994 with the commencement of several large capital projects in the energy and telecommunication sectors and the Freeport. Public fixed investment expenditure leveled off in 1995, but rose further in the first nine months of 1996, due primarily to increased construction outlays on physical infrastructure and in social projects.

7. Historically, the savings required to finance investment have been generated domestically: **gross national savings** averaged 30.4 percent of GDP against average total

¹Imports of consumer goods swelled by 37 percent in value terms, accounting for fully two-thirds of the (nominal) growth in private consumption.

²Developments in public expenditure are discussed further in Chapter II.

³The official classification includes Air Malta and other parastatal corporations as part of the private sector.

CHART 3
MALTA

INVESTMENT AND SAVINGS, 1989-96
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

investment expenditure of 28 percent of GDP during the 1980s. However, recent years have seen a decline in national savings. Public savings have been on a downward trend since 1990, and private savings dropped significantly in 1995; the private saving rate fell from 28 percent of disposable income in 1991-94 to 24 percent in 1995 (Table A4). The drop in private saving stemmed almost entirely from the household sector: the household saving rate (as a percent of household disposable income) fell by 6 percentage points in 1995, reflecting, as noted earlier, the consumption boom induced by the tax/tariff changes and the easier availability of credit (Table A5).

8. The foreign balance made a negative contribution to real GDP growth in 1995 and 1996. The pace of real growth in exports of goods and nonfactor services slowed from an average of 8.6 percent per annum during 1990-94 to below 5 percent in 1995, due mainly to a drop in tourist revenues. The slowdown continued into 1996—real exports in the first nine months of 1996 were almost 6 percent lower than the comparable period in 1995—as the tourism sector remained depressed, and semiconductor exports registered an exceptional drop due to the termination of a subcontracting operation. Real import growth, on the other hand, accelerated sharply in 1995, from an average of 7.5 percent per annum during 1990-94 to over 10 percent, as imports of consumption goods jumped in response to widespread tariff reductions, and imports of capital goods mirrored the expansion in investment. Real imports were slightly lower in the first nine months of 1996 compared with the same period in 1995, as consumption and investment expenditures came down from peak levels.⁴

B. Sectoral Output Trends

9. In line with earlier trends, service activities—notably, distribution, tourism-related private services, and public administration—were the fastest growing sectors during 1991-96 (Table A6). The relative importance of industry continued to decline, although strong growth continued in export-oriented sectors, notably electrical machinery.

Industry

10. The industrial sector—manufacturing and shipbuilding and repair; construction; and public utilities—accounts for just over one-third of GDP (at factor cost). The largest industrial subsector is manufacturing and shipbuilding and repair. Malta's overall industrial strategy in recent years has been geared toward encouraging investment in advanced technology sectors, emphasizing low volume, high value-added manufacturing. The best performing industries have tended to be those engaged in the production of electrical machinery, pharmaceuticals, and high precision manufacturing; the majority of these industries are foreign-owned, and produce almost entirely for export. Domestic manufacturing firms are typically small enterprises competing for protected segments of the local market; these enterprises tend to be clustered in the food, metals, nonmetals, and furniture and fixtures

⁴Developments in the foreign balance are discussed further in Chapter IV.

industries. However, there are also more established small- and medium-sized enterprises that produce for both the local and export markets; some of these enterprises have exploited niche markets abroad, while others, such as the textiles, clothing, and footwear industries, have recently restructured, in the face of intense competition from lower-cost suppliers, to target less price-sensitive market segments.

11. The domestic ship repair and shipbuilding industry has continued to experience difficulties in achieving long-term viability in a highly competitive international environment. Contracts were secured by both Malta Drydocks and Malta Shipbuilding during 1994-96, but at such heavily discounted rates as to secure no improvement in the profitability and cash flow problems that have plagued the industry ⁵ (Box 1).

12. Following a drop in activity in 1992-93 due to the completion of a number of large projects and the adoption of more stringent criteria in the issuance of building permits, the construction industry rebounded from 1994 onward, growing by almost 20 percent per annum in nominal terms in 1994-95. Demand from both the private sector (construction of a number of luxury hotels and entertainment and commercial facilities) and public enterprises (expansion of facilities and infrastructure) contributed to this robust growth.

13. In contrast, the public enterprise sector, after a period of steady growth in 1991-94, reported a decline in the value of output in 1995, reflecting a marked drop in profitability⁶ (Table A7). Two large public enterprises, in particular, saw a sharp fall in their profits: Enemalta, the state-owned energy corporation, as a result of its inability to pass on cost increases (including the VAT) to its customers; and Telemalta, the state telecommunications corporation, following extensive rate cuts introduced in the middle of the year.

⁵The Drydocks' main criterion in its pricing policy was the need to keep its workforce occupied. Labor costs were equivalent to 95 percent of turnover in 1994, but some 150 percent of turnover in 1995.

⁶The official sectoral breakdown of GDP classifies the following as public enterprises: Enemalta, Telemalta, Posta Ltd., Public Lotto, Water Services Corporation, Malta Development Corporation, Malta Freeport Corporation, Malta Financial Services Center, Public Broadcasting Services, and Malta International Airport.

Box 1. Malta Drydocks

Malta Drydocks is one of the oldest ship repair yards in the Mediterranean. Built to serve the needs of the British naval forces, it was taken over by the state after independence. With the departure of British forces in the 1970s, the Drydocks focused on commercial operations, specializing in the repair of tankers, bulk carriers, and cruise liners. Like many other shipyards, the Drydocks started making losses in the early 1980s.

In 1989, the government signed an agreement to pay the Drydocks Lm 55 million in subsidies over a 10-year period, by which time the Drydocks was expected to have established its financial viability. A second agreement, signed in 1994, envisaged a major restructuring of the Drydocks and a merger between the Drydocks and Malta Shipbuilding; under this agreement, the some 2,000 Malta Shipbuilding employees were to be assimilated into Malta Drydocks' 3,200-strong workforce, encouraged to retire early, or transferred to one of two new government-owned companies (Malta Gantry Manufacturing Ltd. and Malta Win Cargo Container Ltd.) The planned merger, however, has yet to take place.

Despite these agreements, little progress has been achieved in improving the viability of the Drydocks. According to a report commissioned by the government in 1996, the Drydocks made losses of Lm 25 million in 1994-95 alone (around 1 percent of GDP per year), with accumulated losses totaling some Lm 70 million by 1996. These losses were underwritten by the government, as the Drydocks frequently exceeded its (government guaranteed) overdraft limits with the two major banks, and relied on *ad hoc* transfers from the Ministry of Finance to pay recurrent expenses such as wages. The government advanced Lm 10 million to the Drydocks under this system in 1995, and a further Lm 7.7 million was provided in the first 10 months of 1996, over and above the amounts given as direct aid. By the end of 1996, the Drydocks owed Lm 50 million to the government and parastatal corporations, and Lm 57 million to the two major banks.

Responsibility for managing the Drydocks is vested in a nine-member council. In February 1997, parliament passed legislation to give the council a majority of government-appointed representatives; prior to that, all council members were elected by the workers.

Services

14. **Tourism**, the most important service sector, experienced robust growth in the early 1990s, but encountered adverse demand shifts after 1994. Between 1990-1994, gross lira earnings from tourism increased at an average of 11.3 percent per annum and the number of tourist arrivals increased by an average of 7.3 percent per annum, peaking at 1.2 million in 1994. The momentum was not sustained in 1995: the number of tourist arrivals dropped by 5 percent, and gross tourism earnings fell by almost 4 percent. Tourism remained weak in

1996: the number of visitors was 5.6 percent lower and gross lira earnings were almost 2 percent lower compared with 1995 (Table A8).

15. The tourist sector has traditionally relied heavily on middle-income tourists from Europe, particularly the U.K. package tour market.⁷ Factors contributing to declining revenues in 1995-96 included a drop in outward tourism from the United Kingdom; uncertainty caused by the removal of the forward buying rate scheme and the belated introduction of a new subsidy scheme (Box 2); and increased competition from a range of other destinations, both within the Mediterranean and further afield (e.g., the Caribbean).⁸ The industrial relations climate in 1996 was reportedly also a negative factor, as cruise ship dockings were discouraged on several occasions by strikes and industrial disputes.

16. The tourism industry is currently undergoing restructuring, with a view to increasing the amount of revenue per tourist, diversifying its source markets, and achieving a better spread of tourist arrivals over the course of each year (Chart 4). Steps have already been taken to increase the supply of higher-quality tourist accommodation: the Industrial Development Act has been amended to offer incentives to hoteliers seeking to upgrade or renovate their facilities, and over 90 percent of the additional 8,000 or so tourist beds expected to come on stream in the next two years will be in the higher-quality range. The recently established Institute of Tourism Studies has also been active in providing training programs to improve the quality of labor in the sector.

Agriculture

17. The share of agriculture and fishing in GDP continued on its downward trend over the 1990s, despite an ongoing government-supported upgrading program; by 1995, agriculture and fishing accounted for less than 3 percent of GDP. Agricultural activity in Malta is concentrated in the production of chicken, pork, milk, and eggs; the two main crops grown are potatoes (the primary export crop) and tomatoes. In the fisheries sector, traditional fishing methods have been complemented by aquacultural production since 1990; some success has recently been achieved in the export of locally farmed species of sea bream and sea bass.

⁷Although the proportion of U.K. tourists in total arrivals has been on a declining trend for more than 10 years, it is still substantial, at around 40 percent.

⁸Tourism was also adversely affected by the introduction of a discriminatory airport tax in the United Kingdom in 1995. At £10 for non-EU destinations compared to £5 for EU destinations, the airport tax added an estimated 2.32 percent surcharge to the cost of an average two-week holiday in Malta, putting it at a disadvantage relative to EU destinations such as Greece, France, and Italy.

**CHART 4
MALTA
TOURISM, 1989-96**

Sources: Data provided by the Maltese authorities; and staff estimates.

1/ Excluding transportation.

Box 2. The Forward Buying Rate and Tour Operator Support Schemes

The Forward Buying Rate (FBR) scheme was set up in 1983 against the background of a sharply depreciating pound sterling, with the purpose of insulating the important U.K. tourism market from exchange rate uncertainty. Under this scheme, the Central Bank of Malta offered guaranteed exchange rates for the pound sterling to British and Irish tour operators; separate rates were set for the summer (June to October) and winter (November to May) seasons. The FBR tended to be set at a more depreciated level relative to the spot rate prevailing at the time of the agreement; as the pound stabilized, therefore, the scheme took on a subsidy element. The total cost of the subsidy ranged from 0.3-1.2 percent of GDP, and was funded out of central bank profits.

As a multiple currency practice, the FBR ran counter to Article VIII (Sections 2, 3, and 4) of the IMF's Articles of Agreement. In connection with Malta's acceptance of the obligations of Article VIII in November 1994, the Maltese authorities eliminated the summer rate in 1996 and the winter rate in 1997.

In November 1995, the government introduced the Tour Operator Support Scheme (TOSS) as a means of supporting tourism in the price-sensitive British and Irish markets. The new scheme is administered by the National Tourism Organization, with funding from the government: Lm 2.5 million (approximately 0.2 percent of GDP) was set aside for this scheme in the 1996 Budget. Under the TOSS, certain British and Irish tour operators who bring in a minimum number of tourists are provided a subsidy intended to achieve a targeted sterling price per package holiday. Negotiations between the NTOM and tour operators typically take place some 6-8 months ahead of season: the tour operators submit their lira cost projections for the season, based on their anticipated number of tourists and the prices of their Maltese suppliers; the NTOM then determines the subsidy rate so as to maintain Malta's competitive position vis-à-vis other destinations. For the summers of 1996 and 1997, the subsidy offered was around 9 percent of the sterling price of a package holiday.

C. Labor Market Developments

18. Conditions in the labor market remained tight in the 1990s, with the unemployment rate averaging 4 percent in 1992-94, and employment growing at a steady pace (Table A9). With the economy edging close to full employment, wage pressures have picked up in the last few years.

19. **Employment growth jumped to 4.2 percent in 1995, well above the 1.2 percent average annual growth rate recorded in the past five years. This was entirely due to the private sector, which saw an increase of almost 10 percent in recorded employment (Table A10). The growth in employment was concentrated in the services sector; almost half of this increase—some 3,500 “new” jobs—likely reflected the surfacing of the black economy following the implementation of the VAT. Public sector employment, in contrast, fell by 4 percent in 1995, reflecting policy efforts (such as early retirement schemes) as well as privatization initiatives (notably, the privatization of the Bank of Valletta). Despite this reduction, however, the public sector continues to account for some 35 percent of total employment.**

20. **The labor market eased slightly in 1996, as the unemployment rate edged up to 4.1 percent of the labor force by November, and the pace of employment growth slowed to 0.5 percent. In early 1997, the government announced the imposition of a hiring freeze in the public sector as part of its fiscal adjustment effort.**

21. **Since the expiry of the incomes policy agreement at the end of 1993, wages in Malta have been negotiated by collective agreements at the firm level.⁹ However, mandatory universal cost of living adjustments (COLAs) continue to be set each year by the tripartite Council for Economic Development; these cost of living increases are announced by the government in the budget speech and then used as a starting point for collective agreement negotiations. The COLA for 1997 has been set at a flat rate of Lm 1.50 per week.**

22. **Collective bargaining contracts in the private and parastatal sectors generally last for three years; the last public sector wage agreement, signed in 1991 as part of the public sector pay reform effort, was a five-year agreement.¹⁰ The precise structure of contracts varies across the economy; the public sector, by virtue of its size, tends to be the standard-setter for the whole economy in terms of wages and employment conditions.**

23. **Both public and private sector collective bargaining contracts specify wage increases exclusive of the COLA.¹¹ In recent years, wages have been drifting upward, reflecting the tightness in the labor market: data from collective agreements and the schedule of pay scales for government employees indicate that average weekly wages (inclusive of the COLA but excluding overtime pay, bonuses, social security benefits, and allowances) rose by 7.2 percent**

⁹The incomes policy agreement signed by the social partners had pegged cost of living increases to wages and had been credited with keeping industrial peace. It was in effect from December 1990 to December 1993.

¹⁰The agreement covered both the public service and public enterprises. It expired in January 1996. A new contract that would cover the period 1996-2000 is still under negotiation.

¹¹This was not always the case in the past in the private and parastatal sectors.

in 1994 and 7.8 percent in 1995 (Table A11). With inflation hovering around 4 percent, real wages are estimated to have risen by some 3-3.5 percent during that time. Provisional estimates show slower growth in 1996.

24. The industrial relations climate became quite turbulent for a period in 1995-96, with strike activity affecting firms in various sectors, including many parastatals such as Air Malta, Gozo Channel, Mid-Med Bank, and the Kalaxlokk Company. A total of 5,300 man-days were lost as a result of industrial actions in 1995; this number more than tripled in the first nine months of 1996. A revision of the industrial relations laws, proposed in 1990, was never undertaken, and many points of disagreement—e.g., the right to sympathy industrial action—continue to exist between employers and unions.

D. Prices

25. Inflation in Malta is conventionally measured by the year-on-year percentage change in the retail price index (RPI). The RPI is compiled monthly by the Central Office of Statistics, under supervision by the RPI Management Board, which consists of representatives from the government, trade unions, and employers' associations.¹² From 1992-1995, the RPI was based on weights derived from the results of a Household Budgetary Survey (HBS) conducted in 1988-89, using 1991 as the base year. Beginning in January 1996, a new RPI was introduced, based on the results of a more recent HBS held in 1993-94, using 1995 as the base year. The new index is more representative (the 1993-94 HBS covered more than twice the number of households used in the 1988-89 survey) and less sensitive to seasonal fluctuations (the weight of food items in the new index is 29.9 percent, down from 36.8 percent) than the old index, but has come under criticism from several quarters for being based on an outdated (pre-VAT) bundle of goods and services.¹³

26. As measured by the RPI, inflation was modest during the 1980s and early 1990s—averaging 1 percent per annum in 1983-92—but accelerated to 4.1 percent per annum in 1993-94 in the wake of the devaluation of the Maltese lira in November 1992.¹⁴ By 1995, the pass-through effects of the devaluation had largely disappeared but despite this—and falling inflation in Malta's major trading partners—inflation remained close to 4 percent (Table A12). Price developments in 1995 were influenced by various (competing) factors such as domestic

¹²Only food prices are monitored monthly; prices for the other RPI subcategories are monitored once every 2-4 months.

¹³The old and new price indices were linked using a specific (nonstandard) methodology approved by the RPI Management Board.

¹⁴The factors contributing to the decision to devalue in 1992 are discussed in *Malta-Staff Report for the 1994 Article IV Consultation*, SM/94/277 (11/14/94).

demand pressures, tariff reductions, and the introduction of the VAT, resulting in marked differences in the rate of price growth across sectors.

27. The pace of inflation eased somewhat during 1996, with 12-month inflation averaging 2.5 percent.¹⁵ It should be noted, however, that the calculation of 12-month inflation rates in 1996 is highly sensitive to the methodology used to link the old and new indices, and estimates range from 2.3-3.4 percent depending on the splicing period used.

II. FISCAL DEVELOPMENTS

28. The Maltese public sector comprises the central government, the social security system, the local councils, and the public enterprises. The operations of the central government, the social security system, and the local councils are reflected in the Consolidated Budget Fund.¹⁶ Annual accounts for public corporations are published in conjunction with the budget approval process, with aggregate data on the public sector finances (including the PSBR) becoming available only when detailed national accounts data are released, i.e., with a lag of about two years.

29. The fiscal stance was strongly expansionary in 1994-96, with various deficit measures increasing sharply over the period. The public investment-savings balance increased from 2½ percent of GDP in 1993 to near 10 percent of GDP in 1996, reflecting both a widening of the budget deficit (notably in 1996) and a substantial deterioration in the financial position of the public enterprises (particularly in 1995) (Chart 5 and Tables 1 and A13).¹⁷ Significant asset sales partly limited the rise in the PSBR during 1994-95, but this is estimated to have reached some 12 percent of GDP by 1996. Given high borrowing levels, government and broader public sector debt levels have increased significantly in recent years, with government debt amounting to 42 percent of GDP at end-1996, up from 28 percent in 1992.

¹⁵Based on IMF staff calculations using data for January to December.

¹⁶The transparency of the fiscal accounts is somewhat impaired by operations carried out via a number of extrabudgetary funds.

¹⁷Estimates of the investment-savings balance and the PSBR for 1995-96 are staff estimates based on incomplete data; full national accounts are available only up to 1994.

CHART 5
MALTA

FISCAL DEVELOPMENTS, 1989-97 1/
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

1/ Data for 1997 refer to budget estimates.

2/ Data prior to 1992 are not strictly comparable because of changes of coverage in the Consolidated Budget Fund.

3/ Includes net lending.

Table 1. Public Sector Balances

(In percent of GDP)

	1992	1993	1994	1995	1996 Est.
Government budget deficit	3.1	3.3	5.2	4.0	8.6
Public investment-savings balance	1.7	2.6	5.7	5.6	9.9
PSBR	3.2	4.3	7.1	6.6	12.3
Government debt	27.9	32.8	33.3	36.1	42.1

Sources: Data provided by the Maltese authorities; and Fund staff estimates.

A. The Budget

The budget structure

30. **Budgetary revenues** have averaged some 37 percent of GDP during 1992-95, dipping to 35½ percent of GDP in 1996 (Chart 6 and Table A14). Tax revenue provides some three-quarters of total revenues, split almost evenly between receipts from direct and indirect taxation (Chart 7). Tax reforms in recent years (notably VAT introduction) have led to a shift in the composition of tax revenues from direct to indirect taxes, with the latter increasing from 44 percent of tax receipts in 1992-94 to 48 percent in 1995-96. With the elimination of import duties from the EU in conjunction with the introduction of the VAT, revenues from import duties have fallen sharply in both absolute and relative terms, dropping from some 28 percent of total revenues in 1992-94 to a mere 3 percent of revenues in 1995-96.

31. **Nontax receipts** have declined in importance in recent years, from near 10 percent of GDP in 1992-94 to some 7 percent of GDP in 1995-96. Contributory factors have included weakening financial performance of public enterprises, leading to dwindling profit remittances; loss of dividend income, following asset sales and public enterprise reforms in the early 1990s; reduced interest receipts as the stock of outstanding government loans to enterprises contracted; and stagnation of profit remittances from the central bank.

32. **Budgetary outlays** averaged some 41 percent of GDP in 1992-95, increasing to near 43½ percent of GDP in 1996 (Chart 8 and Tables A15, A16, and A17). Expenditures for capital purposes account for about one-eighth of total outlays (some 5 percent of GDP), although this share is overstated because of the classification of subsidies to loss-making

CHART 6
MALTA
BUDGETARY REVENUE, 1989-97 1/
(In percent of GDP)

Source: Data provided by the Maltese authorities.

1/ Data for 1997 refer to budget estimates.

CHART 7
MALTA
BUDGETARY TAX REVENUE, 1989-97 1/
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

1/ Data for 1997 refer to budget estimates.

CHART 8
MALTA
BUDGETARY EXPENDITURE, 1989-97 1/ 2/
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

1/ Data for 1997 refer to budget estimates.

2/ Data prior to 1992 are not strictly comparable because of changes of coverage in the Consolidated Budget Fund.

3/ Includes spending on police and armed forces.

enterprises, notably Malta Drydocks and Malta Shipbuilding, as capital outlays.¹⁸ Classification problems also impair the analysis of current expenditure, for which a complete economic categorization is available only with a lag of about two years. An *ad hoc* analytical classification provided by the authorities affords a breakdown of current expenditure between spending on personnel (about one-third), social security benefits and health (some 40 percent), subsidies to enterprises (about 10 percent), interest payments (about 5 percent), and other. In recent years, total expenditure has been rising in relation to GDP, reflecting higher current outlays; contributing factors have included the increase in transfers (mostly to public enterprises), and rising interest payments on a higher debt stock. Capital expenditure—which includes infrastructure and social outlays—has been broadly unchanged in relation to GDP with the decline in infrastructure outlays offset by the rise in social outlays (e.g., care of the elderly and hospitals).

