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Malta: Selected Issues and Statistical Appendix

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MALTA

Selected Issues and Statistical Appendix

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Approved by European I Department

June 3, 1999

	Contents	Page
Basic Data		4
Selected Issues		
I. Introduction		5
II. Public Enterprises in Malta		6
A. Background		7
B. Flows Between the Government and the Public Enterprises		7
C. Key Issues in the Public Enterprise Sector		9
Enemalta Corporation		12
Water Services Corporation		14
Malta Drydocks		16
Malta Shipbuilding		19
D. Policy Issues		20
III. Tax Reform in Malta, 1990-99		23
A. Historical Background		23
B. Income Tax Reforms		23
C. Value-Added Tax		27
VAT (I)		27
The Customs and Excise Tax System (CET)		28
VAT (II)		31
D. Import Tax Reforms		33
E. Reforms in Tax Administration		35
F. Conclusion		36

IV.	Malta's Exchange Rate and Exchange Control Regime	36
	A. History of Malta's Exchange Rate Regime	36
	B. Comparison of Malta's Exchange and Control Arrangements with Other Countries	37
	C. Exchange Rate Arrangements for the Future	40
	Enhanced flexibility	40
	Tighter commitment to the peg	40
	Implications under the future capital account liberalization program	41
V.	Malta's Application for Membership in the European Union	41
	A. Malta's Economic Relations with the EU since 1970	42
	B. The EU Membership Process	43
	C. Macroeconomic Criteria for Malta	45
	D. Legislative Economic Criteria Noted in the 1999 <i>Avis</i>	47
	Taxation policy	47
	Procurement policy	48
	Public enterprise reform	48
	Trade policy and restructuring of small- and medium-sized enterprises	48
	Agricultural policy	49
	Financial sector policies	49
	Competition policy	50
	Labor law and the free movement of labor	50
	Environment	50
	Statistics	50

Text Boxes

1.	Past and Ongoing Attempts to Restructure Malta Drydocks	18
2.	Past and Ongoing Attempts to Restructure Malta Shipbuilding	20

Text Tables

1.	Public Enterprises	8
2.	Flows from the Budget to Public Enterprises, 1990-99	10
3.	Flows from Public Enterprises to the Budget, 1990-99	11
4.	Government Aid to Malta Drydocks and Malta Shipbuilding, 1990-99	17
5.	Tax Revenues, 1985-99	24
6.	Comparison of Corporate Income Tax Rates, 1999	26
7.	Comparison of VAT Rates, Revenue, and Productivity, 1995	29
8.	Revenue from Import Taxes, 1990-99	34
9.	Exchange Rate Arrangements and Macroeconomic Data for Selected Countries, 1992-97	39

Chart

1.	Effective Exchange Rates, 1985–98	38
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Information Notes

I.	Tax Summary (as of January 1999)	51
II.	Recent Developments in the Exchange and Trade System	55

Statistical Appendix Tables

A1.	GDP in Constant Prices, 1992–98	56
A2.	GDP by Expenditure Components, 1992–98	57
A3.	Gross Fixed Investment, 1992–97	58
A4.	Savings and Investment, 1992–98	59
A5.	Household Disposable Income, 1992–97	60
A6.	Sectoral Distribution of GDP at Factor Cost, 1992–98	61
A7.	Factor Incomes in GDP, 1992–98	62
A8.	Tourism Indicators, 1992–98	63
A9.	Population, Labor Force, and Employment, 1992–98	64
A10.	Employment by Sector, 1992–98	65
A11.	Wages, 1992–98	66
A12.	Retail Price Index, 1992–99	67
A13.	Government Budget Accounts, 1992–99	68
A14.	Current Budgetary Revenue, 1992–99	69
A15.	Current Budgetary Expenditure, 1992–99	70
A16.	Budgetary Capital Expenditure and Lending, 1995–99	71
A17.	Social Security Account, 1992–99	72
A18.	Government Debt, 1992–99	73
A19.	Monetary Base, 1992–98	74
A20.	Deposit Money Banks' Assets and Liabilities, 1992–98	75
A21.	Deposit Money Banks' Loans and Advances by Sector, 1992–98	76
A22.	Financial Position of the Government vis-à-vis the Financial System, 1992–98	77
A23.	Deposit Money Banks' Income and Expenditure, 1992–98	78
A24.	Selected Monetary Indicators, 1992–98	79
A25.	Financial Survey, 1992–98	80
A26.	Selected Nominal and Real Interest Rates, 1992–98	81
A27.	Summary Balance of Payments, 1992–98	82
A28.	Exports by Commodity Groups, 1992–98	83
A29.	Direction of Trade, 1992–98	84
A30.	Imports by Final Use, 1992–98	85
A31.	Imports by Commodity Groups, 1992–98	86
A32.	Invisible Transactions, 1992–98	87
A33.	Exchange Rate Developments, 1992–99	88