Budgetary developments

33. The budgetary position weakened significantly in 1994, with rising expenditure levels and government lending pushing the deficit up to 5.2 percent of GDP, some 2 points higher than in 1992-93.¹⁹

34. Fiscal developments in 1995 were influenced by the introduction of the VAT at the outset of the year, in conjunction with wide-ranging tariff reductions. Tax revenues rose sharply in relation to a rapidly growing GDP, with revenues from indirect taxation increasing from 11.4 percent of GDP in 1994 to some 14.4 percent in 1995. Aggregate revenue growth was more modest, however, with sizable declines in various nontax revenues (foreign grants, dividend income, and central bank profits) implying that total revenues increased only marginally in relation to GDP, from 36.9 percent in 1994 to 37.2 percent in 1995. However, some easing in the pace of growth of current outlays (notably on personnel) laid the basis for a drop in budgetary outlays from 42.1 percent of GDP in 1994 to 41.2 percent in 1995, and a decline in the budget deficit of some 1.2 points of GDP.

35. The 1996 Budget sought a further reduction in the budget deficit to some 3.5 percent of GDP, to be achieved through additional growth in indirect tax revenues that would more than compensate for a sizable programmed increase in capital outlays. The budget also included important reforms in the areas of income taxation (consistent with the broader

¹⁸These subsidies were about half of capital expenditure in 1995-96.

¹⁹The staff presentation of the fiscal accounts differs from that of the authorities in a number of respects; in addition to the differences in treatment outlined in *Malta—Recent Economic Developments*, Chapter 3, Annex, (SM/94/288, 12/6/94), the staff presentation here treats asset sales as a financing item, while the authorities' presentation classifies them as revenue.

objective of shifting toward greater reliance on indirect taxation) and social expenditures (to improve the targeting of benefits to lower income beneficiaries).²⁰

36. The income tax changes were intended to reduce the average rate of taxation, and make the system more equitable. Personal income tax brackets were raised, with the maximum tax rate of 35 percent (which remained unchanged) applied to an annual income exceeding Lm 10,000, up from Lm 6,000, and the exemption threshold increased from Lm 3,000 to Lm 3,500. These changes resulted in a cut in effective tax rates across the board (Table 2). In an effort to improve compliance, the complex system of tax deductions was also streamlined and income earned from part-time work taxed at a fixed rate of 15 percent.

Table 2. Effective Income Tax Rates

(In percent)

Income in Lm	Married		Single	
	1996	1995	1996	1995
Up to 2,500	0	0	0	0
3,000	0	0	0	4
3,500	0	2	2	7
4,000	0	5	4	10
4,500	2	8	5	12
5,000	3	10	7	14
5,500	4	11	9	16
6,000	5	13	10	17
6,500	7	15	11	18
7,000	8	16	12	19
7,500	9	17	14	21
8,000	10	18	15	21
8,500	11	19	16	22
9,000	12	20	17	23
9,500	13	21	18	24
10,000	14	22	19	24
11,000	15	23	20	25

Source: Data provided by the Maltese authorities.

²⁰Both the income tax and the social benefit reforms were implemented in the second half of 1996.

37. The **social benefit reform** replaced four distinct family benefits with a comprehensive child allowance. While benefits previously took the form of fixed sums given to families with children,²¹ the new child allowance seeks to achieve better targeting of benefits through means-tested eligibility. Only families with an annual income below Lm 10,000 are eligible for benefits and the allowance is proportional to the difference between Lm 10,000 and the family income with rates depending on the number of children under 16 years of age (Table 3).²² The 1996 budget also introduced a new type of social benefit, called **supplementary assistance**, for people with an annual family income below Lm 3,500 who were not eligible for the child allowance: the benefit is 1.5 percent of the difference between Lm 10,000 and the income earned.²³

Table 3. The New Child Allowance

	Number of Children			
	1	2	3	4
Rates (in percent) 1/ 2/	6	9	11.5	13

Source: Data provided by the Maltese authorities.

1/ For every child after the first four, the rate increases by 1.5 percent per child.

2/ If a family earns less than Lm 2,500 a year, the child allowance is calculated on Lm 7,500.

²¹The four types of benefits were: (1) the child allowance to families with children under 16 years of age, which depended only on the number of children; (2) the family bonus (a fixed sum); (3) the parental allowance to families with children under 12 years of age and with an income lower than Lm 2,938 per annum; and (4) a fixed sum for families with children older than 16 years of age but still in school without a stipend.

²²Families with children between 16 and 21 years of age who are still in school, but not in receipt of a stipend, are entitled to an allowance of 1.5 percent of the difference between Lm 10,000 and the family income.

²³For single persons, the threshold is set at Lm 3,000 and the benefit rate at 1 percent.

38. The budgetary outcome for 1996 deviated sharply from programmed targets, reflecting both large revenue shortfalls (almost 4½ points of GDP below budget) and strong growth in current outlays (2 points of GDP above budget). As a result, the budget deficit reached some 8½ percent of GDP, compared with a 1995 outcome of 4 percent and a 1996 target of 3½ percent. Poor tax compliance and weaker collection efforts ahead of the general election, coupled with the incoming government's commitment to remove the VAT, contributed to the poor revenue performance: in the last quarter of 1996, income tax receipts and revenue from VAT were 36.5 percent and 35.7 percent lower than in the same period of 1995, respectively.²⁴ Nontax revenue was sustained at 1995 levels through higher foreign grants, while the trend decline in central bank and public corporations' profits continued.²⁵

39. Current expenditure increased to 37.4 percent of GDP from 35.7 percent in 1995, due to higher transfers, both to households and to public enterprises. Spending on social security benefits and pensions rose by 0.8 percentage points of GDP, while subsidies to public enterprises increased by over 25 percent in nominal terms (a half point of GDP). More than a third of the increase in subsidies to public enterprises was accounted for by higher subsidies to the Water Services Corporation (WSC). Capital expenditure rose from 5.2 percent of GDP to 5.6 percent, substantially less than budgeted.

40. The 1997 Budget was presented to parliament on January 13, 1997, some two months later than normal practice because of the timing of the general election. Measures contained in the budget include increases in excise taxes on spirits, tobacco, and petroleum products, and higher registration fees on motor vehicles, collectively projected to yield an additional 1 percent of GDP in revenues; higher tariffs for commercial use of water, allowing a cut in subsidies to the Water Services Corporation; and a hiring freeze in the public sector. The VAT is to be replaced by an alternative form of indirect taxation by midyear; details of the proposed replacement taxes were outlined in a White Paper published on January 30, 1997.

41. Revenues are budgeted to increase by some 0.7 percentage points of GDP in 1997, with higher tax revenues (up 2 points of GDP) being partially offset by a drop in nontax revenues (foreign grants, central bank profits).²⁶ The higher tax take reflects the impact of the new measures, supported by an assumed rebound in revenues from improved revenue collection efforts; a partially offsetting effect is the full-year impact of the income tax reforms introduced

²⁴Although the income tax reform could account for part of the decline, the third quarter revenue was only 1.7 percent lower than in 1995: this suggests that the effect of the reform was not the main explanatory factor of the decline.

²⁵Foreign grants increased from 0.4 percent of GDP in 1995 to 1.7 percent of GDP in 1996.

²⁶The staff presentation of the budget excludes from revenue projected income tax and social security receipts of Lm 14.3 million from the Drydocks, to be financed through a government loan not accounted for in the budget.

in July 1996. Noninterest current outlays are programmed to decline by 1.5 points of GDP, reflecting the hiring freeze and cuts in subsidies; but capital expenditures are set to rise by some 0.6 points of GDP, while the rising public debt level implies higher interest outlays (up 0.3 points of GDP). The budgeted deficit declines from 8.6 percent of GDP in 1996 to 7.5 percent in 1997, financed almost entirely through domestic borrowing, and government debt would reach 47 percent of GDP by end-year, up from 42 percent at end-1996.

B. VAT: Performance and Proposed Replacement

42. The VAT, introduced on January 1, 1995, applies to goods and services. It is levied at a standard rate of 15 percent and a reduced rate of 10 percent for selected items including catering services and tourist accommodation. Zero-rated items include exports, certain food items, pharmaceutical goods, medical services, bus and ferry transport, and education. Financial services, letting and transfers of immovable property, and nonprofit organizations are exempt.

43. The VAT generated 6.8 percent of GDP in 1995 (23 percent of tax revenue). While this fell slightly in 1996, its productivity, at 0.45 percentage points of GDP for every percentage point of the standard rate, compares favorably to VATs in European countries (Table 4). Despite having a standard rate 15 percent below the average, the yield was only 1 percent below average. Italy, Spain, and the United Kingdom have equal or higher rates but lower yields. This strong performance is largely explained by the high proportion of imports in the VAT base and the existence of only one, minor, reduced rate.

Table 4. Selected Comparisons of VAT Rates and Productivity

Country	Standard Rate (percent)	Other rates (percent)	Revenue (percent of GDP)	Productivity (percent of GDP per 1 percent of standard rate)
Greece (1994)	18	4, 8	7.5	0.42
Ireland (1994)	21	12.5	7.5	0.36
Italy (1994)	19	4, 9, 12	6.4	0.33
Portugal (1994)	16	5, 30	7.9	0.49
Spain (1994)	15	3, 6	5.5	0.37
U.K. (1994)	17.5	...	6.7	0.38
Average	17.8	...	6.9	0.39
Malta (1995)	15	10	6.8	0.45

Source: Fund staff estimates.

44. The White Paper published by the government on January 30 identified a number of problems with the current VAT system, namely, that it is (1) *unfair and inefficient*; (2) *administratively burdensome*, especially for small businesses, (3) *over-complex*, due to the use of zero-rating and exemptions; (4) an *additional layer of taxation* as businesses already pay income and social security taxes; and (5) *insufficiently coordinated with other taxes*, especially the income tax.²⁷

45. The proposed replacement for the VAT is a system of import duties and specific excises. Imports will be subject to a 15 percent import duty. Those goods currently not subject to VAT and import duty will be exempt. Imported elements of goods produced locally for domestic consumption in competition with imported final goods that are exempt from import duty shall also be exempt. Export industries and tourism will benefit through exemptions for capital imports and direct support services.

46. All nonexempt goods purchased within Malta, both imported and domestic, will be subject to a single-stage excise tax, known as the Excise Tax on Products (ETP), with a rate of 5 percent. The ETP will be levied on goods when sold to a business for its own consumption or to a retailer. Both the seller and buyer are obliged to maintain a record of the tax. Those items exempt from the import duty will also be exempt from the ETP. Businesses that buy goods to be incorporated into other products will not pay the ETP but will levy it on their output.

47. Selected services will be subject to an excise tax (ETSS). These services include services to businesses and some services provided directly to the public. They will be taxed at 10 percent, while pre-booked accommodation and catering packages will be subject to a rate of 5 percent.

48. The proposed replacement system for the VAT has several weaknesses. It is liable to the criticism of cascading because not all business inputs will be creditable or exempt: for example, it is unlikely that the tax component from exports can be entirely removed. Attempts to replicate the VAT system of crediting through use of exemptions will inevitably increase the degree of arbitrariness in the system and facilitate increased avoidance/evasion, and is likely to be administratively cumbersome.

C. Budget Financing and Public Debt

49. In recent years, the budget deficit has been financed primarily through domestic debt issues (Chart 9), but in the period 1994-95 asset sales were also an important source of financing (on average almost a third of the deficit). With the exception of 1994, net foreign financing has been negative.

²⁷Based on the *White Paper For A Better Tax System In Malta*.

CHART 9
MALTA
BUDGET DEFICIT FINANCING AND GOVERNMENT DEBT, 1989-96
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

50. **Government debt** has been rising rapidly since 1994 due to the deteriorating budgetary position and despite sizable asset sales in 1994 and 1995. The stock of government debt rose from 33.3 percent of GDP at end-1994 to 42.1 percent of GDP at end-1996.²⁸ Domestic debt increased even more rapidly, from 27.8 percent of GDP in 1994 to 38.1 percent of GDP in 1996, while foreign debt declined from 5.5 percent of GDP at end-1994 to 4 percent of GDP at end-1996 (Table A18).

51. At end-1995, three-quarters of the government's domestic debt stock consisted of medium- and long-term securities: the rest was in the form of treasury bills. The proportion of treasury bills in domestic debt more than doubled between 1994 and 1996, as the limit on the issue of this instrument was raised from Lm 30 million to Lm 100 million in 1995 and to Lm 200 million in November 1996. At end-1995, over a fifth of treasury bills were held by the nonbank public, a ratio which has been rising and is projected to have reached one-third by end-1996. In March 1996, the nonbank public held about 47 percent of the stock of government bonds, the commercial banks 38 percent, with the remainder held by the CBM.

52. Debt of public corporations and authorities is estimated at some Lm 200 million (18 percent of GDP) at end-1995, three-fourths of which is external. Debt of other public enterprises is estimated at about Lm 57 million (5 percent of GDP), almost entirely external, bringing total public debt to Lm 669 million (58 percent of GDP). The government also extends guarantees on bank credits to a variety of entities—these amounted to Lm 403 million (33 percent of GDP) as of end-1996.²⁹

D. Public Enterprises

53. Public enterprises comprise: (1) public corporations and authorities that are entirely government owned, are established by specific legislation, and must have their annual financial statements approved by parliament; (2) direct government investments in firms deemed to be of strategic importance (e.g., commercial banks); and (3) investments undertaken through government agencies, notably Malta Development Corporation (MDC) and, more recently, Malta Government Investments Ltd. (MGI).

54. Since 1987, government policy has been to reduce the direct role of the public sector in the economy through sale of investments in the government's portfolio. To this end, in 1988, Malta Investment Management Company Limited (MIMCOL) was set up as an agency entrusted to take over management responsibilities of companies in the portfolio of MDC/MGI,

²⁸At times, the increase in the debt stock has been considerably higher than the budget deficit, reflecting extrabudgetary debt operations. Examples of these were the issue of Lm 10 million worth of treasury bills to the central bank as a counterpart to the phasing out of the ways and means advance facility and an issue of government bonds in exchange for church property.

²⁹Only a small part of these are likely to be called.

and given the tasks of liquidating companies deemed unviable and improving the performance of those with good prospects to prepare them for sale. In line with this strategy, 12 companies assigned to MIMCOL were privatized in 1994-95 and a number were liquidated; 13 companies are now left with MIMCOL. The government also divested itself of some direct investments, most notably by selling shares in commercial banks, including Bank of Valletta. As of end-September 1996, the government had direct investments in 25 companies, including Mid-Med Bank (the largest commercial bank), Air Malta Co. Ltd., and Malta Freeport.

55. **The main public corporations** include Enemalta, Telemalta, the Water Services Corporation (WSC), the Maritime Authority, the Housing Authority, and the Transport Authority. **Enemalta**, the energy company, supplies and distributes electricity, gas and petroleum products. Until 1994, Enemalta was quite profitable, although it relied on cross subsidization of the electricity division with profits made by the petroleum division. In 1995, however, its operating surplus more than halved, reflecting the failure to pass on to consumers increased costs (notably the VAT and higher fuel costs) and inefficient capital outlays.³⁰ In the six months from October 1995 to March 1996, there was a further deterioration in the financial position of Enemalta, partly due to delays in the issue of electricity bills.

56. **Telemalta** is a public corporation responsible for the provision of telecommunication services.³¹ It is a profitable enterprise, but its profitability suffered with the introduction of the VAT, again not passed on to consumers, and the reduction of tariffs on overseas calls; in the financial year 1995/96, its profits declined by some 30 percent. Other factors contributing to the deteriorating financial performance were higher personnel costs and debt servicing.

57. Set up in 1992 in place of the Water Works Department, the WSC supplies and distributes water. Since its inception, it has relied heavily on budgetary subsidies to cover operating losses and has borrowed heavily from the domestic banks to finance large capital projects to improve the water supply in the island. Important problems afflicting this enterprise include the rise in operating costs due to the inefficient use of manpower, extensive wastage and pilfering, and, in 1996, the delay in issuing bills to consumers.

58. Large government subsidies are extended to **Malta Drydocks** and **Malta Shipbuilding**.³² Budgetary subsidies to these entities averaged 1.3 percent of GDP in 1995-1996, and the government has also provided advances to these companies outside the budgetary framework (Box 1, Chapter I).

³⁰In addition, discounts and rebates were granted to selected consumers.

³¹Radio and television services were hived off four years ago.

³²Malta Drydocks is akin to a public corporation as it has been set up through ad hoc legislation, but is managed by a board partly appointed by the government and partly elected by the workforce. Malta Shipbuilding is in the portfolio of MGI.

III. FINANCIAL SECTOR DEVELOPMENTS

59. The Maltese financial system includes the Central Bank of Malta (CBM), four domestic deposit money banks, a foreign bank that operates in the domestic market, one mortgage bank, two investment banks, a number of offshore banks that deal exclusively with nonresidents, the stock exchange, and the Malta Financial Services Center (MFSC).³³ The government plays a central role in the banking system, being the majority shareholder in the largest domestic commercial bank (Mid-Med Bank) and a minority shareholder in the second largest (Bank of Valletta): these two banks together have over 90 percent of deposits held with the domestic banking system.

60. There have been a number of important changes in the banking environment in recent years. In late 1994, parliament passed a financial legislation package that included amendments to the Central Bank Act and a new Banking Act: the CBM was granted increased autonomy in the conduct of monetary policy and in setting interest rates, while prudential regulations were brought in line with EU directives in areas such as licensing procedures, capital adequacy ratios, liquidity requirements, and single customer exposure limits. Interest rates have been effectively deregulated, with the ceiling on deposit rates having been lifted in 1994 and controls on lending rates having been effectively eliminated in 1995. There has been rapid growth in money market transactions, following the introduction of an interbank money market in 1994 and the introduction of regular auctions of treasury bills in 1995. Finally, the partial privatization of Bank of Valletta in 1995, together with the entry in the domestic market of the U.K.-based Midland Bank in 1996, have increased competition and promoted financial innovation in the banking sector.

A. The CBM and the Conduct of Monetary Policy

61. The CBM's principal objectives as set out in the amended Central Bank Act are: (1) to promote balanced economic development consistent with the maintenance of monetary stability and the external value of the currency; and (2) to foster a sound financial structure and an orderly capital market. Notwithstanding the CBM's increased autonomy in pursuing these goals, the Minister of Finance retains the prerogative to give the bank instructions that he deems appropriate in the national interest. The CBM's board of directors, composed of the governor, the deputy governor, and three other directors, is responsible for deciding the broad outlines of monetary policy, with detailed implementation being delegated to the Monetary Policy Council (MPC), which meets once a month.

³³The MFSC is an autonomous body entrusted with the licensing, monitoring, and supervision of offshore companies operating in Malta, including offshore banks and financial institutions. It also promotes Malta as an international business center and advises the government on financial services and related matters.

62. Monetary policy is conducted within the context of a fixed exchange rate; the value of the lira is pegged to a basket of currencies that includes the ECU, the U.S. dollar, and the pound sterling.³⁴ The presence of capital controls, coupled with imperfect asset substitutability, provides the CBM some capability to conduct an independent monetary policy, although gradual liberalization of the capital account in recent years increasingly limits the CBM's room for maneuver. The set of instruments used by the CBM to influence monetary developments was expanded in 1994-96 to include term deposit auctions (used only in 1994-95), regular repurchase/reverse repurchase agreements (introduced at end-1994), and foreign currency swaps (Box 3). In setting policy, the CBM looks to a broad range of economic indicators, including external reserve levels (which, according to the CBM Act, must not fall below 60 percent of the CBM's liabilities), the pace of broad money growth, and the level of economic activity; high weight is given to the objective of limiting interest rate fluctuations.

63. A simplified balance sheet for the CBM is presented in Table 5. External reserves accounted for some 69 percent of total assets at end-1995, with credit to government representing a further 9 percent of assets; other assets include foreign exchange deposits held

Table 5. CBM Balance Sheet; end-1995

(In millions of Maltese liri)

ASSETS		LIABILITIES	
External reserves	508.7	Base money	513.0
		of which: Currency	351.8
		Deposits of banks	80.0
Government securities	67.7	Government deposits	20.2
Other assets	163.4	Other liabilities	206.6
Total assets	739.8	Total liabilities	739.8

Source: Central Bank of Malta.

abroad by the CBM on behalf of the government and public enterprises. Credit to the government takes the form of purchases of treasury bills (in the secondary market only, since early 1996) and government bonds, both in the primary market as the residual subscriber and in

³⁴The ECU is given a 67 percent weight in the basket, with the U.S. dollar and pound sterling having weights of 21 percent and 12 percent, respectively. The value of the lira in terms of the currency basket has remained unchanged since a 10 percent devaluation in November 1992.

Box 3. The CBM's Instruments of Monetary Management

Reserve Requirements: Banks are required to maintain 5 percent of deposit liabilities in the form of deposits at the CBM (reserve deposit account). The base is calculated as an average of the stock of deposits on the first and last day of the month and the one-month maintenance period starts the 15th of the following month. Banks must satisfy the requirement on an average basis during the maintenance period. The balances are currently remunerated at the below-market rate of 2.7 percent. If a bank fails to fulfill the reserve requirement, it is charged the penalty rate of 8 percent.

Discount Window: Banks can obtain credit from the discount window by discounting treasury bills at the discount rate, which has been fixed at 5.5 percent for the past ten years. There is no formal limit on access to this facility, but the CBM has full discretion as to when the facility is used. This facility has been resorted to only very seldom in the last two years, as the CBM is seeking to promote the use of repos.

Collateralized Loan Facility: Through this facility, banks can obtain short-term credit at a penalty rate, currently 6 percent. It is fully collateralized, with the admitted securities sanctioned by law and the collateral pledged at all times. It is a stand-by window with limits established on each bank. Banks use this type of loan to replenish their operational account (call account) which must have a positive balance at the end of the day.

Repurchase and reverse repurchase agreements: Every Friday there is either a repo or a reverse repo multiple price auction, depending on the CBM's forecast of the banking system liquidity. The CBM announces (via Reuters and fax) the type of auction and the interest rate band, which is considerably narrower (recently 3 basis points around 5 percent) than the band set by the MPC. Once the banks have submitted their bids, the CBM decides the quantity it is willing to inject/withdraw. The repo/reverse repo agreements are usually for 7-day money and occasionally for 14-day money. Aside from the auctions, the CBM stands ready to engage in bilateral repos with banks which are short of liquidity; the interest rate applied is posted in Reuters and currently stands at 5.4 percent.

Foreign Currency Swaps: These operations are carried out infrequently, at the discretion of the CBM. The forward buying/selling rate is based on the interest rate differential between Maltese rates and corresponding interest rates abroad.

the secondary market. The CBM also used to extend short-term (intra-year) unsecured credit to the government through the advances account, but this facility was not used in 1996.³⁵ Base money represents over two-thirds of total liabilities, with the remainder including term deposits of banks, foreign exchange deposits of government and public enterprises, and capital and reserves.

64. Monetary developments in 1994 were influenced by both a sizable buildup in foreign reserves and a significant growth in credit to government (Chart 10, and Table A19). Auctions of term deposits were introduced by the CBM as a means to limit the impact of these inflows on liquidity; by end-1994, the stock of these deposits amounted to Lm 107 million (equivalent to 22 percent of reserve money), with maturities ranging between 2-12 months.³⁶ These auctions were discontinued in early 1995, with the CBM preferring to use the newly introduced repo/reverse repo auctions to influence short-term liquidity developments, which were now being subjected to a contractionary impulse from the drop in external reserves. From the second quarter of 1995, the CBM conducted reverse repo auctions with a total volume of Lm 116.4 million, although the stock outstanding at end-year was a mere Lm 5.8 million, reflecting the short-term and self-reversing nature of such transactions. During 1996, the CBM continued to conduct reverse repo auctions to fine-tune liquidity expansion, with the end-year stock amounting to Lm 20.5 million.

B. The Banking Sector

65. The banking sector includes the deposit money banks, the offshore banks, and other banking institutions. Deposit money banks hold substantial foreign assets (close to 30 percent of total assets) and more modest foreign liabilities (some 10 percent of total liabilities); allowing for domestic foreign currency liabilities, the banks still have a large open foreign exchange position (Table A20).³⁷ Loans account for about one half of total assets, with the largest exposures to the manufacturing and shipbuilding (about 20 percent of total local lending) and the wholesale and retail trade sector (about 19 percent of total lending) (Table A21). Holdings of government securities amount to less than 10 percent of assets, but have increased significantly in 1996 (Table A22). Capital and reserves are close to 20 percent of total liabilities, a share that has risen in recent years.

³⁵An amendment to the CBM Act that would prevent the central bank from extending unsecured credit to the government has not yet been approved by parliament, so that legally the government can still use the advances account.

³⁶Term deposits at the CBM are classified under other liabilities.

³⁷Foreign currency deposits of residents, mainly belonging to export companies, represent less than 10 percent of deposits. Prudential regulations on the net foreign exchange open position are in the form of bank-to-bank limits, but not directly linked to capital.

CHART 10
MALTA
CENTRAL BANK BALANCE SHEET, 1989-96
(Percentage changes)

Sources: Data provided by the Maltese authorities; and staff estimates.

66. After a poor year in 1994, commercial banks' profits, from both domestic and foreign sources, increased sharply in 1995 (Table A23).³⁸ Although nonperforming assets amount to some 20 percent of the loan portfolio, commercial banks have high solvency ratios (which average about 14 percent), reportedly use conservative real estate valuation practices for collateral purposes, and have a good recovery record.³⁹

67. The offshore banks, also called international banking institutions, engage in business exclusively with nonresidents, although two of them are subsidiaries of the two largest domestic banks. Most of the offshore banks are currently licensed and supervised by the MFSC, but responsibility for supervision is to be transferred to the CBM by 2004. Offshore banks are funded through nonresident deposits and borrowing from banks abroad; two-thirds of assets are held abroad, with domestic investments reflecting the practice by subsidiaries of domestic banks of placing funds with the parent company. The sector expanded in 1995 with the entry of two new banks. Tax advantages provide the motivation for the establishment of the offshore banks; benefits accruing to Malta include enhanced training opportunities, professional fees, and ancillary services, but employment creation is modest.⁴⁰

68. Other banking institutions include the mortgage bank and the two investment banks. Loans from deposit money banks provide the main source of funds, while almost all the assets are in the form of lending to the private and parastatal sectors.

C. Money and Credit Developments⁴¹

69. The Maltese economy is characterized by low money velocity (a high ratio of broad money to GDP), reflecting a high degree of bank intermediation in the economy.⁴² At end-1995, the ratio of broad money to GDP was 1.5, compared to 1.0, 0.6, and 0.4 for the United Kingdom, Germany, and Greece, respectively.⁴³ The ratio of broad money plus

³⁸Two-thirds of income from domestic sources comes from loans and overdrafts, while income from government securities represents only 10 percent of domestic income. Two-thirds of income from foreign sources comes from securities.

³⁹Nonperforming assets are defined as loans more than 90 days overdue.

⁴⁰About 100 people are currently employed in the offshore banking sector.

⁴¹Money and credit aggregates refer to the financial survey which comprises the monetary authorities, deposit money banks, international banking institutions (from 1995), and other banking institutions.

⁴²Broad money comprises currency outside banks, and demand, time, and savings deposits.

⁴³Data for the United Kingdom include also building societies' deposits; data for Greece refer to end-1994.

government securities to GDP was only marginally higher at 1.8.⁴⁴ Heavy reliance on bank intermediation is reflective of the underdevelopment of the stock exchange, the minimal role of private pension schemes,⁴⁵ and controls on capital flows that have constrained portfolio diversification abroad. Velocity has been relatively steady in recent years, reflecting a stable and low inflation macroeconomic environment (Table A24).

70. In the past four years, time deposits have been the fastest growing component of broad money, while currency holdings have contracted significantly in relative terms: the ratio of currency to broad money declined from 35.9 percent in 1991 to 24.9 percent in 1996. With currency holdings falling and banks improving their treasury management in the face of interest rate liberalization and other deregulation measures, the (broad money) multiplier rose from 2.7 in 1991 to 3.6 in 1996 (Chart 11).

71. Broad money increased by 14.9 percent in 1994, resulting from both higher NFA (which contributed 69 percent) and domestic credit (which contributed 54 percent) (Table A25). The most dynamic component of credit growth was credit to the parastatal (14 percent) and private (13 percent) sectors following continued brisk economic activity. Lending to the building sector, notably for the construction of new hotels, registered the largest increase (54 percent) followed by lending to the service sector, linked to upgrading of tourist facilities, and projects in the retail and catering sectors.

72. In 1995, broad money growth slowed to 7.7 percent: NFA decreased, while domestic credit expanded rapidly. Credit to the private sector increased by some 29 percent over the year, notably to the transport and communications, construction, tourism, and trade sectors, while loans and advances to the personal sector rose very rapidly (42 percent), particularly for purchases of consumer durables. The surge in consumer credit was also spurred by financial innovation (e.g., flexicredits and leasing) and the banks' active promotion of credit cards.

73. The pace of broad money continued substantially unchanged in 1996, with the fall in external reserves more than offset by the expansionary impact of domestic credit. Credit to the government accelerated to 37 percent, while credit to the private and parastatal sectors slowed to 15 percent. Indications for 1996 are that lending to the tourism sector, other services, and the personal sector remained strong.

⁴⁴The sum of broad money and government securities proxies the country's total financial wealth which should include also financial instruments issued by the corporate sector and insurance companies.

⁴⁵In 1996, the first collective investment scheme to invest in Malta's capital market was launched.

CHART 11
MALTA
MONETARY DEVELOPMENTS, 1989-96

Sources: Data provided by the Maltese authorities; and staff estimates.

1/ Broad money multiplier.

2/ Broad money velocity.

3/ Broad money comprises currency outside banks and demand, time, and savings deposits.

D. The Rest of the Financial Sector

74. Recent innovations in developing government securities markets include the introduction of weekly auctions for treasury bills, a widening of the range of maturities of t-bills offered, and allowing nonresidents to hold government paper (although such holdings remain low). The CBM disengaged from the primary market for treasury bills in early 1996, but remains the market maker in the secondary market. Secondary market prices are quoted as a fixed spread on primary market prices (currently with the buying spread larger than the selling spread to promote sales by the CBM). Consideration is being given to modifying the price determination mechanism in the secondary market and it is expected that commercial banks will eventually take over the market maker-role from the CBM.

75. Medium- and long-term government securities with maturities ranging from 3-12 years are issued with a fixed interest rate, decided by the Minister of Finance in consultation with the CBM, usually three times a year. Government bonds are first offered to the nonbank public, then to the commercial banks, with the CBM being the residual subscriber. The CBM is the market maker in government bonds that are traded on the stock exchange: secondary market prices are set by the CBM with a view to maintaining a yield curve in line with monetary policy objectives. Plans for changes to the long-term government securities market are still in their infancy, but could eventually lead to floating-rate issues.

76. The CBM has sought to promote the development of interbank money and foreign exchange markets. Initially the CBM acted as a catalyst in domestic money market transactions, but now a commercial bank quotes two-way prices and interbank deals have risen from Lm 16 million in 1994 to Lm 252 million in 1996. Actions taken to encourage interbank foreign exchange transactions have included widening of the CBM buy-sell spread on foreign exchange, limiting the number of intervention currencies to three, and removing the cover for forward transactions.

77. Capitalization on the stock exchange, which started operation in 1992, reached Lm 528 million at end-1996. In addition to government bonds, which account for over half of the capitalization, seven equities (three of commercial banks), one mutual fund, and two corporate bonds are listed. Despite a significant reduction in transaction and brokerage fees and the automation of the trading system, the market is still very thin, with annual turnover of about Lm 25 million, mostly involving government bonds. Factors that impede the development of the exchange include: the low cost of bank credit, family-owned businesses' preferences for maintaining tight control, the limited number of institutional investors, and selected legal constraints.

E. Interest Rates

78. Until recently, Maltese interest rates were subject to numerous administrative controls, including ceilings on deposit and lending rates and a complex system of preferential rates. Interest rates remained fixed for many years at a level considerably below foreign interest rates,⁴⁶ which, given the fixed exchange rate regime, was only possible because of extensive exchange controls (Chart 12). In recent years, interest rates have been liberalized: notable steps were the removal of the ceiling on deposit rates in January 1994 and the raising of the ceiling on lending rates to a nonbinding level in November 1995, preceded by the elimination of preferential rates.⁴⁷

79. Maltese interest rates rose in 1995, in part reflecting the increase in most foreign rates: the three-month treasury bill rate increased to 4.9 percent from 4.4 percent at end-1994; the reverse repo rate rose from 4.75 percent in April to 4.94 percent in December; the interbank rate was within a few basis points of the reverse repo rate and remained so in 1996; while the CBM discount rate has remained unchanged in the last decade (Table A26). At end-1995, the spread over the synthetic yield on three-month instruments was still a negative 40 basis points. Interest rates on treasury bills remained unchanged in 1996, with the three-month treasury bill rate hovering around 5 percent, despite an increase of some 10 basis points in the reverse repo rate. However, with declining interest rates abroad, Maltese yields closed the year higher than the synthetic yield by a margin of some 30 basis points.

80. In March 1996, the two largest commercial banks announced an increase in interest rates on deposits (of some 50 basis points) and in consumer and real estate loans, which had been fixed for several years. The average deposit rate rose from 4 percent to 4.2 percent and the average interest rate on loans and advances from 7.5 percent to 7.7 percent. Banks also introduced a tier scheme for deposit rates and Mid-Med Bank announced the establishment of a "base rate" (currently 5.5 percent and equal to the CBM's discount rate) to which all lending rates would be linked. Banks are reported to now link interest rates charged more closely to client risk assessments, and thus a more differentiated structure of interest rates across customers is emerging. Factors contributing to these changes included increased competition in

⁴⁶A key measure of foreign interest rates is the so-called synthetic yield, a measure that weights foreign interest rates by the importance of each currency in the basket to which the Maltese lira is pegged. Data on synthetic yields are only available from May 1995 onward.

⁴⁷ Legal restrictions prevented the outright abolition of the ceiling on lending rates. Instead, the maximum margin on lira-denominated loans over the CBM's discount rate was raised from 3 percentage points to 10 percentage points above, while the margin on FX-denominated loans was raised from 5 percentage points to 10 percentage points over LIBOR. The only restriction that remains on lending rates concerns housing loans for own use up to Lm 15,000 for which the margin over the discount rate is 1.5 percentage points. Deposit rates are subject to a floor of 3 percent.

CHART 12
MALTA
INTEREST RATE DEVELOPMENTS, 1989-96

Sources: Data provided by the Maltese authorities; International Monetary Fund, International Financial Statistics (IFS); and staff estimates.

1/ Weighted average of interest rates on 3-, 6-, and 12-month treasury bills.

2/ Interest rate on 12-month federal debt register.

3/ Interest rate on 3-month treasury bills.

in the banking sector spurred by the privatization of Bank of Valletta and the entry of Midland Bank, and more active cash management induced by the abolition of the interest rate on call accounts and the introduction of an averaging reserve requirement.

81. The spread between average lending and deposit rates stood at 3.5 percent in 1996, unchanged from 1995 and slightly higher than 1994. A decomposition of the spread into prime rate spread (i.e., the difference between the prime rate and the average deposit rate) and the credit risk spread (i.e., the difference between the prime rate and the average lending rate) reveals that two-thirds of the bank spread is accounted for by credit risk spread, estimated to have increased in 1996 as the prime rate is reported to have remained unchanged. It is expected that bank spreads will decline with increased competition among banks.

82. Real interest rates have risen over the last two years as inflation has eased and nominal rate have increased slightly. In 1996, real interest rates paid on deposits averaged 1.2 percent, while rates charged on loans averaged 4.6 percent.

IV. EXTERNAL SECTOR DEVELOPMENTS

83. Since the late 1980s, Malta has been running increasing deficits on the external current account. The capital account, which saw net outflows during the late 1980s, returned to surplus after 1990, although the composition of flows has evolved over the last five years, with long-term foreign borrowing and more volatile short-term capital flows assuming a greater significance. Official reserves have declined in the past two years, but remain at relatively comfortable levels, equivalent to over five months of imports of goods and services at end-1996.

A. The Current Account

84. The current account deficit has widened progressively during the 1990s, from an average of 0.5 percent of GDP in 1990-92, to 4 percent of GDP in 1993-94, and 12 percent of GDP in 1995-96. The sharp deterioration in the current account position during 1995 reflected strong growth in consumer goods imports in the wake of the tax/tariff reforms introduced in the beginning of the year, a drop in tourist revenues, and shortfalls in investment income and unrequited transfers. The current account deficit remained substantial during the first nine months of 1996, with further deterioration in the balance on goods and services offsetting a recovery in official transfers (Chart 13, Table A27).

Trade account

85. Merchandise exports grew by an average of 15 percent per annum in value terms between 1990 and 1995. The driving force behind the strong export performance was the machinery and transport equipment sector and, in particular, the rapid growth in exports of electronic components by a single semiconductor firm (Box 4). Since the late 1980s, the

CHART 13
MALTA
CURRENT ACCOUNT, 1989-96

Sources: Data provided by the Maltese authorities; and staff estimates.

Box 4. SGS-Thomson

SGS-Thomson is an independent supplier of a broad range of semiconductors, with manufacturing facilities in the United States, France, Italy, Singapore, Malaysia, China, and Malta. It is 70 percent owned by holding companies of the French and Italian governments.

The Maltese plant was opened in 1981, with a workforce of 25. The plant was initially involved in lower value-added assembling and testing processes. By the early 1990s, Malta had lost its advantage of cheap labor, and the operations of the plant shifted to higher value-added activities. Substantial investments were made from 1993 onward, and today, the plant employs almost 2,000 workers (over 1 percent of Malta's labor force). Sales were on the order of Lm 300 million in 1995 (close to 50 percent of Malta's total merchandise exports). Imported inputs represent about three-quarters of the value of output, all of which is exported; one half of sales are to Europe, with the rest approximately evenly divided between Asia and the Americas.

machinery and transport sector has expanded very rapidly, its share in total exports swelling from 35 percent in 1988 to 63 percent in 1995. Electronic components alone have accounted for over 50 percent of total exports since 1994. During the first nine months of 1996, total exports were 4.4 percent lower (in value terms) compared with the same period in 1995, a drop due in large part to the discontinuation of a subcontracting operation at the major semiconductor plant (Table A28).

86. The pace of growth of exports by other manufacturing sectors was modest by comparison, averaging 4 percent per annum in nominal terms between 1985 and 1995; nonmachinery manufacturing's share in total exports dwindled from over 50 percent in the 1980s to 21 percent in 1995. The traditionally important clothing industry recorded virtually no export growth in the first half of the 1990s, due to the increasingly competitive international market confronting Maltese producers; the share of clothing in total exports fell from over 30 percent in the 1980s to below 10 percent in 1995. Available data for 1996 suggest a slight reversal in this trend, reflecting recent efforts to reposition the industry to focus on higher value-added and higher quality product lines.

87. The EU continues to be Malta's principal export market, absorbing over 70 percent of Malta's exports (Table A29). Of the EU countries, Italy is Malta's largest export market, accounting for some 30 percent of Malta's total exports, followed by Germany and France. Among non-European destinations, Asia has increased in prominence in the past two years, as a number of Maltese firms have entered into subcontracting arrangements to export key products, such as electrical machinery, to counterparts in Asia. The United States has also emerged as an important export market in recent years, the main export items again being electrical machinery and equipment.

88. **Merchandise imports** increased in value terms by an average 12.5 percent per annum during 1990-95. The rapid expansion in imports has reflected a number of factors, including the ongoing effects of trade liberalization; rising household incomes supporting growing consumer demand; strong growth in manufactured exports with a high import content; and the government's program of infrastructural investment, which has required a high level of capital goods imports.

89. **Industrial supplies**—primary, semifinished, and finished—are the main category of imports, accounting for around 57 percent of the total in recent years (Table A30). The heavy reliance on imported inputs reflects domestic resource limitations and weak inter-sectoral manufacturing linkages, particularly in the machinery and transport equipment sector, where the expansion in semiconductor exports over the past decade has been accompanied by a concomitant expansion in related imports: between 1988 and 1995, the share of machinery and transport equipment in total imports rose from 37 percent to 51 percent (Table A31).

90. **Consumer goods** are the next largest category of imports, making up some 20 percent of total imports. In 1995, they were the fastest growing category, increasing by 37 percent in value terms, and accounting for almost half of the 13 percent growth in total imports. The sharp increase in consumer goods imports in 1995 could be traced primarily to the removal of tariffs on imports from the EU and the reduction of tariffs on imports from non-EU countries; notwithstanding the concurrent introduction of the VAT (at 15 percent), the cut in tariffs led to a substantial reduction in import prices, particularly those of consumer durables such as television sets (previously subject to a tariff rate of around 70 percent).⁴⁸ Preliminary data for 1996 show a continued increase of around 2 percent in consumer imports.

91. The robust momentum of capital formation in the past few years has been reflected in a high level of capital goods imports: capital goods have accounted for around 17 percent of total imports in recent years, due to numerous investment projects undertaken by both the public and private sectors, including purchases of aircraft by the national airline in 1992-95, and purchases of gas turbines by the state-owned energy corporation in 1995. Imported capital goods account for some 70 percent of total machinery investment.

92. Over 70 percent of Malta's total imports originate from the EU. Of the EU countries, Italy is the most important source, accounting for over one-quarter of total imports, followed by the United Kingdom and Germany. Asia is the second most important source of imports after the EU; the main markets in this region are Singapore, Japan, Hong Kong, and Korea, from which Malta imports mostly machinery, appliances, and transport equipment.

⁴⁸Tariffs applied on EU products previously ranged from 15-130 percent, with a concentration around the 40 percent mark, whilst tariffs on non-EU products previously ranged from 25-140 percent.

Services and transfers

93. A sizable part of the recent deterioration in Malta's external current account may be traced to a decline in the invisibles balance. The surplus on the services account has fallen markedly in the last two years, from around 13 percent of GDP during 1990-94 to 9 percent in 1995-96. Net investment income has also been on a declining trend since 1991, as has net transfer income (Table A32).

94. Tourism, the most important item in the services account, recorded strong growth in 1990-94, with gross earnings increasing at an average of 10.5 percent per annum, to peak at Lm 324 million (33 percent of GDP) in 1993-94.⁴⁹ However, the sector entered a downturn in 1995, as gross earnings fell by 3.8 percent in nominal terms, reflecting a contraction in the European outgoing market as well as an emerging shift in tourist preferences toward longer-haul destinations. Uncertainty associated with the initial phaseout of the forward buying rate scheme further contributed to the 13 percent drop in tourist arrivals from the important U.K. market. The tourism sector showed no signs of improvement in 1996, with gross earnings from travel services dropping by a further 2 percent.⁵⁰ On the debit side, higher disposable incomes, together with the recent increases in the overseas travel allowance, have led to an increase in Maltese tourist expenditure abroad in the past two years.

95. Net freight and insurance payments have become an increasing drain on the services surplus, growing by an average 12 percent per year in value terms during 1990-95. The continuing rise in these payments—currently equivalent to some 7.5 percent of GDP—is directly related to the growth of imports over this period.

96. Net investment income has declined steadily throughout the 1990s, from 7.5 percent of GDP in 1990 to 1 percent 1995-96. This reflects a relative decline in net income earned from foreign investments by the banking system and the central bank, as well as growing profits of foreign-owned firms operating in Malta.⁵¹

97. Net transfers include private remittances and pension payments, and official grants. This item averaged 3.5 percent of GDP in 1990-94, but fell to 1.6 percent of GDP in 1995 due mainly to a delay in the disbursement of some Lm 12 million (US\$34 million) worth of official foreign grants under the Malta-Italy Financial Protocol. The funds were subsequently received in the second quarter of 1996; net transfers in the first nine months of 1996 have been estimated at around 2 percent of GDP.