Malta: Basic Data

I. Social and Demographic Indicators

Land area	316 square kilometers (122 square miles)
Population (in thousands, 1998)	378
GDP (1998, at current prices)	Lm 1,387.2 million
GDP per capita (1998)	Lm 3,670 or US\$9,449
Infant mortality rate (1997)	6.9 per 1,000 births
Life expectancy (years)	74.9 (males); 80.1 (females)

II. Economic Indicators, 1992-98

	1992	1993	1994	1995	1996	1997	1998
Real economy (percentage change; constant prices)							
Real GDP 1/	6.7	4.0	5.0	7.3	4.2	2.8	3.1
Domestic demand 1/	2.1	4.3	5.1	10.7	4.8	-1.7	1.2
Retail prices (period average)	1.8	4.0	4.1	4.0	2.4	3.1	2.4
Retail prices (end period)	2.4	4.6	3.5	3.6	1.9	4.3	1.3
Unemployment rate (percent of labor force)	3.8	4.2	4.2	3.5	3.7	4.6	4.9
Public finance (percent of GDP)							
Government budget deficit	-6.5	-3.0	-5.0	-3.9	-8.6	-9.7	-10.4
Government debt	28.1	32.4	33.0	35.7	42.8	51.6	55.0
Money and credit (end period; percentage change)							
Narrow money	0.5	4.0	9.1	-5.6	3.8	5.7	8.6
Broad money	9.3	10.3	14.9	7.8	10.4	9.6	8.4
Domestic credit	9.1	12.9	12.7	26.6	16.7	15.0	10.8
Credit to government	1.7	12.9	9.7	19.4	32.9	34.5	14.6
Credit to the private and parastatal sectors	10.6	12.9	13.3	28.0	13.9	11.1	9.8
Net foreign assets of the central bank	11.9	11.6	25.7	-15.9	-4.6	1.4	11.4
(in percent of the monetary base)	114.7	127.4	152.9	129.8	119.5	115.4	124.0
Interest rates (percent; end period)							
Seven-day reverse repo	--	--	--	4.9	5.0	5.2	5.4
Three-month treasury bill	4.6	4.6	4.4	4.9	5.0	5.2	5.5
Government bonds (10-year)	7.8	7.0	6.7	7.1	7.2	7.3	6.0
Balance of payments (percent of GDP)							
Trade balance	-19.9	-24.3	-23.1	-23.1	-24.0	-21.2	-17.3
Goods and services balance	-7.1	-9.7	-10.2	-13.7	-13.9	-8.5	-4.8
Current account balance	1.1	-3.4	-4.9	-11.0	-10.7	-6.2	-4.9
Official reserves (end period)							
(in millions of U.S. dollars)	1,315	1,391	1,876	1,648	1,538	1,433	1,655
(in months of imports of goods and services)	6.8	6.7	7.5	5.7	5.5	5.6	6.0
Exchange rate							
Regime	Pegged to a basket of currencies comprising the euro, pound sterling, and U.S. dollar.						
Nominal effective exchange rate (1990=100)	99.0	93.0	93.4	94.5	93.4	94.8	95.9
Real effective exchange rate (1990=100)	94.4	89.3	90.7	92.7	91.5	94.0	96.5
Current rate (May 18, 1999)	US\$ 2.51 per Maltese lira						

Sources: Central Office of Statistics; Central Bank of Malta; Ministry of Finance; and IMF, *International Financial Statistics*.

1/ 1998 figures are the Central Bank's estimates.

I. INTRODUCTION¹

1. Malta's economic performance, though creditable, has been weakening in recent years. Annual per capita growth has fallen from 6–7 percent at the turn of the decade to some 2 percent per annum. The decline in performance mainly reflects two factors: weakness in structural policies and, more recently, instability in the policy framework, including the loss of fiscal discipline.