⁴⁹The gross earnings figures presented here include also earnings from tourism-related transportation services, such as passenger fares, port charges, and charter hire.

⁵⁰Developments in the tourism sector are discussed further in Chapter I.

⁵¹Reinvested profits of foreign-owned firms operating in Malta are recorded in the capital account as a credit item under direct foreign investment.

B. The Capital Account

98. In contrast to the late 1980s, when the rapid accumulation of net foreign assets by banks made Malta a net capital exporter,⁵² the 1990s have seen the re-emergence of a small surplus on the capital account, reflecting large international loans taken out by public enterprises and parastatal corporations, and an expansion in nonresident deposits placed with Maltese offshore banks and on-lent into domestic markets (Chart 14, Table A33). In 1995, the surplus on the capital account financed only about one-sixth of the current account deficit, as substantial inflows of direct investment (mainly reinvested earnings) were partially offset by government debt repayments and an increase in the commercial banks' net external position. Preliminary indications for 1996 are that capital inflows—mostly short-term, in the form of repatriation of residents' deposits abroad and a rundown in commercial banks' external reserves—have financed a larger portion of the (still substantial) current account deficit.

99. Net direct foreign investment inflows have been positive and quite substantial during the 1990s. Capital flows in this category include reinvested earnings of foreign companies based in Malta, equity share capital from foreign companies establishing in Malta, and loans between Malta-based subsidiaries and their foreign parents. Between 1992 and 1994, direct foreign investment more than quadrupled from Lm 13 million (equivalent to 1.4 percent of GDP) to Lm 58 million (5.7 percent of GDP). Net direct foreign investment remained strong in 1995, at 3.8 percent of GDP, consisting mainly of reinvested earnings by the electronics sector and equity share capital from a foreign bank that established a branch in Malta.

100. Other long-term capital flows are classified into: (1) portfolio investment, which includes foreign borrowing by domestic private enterprises and public corporations such as Air Malta and the Freeport; and (2) official flows, which include foreign borrowing by the government and public enterprises. The portfolio investment component of long-term capital, historically less important due to restrictions and underdeveloped domestic money and capital markets, has seen a greater amount of activity in the past three years, notably, in 1994, when Freeport Terminal sold Lm 80 million (US\$210 million) worth of guaranteed notes in the international market and Air Malta raised an international loan of Lm 15 million (US\$40 million), and in 1995, when Air Malta borrowed a further Lm 10 million (US\$28 million) overseas to finance its fleet expansion; on the debit side, capital outflows have also risen to reflect the higher level of loan repayments associated with the increased debt. Official long-term capital inflows have fallen off sharply since 1992; in 1995, a surge in the repayment of foreign loans by two large public corporations led to a net outflow being recorded in official long-term capital for the first time since 1988. Malta received its first international credit ratings in 1994: A2 from Moody's and A from Standard & Poor's, the latter subsequently upgraded to A+ in May 1996.

⁵²Capital account deficits were recorded in each year except 1988, with net annual capital outflows averaging 1.7 percent of GDP.

CHART 14
MALTA
CAPITAL ACCOUNT, 1989-96
(In percent of GDP)

Sources: Data provided by the Maltese authorities; and staff estimates.

101. **Short-term capital flows** include: (1) private financial investment flows, such as changes in domestic residents' deposits held abroad and net short-term portfolio investments abroad;⁵³ and (2) other private investment flows, such as trade credits and debits between locally based companies and nonparent companies abroad, and progress payments. Both types of flows fluctuate considerably from year to year. Short-term private financial investments swung from a net inflow of Lm 28.6 million in 1994 (due in part to a public enterprise's rundown of term deposits abroad) to net outflows of Lm 2.5 million in 1995 and Lm 6.9 million in the first nine months of 1996; net inflows have been recorded in other private investments since 1993.

102. Transactions involving the domestic banking sector are recorded as a separate item in the balance of payments, under **changes in the net foreign assets (NFA) of banks and financial institutions**. Changes in the NFA of banks and financial institutions have been affected by the liberalization of financial markets and the expansion of international banking activity.⁵⁴ Net capital outflows of Lm 24.5 million were recorded from the banking sector in 1995; these outflows were reversed in the first nine months of 1996, when net capital inflows of Lm 28.4 million were recorded as commercial banks ran down their foreign assets in the face of strong domestic demand for foreign exchange.

C. Official Reserves and External Debt

103. After a significant buildup in the early 1990s, **official reserves** declined markedly in 1995. The drop in reserves, equivalent to about 10 percent of GDP, largely reversed the sharp jump recorded in 1994, when capital inflows were swollen by the Freeport Terminal's international bond issue. By end-1995, official reserves stood at Lm 580 million (US\$1.6 billion), equivalent to about 50 percent of GDP, or 5½ months of goods and services imports. The pace of the reserves rundown appears to have slowed in 1996; by September, official reserves stood at some Lm 550 million (US\$1.5 billion), a decline of around 5.5 percent since end-1995.

104. The bulk of official reserves—over 90 percent in recent years—is held in the form of term deposits with foreign banks and securities denominated in convertible currencies; the remainder is held in the form of gold and precious metals, SDR holdings, and a reserve tranche position with the IMF.

⁵³The authorities classify changes in nonresident deposits as short-term private financial investment flows; the staff presentation includes changes in nonresident deposits under changes in the net foreign position of banks and financial institutions.

⁵⁴Changes in recording practices introduced in 1995 relating to the treatment of international banking institutions complicate analysis of year-to-year flows.

105. External debt of the government, which averaged 5 percent of GDP between 1990-94, continued to remain at a low level in 1995-96. At the end of 1995, outstanding foreign loans by the government stood at Lm 53 million (US\$147 million) or 4.6 percent of GDP. Debt service payments amounted to some 1.4 percent of exports of goods and services. The government's external debt commitments are to foreign governments, development funds, and multilateral organizations; loans are earmarked to finance public capital investment projects. For the public sector as a whole, including parastatal corporations such as the Freeport and Air Malta, outstanding external debt was much higher: at end-1995, public sector external debt was on the order of Lm 253 million (US\$0.7 billion) or 22 percent of GDP, with debt service payments of around 3.8 percent of exports of goods and services. Commercial banks in Malta have a significant net foreign asset position: for the banking sector as a whole (excluding the central bank), net foreign assets stood at just over Lm 200 million (US\$560 million) in 1996.

D. Exchange Rate Management and Competitiveness

106. Since 1989, the Maltese lira has been pegged to a basket of three currencies: the ECU, the pound sterling, and the U.S. dollar. The weights attached to the three currencies are 67 percent (ECU), 21 percent (U.S. dollar) and 12 percent (pound sterling); these weights have remained unchanged since 1992. Commitment to the exchange rate anchor has served Malta well in terms of facilitating a high level of price stability over the longer term. In recent years, maintaining export competitiveness has also been an important consideration in exchange rate management. The 10 percent devaluation of the Maltese lira relative to the currency basket in November 1992—a move prompted by concern over the competitiveness of Malta's exports in the wake of devaluations/depreciations in the currencies of the United Kingdom, Italy, Spain, and Portugal following the 1992 ERM crisis—resulted in a depreciation of some 8.5 percent in the real effective exchange rate index. Since then, however, rising inflation (in excess of that of key trading partners) has eroded this gain in competitiveness somewhat, as the real effective exchange rate appreciated gradually between 1993 and 1995, although it eased slightly in 1996 and remains some 5 percent below its pre-devaluation level ⁵⁵ (Chart 15, Table A34).

⁵⁵Calculations of the real effective exchange rate index from January 1996 onward have been complicated by the change in the base year for the retail price index and the nonstandard method used by the authorities to splice the price index series. The figures cited here are based on staff estimates.

CHART 15
MALTA
EFFECTIVE EXCHANGE RATE DEVELOPMENTS, 1985-96

Sources: International Monetary Fund, Information Notice System (INS); and staff estimates.

1/ Based on consumer price indices.

E. Developments in the Exchange and Trade System

Exchange controls

107. Some progress has been made in the liberalization of exchange controls since the last Article IV consultation. In November 1994, Malta accepted the obligations of Article VIII, Sections 2, 3, and 4, of the IMF's Articles of Agreement. In accordance with this agreement, the settlement period under the bilateral payments arrangement with Libya was shortened ⁵⁶ and the forward-buying rate scheme for British and Irish tour operators was terminated as of the winter 1997 tourist season (Box 2, Chapter I).

108. During 1995 and 1996, a number of exchange control liberalization measures announced in the budget for 1995 came into effect. These included: (1) the raising of the limit on portfolio investments abroad by residents from Lm 2,500 to Lm 5,000 (in January 1995), and the extension of this allowance to resident nonfinancial companies as well; (2) the raising of the limit on foreign direct investment by individuals and nonfinancial companies from Lm 50,000 per year to Lm 150,000 per year (in January 1996);⁵⁷ (3) full liberalization of the transfer of dividends abroad (from 1995);⁵⁸ (4) the amalgamation of the cash gift allowance (previously set at a maximum of Lm 250 per annum) and the family allowance (previously set at a maximum of Lm 2,000 per annum), with an annual limit of Lm 2,500 (in 1995); and (5) the lifting of the prohibition on life insurance contracts between Maltese residents and nonresident insurance companies, for annual premiums not exceeding Lm 5,000 (in 1996).

109. The remaining exchange controls continue to be administered by the central bank on behalf of the government.⁵⁹ The government has indicated that there will be no changes in the system of capital controls during 1997.

⁵⁶The arrangement with Libya is the only such bilateral payments arrangement currently existing in Malta. It is seen as an important means of facilitating prompt settlement of outstanding trade debts between Maltese and Libyan businessmen. Up to 1995, the balances outstanding had been settled once a year by a cash payment in U.S. dollars to the respective central banks; beginning in January 1995, settlements have been made on a quarterly basis.

⁵⁷Outward direct investments exceeding Lm 150,000 require central bank approval.

⁵⁸Beginning in 1995, the authority to approve the payment of dividends to nonresidents has been delegated to credit institutions.

⁵⁹A full description of existing exchange controls may be found in the *Annual Report on Exchange Arrangements and Exchange Restrictions*, 1997.

Trade system

110. Up to the late 1980s, the Maltese economy had been heavily protected through a system of stiff quantitative import controls, with every imported item being subject either to product-specific import licensing requirements, or the state import monopoly under the bulk buying scheme. Since then, the authorities have been moving gradually to a system primarily based on tariffs and import levies. Import licensing requirements have been abolished for most of the products originally covered by such controls, with the remaining licensing requirements applying mainly to certain imported goods that are in direct competition with locally produced goods (handmade silver, lace, and certain types of gold jewelry) and to other items (such as chemicals and ammunitions) for health, security, and environmental reasons. The government's bulk buying scheme has also been eliminated; at present, only grains (barley, maize, and wheat), fresh fish, and certain petroleum products are undertaken solely by state-owned enterprises.

111. Export trade—particularly manufacturing exports and tourism—continues to be supported by the government through an extensive system of investment and training incentives, and a subsidy scheme in the case of tourism. As noted in Chapter I, the Tour Operator Support Scheme (TOSS) was introduced in 1995 following the decision to discontinue the Forward Buying Rate. The new scheme, funded by the budget and administered by the National Tourism Organization, operates as a system of discounts granted to British and Irish tour operators who bring in more than a certain number of visitors.

112. Concurrent with the introduction of the VAT at the beginning of 1995, customs duties were eliminated on imports from EU countries, while duties on non-EU imports were reduced and brought closer in line with the EU tariff structure. In order to mitigate the impact on domestic industry of the tariff reduction, import levies on most products that had originally been scheduled for elimination remained in effect, while additional protective levies were introduced for certain products that had previously been covered by tariffs. Also in 1995, quantitative restrictions on agricultural goods imports were dismantled and replaced with import levies.

113. In the White Paper on changes to the indirect tax system released in January 1997, it was proposed that customs duties be reimposed on EU products (at a rate of 15 percent, in lieu of the VAT) and raised on non-EU products as necessary to maintain the differential in favor of the EU stipulated in the Association Agreement with the EU.

Table A1. Malta: GDP in Constant Prices, 1991-96

	1991	1992	1993	1994	1995	<u>Jan.-Sep.</u> 1995	<u>Jan.-Sep.</u> 1996
(In millions of Maltese liri; 1973 prices)							
Total consumption	301.4	317.6	324.1	334.9	369.0	276.7	300.1
Private	229.4	239.2	241.0	246.5	274.0	205.4	224.6
Public	72.0	78.4	83.1	88.4	95.0	71.3	75.5
Gross fixed capital formation	82.8	82.6	91.8	98.3	118.8	89.1	86.9
Construction	34.6	36.0	38.7	41.7	55.9	41.6	42.8
Machinery	48.2	46.6	53.1	56.6	63.0	47.5	44.1
Increase in stocks	15.6	0.1	3.7	3.4	7.2	-26.2	-22.6
 Total domestic demand	 399.8	 400.3	 419.6	 436.6	 495.0	 339.6	 364.4
Exports of goods and nonfactor services	277.2	304.0	320.1	342.9	358.9	263.0	247.9
Imports of goods and nonfactor services	267.7	275.8	292.0	314.0	346.3	254.2	250.0
 Foreign balance	 9.5	 28.2	 28.1	 28.9	 12.6	 8.8	 -2.1
 GDP	 409.3	 428.5	 447.7	 465.5	 507.6	 348.4	 362.3
Net factor income from abroad	21.7	18.0	14.8	7.9	6.1	8.1	9.4
 GNP	 431.0	 446.5	 462.5	 473.4	 513.7	 356.5	 371.7
(Annual percentage change)							
Total consumption	5.5	5.4	2.0	3.3	10.2	10.7	8.5
Private	3.8	4.3	0.8	2.3	11.2	11.6	9.3
Public	10.9	8.9	6.0	6.4	7.5	8.0	5.9
Gross fixed capital formation	0.0	-0.2	11.1	7.1	20.9	26.4	-2.5
Construction	-1.7	4.0	7.5	7.8	34.1	32.1	2.9
Machinery	1.3	-3.3	13.9	6.6	11.3	21.8	-7.2
Increase in stocks 1/	0.8	-3.8	0.8	-0.1	0.8	-1.1	1.0
 Total domestic demand	 4.9	 0.1	 4.8	 4.1	 13.4	 14.0	 7.3
Exports of goods and nonfactor services	7.5	9.7	5.3	7.1	4.7	2.7	-5.7
Imports of goods and nonfactor services	5.4	3.0	5.9	7.5	10.3	12.3	-1.7
 Foreign balance 1/	 1.5	 4.6	 0.0	 0.2	 -3.5	 -6.4	 -3.1
 GDP	 6.3	 4.7	 4.5	 4.0	 9.0	 6.3	 4.0

Source: Central Office of Statistics.

1/ Change as percentage of previous year's GDP.

Table A2. Malta: GDP by Expenditure Components, 1991-96

	1991	1992	1993	1994	1995	<u>Jan.-Sep.</u> 1995	<u>Jan.-Sep.</u> 1996
(In millions of Maltese liri; current prices)							
Total consumption	641.6	695.9	750.4	817.8	937.0	702.6	784.8
Private	494.5	531.5	561.5	608.3	704.2	527.8	592.9
Public	147.1	164.3	188.9	209.5	232.8	174.8	191.9
Gross fixed capital formation	239.1	240.9	276.8	302.6	365.9	274.9	268.9
Construction	64.5	67.3	73.6	82.8	113.5	84.5	88.4
Machinery	174.6	173.5	203.2	219.8	252.5	190.4	180.5
Increase in stocks	15.6	0.1	3.7	3.8	7.2	-26.2	-22.6
 Total domestic demand	 896.3	 936.9	 1,030.9	 1,124.2	 1,310.1	 951.3	 1,031.1
Exports of goods and nonfactor services	701.9	804.1	896.3	994.2	1,067.6	782.1	756.1
Imports of goods and nonfactor services	791.2	866.0	987.2	1,098.9	1,233.9	905.9	902.8
 Foreign balance	 -89.4	 -62.0	 -90.8	 -104.7	 -166.3	 -123.8	 -146.7
 GDP	 806.9	 874.9	 940.0	 1,019.5	 1,143.8	 827.5	 884.4
Net factor income from abroad	49.7	41.7	35.5	19.3	15.2	20.2	23.8
 GNP	 856.5	 916.6	 975.5	 1,038.8	 1,159.0	 847.7	 908.2
(In percent of GDP; current prices)							
Total consumption	79.5	79.5	79.8	80.2	81.9	84.9	88.7
Private	61.3	60.8	59.7	59.7	61.6	63.8	67.0
Public	18.2	18.8	20.1	20.5	20.4	21.1	21.7
Gross fixed capital formation	29.6	27.5	29.4	29.7	32.0	33.2	30.4
Construction	8.0	7.7	7.8	8.1	9.9	10.2	10.0
Machinery	21.6	19.8	21.6	21.6	22.1	23.0	20.4
Increase in stocks	1.9	0.0	0.4	0.4	0.6	-3.2	-2.6
 Total domestic demand	 111.1	 107.1	 109.7	 110.3	 114.5	 115.0	 116.6
Exports of goods and nonfactor services	87.0	91.9	95.4	97.5	93.3	94.5	85.5
Imports of goods and nonfactor services	98.1	99.0	105.0	107.8	107.9	109.5	102.1
 Foreign balance	 -11.1	 -7.1	 -9.7	 -10.3	 -14.5	 -15.0	 -16.6
 GDP	 100.0	 100.0	 100.0	 100.0	 100.0	 100.0	 100.0
Net factor income from abroad	6.2	4.8	3.8	1.9	1.3 #	2.4	2.7
 GNP	 106.2	 104.8	 103.8	 101.9	 101.3 #	 102.4	 102.7

Source: Central Office of Statistics.

Table A3. Malta: Gross Fixed Investment, 1991-96

	1991	1992	1993	1994	1995	Jan-Sep. 1995	Jan-Sep. 1996
(In millions of Maltese liri)							
Total gross fixed investment	239.1	240.9	276.8	302.1	366.0	274.9	268.9
By sector:							
Private enterprises and households 1/	160.9	177.6	216.1	229.4	293.4	222.8	205.7
Agriculture and fisheries	2.2	2.2	3.0	2.2	...	...	...
Construction and quarrying	7.4	6.8	6.4	8.4	...	...	...
Manufacturing, shipbuilding, and repairs	44.4	38.1	51.3	57.6	...	...	...
Transport and communications	59.8	69.8	78.9	72.3	...	...	...
Wholesale and retail trade	4.2	4.7	6.3	7.4	...	...	...
Hotels	6.7	12.5	12.4	12.8	...	...	...
Private services	12.4	16.8	20.6	30.2	...	...	...
Other services	23.9	26.7	37.1	38.5	...	...	...
Public enterprises 2/	41.5	32.2	18.6	24.8	30.7	25.8	24.9
General Government 3/	36.8	31.1	42.2	48.0	41.9	26.3	38.3
By type of asset:							
Dwellings and other construction works	64.5	67.3	73.6	81.9	113.5	84.5	88.4
Total machinery and equipment	174.7	173.6	203.2	220.2	252.4	190.4	180.5
Transport equipment	49.7	58.3	78.2	64.4	...	...	...
Non-electrical machinery	44.8	44.2	48.6	58.7	...	...	...
Electrical machinery and appliances	34.2	35.1	39.5	45.2	...	...	...
Other machinery and equipment	46.0	36.0	36.9	52.0	...	...	...
(In percent of total)							
By sector:							
Private enterprises and households 1/	67.3	73.7	78.1	75.9	80.2	81.0	76.5
Agriculture and fisheries	0.9	0.9	1.1	0.7	...	...	...
Construction and quarrying	3.1	2.8	2.3	2.8	...	...	...
Manufacturing, shipbuilding, and repairs	18.6	15.8	18.5	19.1	...	...	...
Transport and communications	25.0	29.0	28.5	23.9	...	...	...
Wholesale and retail trade	1.7	1.9	2.3	2.5	...	...	...
Hotels	2.8	5.2	4.5	4.2	...	...	...
Private services	5.2	7.0	7.4	10.0	...	...	...
Other services	10.0	11.1	13.4	12.7	...	...	...
Public enterprises 2/	17.3	13.4	6.7	8.2	8.4	9.4	9.3
General Government 3/	15.4	12.9	15.2	15.9	11.4	9.6	14.2
By type of asset:							
Dwellings and other construction works	27.0	27.9	26.6	27.1	31.0	30.7	32.9
Total machinery and equipment	73.1	72.1	73.4	72.9	69.0	69.3	67.1
Transport equipment	20.8	24.2	28.2	21.3	...	...	...
Non-electrical machinery	18.7	18.3	17.6	19.4	...	...	...
Electrical machinery and appliances	14.3	14.6	14.3	15.0	...	...	...
Other machinery and equipment	19.2	14.9	13.3	17.2	...	...	...
Memorandum item:							
Total gross fixed investment (annual percentage change)	2.8	0.7	14.9	9.2	21.1	25.5	-2.2

Source: Central Office of Statistics.

1/ Includes private firms, parastatals, Malta Shipbuilding, Malta Drydocks, and Air Malta.

2/ Includes Enemalta, Telemalta, Posts, Public Lotto, Water Services Corporation, Malta Development Corporation, Malta Freeport Corporation, Malta Financial Services Center, Public Broadcasting Services, and Malta International Airport.

3/ Includes capital expenditure provided for in the budget of the Government.