2. Despite advances in financial sector deregulation, tax reform, and trade liberalization during the 1990s, there are still key structural inadequacies. These include excess employment in the public sector and inflexibilities in the price structure of the public utilities. As a result of these weaknesses, the government wage bill absorbs almost 12 percent of GDP and public enterprises absorb a further 4–5 percent of GDP annually in subsidies as well as a steady flow of government-guaranteed credit.

3. The policy framework has been marked by several reversals since the mid-1990s. Following a change of administration in 1996, the application for EU membership dating back to 1990 was withdrawn and the two-year-old VAT was replaced with an alternative indirect tax system; in late 1997, water and electricity charges were raised although the ensuing public outcry led to an extensive review of the price increases. A further change in administration in 1998 resulted in the reactivation of the application for EU membership and the reintroduction of the VAT; at the same time, the price increases for water and electricity were substantially—and in some cases, more than fully—reversed. In the last five years, the fiscal deficit (on the staff's definition) has jumped some 7 percentage points of GDP to over 10 percent of GDP, and public and publicly guaranteed debt has risen by 16 percentage points of GDP to 92 percent of GDP.

4. The challenge for policymakers now is to reinvigorate Malta's economic performance and lay the foundation for realizing its growth potential. The authorities have already made a start by developing, for the first time, a quantified medium term fiscal framework which targets a phased reduction in the fiscal deficit to 4 percent of GDP in 2004 and initiating structural expenditure reform in several areas, notably concerning pensions and privatization. Prospective EU accession would support, and be supported by, these policies.

5. This Selected Economic Issues Paper addresses several topics related to this reform agenda. Chapters II and III focus on fiscal and structural issues affecting Malta's economic performance, specifically the public enterprises and the tax system. Chapters IV and V focus on exchange rate policy and macroeconomic and legislative issues in the context of EU membership. The standard summaries of the tax system and recent developments in the exchange and trade system are presented as information notes at the end of this paper.

¹Contributed by Ling Hui Tan.

6. Chapter II focuses on one aspect of public sector reform, namely reform of the public enterprises. It highlights the need for substantive changes in the operations of these enterprises, encompassing adjustments to their price structures and all aspects of their productive efficiency. The appropriate measures will vary significantly from case to case; many public enterprises should be privatized, others will require various forms of restructuring which may be achieved in some cases by direct government action and in others by the application of firm financial targets backed up by increased managerial discretion and accountability.

7. Chapter III focuses on tax reform. It describes the reforms which were undertaken throughout the 1990s, and discusses their contribution to improved taxpayer compliance and revenue productivity. It concludes that they have strengthened compliance and revenue productivity (notwithstanding the policy reversal on the VAT), noting that the tax system now broadly conforms with those in the EU. The future agenda is likely to comprise fine-tuning of tax policy supported by ongoing efforts to strengthen compliance.

8. Chapter IV outlines the options for policy in respect of the exchange rate and capital control regimes. While the current exchange rate peg has served Malta well, the case for retaining it is examined in light of ongoing liberalization of the capital account (which is a requirement for EU membership), the large fiscal imbalance, and the desire to preserve some independence of domestic monetary policy. If changes to the exchange rate regime were to be made, reforms should lean toward tightening the commitment to the peg while adjusting domestic policies and arrangements to be more consistent with capital account liberalization.

9. Chapter V summarizes the reforms that will be needed to satisfy the economic criteria for EU membership. On the macroeconomic front, Malta already meets most of the Maastricht convergence criteria (although these are not formal membership requirements), the only major divergence being the size of the fiscal balance. On the legislative front, important areas that remain to be addressed include trade policy (particularly abolishing the import levies); public enterprise reform (particularly the introduction of a formal and transparent system of managing aid to the public enterprises); agricultural policy; and statistics.

II. PUBLIC ENTERPRISES IN MALTA²

10. Public enterprises in Malta provide a wide range of goods and services. While many enterprises perform strongly, the sector as a whole imposes a sizable burden on the public finances. Thus, reforms in this sector could make a decisive contribution to achieving the authorities' targeted reduction of the fiscal deficit during the life of the current parliament.

11. Section A outlines the legal basis of the public enterprises and describes the range of activities in which they are engaged. Section B discusses the flow of funds between the public enterprises and the government budget, providing an indication of the burden the enterprises

²Contributed by Ling Hui Tan and Peter Doyle.

impose both directly and indirectly. The additional burden implicitly imposed by deteriorations in the enterprises' net worth (in those cases where this occurs) is not described in detail. Section C focuses more closely on four enterprises, two utilities and the Malta Drydocks and Malta Shipbuilding, in order to illuminate the range and severity of the issues that arise in the sector. Recent initiatives to strengthen the performance of the latter two cases are also described. The final section draws conclusions.

A. Background

12. Public enterprises in Malta consist of public corporations/authorities and parastatal companies. Public corporations and authorities are set up and governed by ad hoc legislation. They are wholly government owned; their financial estimates are submitted annually to parliament and the government retains the right to set their budgets or to require payments out of their profits. Parastatal companies are those in which the government—directly or through its holding company, Malta Government Investment Ltd. (MGI)—owns 50 percent or more of the share capital. They are established and administered under the Company Law and are usually only subject to government policy through board appointees. These companies cover a wide range of mostly commercial activities, including banking, shipbuilding, and air and sea transport. Most of them were set up between 1971 and 1987 with the aim of ensuring that vital economic activities were kept under domestic control, in order for the government to invest in sectors where private investment was thought to be lacking, or to meet specific, temporary needs. A list of all the public enterprises is provided in Table 1.

13. In recent years, the public enterprises have come under increasing scrutiny. Following the deterioration of the fiscal deficit in 1996, the government has highlighted the extent of the financial burden imposed by these entities on the fiscal budget and made reform of the public enterprises a key plank in its medium-term fiscal adjustment program. To this end, it has commissioned and publicized reports identifying financial and organizational problems in several of the largest enterprises and taken some initial steps toward implementing solutions suggested in these reports.

B. Flows Between the Government and the Public Enterprises

14. The public enterprises represent a significant net drain on the government's finances.³ They cost the government budget some 4½ percent of GDP annually in subsidies and transfers

³The operations of the public enterprises are not consolidated in the budget (the consolidated revenue fund), which covers only the operations of the central government and the social security system. In the past, the capital expenditures of Telemalta, Enemalta, and the Housing Authority were included in budgetary capital expenditure, with an equal transfer from these enterprises to the government imputed as nontax revenue, but this practice was discontinued with effect from the 1992 budget.

Table 1. Malta: Public Enterprises

Name of company	Percentage shareholding	Amount invested	Nominal value
(in Maltese liri)			
Public corporations and authorities:			
Enemalta	100.00	...	...
Housing Authority	100.00	...	...
Malta Drydocks 1/	100.00	...	...
Malta Development Corp. (MDC)	100.00	...	...
Water Services Corp. (WSC)	100.00	...	...
Maritime Authority	100.00	...	...
Planning Authority	100.00	...	...
Public Transport Authority	100.00	...	...
Employment and Training Corp.	100.00	...	...
Parastatals:			
Malta Shipbuilding Co. Ltd.	61.00	12,200,000	12,200,000
Libyan Arab Maltese Holding Co. Ltd.	51.00	6,264,687	10,200,000
Malta International Airport Co. Ltd. (MIA)	100.00	499,999	8,699,999
Air Malta Co. Ltd.	96.40	1,455,000	4,820,000
Mid-Med Bank Ltd.	67.20	5,119,999	4,290,730
Medigrain Co. Ltd. -- grain importer	83.00	2,542,600	2,460,000
Sea Malta Co. Ltd. -- shipping services	69.22	2,215,000	2,215,000
Malta Investment Management Co. Ltd. (MIMCOL)	100.00	1,873,250	1,873,250
Gozo Channel Co. Ltd. -- Malta-Gozo sea transport	100.00	1,850,850	1,850,850
Interprint Ltd. -- printing company	100.00	580,057	1,035,816
Public Broadcasting Services Co. Ltd. (PBS)	100.00	1,004,999	1,004,999
Malta Win Containers Ltd. --container manufacturer (ceased operations)	99.50	1,000,000	1,000,000
Malta Freeport Corp. Ltd.	100.00	999,999	999,999
Tug (Malta) Co. Ltd. -- tug services	65.00	810,611	959,000
Casma Co. Ltd. -- casino	100.00	500,499	500,499
Kalaxlokk Co. Ltd. -- construction company (ceased operations)	100.00	1	500,000
Malta External Trade Corp. Ltd. (METCO) -- trade promotion company	99.96	199,920	499,800
Kordin Grain Terminal Co. Ltd. -- grain storage	100.00	399,999	399,999
Libyan Arab Maltese Supermarkets Co. Ltd. (LIMSUK) -- supermarket in Libya	50.00	344,415	344,415
Malta Gantry Manufacturing Ltd. -- crane manufacturer (ceased operations)	55.00	210,000	210,000
MITTS Ltd. -- information technology services	99.95	199,900	199,900
Malta Counter Trade Co. Ltd.	90.00	180,000	180,000
Posta Ltd. -- postal services (in liquidation)	100.00	149,999	149,999
Konkos Co. Ltd. -- concrete manufacturer (ceased operations)	51.00	80,000	80,000
VAT Fiscal Registers Co. Ltd.	100.00	20,000	20,000
Master Antenna Co. Ltd.	100.00	10,000	10,000
Malta Government Investments Co. Ltd. (MGI)	100.00	499	499
Malpro Co. Ltd.	50.00	50	50