Table A4. Malta: Savings and Investment, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri)							
Gross domestic savings 1/	165.3	179.1	189.7	201.7	206.8	124.9	99.6
Net factor income from abroad	49.7	41.7	35.5	19.3	15.2	20.2	23.8
Net unrequited transfers from abroad	37.3	29.9	23.3	35.6	17.6	9.7	17.2
Gross national savings 2/	252.3	250.7	248.4	256.6	239.6	154.8	140.6
Public sector 3/	64.1	48.8	37.4	17.5	...	...	...
Private sector	188.3	201.8	211.1	237.9	...	...	...
Households 3/	98.4	104.1	112.3	130.0	85.9	77.1	57.0
Corporations 4/	90.0	97.7	98.7	108.0	...	...	...
Foreign savings 5/	2.4	-9.6	32.1	49.7	133.6	93.9	105.7
Gross savings (national plus foreign)	254.7	241.0	280.5	306.3	373.2	248.7	246.3
Gross domestic investment 6/	254.7	241.0	280.5	306.4	373.1	248.7	246.3
(In percent of GDP)							
Gross domestic savings 1/	20.5	20.5	20.2	19.8	18.1	15.1	11.3
Net factor income from abroad	6.2	4.8	3.8	1.9	1.3	2.4	2.7
Net unrequited transfers from abroad	4.6	3.4	2.5	3.5	1.5	1.2	1.9
Gross national savings 2/	31.3	28.6	26.4	25.2	21.0	18.7	15.9
Public sector 3/	7.9	5.6	4.0	1.7	...	...	...
Private sector	23.3	23.1	22.5	23.3	...	...	...
Households 3/	12.2	11.9	11.9	12.7	7.5	9.3	6.4
Corporations 4/	11.1	11.2	10.5	10.6	...	...	...
Foreign savings 5/	0.3	-1.1	3.4	4.9	11.7	11.3	12.0
Gross savings (national plus foreign)	31.6	27.5	29.8	30.0	32.6	30.1	27.8
Gross domestic investment 6/	31.6	27.5	29.8	30.1	32.6	30.1	27.8

Sources: Central Office of Statistics; and data provided by the Maltese authorities.

1/ GDP less total consumption.

2/ National disposable income (GDP plus net factor income and transfers from abroad) less consumption.

3/ Includes depreciation and unrequited transfers.

4/ Includes depreciation.

5/ Current account balance from the balance of payments, with opposite sign.

6/ Gross fixed capital formation plus increase in stocks.

Table A5. Malta: Household Disposable Income, 1991-96

	1991	1992	1993	1994	1995	Jan-Sep. 1995	Jan-Sep. 1996
(In millions of Maltese liri)							
Wages and salaries	332.2	359.6	396.5	430.7	484.5	363.7	391.8
Employers' social security contributions	21.7	24.0	31.6	33.0	38.2	26.4	29.2
Nonwage income 1/	213.4	236.9	243.0	261.5	267.0	205.0	218.8
Net transfers from Government 2/	82.9	91.4	98.5	107.1	116.9	85.2	94.9
Net transfers from abroad	17.0	12.3	13.4	13.1	12.2	8.9	9.7
Less: income taxes on households	83.0	94.4	116.0	121.9	136.2	89.7	99.8
Disposable income	584.2	629.8	667.0	723.5	782.6	599.5	644.6
Less: private consumption	494.5	531.5	561.5	608.3	704.2	527.8	592.9
Household savings 3/	89.7	98.3	105.5	115.2	78.4	71.7	51.7
(In percent of household disposable income)							
Wages and salaries	56.9	57.1	59.4	59.5	61.9	60.7	60.8
Employers' social security contributions	3.7	3.8	4.7	4.6	4.9	4.4	4.5
Nonwage income 1/	36.5	37.6	36.4	36.1	34.1	34.2	33.9
Net transfers from Government 2/	14.2	14.5	14.8	14.8	14.9	14.2	14.7
Net transfers from abroad	2.9	2.0	2.0	1.8	1.6	1.5	1.5
Less: income taxes on households	14.2	15.0	17.4	16.8	17.4	15.0	15.5
Disposable income	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private consumption	84.6	84.4	84.2	84.1	90.0	88.0	92.0
Household savings 3/	15.4	15.6	15.8	15.9	10.0	12.0	8.0
(Annual percentage change)							
Wages and salaries	11.2	8.2	10.3	8.6	12.5	13.4	7.7
Employers' social security contributions	6.9	10.6	31.7	4.4	15.8	9.5	10.6
Nonwage income 1/	7.0	11.0	2.6	7.6	2.1	5.2	6.7
Net transfers from Government 2/	4.3	10.3	7.8	8.7	9.2	9.0	11.4
Net transfers from abroad	-1.2	-27.6	8.9	-2.2	-6.9	-12.7	9.0
Income taxes on households	2.4	13.8	22.9	5.0	11.8	6.5	11.3
Disposable income	9.4	7.8	5.9	8.5	8.2	10.2	7.5
Private consumption	7.3	7.5	5.6	8.3	15.8	16.3	12.3
Household savings 3/	22.5	9.5	7.3	9.3	-32.0	-20.4	-27.9
Memorandum item:							
Real disposable income 4/	5.9	4.6	1.0	2.4	3.9	1.8	4.7

Sources: Central Office of Statistics; and Ministry for Economic Affairs and Finance, *Economic Survey*.

1/ Includes income of self-employed persons, rents, dividends, and interest.

2/ Includes social benefit payments.

3/ Excludes depreciation.

4/ Percentage change in nominal disposable income deflated by the private final consumption deflator.

Table A6. Malta: Sectoral Distribution of GDP at Factor Cost, 1991-96

	1991	1992	1993	1994	1995	Jan-Sep. 1995	Jan-Sep. 1996
(In millions of Maltese liri; current prices)							
GDP at factor cost	709.9	769.6	834.1	910.1	987.2	729.5	783.2
Agriculture and fisheries	23.4	23.5	25.1	25.6	28.6	22.1	22.9
Industry	272.9	278.8	290.6	317.1	335.0	246.5	255.6
Manufacturing, shipbuilding and repairs	188.1	191.8	200.9	215.3	236.8	174.4	177.7
Construction and quarrying	26.5	25.3	26.2	31.2	37.4	28.0	31.8
Public enterprises 1/	58.2	61.8	63.4	70.6	60.8	44.1	46.1
Services	413.5	467.3	518.4	567.4	623.6	460.9	504.7
Transport and communication	41.8	52.2	59.4	67.4	67.7	48.7	56.0
Wholesale and retail trade	101.4	110.0	115.7	117.1	129.0	95.5	94.7
Insurance, banking, and real estate	49.7	57.1	59.6	61.3	73.8	52.0	66.8
Private services	65.1	73.5	84.2	93.0	101.7	76.2	82.1
Property	51.4	57.5	64.4	80.5	89.4	66.9	72.9
Public administration	104.2	117.0	135.0	148.0	162.0	121.6	132.2
(In percent of GDP at factor cost; current prices)							
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and fisheries	3.3	3.1	3.0	2.8	2.9	3.0	2.9
Industry	38.4	36.2	34.8	34.8	33.9	33.8	32.6
Manufacturing, shipbuilding and repairs	26.5	24.9	24.1	23.7	24.0	23.9	22.7
Construction and quarrying	3.7	3.3	3.1	3.4	3.8	3.8	4.1
Public enterprises 1/	8.2	8.0	7.6	7.8	6.2	6.0	5.9
Services	58.3	60.7	62.2	62.3	63.2	63.2	64.4
Transport and communication	5.9	6.8	7.1	7.4	6.9	6.7	7.2
Wholesale and retail trade	14.3	14.3	13.9	12.9	13.1	13.1	12.1
Insurance, banking, and real estate	7.0	7.4	7.2	6.7	7.5	7.1	8.5
Private services	9.2	9.6	10.1	10.2	10.3	10.4	10.5
Property	7.2	7.5	7.7	8.8	9.1	9.2	9.3
Public administration	14.7	15.2	16.2	16.3	16.4	16.7	16.9
(Annual percentage change)							
GDP at factor cost	9.3	8.4	8.4	9.1	8.5	8.1	7.4
Agriculture and fisheries	4.0	0.4	6.7	2.2	11.6	12.8	3.6
Industry	8.3	2.2	4.2	9.1	5.6	4.6	3.7
Manufacturing, shipbuilding and repairs	7.1	1.9	4.8	7.2	10.0	8.4	1.9
Construction and quarrying	15.9	-4.7	3.7	19.0	19.9	20.2	13.6
Public enterprises 1/	9.0	6.0	2.7	11.3	-13.9	-14.2	4.5
Services	10.2	13.0	10.9	9.4	9.9	9.8	9.5
Transport and communication	12.7	24.8	13.8	13.3	0.5	-4.9	15.0
Wholesale and retail trade	8.1	8.5	5.2	1.2	10.1	11.8	-0.8
Insurance, banking, and real estate	17.4	15.0	4.4	2.8	20.3	17.9	28.5
Private services	11.9	12.9	14.6	10.4	9.3	9.2	7.7
Property	0.7	12.0	11.9	25.1	11.0	12.6	9.0
Public administration	12.4	12.3	15.4	9.6	9.5	10.5	8.7

Source: Central Office of Statistics.

1/ Includes Enemalta, Telemalta, Posts, Public Lotto, Water Services Corporation, Malta Development Corporation, Malta Freeport Corporation, Malta Financial Services Center, Public Broadcasting Services, and Malta International Airport.

Table A7. Malta: Factor Incomes in GDP, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri; current prices)							
Income from employment	353.9	383.5	428.1	464.8	522.6	390.1	421.0
Income from farming, fishing, and private services 1/	45.1	49.7	54.0	57.2	59.4	45.4	46.6
Gross trading profits 1/	225.0	242.9	250.9	265.6	289.6	209.2	223.2
Gross trading surpluses of public enterprises 1/	34.5	36.0	36.7	42.0	26.1	17.9	19.4
Income from property 1/	51.4	57.5	64.4	80.5	89.4	66.9	72.9
GDP at factor cost	709.9	769.6	834.1	910.1	987.1	729.5	783.1
Net factor income from abroad	49.7	41.7	35.5	19.3	15.2	20.2	23.8
GNP at factor cost	759.5	811.3	869.6	929.5	1,002.3	749.7	806.9
Indirect taxes net of subsidies	97.0	105.1	105.9	109.0	156.5	98.1	101.2
GDP at market prices	806.9	874.8	940.0	1,019.2	1,143.6	827.6	884.3
GNP at market prices	856.5	916.4	975.5	1,038.5	1,158.8	847.8	908.1
(Annual percentage change)							
Income from employment	11.0	8.4	11.6	8.6	12.4	13.2	7.9
Income from farming, fishing, and private services 1/	9.9	10.2	8.7	5.8	3.9	4.4	2.6
Gross trading profits 1/	9.4	8.0	3.3	5.9	9.0	5.8	6.7
Gross trading surpluses of public enterprises 1/	4.8	4.4	2.0	14.4	-37.9	-39.7	8.4
Income from property 1/	0.7	12.0	11.9	25.1	11.0	12.6	9.0
GDP at factor cost	9.3	8.4	8.4	9.1	8.5	8.1	7.3
Net factor income from abroad 2/	-0.8	-1.1	-0.8	-1.9	-0.5	-0.5	0.5
GNP at factor cost	7.8	6.8	7.2	6.9	7.8	7.3	7.6
Indirect taxes net of subsidies 3/	1.6	1.0	0.1	0.3	4.7	2.7	0.4
GDP at market prices	9.8	8.4	7.5	8.4	12.2	10.0	6.9
GNP at market prices	8.5	7.0	6.4	6.5	11.6	9.2	7.1
(In percent of GDP at factor cost)							
Income from employment	49.9	49.8	51.3	51.1	52.9	53.5	53.8
Income from farming, fishing, and private services 1/	6.4	6.5	6.5	6.3	6.0	6.2	6.0
Gross trading profits 1/	31.7	31.6	30.1	29.2	29.3	28.7	28.5
Gross trading surpluses of public enterprises 1/	4.9	4.7	4.4	4.6	2.6	2.5	2.5
Income from property 1/	7.2	7.5	7.7	8.8	9.1	9.2	9.3
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Office of Statistics; and data provided by the Maltese authorities.

1/ Before allowing for depreciation.

2/ Contribution to GNP (factor cost) growth.

3/ Contribution to GDP (market price) growth.

Table A8. Malta: Tourism Indicators, 1991-96

	1991	1992	1993	1994	1995	Prov. 1996
(In thousands, unless otherwise specified)						
Tourist arrivals 1/	895.0	1,002.4	1,063.2	1,176.2	1,116.0	1,053.8
Cruise passengers	40.3	52.3	67.5	62.8	77.2	69.2
Tourist-days stayed	9,484	11,855	11,755	11,951	8,807	...
Average length of stay per tourist	10.6	11.8	11.1	10.2	7.9	...
Full-time employment in hotels and catering establishments, end of period 2/ (In percent of total employment)	8.2 6.3	8.2 6.3	8.6 6.5	9.3 7.0	10.0 7.1	
(In percent of total arrivals)						
Tourist arrivals by nationality						
United Kingdom	51.2	52.4	49.0	45.1	41.3	37.9
Germany	15.2	15.3	16.6	17.0	16.8	17.3
Italy	7.2	7.6	8.1	8.4	8.7	8.5
Other	26.4	24.7	26.4	29.5	33.1	36.4
(In percent of total tourist-days stayed)						
Type of accommodation						
Hotels	46.3	42.2	41.6	42.4	41.8	...
Of which						
4-star and 5-star	20.8	19.2	20.0	22.1	24.2	...
Villages, complexes, and aparthotels	23.5	23.6	26.2	25.5	26.3	...
Holiday furnished flats	29.5	33.6	31.3	31.3	30.5	...
Guest houses and hostels	0.8	0.5	1.0	0.9	1.0	...
(In millions of Maltese liri, unless otherwise specified)						
Gross foreign exchange earnings 3/ (In millions of ECU's)	175.3 438.1	180.5 437.9	232.2 518.4	241.9 539.0	232.8 504.2	228.9 500.8
(In percent of exports of goods and nonfactor services)	25.0	22.4	25.9	24.3	21.8	...
(In percent of GDP)	21.7	20.6	24.7	23.7	20.4	...
Per tourist (in Maltese liri)	195.9	180.1	218.4	205.7	208.6	217.2
(Annual percentage change)						
Tourist arrivals	2.7	12.0	6.1	10.6	-5.1	-5.6
Cruise passengers	-28.7	30.0	28.9	-6.9	22.9	-10.3
Gross foreign exchange earnings 2/ In Maltese liri	11.4	3.0	28.6	4.2	-3.8	-1.7
In U.S. dollars	9.5	4.5	7.0	5.4	2.9	-3.7

Sources: Central Office of Statistics; and Ministry for Economic Affairs and Finance, *Economic Survey*.

1/ Excludes cruise passengers.

2/ Includes private and public sector tourism-related services.

3/ Excluding foreign exchange revenue from transportation.

Table A9. Malta: Population, Labor Force, and Employment, 1991-96

	1991	1992	1993	1994	1995	Nov. 1996
(In thousands of persons; end of period)						
Total population	359.5	363.0	366.4	369.4	372.0	...
Labor force 1/	135.3	137.2	138.4	139.5	144.7	146.5
Male	100.0	101.5	102.1	102.6	105.5	105.8
Female	35.2	35.7	36.3	36.9	39.2	40.7
Gainfully occupied 2/	130.3	131.6	132.3	133.9	139.5	140.4
Male	96.0	97.0	96.8	97.7	101.1	100.8
Female	34.3	34.6	35.4	36.2	38.4	39.6
Registered unemployed	4.9	5.5	6.2	5.6	5.2	6.1
Male	4.0	4.5	5.3	4.8	4.4	5.0
Female	0.9	1.1	0.9	0.8	0.8	1.1
Self-employed	17.2	16.8	16.3	16.0	16.3	15.8
Male	14.5	14.2	13.8	13.5	13.8	13.3
Female	2.7	2.6	2.5	2.5	2.6	2.5
(In percent)						
Labor force / Population	37.6	37.8	37.8	37.8	38.9	...
Females / Labor force	26.0	26.0	26.3	26.5	27.1	27.8
Unemployed / Labor force	3.6	4.0	4.5	4.0	3.6	4.1
(Annual percentage change)						
Total population	1.0	1.0	0.9	0.8	0.7	...
Labor force	2.2	1.4	0.9	0.8	3.8	1.1
Gainfully occupied	2.5	1.0	0.5	1.2	4.2	0.5
(In thousands of persons, unless otherwise specified; period average)						
<u>Memorandum items</u>						
Labor force 1/	...	136.2	138.3	139.4	143.1	146.0
Gainfully occupied 2/	...	131.0	132.5	133.6	138.2	140.7
Registered unemployed	4.6	5.2	5.8	5.8	5.0	5.3
Unemployed / Labor force (in percent)	...	3.8	4.2	4.2	3.5	3.6

Source: Central Office of Statistics.

1/ Includes members of the armed forces.

2/ Includes temporary employment.

Table A10. Malta: Employment by Sector, 1991-96

	1991	1992	1993	1994	1995	Nov. 1996
(In thousands of persons, end of period)						
Gainfully occupied	130.3	131.6	132.3	133.9	139.5	140.4
Private sector	74.7	75.4	76.8	78.7	86.3	86.6
Direct production	38.4	37.9	37.7	38.0	39.7	36.3
Agriculture and fisheries	3.2	3.2	3.1	3.1	3.2	3.2
Construction and quarrying	5.5	5.4	5.3	5.3	6.3	3.3
Manufacturing	29.7	29.3	29.3	29.6	30.2	29.8
Market services	36.4	37.5	39.1	40.7	46.6	47.3
Transport and communications	5.7	5.8	5.8	5.9	6.5	6.4
Wholesale and retail trade	13.6	13.8	14.1	14.4	15.6	15.9
Hotels and catering	8.2	8.2	8.6	8.9	9.6	9.5
Other services	8.9	9.7	10.6	11.6	14.9	15.6
Public sector	48.6	51.2	50.8	51.0	49.1	49.4
General government 1/	29.7	32.1	32.3	32.5	32.3	32.6
Public enterprises 2/	9.0	9.3	9.1	9.2	9.4	9.3
Cos. with govt./MDC majority shareholding	9.9	9.8	9.4	9.4	7.4	7.5
Temporary employment 3/	7.0	4.9	4.6	4.2	4.1	4.4
(In percent of labor force)						
Gainfully occupied	96.4	96.0	95.5	96.0	96.4	95.9
Private sector	55.3	55.0	55.5	56.4	59.6	59.1
Direct production	28.4	27.6	27.2	27.2	27.5	24.8
Agriculture and fisheries	2.4	2.3	2.2	2.2	2.2	2.2
Construction and quarrying	4.1	3.9	3.8	3.8	4.3	2.2
Manufacturing	22.0	21.4	21.2	21.2	20.9	20.3
Market services	26.9	27.3	28.3	29.2	32.2	32.3
Transport and communications	4.2	4.2	4.2	4.2	4.5	4.4
Wholesale and retail trade	10.1	10.1	10.2	10.3	10.8	10.9
Hotels and catering	6.1	6.0	6.2	6.4	6.6	6.5
Other services	6.5	7.1	7.7	8.3	10.3	10.6
Public sector	35.9	37.3	36.7	36.6	33.9	33.7
General government 1/	21.9	23.4	23.3	23.3	22.3	22.3
Public enterprises 2/	6.6	6.8	6.6	6.6	6.5	6.4
Cos. with govt./MDC majority shareholding	7.4	7.2	6.8	6.7	5.1	5.1
Temporary employment 3/	5.2	3.6	3.3	3.0	2.8	3.0
(In percent of gainfully occupied)						
Private sector	57.3	57.3	58.1	58.8	61.9	61.7
Public sector	37.3	38.9	38.4	38.1	35.2	35.2
Temporary employment 3/	5.4	3.7	3.5	3.1	2.9	3.1

Source: Central Office of Statistics.

1/ Includes public sector employment in Revenue Security Corps., Airport Co., and the armed forces.

2/ Includes Telemalta, Enemalta, Maltese Development Corporation (MDC), Broadcasting Authority, Central Bank of Malta, National Tourism Organization, Malta Drydocks, Malta Freeport Corporation, Housing Authority, University of Malta, Malta Financial Services Center, Employment and Training Corporation, Malta Maritime Authority, and Public Transport Authority.

3/ Includes persons whose contract leads to permanent employment.

Table A11. Malta: Wages, 1991-96

	1991	1992	1993	1994	1995	<u>Provisional</u> 1996
(In Maltese liri)						
National minimum wage (per week)	34.1	35.6	36.6	38.1	40.4	42.4
Average weekly wage 1/	46.9	49.0	51.3	53.6	55.3	57.7
Unskilled laborers	39.6	41.1	42.7	45.2	46.8	48.0
Skilled laborers	48.2	50.5	53.1	55.4	57.0	58.5
Clerks and supervisors	51.4	54.0	57.0	58.8	60.7	66.0
Managers 2/	75.1	77.9	80.9	83.9	85.4	89.2
Weighted average weekly wage (inclusive of cost of living adjustment)	52.7	56.3	59.6	63.9	68.8	73.2
(Annual percentage change)						
National minimum wage (per week)	3.8	4.4	2.8	4.1	5.9	5.0
Average weekly wage 1/	9.8	4.5	4.7	4.5	3.2	4.3
Unskilled laborers	7.6	3.8	3.9	5.9	3.5	2.6
Skilled laborers	10.6	4.8	5.1	4.3	2.9	2.6
Clerks and supervisors	12.2	5.1	5.6	3.2	3.2	8.7
Managers 2/	8.7	3.7	3.9	3.7	1.8	4.4
Weighted average weekly wage (inclusive of cost of living adjustment)	12.7	6.8	5.9	7.2	7.8	6.4

Source: Central Bank of Malta, *Annual Report*.

1/ Central Bank estimates based on data from collective agreements provided by the Department of Labor, and on the Schedule of Pay Scales published by the Ministry of Finance. Excludes overtime pay, production bonuses, social security benefits, and allowances.

2/ Refers to middle management and professionals; the wages of the top managerial grades are not covered by collective agreements.