Source: Data provided by the Maltese authorities.

1/ Malta Drydocks is a public enterprise akin in status to a public corporation: it was set up and is governed by the Malta Drydocks Act of 1968 and its managing body, the Drydocks Council, is majority government-appointed.

while contributing relatively little to government revenue (less than ½ percent of GDP in 1998). Over the last four years, they have added some Lm 288 million to the stock of public and publicly guaranteed debt. Over the same period, total public and publicly guaranteed debt rose by Lm 411 million, so public enterprises accounted for 70 percent of this increase.⁴

15. Expenditure flows from the budget to the public enterprises include subsidies/subventions and (net) loans. As shown in Table 2, these rose from 3.8 percent of GDP in 1995–96 to a peak of 6.7 percent of GDP in 1997 before falling to 3.7 percent of GDP in 1998. The Water Services Corporation (WSC) is by far the largest recipient of budgetary subsidies (around 1 percent of GDP is spent on subsidies to this corporation annually) while the shipyards are the main recipients of budgetary loans. In addition to budgetary loans, the government occasionally advances money to public enterprises out of an extrabudgetary fund. Again, the main beneficiaries are the shipyards, although in 1997, exceptional advances were also made to Enemalta and the WSC to enable these corporations to meet their operating costs. Furthermore, the government frequently guarantees commercial bank loans made by public enterprises; as of end-1998, the total amount of outstanding government-guaranteed loans to public enterprises was Lm 487.9 million (35.1 percent of GDP).

16. Revenue flows from the public enterprises to the budget are much more modest. Aside from taxes and social security contributions, public enterprises contribute directly to budgetary revenue in two ways: transfer of profits and dividends, and payment of interest on government loans. Certain public corporations—notably, Enemalta, Telemalta (prior to its conversion to Maltacom plc), and the Maritime Authority—are required to direct a portion of their after-tax profits to finance the government's budgetary requirements. As shown in Table 3, these transfers averaged some 1.3 percent of GDP during 1990–94, but dropped sharply in 1995 and have been on a declining trend since then, due primarily to falling profits at Enemalta (see section C below). The government does not mandate dividend payments from the companies in which it has a shareholding. Only those companies that are listed on the stock exchange—that is, the Bank of Valletta, Mid-Med Bank, and Maltacom—are obliged to pay dividends to the government; for the rest, the decision of whether to pay dividends (and how much) rests with their board of directors. Dividend income has declined over the past 10 years, due to privatization that has taken place over that period (see section D below), but partly also due to deteriorating performance in some of these enterprises.

C. Key Issues in the Public Enterprise Sector

17. This section outlines the circumstances of four of the largest public enterprises, two state monopolies and two commercial enterprises. These cases illustrate the range and severity of the challenges that arise in the public enterprises. The discussion distinguishes, in particular,

⁴Total public and publicly guaranteed debt currently stands at Lm 1.3 billion, or 92 percent of GDP.

Table 2. Malta: Flows from the Budget to Public Enterprises, 1990-99 1/

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)										
Subsidies and subventions to public enterprises	...	...	...	...	...	30.1	32.0	36.0	29.4	29.6
Water Services Corporation	--	--	7.4	9.0	11.0	11.8	14.6	14.6	18.5	11.9
Malta Drydocks	7.3	8.3	6.9	7.5	5.4	7.0	4.9	5.7	5.0	4.0
Malta Shipbuilding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malta Freeport	...	11.2	6.0	6.0	5.5	6.0	5.7	5.3	4.2	4.4
Other public enterprises	...	...	...	...	...	5.4	6.8	10.4	1.6	9.2
Net lending to public enterprises	1.1	4.2	1.2	-4.8	5.9	3.1	6.1	27.8	13.2	12.0
Enemalta	-3.7	-3.5	-3.5	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Telemalta	-1.6	-1.6	-1.6	-3.2	-3.0	-0.9	-0.3	-0.3	0.0	0.0
Malta Drydocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.6	0.0	0.0
Malta Shipbuilding	7.0	10.4	7.5	6.0	10.3	12.1	6.4	3.5	8.0	5.0
Gozo Channel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	7.0
Other public enterprises	-0.5	-1.1	-1.2	-5.4	-1.4	-8.1	0.0	0.0	-0.3	0.0
(In percent of total budgetary expenditure and net lending)										
Subsidies and subventions to public enterprises	...	...	...	...	...	6.4	6.0	6.1	4.8	4.7
Net lending to public enterprises	0.3	...	0.3	-1.2	1.4	0.7	1.2	4.7	2.2	1.9
(In percent of GDP 1/)										
Subsidies and subventions to public enterprises	...	...	...	...	...	2.6	2.7	2.8	2.1	2.0
Net lending to public enterprises	0.2	0.5	0.1	-0.5	0.6	0.3	0.5	2.2	0.9	0.8
(In millions of Maltese liri)										
Memorandum items:										
Net extrabudgetary advances to public enterprises	0.0	2.1	3.7	2.4	2.2	10.6	7.2	21.9	9.4	0.0
(In percent of GDP 1/)	0.0	0.3	0.4	0.3	0.2	0.9	0.6	1.7	0.7	0.0
Enemalta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	0.0	0.0
Water Services Corporation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	0.0	0.0
Malta Drydocks	0.0	0.0	0.0	-0.1	0.8	8.5	7.2	6.6	9.4	0.0
Malta Shipbuilding	0.0	2.1	3.2	2.9	1.2	-0.2	0.0	1.8	0.0	0.0
Other public enterprises	0.0	0.0	0.5	-0.5	0.3	2.3	0.0	0.4	0.0	0.0
Outstanding government-guaranteed loans	...	...	...	...	...	...	482.8	487.7	487.9	...
(In percent of GDP 1/)	...	...	...	...	...	...	40.2	38.0	35.1	...
Enemalta	...	...	...	...	...	...	73.9	80.2	62.1	...
Water Services Corporation	...	...	...	...	...	...	28.3	28.1	30.3	...
Malta Drydocks	...	...	...	...	...	...	56.5	51.6	40.4	...
Malta Shipbuilding	...	...	...	...	...	...	5.2	7.6	4.1	...
Malta Freeport	...	...	...	...	...	...	100.4	102.7	117.8	...
Other public enterprises	...	...	...	...	...	...	218.5	217.4	233.2	...
Total outstanding government debt	174.0	211.6	245.8	304.8	339.3	409.3	514.5	661.4	765.5	...
(In percent of GDP 1/)	23.7	26.2	28.1	32.4	33.0	35.7	42.8	51.6	55.0	...
Total outstanding govt and govt guaranteed debt	266.9	478.0	598.5	714.8	758.5	867.5	1033.7	1179.9	1278.5	...
(In percent of GDP 1/)	36.3	59.2	68.4	76.0	73.7	75.7	86.0	92.0	91.9	...

Source: Data provided by the Maltese authorities.

1/ Based on the authorities' GDP estimate for 1998 and GDP projection for 1999.