Table A12. Malta: Retail Price Index, 1991-96 1/

	Weights (1991=100)	Weights (1995=100)	1991	1992	1993	1994	1995	1996
	(Annual percentage change)							
All items	100.0	100.0	2.5	1.6	4.1	4.2	4.0	2.4
Food	36.8	29.9	2.0	0.0	5.2	3.6	3.3	...
Beverages and tobacco	8.6	7.3	14.1	1.2	3.0	4.7	8.7	...
Clothing and footwear	8.2	10.1	0.0	3.6	3.0	0.4	1.2	...
Housing	3.9	5.3	0.0	0.3	1.8	1.8	9.6	...
Fuel and power	2.8	2.5	0.0	0.0	0.2	0.1	0.1	...
Durable household goods	5.2	9.3	2.3	1.3	3.9	5.3	6.4	...
Transport and communications	13.4	16.0	4.3	2.0	3.9	5.1	0.8	...
Personal care and health	6.4	6.5	0.1	1.5	3.9	5.0	5.2	...
Education and entertainment	8.3	8.3	0.1	2.4	5.5	7.2	4.9	...
Other goods and services	6.4	4.7	0.1	0.9	3.4	7.4	5.3	...
<u>Memorandum item:</u>								
GDP deflator 2/			3.3	3.6	2.8	4.3	2.9	2.8

Source: Central Office of Statistics.

1/ Prior to 1992, the retail price index was based on weights derived from the 1980/81 Household Budgetary Survey, with 1983 as the base year; from 1992-95, the retail price index was based on weights derived from the 1988/89 Household Budgetary Survey, with 1991 as the base year; for 1996, the retail price index was based on weights derived from the 1993/94 Household Budgetary Survey, with 1995 as the base year. Hence, the inflation rates in 1992 and 1996 are not directly comparable with those in other years.

2/ The 1996 figure is the percentage change in the GDP deflator based on 1996 January-September data relative to the GDP deflator based on 1995 January-September data.

Table A13. Malta: Government Budget Accounts, 1992-1997 1/2/

	1992	1993	1994	1995	Est. 1996	Budget 1997
(In millions of Maltese liri)						
Total revenue 3/	324.0	351.6	377.0	424.9	424.6	460.7
Tax revenue	236.8	263.5	273.9	342.7	338.1	386.8
Direct taxes	127.1	151.0	156.8	178.3	177.5	196.8
Indirect taxes	109.7	112.5	117.1	164.4	160.6	189.9
Non-tax revenue	87.2	88.1	103.1	82.2	86.5	73.9
Total expenditure and net lending	351.2	381.1	429.2	470.2	529.3	558.4
Current expenditure	299.5	332.2	371.3	408.8	455.9	473.1
Capital expenditure	42.9	48.6	52.1	59.3	68.6	80.6
Net lending	8.8	0.4	5.9	2.1	4.8	4.7
Repayment	6.3	10.8	4.4	9.0	0.2	0.3
Loans	15.1	11.1	10.3	11.1	5.0	5.0
Balance	-27.2	-29.5	-52.2	-45.3	-104.7	-97.7
Financing	27.2	29.5	52.2	45.3	104.7	97.7
Domestic financing	30.2	28.4	30.3	41.5	104.7	93.4
Foreign loans, net	-4.0	-0.5	8.2	-11.9	0.0	2.61
Disbursements	0.9	2.9	11.3	0.7	...	...
Repayments	4.9	3.4	3.1	12.6	...	...
Asset sales	1.0	1.6	13.6	15.7	0.0	1.7
(In percent of GDP)						
Total revenue	37.0	37.4	37.0	37.2	34.8	35.4
Tax revenue	27.1	28.0	26.9	30.0	27.7	29.7
Direct taxes	14.5	16.1	15.4	15.6	14.5	15.1
Indirect taxes	12.5	12.0	11.5	14.4	13.2	14.6
Non-tax revenue	10.0	9.4	10.1	7.2	7.1	5.7
Total expenditure and net lending	40.1	40.5	42.1	41.1	43.4	42.9
Current expenditure	34.2	35.3	36.4	35.7	37.4	36.3
Capital expenditure	4.9	5.2	5.1	5.2	5.6	6.2
Net lending	1.0	0.0	0.6	0.2	0.4	0.4
Repayment	0.7	1.1	0.4	0.8	0.0	0.0
Loans	1.7	1.2	1.0	1.0	0.4	0.4
Balance	-3.1	-3.1	-5.1	-4.0	-8.6	-7.5
Financing	3.1	3.1	5.1	4.0	8.6	7.5
Domestic financing	3.5	3.0	3.0	3.6	8.6	7.2
Foreign loans, net	-0.5	-0.1	0.8	-1.0	0.0	0.2
Disbursements	0.1	0.3	1.1	0.1	...	...
Repayments	0.6	0.4	0.3	1.1	...	...
Asset sales	0.1	0.2	1.3	1.4	0.0	0.1
(In millions of Maltese liri)						
Memorandum items:						
GDP at current market prices	874.9	940.0	1,019.5	1,143.7	1,220.0	1,302.5
Balance (authorities' presentation) 2/	-30.2	-31.7	-43.8	-35.5	-112.1	-90.7
Sinking Fund contributions	4.0	3.8	5.2	5.4	7.2	8.1

Sources: Ministry of Finance, *Budget Estimates*; and Treasury, *Malta Financial Report*.

1/ Consolidated with the Social Security Account.

2/ The authorities classify contributions to the Sinking Fund for the repayment of long term debt as expenditure and asset sales as revenue; in the staff presentation, these transactions are treated as a financing item.

3/ Excludes asset sales, which in the authorities' presentation are classified as miscellaneous nontax revenue.

Table A14. Malta: Current Budgetary Revenue, 1992-1997 1/

	1992	1993	1994	1995	Est. 1996	Budget 1997
(In millions of Maltese liri)						
Total revenue	324.0	351.6	377.0	424.9	424.6	460.7
Tax receipts	236.8	263.5	273.9	342.7	338.1	386.8
Direct taxes	127.1	151.0	156.8	178.3	177.5	196.8
Income taxes	71.3	85.1	87.9	99.8	93.0	106.2
Individuals	42.5	53.2	58.2	68.3	...	...
Corporations	28.8	31.9	29.7	31.5	...	...
Social security contributions 2/	53.7	64.4	67.9	77.7	84.0	90.1
Death and donation duties	2.1	1.5	1.0	0.8	0.5	0.5
Indirect taxes	109.7	112.5	117.1	164.4	160.6	189.9
Excise taxes	9.0	7.7	8.8	23.6	22.3	33.2
Import duties	73.3	75.8	63.2	9.0	9.7	9.1
VAT	...	...	...	78.1	79.0	90.0
Licenses, taxes, and levies	27.4	29.0	45.1	53.7	49.6	57.7
Non-tax receipts	87.2	88.1	103.1	82.2	86.5	73.9
Foreign grants	16.4	8.4	12.9	4.5	20.7	10.5
Fees & reimbursements	6.8	7.7	9.9	10.1	10.8	11.5
Rents, dividends, interest	23.3	26.3	26.5	23.1	17.3	17.6
Central Bank profits	21.4	24.2	30.0	24.5	23.1	20.0
Lotteries	4.6	5.6	6.2	6.5	6.5	6.8
Civil aviation and posts 3/	9.9	9.2	11.2	8.2	5.9	6.7
Miscellaneous	4.8	6.7	6.4	5.3	2.1	0.9
(In percent of tax revenue)						
Direct taxes	53.7	57.3	57.2	52.0	52.5	50.9
Income taxes	30.1	32.3	32.1	29.1	27.5	27.5
Individuals	17.9	20.2	21.2	19.9	...	...
Corporations	12.2	12.1	10.8	9.2	...	...
Social security contributions 2/	22.7	24.4	24.8	22.7	24.8	23.3
Death and donation duties	0.9	0.6	0.4	0.2	0.1	0.1
Indirect taxes	46.3	42.7	42.8	48.0	47.5	49.1
Excise taxes	3.8	2.9	3.2	6.9	6.6	8.6
Import duties	31.0	28.8	23.1	2.6	2.9	2.3
VAT	...	...	...	22.8	23.4	23.3
Licenses, taxes, and levies	11.6	11.0	16.5	15.7	14.7	14.9
(Annual percentage change)						
Total revenue	7.8	8.5	7.2	-4.5	-0.1	8.5
Tax receipts	11.4	11.3	4.0	25.1	-1.3	14.4
Direct taxes	13.7	18.8	3.8	13.7	-0.4	10.9
Income taxes	15.7	19.4	3.2	13.6	-6.8	14.2
Social security contributions 2/	11.9	19.9	5.4	14.4	8.1	7.3
Death and donation duties	-4.5	-28.6	-30.7	-18.9	-40.7	0.0
Indirect taxes	8.9	2.6	4.1	40.4	-2.3	18.3
Excise taxes	0.0	-14.4	14.5	167.6	0.0	0.0
Import duties	9.6	3.4	-16.6	-85.7	0.0	0.0
VAT	...	...	...	...	1.1	13.9
Licenses, taxes, and levies	10.5	5.8	55.5	19.1	-7.7	16.4
Non-tax receipts	-1.0	1.1	17.0	-28.9	5.2	-14.6

Sources: Ministry of Finance, *Budget Estimates*; Treasury, *Malta Financial Report*; and staff estimates.

1/ Excludes asset sales, which in the authorities' presentation are classified as miscellaneous nontax revenue.

2/ Excludes the state contribution but includes the amount paid by Government as employer.

3/ Excludes posts from 1996 (taken over by Posta Ltd.).

Table A15. Malta: Current Budgetary Expenditure, 1992-1997

	1992	1993	1994	1995	Est. 1996	Budget 1997
(In millions of Maltese liri)						
Total current expenditure	299.5	332.2	371.3	408.8	455.9	473.1
Functional classification						
Education	41.2	47.9	50.6	56.0	57.6	57.9
Health services and administration	38.1	43.5	46.4	49.2	50.5	55.9
Pensions 1/	12.3	13.4	13.8	14.9	18.5	19.5
Police and armed forces	15.9	18.3	20.4	21.7	23.4	23.9
Finance, Treasury, Inland Revenue, Customs and Audit	10.8	13.3	14.7	21.8		
Public works	15.0	16.8	17.7	17.8	15.7	21.2
Water	7.4	9.0	11.0	11.8	14.6	14.6
Agriculture	5.0	5.6	5.9	5.8	6.6	6.5
Postal services and transport	4.3	5.1	5.6	5.7	...	...
Labor, culture, and welfare	9.6	8.8	9.7	8.9	...	...
Other administrative, economic and social services	30.2	32.0	43.5	52.5	...	...
Social security benefits 2/	97.7	105.8	115.5	123.9	140.0	152.2
Interest payments	11.7	13.6	16.5	18.8	22.4	27.6
Economic classification						
Personnel expenditure 3/	112.7	124.5	136.9	145.3	158.0	157.5
Social services and subsidies 4/	148.1	162.8	175.7	188.0	215.4	222.5
Interest payments	10.7	13.2	16.5	18.8	22.4	27.6
Other 5/	28.0	31.7	42.1	56.7	60.0	65.4
(In percent of total current expenditure, selected items)						
Education	13.8	14.4	13.6	13.7	12.6	12.2
Health services and administration	12.7	13.1	12.5	12.0	11.1	11.8
Social security benefits 2/	32.6	31.9	31.1	30.3	30.7	32.2
Interest payments	3.9	4.1	4.4	4.6	4.9	5.8
Personnel expenditure 3/	37.6	37.5	36.9	35.5	34.7	33.3
(Annual percentage change, selected items)						
Education	23.0	16.3	5.6	10.7	2.8	0.7
Health services and administration	24.9	14.2	6.7	6.0	2.6	10.8
Social security benefits 2/	9.3	8.3	9.2	7.3	13.0	8.7
Interest payments	25.4	16.1	21.8	14.1	19.1	23.1
Personnel expenditure 3/	22.6	10.5	10.0	6.1	8.7	-0.3
Total current expenditure	9.4	10.9	11.8	10.1	11.5	3.8

Sources: Ministry of Finance, *Budget Estimates*; Treasury, *Malta Financial Report*, and staff estimates.

1/ Pensions and allowances not covered by the National Insurance Act of 1956.

2/ Excludes National Health Scheme which is covered under health outlays; includes retirement pensions, children's allowances, bonuses, and other benefits. Also includes non-contributory benefits payable under the Social Security Act of 1987.

3/ Wages and salaries, allowances, overtime, and bonuses paid to government employees.

4/ Pensions, health services, and social security benefits (including bonuses) and subsidies.

5/ General operational and maintenance expenditures of government organizations.

Table A16. Malta: Budgetary Capital Expenditure and Lending, 1992-1997

	1992	1993	1994	1995	Est. 1996	Budget 1997
(In millions of Maltese liri)						
Infrastructure	41.1	41.3	42.8	45.9	...	...
Ship repair and ship building 1/	14.4	13.5	15.7	19.8	...	...
Telecommunications	0.0	0.0	0.0	0.0	...	...
Development of industries 2/	8.6	9.1	9.9	7.5	...	...
Agriculture and fisheries	1.0	0.9	0.7	0.3	...	...
Airport development	0.4	1.0	1.5	1.3	...	...
Water	0.0	0.0	0.0	0.0	...	...
Roads	6.5	5.7	4.3	3.3	...	...
Sewers	1.7	2.2	1.9	3.9	...	...
Port development	6.0	6.0	5.5	6.0	...	...
Tourism	2.2	2.6	3.1	3.7	...	...
Electricity	0.3	0.3	0.2	0.1	...	...
Extraordinary capital expenditure	0.0	0.0	0.0	0.0	...	...
Social	16.9	18.4	19.5	24.5	...	...
Health	1.0	3.2	4.0	3.7	...	...
Housing 3/	4.0	2.8	2.3	2.4	...	...
Education	1.3	2.6	3.7	3.4	...	...
Culture, environment, and sports	2.4	2.0	2.5	2.1	...	...
Care of the elderly	10.8	13.3	14.7	21.8	...	...
Public buildings, plant and equipment	7.5	7.5	6.1	12.7	...	...
Other	0.0	0.0	0.0	0.0	...	...
Extraordinary capital expenditure	0.0	0.0	0.0	0.0	...	...
Total capital expenditure and lending	58.0	59.7	62.3	70.3	73.6	85.6
(Annual percentage change)						
Total capital expenditure and lending	...	2.9	4.4	12.8	4.7	16.2
Infrastructure	...	0.5	3.6	7.2	...	...
Social	...	8.9	6.0	25.6	...	...

Sources: Ministry of Finance, *Budget Estimates*; and Treasury, *Malta Financial Report*.

1/ Largely transfers to the drydocks and shipyard to cover operating losses; the capital components of these transfers is small.

2/ Mainly direct investment and the factory building program originating from the Malta Development Act of 1988.

3/ Includes rent subsidies and cash grants.

Table A17. Malta: Social Security, 1992-1995

	1992	1993	1994	1995
(In millions of Maltese liri)				
Receipts	80.5	97.0	101.8	115.5
Contributions by employees, private employers, and self-employed persons	45.8	53.5	56.8	66.0
Contributions by Government as employer	8.2	10.9	11.1	11.7
Ordinary contributions by Government	26.5	32.6	33.9	37.8
Payments	133.9	145.8	163.3	175.9
Benefits and expenses	98.0	105.8	115.5	123.9
Retirement pensions	36.5	39.8	43.4	48.3
Pensioners' bonus	4.7	6.1	8.1	8.3
Children's allowance	14.5	14.5	15.6	15.5
Other benefits	22.6	23.7	25.3	27.8
Noncontributory schemes 1/	19.7	21.8	23.1	24.0
Health services and administration	35.9	39.9	47.9	52.0
Hospitalization and community care	28.0	32.3	39.6	41.8
Care of the elderly	6.3	6.1	6.7	8.5
Administrative expenses	1.7	1.6	1.6	1.7
Overall balance	-53.5	-48.8	-61.6	-60.4
(In percent of GDP)				
Receipts	9.2	10.3	10.0	9.5
Contributions by employees, private employers, and self-employed persons	5.2	5.7	5.6	5.8
Contributions by Government as employer	0.9	1.2	1.1	1.0
Ordinary contributions by Government	3.0	3.5	3.3	3.1
Payments	15.3	15.5	16.0	14.4
Benefits and expenses	11.2	11.3	11.3	10.2
Retirement pensions	4.2	4.2	4.3	4.0
Pensioners' bonus	0.5	0.6	0.8	0.7
Children's allowance	1.7	1.5	1.5	1.3
Other benefits	2.6	2.5	2.5	2.3
Noncontributory schemes 1/	2.3	2.3	2.3	2.0
Health services and administration	4.1	4.2	4.7	4.3
Hospitalization and community care	3.2	3.4	3.9	3.4
Care of the elderly	0.7	0.7	0.7	0.7
Administrative expenses	0.2	0.2	0.2	0.1
Overall balance	-6.1	-5.2	-6.0	-5.0

Sources: Ministry of Finance, *Budget Estimates*; and Treasury, *Malta Financial Report*.

1/ Includes amounts borrowed directly by the Government and re-loaned to public enterprises and other organizations.

Table A18. Malta: Government Debt, 1992-1996

	1992	1993	1994	1995	Est. 1996
(In millions of Maltese liri; end of period)					
Domestic	197.8	254.6	283.3	361.0	465.1
Local stocks & debentures	167.7	224.6	253.3	286.0	356.2
Treasury bills	30.0	30.0	30.0	75.0	108.9
Other	0.1	0.1	0.1	0.1	0.0
External 1/	46.5	53.2	56.0	52.4	49.0
China	1.2	1.3	0.2	0.0	...
Federal Republic of Germany	4.4	4.5	4.2	3.9	...
United Kingdom	0.0	0.0	0.0	0.0	...
United States	1.3	1.5	1.4	1.3	...
Saudi Arabia	7.1	7.5	6.0	4.9	...
France	0.2	0.1	0.1	0.0	...
Italy	17.0	19.6	24.7	23.6	...
Canada	0.2	0.2	0.2	0.2	...
European Union	14.3	16.4	16.3	8.2	...
Council of Europe	0.0	1.5	2.5	2.4	...
Abu Dhabi and Kuwait Funds	0.9	0.7	0.4	0.2	...
Japan (Sumitomo Bank)	0.0	0.0	0.0	7.5	...
Total government debt	244.3	307.9	339.3	413.4	514.1
(In percent of GDP)					
Total government debt	27.9	32.8	33.3	33.9	42.1
Domestic	22.6	27.1	27.8	29.6	38.1
External	5.3	5.7	5.5	4.3	4.0

Sources: Ministry of Finance, *Budget Estimates*; and Treasury, *Malta Financial Report*.

1/ Includes amounts borrowed directly by the Government and re-loaned to public enterprises and other organizations.

Table A19. Malta: Monetary Base, 1991-96

	1991	1992	1993	1994	1995	Est. 1996
(In millions of Maltese liri; end of period)						
Sources						
Net foreign assets	410.4	475.0	533.4	617.6	508.7	492.8
Net credit to General Government	58.0	56.6	15.6	37.5	47.5	71.3
Other	-51.9	-89.1	-105.5	-177.5	-43.2	-49.9
Monetary base 1/	416.5	442.6	443.6	477.6	513.0	514.2
Uses						
Currency in circulation	344.3	337.6	353.3	365.9	351.8	362.2
Bank reserves	52.9	78.5	67.2	73.0	80.0	91.7
Required reserves 2/	40.8	47.2	57.2	68.5	78.3	90.0
Free reserves 1/	12.1	31.3	10.0	4.5	1.7	1.7
Other	19.3	26.5	23.1	38.7	81.2	60.3
(In percent of monetary base; end of period)						
Sources						
Net foreign assets	98.5	107.3	120.2	129.3	99.2	95.8
Net credit to General Government	13.9	12.8	3.5	7.9	9.3	13.9
Other	-12.5	-20.1	-23.8	-37.2	-8.4	-9.7
Uses						
Currency in circulation	82.7	76.3	79.6	76.6	68.6	70.4
Bank reserves	12.7	17.7	15.1	15.3	15.6	17.8
Required reserves 2/	9.8	10.7	12.9	14.3	15.3	17.5
Free reserves 1/	2.9	7.1	2.2	0.9	0.3	0.3
Other	4.6	6.0	5.2	8.1	15.8	11.7
(Percentage change)						
Sources						
Net foreign assets	-3.9	15.7	12.3	15.8	-17.6	-3.1
Net credit to General Government	361.3	-2.4	-72.4	139.7	26.8	50.0
Monetary base 1/	6.8	6.3	0.2	7.7	7.4	0.2
Uses						
Currency in circulation	4.2	-1.9	4.6	3.6	-3.9	3.0
Bank reserves	15.5	48.5	-14.4	8.7	9.6	14.6
Required reserves 2/	12.7	15.7	21.2	19.8	14.3	14.9
Free reserves 1/	26.2	159.4	-68.1	-54.6	-61.9	-1.5
Other	2.4	-11.1	10.4	67.0	109.9	-25.7
Memorandum items:						
Multiplier, narrow money	0.98	0.92	0.96	0.97	0.85	0.88
Multiplier, broad money	2.72	2.80	3.08	3.29	3.30	3.55

Sources: Central Bank of Malta, *Quarterly Review*; International Monetary Fund, *International Financial Statistics*; data provided by the Maltese authorities; and staff estimates.

1/ The stock of term deposits outstanding at end-1994, that is Lm 106.6 million, has been subtracted from base money, other items net and banks' free reserves.

2/ Banks are required to maintain reserve deposits with the Central Bank equal to five percent of deposit liabilities.

Table A20. Malta: Deposit Money Banks' Assets and Liabilities, 1991-96

	1,991.0	1,992.0	1,993.0	1,994.0	1,995.0	Est. 1,996.0
(In millions of Maltese liri; end of period)						
Assets	963.7	1,142.9	1,337.7	1,576.4	1,880.7	2,142.1
Cash & deposits at the CBM	62.8	93.8	83.3	194.5	100.6	96.8
Foreign Assets	246.5	330.1	378.6	417.4	557.4	583.4
Local Lending & bills discounted	480.5	539.4	627.6	707.4	938.4	1,079.6
Local Investments	147.1	147.0	212.8	210.5	234.4	301.3
Fixed and other assets	26.8	32.5	35.5	46.5	50.0	81.1
Liabilities	963.7	1,142.9	1,337.7	1,576.4	1,880.7	2,142.1
Deposits	777.9	886.5	1,002.6	1,179.7	1,330.4	1,496.5
Demand	53.3	57.9	59.6	72.4	79.2	87.2
Savings	308.7	365.0	415.8	462.8	510.5	540.5
Time	416.0	463.7	527.2	644.5	740.6	868.8
Foreign Liabilities	92.1	62.0	105.0	95.3	193.4	229.6
Capital and Reserves	93.6	194.3	230.1	301.4	356.9	415.9
(In percent of total assets)						
Assets	100.0	100.0	100.0	100.0	100.0	100.0
Cash & deposits at the CBM	6.5	8.2	6.2	12.3	5.4	4.5
Foreign Assets	25.6	28.9	28.3	26.5	29.6	27.2
Local Lending & bills discounted	49.9	47.2	46.9	44.9	49.9	50.4
Local Investments	15.3	12.9	15.9	13.4	12.5	14.1
Fixed and other assets	2.8	2.8	2.7	3.0	2.7	3.8
(In percent of total liabilities)						
Liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Deposits	80.7	77.6	75.0	74.8	70.7	69.9
Demand	5.5	5.1	4.5	4.6	4.2	4.1
Savings	32.0	31.9	31.1	29.4	27.1	25.2
Time	43.2	40.6	39.4	40.9	39.4	40.6
Foreign Liabilities	9.6	5.4	7.9	6.0	10.3	10.7
Capital and Reserves	9.7	17.0	17.2	19.1	19.0	19.4
(Percentage change)						
Total Assets	...	18.6	17.0	17.8	19.3	13.9
Foreign Assets	...	33.9	14.7	10.3	33.5	4.7
Local Lending & bills discounted	...	12.3	16.4	12.7	32.7	15.0
Local Investments	...	0.0	44.7	-1.1	11.3	28.6
Deposits	...	14.0	13.1	17.7	12.8	12.5
Foreign Liabilities	...	-32.7	69.3	-9.3	103.0	18.7

Sources: Central Bank of Malta, *Quarterly Review*; and data provided by the Maltese authorities.

Table A21. Malta: Deposit Money Banks' Loans and Advances by Sector, 1993-96

	1993	1994	1995	Est. 1996
(In millions of Maltese liri, end of period)				
Energy and Water	30.4	32.6	80.8	86.9
Transport, storage & communication	22.9	24.6	55.0	60.6
All banking institutions	108.9	119.0	65.6	12.7
Agriculture and Fisheries	5.6	7.1	8.6	11.1
Manufacturing, Shipbuilding and repair	149.0	161.4	188.8	202.5
o.w. Shipbuilding and repair	0.0	0.0	63.5	64.1
Building and Construction	28.1	43.3	65.5	73.7
Hotel, restaurants & tourist trades	30.3	38.1	79.2	102.1
Wholesale & retail trades	113.8	137.5	181.8	208.0
Personal	58.4	64.1	91.3	109.7
House purchases	16.1	35.5	46.4	...
Consumer durables	3.5	9.0	23.0	...
Other	38.8	19.5	21.8	...
Other services	16.6	22.3	36.7	48.9
Other	62.8	56.1	82.4	97.2
Total Local Lending	626.7	705.9	935.7	1077.5
Total Foreign Lending	5.9	6.3	13.5	...
Total	632.6	712.2	949.2	...
(In percent of total local lending)				
Energy and Water	4.8	4.6	8.6	8.1
Transport, storage & communication	3.6	3.5	5.9	5.6
All banking institutions	17.4	16.9	7.0	1.2
Agriculture and Fisheries	0.9	1.0	0.9	1.0
Manufacturing, Shipbuilding and repair	23.8	22.9	20.2	18.8
o.w. Shipbuilding and repair	0.0	0.0	6.8	6.0
Building and Construction	4.5	6.1	7.0	6.8
Hotel, restaurants & tourist trades	4.8	5.4	8.5	9.5
Wholesale & retail trades	18.2	19.5	19.4	19.3
Personal	9.3	9.1	9.8	10.2
House purchases	2.6	5.0	5.0	...
Consumer durables	0.6	1.3	2.5	...
Other	6.2	2.8	2.3	...
Other services	2.7	3.2	3.9	4.5
Other	10.0	7.9	8.8	9.0
(Percentage change)				
Energy and Water	...	7.4	147.9	7.5
Transport, storage & communication	...	7.5	123.7	10.2
All banking institutions	...	9.2	-44.9	-80.7
Agriculture and Fisheries	...	26.6	21.4	30.2
Manufacturing, Shipbuilding and repair	...	8.3	17.0	7.2
o.w. Shipbuilding and repair	...	...	...	0.9
Building and Construction	...	54.3	51.2	12.5
Hotel, restaurants & tourist trades	...	25.7	108.1	28.9
Wholesale & retail trades	...	20.8	32.3	14.4
Personal	...	9.7	42.5	20.3
House purchases	...	121.3	30.7	...
Consumer durables	...	153.7	156.1	...
Other	...	-49.6	11.7	...
Other services	...	34.4	64.2	33.4
Other	...	-10.7	47.0	17.9
Total Local Lending	...	12.6	32.6	15.2
Total Foreign Lending	...	7.1	113.5	...
Total	...	12.6	33.3	...

Sources: Central Bank of Malta, *Quarterly Review*; data provided by the Maltese authorities; and staff estimates.

**Table A22. Malta: The Financial Position of the Government
vis-a-vis the Financial System, 1991-96**

	1991	1992	1993	1994	1995	Est. 1996
(In millions of Maltese liri; end of period)						
Deposits with:						
Central Bank	0.1	5.7	2.4	1.7	20.2	5.6
Commercial banks	1.8	2.0	2.7	2.2	6.7	7.4
Special government deposits account	16.7	11.5	18.7	20.7	10.8	0.0
Credit from:						
Central Bank	58.2	62.3	18.1	39.2	67.7	76.9
Treasury bills 1/	20.6	20.5	0.0	2.6	24.7	25.4
LDRs	37.6	41.8	18.1	36.6	43.0	51.5
Ways and means	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	79.5	78.2	142.7	135.9	149.8	182.4
Treasury bills 1/	9.0	7.2	29.2	26.6	30.2	46.1
LDRs	70.5	71.0	113.5	109.3	119.6	136.3
Net liabilities	119.5	121.5	137.0	150.5	179.8	246.3

Sources: Central Bank of Malta, *Quarterly Review*; and data provided by the Maltese authorities.

1/ In January 1995, the total amount of Treasury bills outstanding was raised from Lm 30 million to Lm 100 million and in November 1996 to Lm200 million.

Table A23. Malta: Deposit Money Banks' Income and Expenditure, 1991-95

	1991	1992	1993	1994	1995
(In millions of Maltese liri)					
Gross operating income	70.7	78.9	92.1	94.5	120.8
Income from domestic sources	44.5	50.8	55.4	68.3	85.6
Loans and overdrafts	31.0	35.4	37.7	45.0	59.6
Public securities and Treasury bills	6.1	6.8	8.4	10.5	9.3
Balances with the Central Bank	2.5	3.0	3.9	5.1	4.5
Exchange and commissions	...	4.0	4.0	5.9	9.5
Other	...	1.6	1.4	1.8	2.7
Income from foreign sources	26.2	28.1	36.6	26.2	35.2
Loans and overdrafts	0.3	0.6	0.4	0.5	0.7
Deposits and balances with banks abroad	9.9	9.1	8.1	4.2	4.6
Money at call	0.0	0.0	0.3	0.1	1.6
Foreign securities	9.1	13.3	11.3	15.0	23.4
Exchange and capital gains/losses	3.8	5.1	12.9	6.4	4.9
Operating expenses	56.6	63.6	73.3	82.3	102.4
Interest payments on deposits	38.5	42.6	46.9	54.5	67.4
Demand deposits	...	...	0.2	0.1	0.4
Savings deposits	...	...	14.4	16.3	18.8
Time deposits	...	...	32.3	38.1	48.1
Other	0.0	2.0	0.0	0.0	0.1
Wages and salaries	11.9	13.6	15.8	16.9	18.8
Provisions	1.2	-0.1	1.2	0.8	3.6
Other	5.0	7.5	9.4	10.1	12.6
Income before tax	14.1	15.3	18.8	12.2	18.4
(In percent of gross operating income)					
Gross operating income	100.0	100.0	100.0	100.0	100.0
Income from domestic sources	62.9	64.4	60.2	72.3	70.9
Loans and overdrafts	43.8	44.9	40.9	47.6	49.3
Public securities and Treasury bills	8.6	8.6	9.1	11.1	7.7
Balances with the Central Bank	3.5	3.8	4.2	5.4	3.7
Exchange and commissions	...	5.1	4.3	6.2	7.9
Other	...	2.0	1.5	1.9	2.2
Income from foreign sources	37.1	35.6	39.7	27.7	29.1
Loans and overdrafts	0.4	0.8	0.4	0.5	0.6
Deposits and balances with banks abroad	14.0	11.5	8.8	4.4	3.8
Money at call	0.0	0.0	0.3	0.1	1.3
Foreign securities	12.9	16.9	12.3	15.9	19.4
Exchange and capital gains/losses	5.4	6.5	14.0	6.8	4.1
Operating expenses	80.1	80.6	79.6	87.1	84.8
Interest payments on deposits	54.5	54.0	50.9	57.7	55.8
Wages and salaries	16.8	17.2	17.2	17.9	15.6
Provisions	1.7	-0.1	1.3	0.8	3.0
Other	7.1	9.5	10.2	10.7	10.4
Income before tax	19.9	19.4	20.4	12.9	15.2
(Annual percentage change)					
Gross operating income	13.7	11.6	16.7	2.6	27.8
Income from domestic sources	6.2	14.2	9.1	23.3	25.3
Income from foreign sources	29.1	7.3	30.2	-28.4	34.4
Operating expenses	8.2	12.4	15.3	12.3	24.4
Income before tax	42.4	8.5	22.9	-35.1	50.8

Sources: Central Bank of Malta, *Quarterly Review*; and data provided by the Maltese authorities.

Table A24. Malta: Selected Monetary Indicators, 1991-96

	1991	1992	1993	1994	1995	Est. 1996
(In percent of broad money; end of period) 1/						
Composition of money supply						
Narrow money	35.9	33.0	31.1	29.5	25.8	24.9
Currency	30.4	27.3	25.8	23.3	20.8	19.8
(in percent of narrow money)	84.7	82.6	83.1	78.9	80.5	79.7
(in percent of quasi money)	47.4	40.7	37.5	33.1	28.0	26.4
Demand deposits	5.5	5.7	5.3	6.2	5.0	5.0
Quasi-money	64.1	67.0	68.9	70.5	74.2	75.1
Savings deposits	27.4	29.6	30.4	29.4	30.2	28.4
Time deposits	36.7	37.4	38.5	41.0	44.0	46.7
Of which:						
Resident foreign currency deposits	7.0	7.9	7.8	7.8	9.2	8.9
(In percent)						
Contribution to broad money growth						
Net foreign assets	13.5	77.5	36.1	69.0	-53.3	-47.0
Monetary authorities	-18.5	49.5	44.8	69.2	-90.6	-29.7
Financial system	32.0	28.1	-8.7	-0.3	37.3	-17.3
Domestic credit	129.7	59.8	76.9	53.7	212.6	167.0
Claims on general government	31.1	1.9	12.3	6.5	24.2	49.4
Claims on private and parastatal sectors	98.6	57.8	64.6	47.1	188.5	117.5
Claims on private sector	...	...	43.6	36.0	148.6	83.1
Velocity						
GDP/currency	2.34	2.59	2.66	2.79	3.25	3.37
GDP/narrow money	1.98	2.14	2.21	2.20	2.62	2.69
GDP/quasi-money	1.11	1.05	1.00	0.92	0.91	0.89
GDP/broad money	0.71	0.71	0.69	0.65	0.68	0.67
Memorandum items:						
Nominal GDP growth rate	9.8	8.4	7.4	8.5	12.2	6.7
Real GDP growth rate	6.3	4.7	4.5	4.0	9.0	3.7

Sources: Central Bank of Malta, *Quarterly Review*; data provided by the Maltese authorities; and staff estimates.

1/ Broad money comprises currency outside banks and demand, time, and savings deposits.

Table A25. Malta: Financial Survey, 1991-96 1/

	1991	1992	1993	1994	1995	Est. 1996
(In millions of Maltese liri; end of period)						
Net foreign assets	608.9	691.0	737.2	877.5	812.9	749.6
Monetary authorities	439.9	492.2	549.5	690.4	580.7	540.7
Financial system	169.1	198.8	187.7	187.1	232.2	208.9
Domestic credit	696.4	759.7	858.0	967.2	1,224.8	1,449.7
Claims on General Government	119.5	121.6	137.3	150.6	179.9	246.5
Claims on private and parastatal sectors	576.8	638.1	720.7	816.6	1,044.9	1,203.2
Claims on private sector	...	502.0	557.8	631.0	811.0	922.9
Claims on parastatal sector	...	136.1	162.9	185.6	233.9	280.3
Total assets = Total liabilities	1,305.3	1,450.6	1,595.2	1,844.8	2,037.7	2,199.3
Narrow money	406.7	408.6	425.1	463.5	436.8	454.3
Currency	344.3	337.6	353.3	365.9	351.8	362.2
Demand deposits	62.3	70.9	71.8	97.6	85.0	92.1
Quasi-money	726.2	830.2	941.7	1,106.7	1,254.6	1,371.8
Savings deposits	310.3	367.1	415.3	462.4	510.8	518.5
Time deposits	415.9	463.1	526.4	644.3	743.8	853.3
Broad money	1,132.9	1,238.8	1,366.7	1,570.3	1,691.4	1,826.1
Other items, net	145.6	211.9	228.4	274.5	346.3	373.2
(In percent of total assets; end of period)						
Net foreign assets	46.6	47.6	46.2	47.6	39.9	34.1
Monetary authorities	33.7	33.9	34.4	37.4	28.5	24.6
Financial system	13.0	13.7	11.8	10.1	11.4	9.5
Domestic credit	53.4	52.4	53.8	52.4	60.1	65.9
Claims on General Government	9.2	8.4	8.6	8.2	8.8	11.2
Claims on private and parastatal sectors	44.2	44.0	45.2	44.3	51.3	54.7
Claims on private sector	...	34.6	35.0	34.2	39.8	42.0
Total assets = Total liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Narrow money	31.2	28.2	26.6	25.1	21.4	20.7
Currency	26.4	23.3	22.1	19.8	17.3	16.5
Demand deposits	4.8	4.9	4.5	5.3	4.2	4.2
Quasi-money	55.6	57.2	59.0	60.0	61.6	62.4
Savings deposits	23.8	25.3	26.0	25.1	25.1	23.6
Time deposits	31.9	31.9	33.0	34.9	36.5	38.8
Broad money	86.8	85.4	85.7	85.1	83.0	83.0
Other items, net	11.2	14.6	14.3	14.9	17.0	17.0
(Annual percentage change)						
Net foreign assets	2.1	13.5	6.7	19.0	-7.4	-7.8
Monetary authorities	-3.7	11.9	11.6	25.6	-15.9	-6.9
Financial system	20.9	17.6	-5.6	-0.3	24.1	-10.0
Domestic credit	20.5	9.1	12.9	12.7	26.6	18.4
Claims on General Government	31.1	1.7	12.9	9.7	19.4	37.0
Claims on private and parastatal sectors	18.5	10.6	12.9	13.3	28.0	15.2
Claims on private sector	...	...	11.1	13.1	28.5	13.8
Claims on parastatal sector	...	...	19.7	13.9	26.0	19.8
Total assets = Total liabilities	11.1	11.1	10.0	15.6	10.5	7.9
Narrow money	5.8	0.5	4.0	9.1	-5.8	4.0
Currency	4.2	-1.9	4.6	3.6	-3.9	3.0
Demand deposits	15.2	13.7	1.3	36.0	-13.0	8.4
Quasi-money	10.5	14.3	13.4	17.5	13.4	9.3
Savings deposits	19.0	18.3	13.1	11.4	10.5	1.5
Time deposits	4.9	11.3	13.7	22.4	15.4	14.7
Broad money	8.8	9.3	10.3	14.9	7.7	8.0
Other items, net	9.5	45.5	7.8	20.2	26.2	7.8

Sources: Central Bank of Malta, *Quarterly Review*; data provided by the Maltese authorities; and staff estimates.

1/ The financial survey covers the monetary authorities, deposit money banks, international banking institutions (from 1995) and other banking institutions.

Table A26. Malta: Selected Nominal and Real Interest Rates, 1991-96

	1991	1992	1993	1994	1995	Est. 1996
(In percent; end of period)						
Nominal interest rates						
Central Bank of Malta						
Discount rate	5.5	5.5	5.5	5.5	5.5	5.5
Call balances ("free" deposits)	3.0-4.0	3.0-4.0	3.0-4.0	2.5	2.5	0.0
Required deposits	4.8	4.8	4.8	4.3	2.5	2.8
Repo rate 1/	...	...	...	4.4	5.5	5.4
Reverse repo rate 2/	...	...	...	...	4.9	5.0
Government securities						
Treasury bill yield						
Three months	4.50	4.60	4.60	4.40	4.94	5.00
Six months	...	...	...	...	5.16	5.29
Twelve months	...	...	...	...	5.34	5.36
Government bonds						
Five years	6.50	6.75	6.35	5.79	6.60	6.73
Ten years	7.00	7.75	7.00	6.65	7.08	7.24
Deposit money bank deposits 3/						
Average deposit rate	3.9	3.9	3.9	4.0	4.0	4.2
Demand deposits	1.0	1.0	1.0	1.0	1.0	3.0
Savings deposits	3.0	3.0	3.0	3.0	3.0	3.3
Time deposits						
Three months	4.0	4.0	4.0	4.0	4.0	4.0
Six months	4.5	4.5	4.5	4.5	4.5	4.5
One year	4.5	5.0	5.0	5.0	5.0	5.5
Two years	5.3	5.3	5.3	5.3	5.3	5.8
Three years	5.5	5.5	5.5	5.5	5.5	6.1
Loans and advances 4/						
Deposit money banks	7.1	7.1	7.2	7.3	7.5	7.7
Other financial institutions	7.8	7.4	6.6	7.3	7.2	7.2
Real interest rates 5/						
Central Bank of Malta						
Discount rate	2.9	3.8	1.3	1.3	1.4	2.4
Call balances ("free" deposits)	0.4-1.4	1.4-2.4	-1.1-0.1	-1.6	-1.4	-2.9
Reverse repo rate 1/	...	...	...	...	0.9	2.0
Government securities						
Three month Treasury bills	1.9	2.9	0.5	0.2	0.9	1.9
Government bonds						
Five years	3.8	5.0	2.1	1.6	2.5	3.6
Ten years	4.3	6.0	2.8	2.4	3.0	4.1
Deposit money banks						
Average deposit rate	1.3	2.2	-0.3	-0.2	0.0	1.2
Average lending rate	4.4	5.4	2.9	3.0	3.4	4.6
Memorandum item:						
RPI inflation rate	2.6	1.6	4.1	4.2	4.0	3.0

Sources: Central Bank of Malta, *Quarterly Review*; and data provided by the Maltese authorities.

1/ Rates on seven-day Central Bank repurchase agreements.

2/ Rates on seven-day Central Bank reverse repurchase agreements.

3/ In January 1994, interest rate ceilings on current accounts, savings, and time deposits of different maturities were effectively lifted although a minimum interest rate of 3 percent per annum was set for term and savings deposits.

4/ In November 1995, the Central Bank liberalized bank lending rates by widening the stipulated margin over the discount rate from 3 to 10 percent.

5/ Nominal rates deflated by the RPI inflation rate.

Table A27. Malta: Summary Balance of Payments, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri)							
Trade balance	-198.4	-174.4	-228.7	-237.6	-268.7	-207.9	-225.5
Exports, f.o.b.	414.9	496.6	518.2	593.3	669.6	476.8	450.4
Imports, f.o.b.	613.3	671.1	746.9	830.9	938.3	684.7	675.9
Balance on services	109.0	112.5	137.9	132.9	102.4	84.1	78.7
Exports	287.0	307.4	378.2	400.9	398.0	305.3	305.7
Of which							
Tourism 1/	238.2	256.5	317.3	330.5	321.3	249.0	245.6
Imports	178.0	195.0	240.3	268.0	295.7	221.2	227.0
Investment income, net	49.7	41.7	35.5	19.3	15.2	20.2	23.8
Unrequited transfers, net	37.3	29.9	23.3	35.6	17.6	9.6	17.2
Private	21.4	13.7	15.4	23.4	14.0	9.9	10.3
Public	15.9	16.3	7.9	12.2	3.7	-0.3	6.9
Current account balance	-2.4	9.6	-32.1	-49.7	-133.5	-93.9	-105.7
Direct investment	24.9	12.6	26.2	57.7	43.8	14.0	4.2
Other long term capital	9.9	34.3	18.6	95.5	-4.2	4.7	4.9
Portfolio investment	1.3	1.5	5.1	93.4	10.1	7.6	-7.0
Official long term capital	8.6	32.8	13.5	2.1	-14.3	-8.8	7.4
Short term capital, net 2/	-1.9	0.0	24.8	32.5	6.2	...	-0.9
Change in net foreign position of banks	-28.6	-38.3	7.6	-4.0	-24.5	...	28.4
Capital account balance	4.3	8.6	77.1	181.7	21.2	-24.8	32.1
Errors and omissions	-27.4	-5.3	6.5	12.6	1.2	27.8	40.9
Overall balance 3/	-25.5	12.9	51.6	144.6	-111.1	-90.9	-32.8
(In percent of GDP)							
Current account balance	-0.3	1.1	-3.4	-4.9	-11.7	-11.3	-12.0
Merchandise	-24.6	-19.9	-24.3	-23.3	-23.5	-25.1	-25.5
Services	13.5	12.9	14.7	13.0	9.0	10.2	8.9
Investment income	6.2	4.8	3.8	1.9	1.3	2.4	2.7
Transfers	4.6	3.4	2.5	3.5	1.5	1.2	1.9
Memorandum items:							
Official reserves 4/	54.5	56.3	58.5	67.7	50.8	...	...
(in millions of Maltese liri)	439.9	492.2	549.5	690.4	580.7	600.2	548.7
(in millions of U.S. dollars)	1,439.4	1,315.5	1,390.7	1,875.6	1,647.9	1,711.0	1,513.7
(in months of imports of goods and services)	6.7	6.8	6.7	7.5	5.6	...	...