Table 3. Malta: Flows from Public Enterprises to the Budget, 1990-99 1/

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)										
Profits and dividends	12.7	13.7	13.6	16.8	16.5	9.9	5.5	5.7	3.8	6.9
Transfer of profits from public corporations 2/	9.5	10.5	10.8	12.8	13.4	7.5	3.5	3.5	1.9	1.9
Enemalta	9.0	9.0	10.0	11.1	11.1	5.0	0.0	0.0	0.0	0.0
Telemalta 3/	0.5	1.5	0.8	1.0	1.5	1.5	2.0	2.0	0.0	0.0
Malta Maritime Authority	0.0	0.0	0.0	0.8	0.8	1.0	1.5	1.5	1.9	1.9
Dividends from investments 4/	3.2	3.2	2.8	4.0	3.1	2.4	2.0	2.2	1.9	5.0
of which:										
Banks	1.8	2.1	1.6	1.8	1.7	1.3	1.6	1.7	1.7	1.6
Air Malta	0.7	0.7	0.7	1.0	1.0	1.0	0.0	0.0	0.0	0.0
Maltacom 3/	--	--	--	--	--	--	--	--	--	1.4
Interest payments	3.3	3.0	2.9	2.7	2.2	4.5	4.0	3.5	5.8	2.6
Debt interest payments	0.8	0.8	0.8	0.8	0.8	3.5	3.5	3.1	5.4	2.2
Enemalta	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Telemalta	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.1	0.0	0.0
Water Services Corporation	0.0	0.0	0.0	0.0	0.0	2.8	2.8	2.6	5.0	1.9
Interest on government loans	2.6	2.2	2.1	2.0	1.5	1.0	0.5	0.4	0.4	0.4
of which:										
Enemalta	0.9	0.6	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Telemalta	0.8	0.7	0.6	0.5	0.4	0.1	0.0	0.0	0.0	0.0
Malta Drydocks	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Malta Shipbuilding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malta International Airport	0.0	0.0	0.3	0.6	0.6	0.6	0.0	0.0	0.0	0.0
Air Malta	0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
(In percent of total budgetary revenue)										
Profits and dividends	4.7	4.5	4.6	4.8	4.4	2.3	1.3	1.2	0.8	1.4
Transfer of profits from public corporations 2/	3.5	3.5	3.7	3.6	3.5	1.8	0.8	0.8	0.4	0.4
Dividends from investments 4/	3.3	3.0	3.4	3.1	2.9	1.2	0.0	0.0	0.0	0.0
Interest payments	0.2	0.5	0.3	0.3	0.4	0.4	0.5	0.4	0.0	0.0
Debt interest payments	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.3	0.4	0.4
Interest on government loans	1.2	1.0	1.0	1.1	0.8	0.6	0.5	0.5	0.4	1.0
(In percent of GDP 5/)										
Profits and dividends	1.7	1.7	1.6	1.8	1.6	0.9	0.5	0.4	0.3	0.5
Transfer of profits from public corporations 2/	1.3	1.3	1.2	1.4	1.3	0.7	0.3	0.3	0.1	0.1
Dividends from investments 4/	1.2	1.1	1.1	1.2	1.1	0.4	0.0	0.0	0.0	0.0
Interest payments	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.0
Debt interest payments	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest on government loans	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.1	0.3

Source: Data provided by the Maltese authorities.

1/ Excluding taxes and social security contributions.

2/ Excludes contributions by public corporations to their own capital program.

3/ In 1998, Telemalta was converted to a limited liability company, Maltacom plc, and partially privatized.

4/ Includes dividends from companies in which the government has a minority shareholding.

5/ Based on the authorities' GDP estimate for 1998 and GDP projection for 1999.

issues arising from the markets in which the enterprises operate, in particular the determination of their output prices, and issues of productive efficiency, notably manpower policy.

18. The first set of issues, market structure, falls into two parts. On the one hand, the state monopolies—which include the utility companies like Enemalta and the WSC and other service providers such as the Gozo Channel, which supplies ferry transportation between Malta and Gozo—are subject to direct price controls set by the government. Social considerations play an important role in the pricing decisions, one consequence of which has been that prices are exogenously set below cost and, in some cases, have been frozen at those levels for years, even decades. On the other hand, public enterprises operating in competitive (international) markets are price takers.

19. The second set of issues—productive efficiency—arises in all public enterprises. Manpower issues are central in this context. The sector accounts for some 12 percent of total employment in Malta⁵ and this employment is generally associated with low productivity and inefficiency.⁶ In part, this is the consequence of the lifetime employment guarantee implicit in all public sector jobs. This guarantee dilutes incentives for public sector workers to switch to private sector jobs or to improve their productivity or their skills.

Enemalta Corporation

20. Enemalta Corporation operates a monopoly on the provision of electricity as well as on the importation and distribution of petroleum products. The corporation comprises three divisions: petroleum, electricity, and gas.⁷ The petroleum division has generally been profitable, and profits from this division have been sufficient to offset losses in the electricity division and the (much smaller) gas division. The corporation has a rating of A/stable by Standard and Poor.