Source: Data provided by the Maltese authorities.

1/ Includes transportation.

2/ Excludes banking institutions.

3/ The overall balance figures are not strictly comparable with changes in net official foreign reserves because of exchange rate effects and differences in the timing of valuation.

4/ Includes customers' deposits and sinking funds held with the Central Bank, and other official funds held with the Treasury.

Table A28. Malta: Exports by Commodity Groups, 1991-96

	1991	1992	1993	1994	1995	Jan-Sep. 1995	Jan-Sep. 1996
(In millions of Maltese liri)							
Total exports	405.5	490.9	518.3	587.0	671.9	479.7	458.4
Domestic exports, f.o.b.	372.0	451.5	476.7	541.8	625.9	446.1	416.7
Food, beverages, and tobacco	8.1	9.7	11.1	9.4	9.7	6.2	9.9
Crude materials, fuels, and oils	1.2	1.2	1.9	1.3	1.5	...	...
Chemicals	6.2	8.6	10.1	10.3	11.2	7.3	10.4
Semi-manufactured goods	29.0	31.5	33.1	33.4	38.5	27.8	30.9
Machinery and transport	216.0	274.7	280.4	356.6	423.3	300.9	258.5
Of which							
Electronic components	176.1	237.1	227.7	302.8	348.5	...	...
Manufactures	110.6	124.6	139.8	130.6	141.1	103.9	107.0
Of which							
Clothing	53.3	55.7	58.0	54.1	54.9	40.9	42.7
Miscellaneous	0.8	1.2	0.3	0.1	0.5	...	...
Re-exports	33.5	39.4	41.6	45.2	46.0	33.6	41.7
(In percent of total exports)							
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic exports, f.o.b.	91.7	92.0	92.0	92.3	93.2	93.0	90.9
Food, beverages, and tobacco	2.0	2.0	2.1	1.6	1.4	1.3	2.2
Crude materials, fuels, and oils	0.3	0.3	0.4	0.2	0.2	...	...
Chemicals	1.5	1.8	2.0	1.8	1.7	1.5	2.3
Semi-manufactured goods	7.1	6.4	6.4	5.7	5.7	5.8	6.7
Machinery and transport	53.3	55.9	54.1	60.7	63.0	62.7	56.4
Of which							
Electronic components	43.4	48.3	43.9	51.6	51.9	...	...
Manufactures	27.3	25.4	27.0	22.2	21.0	21.7	23.3
Of which							
Clothing	13.1	11.3	11.2	9.2	8.2	8.5	9.3
Miscellaneous	0.2	0.2	0.1	0.0	0.1	...	...
Re-exports	8.3	8.0	8.0	7.7	6.8	7.0	9.1
(Annual percentage change)							
Total exports	13.3	21.1	5.6	13.2	14.5	9.7	-4.4
Domestic exports, f.o.b.	13.2	21.4	5.6	13.6	15.5	10.6	-6.6
Semi-manufactured goods	-2.6	8.8	4.9	1.0	15.2	13.5	11.2
Machinery and transport	24.1	27.1	2.1	27.2	18.7	13.5	-14.1
Of which							
Electronic components	27.1	34.7	-4.0	33.0	15.1	...	...
Manufactures	-1.0	12.6	12.2	-6.6	8.1	3.8	3.0
Of which							
Clothing	-6.0	4.5	4.2	-6.7	1.5	-0.7	4.4
Other	23.9	26.7	13.3	-9.8	8.4	-3.6	50.4
Re-exports	14.9	17.6	5.6	8.7	1.8	-0.9	24.1

Sources: Ministry for Economic Affairs and Finance, *Economic Survey*; Central Office of Statistics, *Trade Statistics*; and data provided by the Maltese authorities.

Table A29. Malta: Direction of Trade, 1991-96 1/

	Exports 2/						Imports					
	1991	1992	1993	1994	1995	Jan.-Sep.	1991	1992	1993	1994	1995	Jan.-Sep.
						1996						1996
	(In percent of total exports)						(In percent of total imports)					
Europe	80.1	79.3	74.5	75.3	73.1	63.1	81.1	81.9	76.3	79.9	76.5	73.5
EU	77.7	75.3	71.7	73.8	71.2	61.1	75.5	76.7	71.6	75.7	72.8	69.0
United Kingdom	7.3	6.5	8.1	7.3	7.3	8.6	14.7	12.9	13.4	15.3	15.5	13.8
Italy	38.6	40.8	32.2	37.4	30.6	15.6	36.3	37.7	27.2	26.5	27.3	20.2
Germany	17.8	14.2	15.6	14.1	14.9	15.1	11.1	10.7	14.3	17.6	12.1	9.5
France	9.1	9.1	10.4	9.8	12.3	15.2	4.6	6.3	8.4	8.4	8.8	15.8
Other EU countries	5.0	4.7	5.4	5.2	6.1	6.6	8.7	9.0	8.3	7.9	9.1	9.6
Other European countries	2.4	3.9	2.8	1.5	1.8	2.0	5.6	5.2	4.7	4.2	3.7	4.5
America	4.4	6.1	8.1	8.6	10.3	13.0	5.6	4.0	9.7	5.9	6.9	7.8
Asia and the Middle East	4.7	5.9	7.9	7.2	11.2	17.5	10.3	11.2	11.2	10.1	13.3	13.9
Africa	7.4	5.7	6.1	5.8	3.0	2.9	2.7	2.7	2.6	2.6	3.6	4.4
Oceania	0.1	0.1	0.0	0.4	0.1	0.1	0.3	0.2	0.3	0.3	0.3	0.5

Source: Ministry of Economic Affairs and Finance, *Economic Survey*.

1/ Customs basis.

2/ Includes re-exports.

Table A30. Malta: Imports by Final Use, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri)							
Total imports	684.0	747.8	830.9	918.8	1,042.5	760.8	755.0
Consumer goods	135.5	152.9	159.9	164.8	226.5	162.0	165.6
Food and beverages	53.0	54.1	57.5	54.7	76.0	53.3	52.5
Durable goods	55.3	69.4	70.7	72.1	105.4	75.2	77.6
Other	27.2	29.4	31.7	38.0	45.1	33.5	35.5
Industrial supplies	392.7	432.0	470.8	540.0	588.2	425.4	411.5
Primary	15.4	17.5	17.9	18.2	19.2	12.8	16.9
Semi-finished	353.6	398.1	430.9	502.4	546.8	396.3	376.9
Finished	23.7	16.4	22.0	19.4	22.2	16.3	17.7
Capital goods and others	155.8	162.9	200.2	213.9	227.8	173.4	177.9
Capital goods	111.1	119.6	155.0	163.7	178.0	137.9	132.1
Of which							
Aircraft	0.0	12.3	35.7	28.2	9.4	9.4	0.0
Fuel	34.0	34.1	38.4	40.5	40.9	29.4	37.0
Nonspecified and gold	10.7	9.2	6.8	9.7	8.9	6.1	8.8
(In percent of total imports)							
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumer goods	19.8	20.4	19.2	17.9	21.7	21.3	21.9
Food and beverages	7.7	7.2	6.9	6.0	7.3	7.0	7.0
Durable goods	8.1	9.3	8.5	7.8	10.1	9.9	10.3
Other	4.0	3.9	3.8	4.1	4.3	4.4	4.7
Industrial supplies	57.4	57.8	56.7	58.8	56.4	55.9	54.5
Primary	2.3	2.3	2.2	2.0	1.8	1.7	2.2
Semi-finished	51.7	53.2	51.9	54.7	52.5	52.1	49.9
Finished	3.5	2.2	2.6	2.1	2.1	2.1	2.3
Capital goods and others	22.8	21.8	24.1	23.3	21.9	22.8	23.6
Capital goods	16.2	16.0	18.7	17.8	17.1	18.1	17.5
Of which							
Aircraft	0.0	1.6	4.3	3.1	0.9	1.2	0.0
Fuel	5.0	4.6	4.6	4.4	3.9	3.9	4.9
Nonspecified and gold	1.6	1.2	0.8	1.1	0.9	0.8	1.2
(Annual percentage change)							
Total imports	10.2	9.3	11.1	10.6	13.5	15.9	-0.8
Consumer goods	18.4	12.8	4.6	3.1	37.4	38.2	2.2
Food and beverages	19.9	2.1	6.3	-4.9	38.9	42.5	-1.5
Durable goods	20.5	25.5	1.9	2.0	46.2	43.8	3.2
Other	11.9	8.1	7.8	19.9	18.7	21.8	6.0
Industrial supplies	12.1	10.0	9.0	14.7	8.9	7.4	-3.3
Primary	-7.8	13.6	2.3	1.7	5.5	0.8	32.0
Semi-finished	11.9	12.6	8.2	16.6	8.8	7.6	-4.9
Finished	34.7	-30.8	34.1	-11.8	14.4	7.9	8.6
Capital goods and others	-0.1	4.6	22.9	6.8	6.5	20.9	2.6
Capital goods	-1.1	7.7	29.6	5.6	8.7	28.8	-4.2
Fuel	6.9	0.3	12.6	5.5	1.0	-1.0	25.9
Nonspecified and gold	-9.3	-14.0	-26.1	42.6	-8.2	-7.6	44.3

Sources: Ministry of Economic Affairs and Finance, *Economic Survey*; and data provided by the Maltese authorities.

Table A31. Malta: Imports by Commodity Groups, 1991-96

	1991	1992	1993	1994	1995	<u>Jan.-Sep.</u> 1995	<u>Jan.-Sep.</u> 1996
(In millions of Maltese liri)							
Total imports, c.i.f.	684.0	747.8	830.9	918.8	1,042.5	760.8	777.9
Food, beverages, and tobacco	69.7	74.1	79.3	79.2	101.6	71.1	74.1
Crude materials, fuels, and oils	49.3	50.9	55.2	59.8	63.0	42.7	49.0
Chemicals	46.7	50.7	56.4	63.6	70.8	53.2	56.0
Semi-manufactured goods	124.5	126.7	130.4	131.2	143.1	105.7	128.7
Machinery and transport	321.7	361.7	416.1	482.0	532.6	397.8	373.2
Manufactures	61.6	74.6	86.8	93.3	122.7	84.5	88.2
Miscellaneous	10.5	9.1	6.8	9.7	8.7	5.9	8.6
(In percent of total imports)							
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food, beverages, and tobacco	10.2	9.9	9.5	8.6	9.7	9.3	9.5
Crude materials, fuels, and oils	7.2	6.8	6.6	6.5	6.0	5.6	6.3
Chemicals	6.8	6.8	6.8	6.9	6.8	7.0	7.2
Semi-manufactured goods	18.2	16.9	15.7	14.3	13.7	13.9	16.6
Machinery and transport	47.0	48.4	50.1	52.5	51.1	52.3	48.0
Manufactures	9.0	10.0	10.4	10.2	11.8	11.1	11.3
Miscellaneous	1.5	1.2	0.8	1.1	0.8	0.8	1.1
(Annual percentage change)							
Total imports, c.i.f.	10.2	9.3	11.1	10.6	13.5	15.8	2.2
Food, beverages, and tobacco	13.7	6.3	7.0	-0.1	28.2	29.1	4.2
Crude materials, fuels, and oils	6.8	3.3	8.5	8.3	5.4	-0.1	14.8
Chemicals	9.4	8.5	11.2	12.7	11.4	14.3	5.4
Semi-manufactured goods	3.6	1.8	2.9	0.7	9.1	9.9	21.8
Machinery & transport	13.2	12.4	15.0	15.8	10.5	16.3	-6.2
Manufactures	13.1	21.1	16.4	7.4	31.5	24.7	4.5
Others	8.9	4.9	6.9	7.4	15.0	-9.8	45.2

Sources: Central Office of Statistics, *Trade Statistics*; and Central Bank of Malta, *Quarterly Review*.

Table A32. Malta: Invisible Transactions, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri)							
Balance on services	109.0	112.5	137.9	132.9	102.4	84.1	78.7
Exports of services	287.0	307.4	378.2	400.9	398.0	305.3	305.7
Freight and insurance	7.9	9.2	11.3	13.3	13.8	10.0	11.6
Other transportation 1/	62.9	76.0	85.1	88.8	88.5	69.1	74.2
Travel	175.3	180.5	232.2	241.7	232.8	179.9	171.4
Other services	40.8	41.7	49.6	57.1	63.0	46.3	48.5
Private	30.3	34.6	41.9	49.7	55.2	40.4	43.1
Official	10.5	7.1	7.7	7.4	7.8	5.9	5.4
Imports of services	178.0	195.0	240.3	268.0	295.7	221.2	227.0
Freight and insurance	66.5	72.4	79.9	87.3	98.7	72.1	70.5
Other transportation	20.8	24.5	40.8	46.9	46.3	36.6	36.8
Travel	42.8	43.9	59.0	66.8	75.4	58.1	61.3
Other services	48.0	54.2	60.6	67.0	75.2	54.4	58.4
Private	39.7	46.3	54.4	59.9	68.7	49.7	53.5
Official	8.2	7.8	6.2	7.0	6.5	4.7	4.9
Investment income, net	49.7	41.7	35.5	19.3	15.2	20.2	23.8
Credit	78.1	77.7	83.2	76.0	97.0	68.0	76.7
Debit	28.5	36.0	47.7	56.7	81.8	47.8	52.9
Unrequited transfers, net	37.3	29.9	23.3	35.6	17.6	9.6	17.2
Private, net	21.4	13.7	15.4	23.4	14.0	9.9	10.3
Official, net	15.9	16.3	7.9	12.2	3.7	-0.3	6.9
Total invisible transactions, net	196.0	184.1	196.6	187.8	135.2	113.9	119.7
(In percent of GDP)							
Balance on services	13.5	12.9	14.7	13.0	9.0	10.2	8.9
Exports of services	35.6	35.1	40.2	39.3	34.8	36.9	34.6
Freight and insurance	1.0	1.1	1.2	1.3	1.2	1.2	1.3
Other transportation 1/	7.8	8.7	9.0	8.7	7.7	8.4	8.4
Travel	21.7	20.6	24.7	23.7	20.4	21.7	19.4
Other services	5.1	4.8	5.3	5.6	5.5	5.6	5.5
Imports of services	22.1	22.3	25.6	26.3	25.8	26.7	25.7
Freight and insurance	8.2	8.3	8.5	8.6	8.6	8.7	8.0
Other transportation	2.6	2.8	4.3	4.6	4.0	4.4	4.2
Travel	5.3	5.0	6.3	6.6	6.6	7.0	6.9
Other services	5.9	6.2	6.4	6.6	6.6	6.6	6.6
Investment income, net	6.2	4.8	3.8	1.9	1.3	2.4	2.7
Credit	9.7	8.9	8.9	7.5	8.5	8.2	8.7
Debit	3.5	4.1	5.1	5.6	7.2	5.8	6.0
Unrequited transfers, net	4.6	3.4	2.5	3.5	1.5	1.2	1.9
Private, net	2.7	1.6	1.6	2.3	1.2	1.2	1.2
Official, net	2.0	1.9	0.8	1.2	0.3	0.0	0.8
Total invisible transactions, net	24.3	21.0	20.9	18.4	11.8	13.8	13.5
Memorandum items:							
Tourism earnings 2/							
(in millions of Maltese liri)	238.2	256.5	317.3	330.5	321.3	249.0	245.6
(in percent of GDP)	29.5	29.3	33.8	32.4	28.1	30.1	27.8
(in percent of exports of goods and services)	43.0	43.7	37.3	34.6	31.9	31.8	32.5

Source: Central Office of Statistics.

1/ Includes passenger fares, port disbursements (pilotage, harbor, and quarantine dues; landing, parking, and aeradio dues; ships' and aircraft stores and bunker fuel and repairs), and charter hire revenue.

2/ Travel and other transportation services exports.

Table A33. Malta: Capital Account Transactions, 1991-96

	1991	1992	1993	1994	1995	Jan.-Sep. 1995	Jan.-Sep. 1996
(In millions of Maltese liri)							
Capital account	4.3	8.6	77.1	181.7	21.3	-24.8	32.1
Direct investment, net	24.9	12.6	26.2	57.7	43.8	14.0	4.2
Credit	...	...	...	69.2	80.3	...	42.8
Debit	...	...	...	11.5	36.5	...	38.6
Other long term capital, net	9.9	34.3	18.6	95.5	-4.2	-1.2	0.4
Portfolio investment, net	1.3	1.5	5.1	93.4	10.1	7.6	-7.0
Credit	...	...	...	100.1	20.7	...	0.6
Debit	...	...	...	6.7	10.6	...	7.5
Official long term capital, net	8.6	32.8	13.5	2.1	-14.3	-8.8	7.4
Credit	9.4	37.7	18.2	11.9	9.4	...	21.7
Debit	0.8	4.9	4.7	9.8	23.7	...	14.3
Short term capital, net	-1.9	0.0	24.8	32.5	6.2	...	-0.9
Private financial investments 1/	-1.7	0.2	4.8	28.6	-2.5	...	-6.9
Credit	...	...	...	43.7	17.8	...	8.4
Debit	...	...	...	15.1	20.3	...	15.3
Other private investments 2/	-0.2	-0.2	19.9	3.9	8.7	0.9	6.0
Credit	...	...	...	76.2	53.4	...	35.3
Debit	...	...	...	72.3	44.7	...	29.3
Change in net foreign position of banks 3/	-28.6	-38.3	7.6	-4.0	-24.5	...	28.4
(In percent of GDP)							
Capital account	0.5	1.0	8.2	17.8	1.9	-3.0	3.6
Direct investment, net	3.1	1.4	2.8	5.7	3.8	1.7	0.5
Portfolio investment, net	0.2	0.2	0.5	9.2	0.9	0.9	-0.8
Official long term capital, net	1.1	3.7	1.4	0.2	-1.2	-1.1	0.8
Short term capital, net	-0.2	0.0	2.6	3.2	0.5	...	-0.1
Private financial investments 1/	-0.2	0.0	0.5	2.8	-0.2	...	-0.8
Other private investments 2/	0.0	0.0	2.1	0.4	0.8	0.1	0.7
Change in net foreign position of banks 3/	-3.5	-4.4	0.8	-0.4	-2.1	...	3.2
<u>Memorandum item:</u>							
Change in nonresident deposits (in millions of Maltese liri)	18.5	47.8	16.1	48.1	51.1	...	65.0

Source: Data provided by the Maltese authorities.

1/ Short term private financial investments exclude changes in nonresident deposits, which are recorded under changes in the net foreign position of banks.

2/ Includes trade credits with non-parent companies abroad.

3/ Beginning in 1995, this item includes changes in net foreign assets held by international banking institutions.

Table A34. Malta: Exchange Rate Developments, 1991-96

	US dollar per Maltese lira	Pound sterling per Maltese lira	Deutschemark per Maltese lira	Nominal effective exchange rate 1/	Real effective exchange rate 2/
(Period average)					
1991	3.10	1.75	5.13	100.23	94.56
1992	3.15	1.78	4.90	98.97	89.60
1993	2.62	1.74	4.33	92.97	91.14
1994	2.65	1.73	4.29	93.38	92.98
1995	2.83	1.79	4.06	94.54	91.60
1996	2.77	...	...	...	...
1991					
Q1	3.29	1.73	5.04	99.62	98.73
Q2	3.00	1.76	5.20	100.64	98.35
Q3	2.98	1.77	5.19	100.75	97.82
Q4	3.13	1.76	5.07	99.90	96.76
1992					
Q1	3.13	1.77	5.06	99.86	95.34
Q2	3.15	1.75	5.09	99.98	95.83
Q3	3.34	1.76	4.89	98.95	93.88
Q4	2.95	1.87	5.90	97.10	93.17
1993					
Q1	2.64	1.79	4.32	93.22	89.10
Q2	2.67	1.74	4.33	92.37	88.51
Q3	2.58	1.72	4.34	92.57	89.35
Q4	2.57	1.72	4.32	93.71	91.44
1994					
Q1	2.55	1.71	4.38	93.85	91.54
Q2	2.60	1.73	4.33	93.08	90.60
Q3	2.71	1.75	4.23	93.16	90.98
Q4	2.73	1.73	4.22	93.43	91.44
1995					
Q1	2.78	1.76	4.12	94.40	93.12
Q2	2.87	1.80	4.01	95.04	93.53
Q3	2.84	1.81	4.06	94.31	92.35
Q4	2.84	1.82	4.05	94.39	92.90
1996					
Q1	2.79	1.82	4.10	93.90	91.65
Q2	2.74	1.80	4.18	93.33	92.02
Q3	2.78	1.79	4.16	93.15	91.13
Q4	2.78	1.70	4.25	93.30	...

Sources: Central Bank of Malta, *Quarterly Review*; and IMF, *International Financial Statistics*.

1/ Index number (1990=100.) Trade-weighted average of exchange rates, expressed as units of foreign currency per Maltese lira. A decline in the index indicates a depreciation.

2/ Index number (1990=100.) Trade-weighted average ratio of Malta's consumer price index to the consumer price indices of partner countries, multiplied by the nominal effective exchange rate. (Price indices used are not seasonally adjusted.)