⁵This is based on official data on employment in independent statutory bodies and companies with government-majority shareholding; the coverage includes certain institutions (such as the central bank) which are not considered as public enterprises here. The public sector as a whole, including government departments, accounts for some 35 percent of total employment.

⁶There is ample anecdotal evidence to support this observation, even though no productivity measures are available for the public enterprise sector. For example, the utility providers and the shipyards are, according to public statements by their own chairmen, overmanned by some 20–50 percent. In the shipyards, labor-cost-to-turnover ratios of over 100 percent are not uncommon. And in the most extreme case, all 477 employees of the Kalaxlokk Company, a government-owned construction company which ceased operations last November, continue to be paid their full salaries for no work.

⁷The corporation also owns a subsidiary, the Mediterranean Offshore Bunkering Company.

21. Apart from 1994–97 when losses were recorded, the corporation has been sufficiently profitable to cover its current spending, finance part of its investment program, and transfer to the budget part of its annual surplus: in 1990–94, it transferred profits of around Lm 10 million (around 3 percent of total budgetary revenue or 1 percent of GDP) annually to the budget (Table 3). It has not received any direct budgetary subsidies or subventions in the recent past, but it has obtained government and commercial bank loans (mostly, but not all, with the aid of government guarantees) to fund capital investment.⁸ In addition, it received an advance of Lm 9.6 million from the government in 1997 to cover various payments including the clearance of income tax and social security arrears.

22. The corporation's pricing decisions are taken by the government in consultation with the corporation. Thus, social and political pressures can be important factors in these decisions, and electricity rates had not been increased for 17 years prior to 1998 despite rising costs; on the contrary, Enemalta gave rebates and discounts to all its domestic consumers as well as to its largest industrial consumer, the WSC, as recently as in 1995.⁹ In November 1997, the (previous) government raised electricity tariffs¹⁰ to better reflect Enemalta's cost of production, but the resultant social outcry forced it to dilute the increases through a system of rebates. The utility rate hikes became a prominent issue during the September 1998 general elections and the new government, on taking office, immediately diluted the increases further.¹¹

23. These underlying difficulties in its price structure were sharply compounded in 1995 following the introduction of the VAT, as the corporation was not allowed to pass on the burden of the tax to its consumers in the form of increased prices.¹² Absorption of the tax cost the corporation some Lm 7½ million in 1995 and Lm 11 million in 1996, and accounted for the losses recorded by the corporation in 1995–97. The VAT was abolished in mid-1997 and Enemalta's products were exempted from the indirect taxes that replaced the VAT. When

⁸Government loans include foreign loans which are on-lent to Enemalta. In December 1998, Enemalta obtained a syndicated loan worth \$130 million without a government guarantee.

⁹This problem was identified in a December 1996 report by MSD Consulting Limited.

¹⁰The proposed increases in per unit rates ranged from under 1 percent to over 111 percent.

¹¹The new rates supposedly lie between the pre-November 1997 rates and the previous government's post-rebate rates. However, certain consumers—depending on household size and electricity consumption—actually received lower bills under the new rates than they did prior to November 1997.

¹²As announced in the budget for 1995, the VAT was intended to substitute for some of the profits hitherto transferred to the government by Enemalta.

VAT was reintroduced in 1999, Enemalta was allowed to retain its tax-exempt status for purposes of this tax.

24. A variety of manpower and efficiency issues arise in the corporation.¹³ The corporate strategy could be more clearly stated; financial control, notably in the areas of internal auditing and appraisal procedures for capital spending could be strengthened; its 2,000-strong workforce could be better balanced (while the lower grades are estimated to be overstaffed by some 20 percent, with the attendant problems of low motivation and poor discipline, the upper grades require additional management, financial, and technical skills);¹⁴ and the level of wastage could be reduced (some 15 percent of production is “unaccounted for,” i.e., not billed, each year).

25. In the last few years, attempts have been made to improve the situation at Enemalta, but progress has so far been slow. One promising recent step has been the appointment of a chief executive with private sector experience. There are also plans to introduce new meters that would reduce the incidence of theft, and to partially privatize Enemalta’s oil bunkering subsidiary.

Water Services Corporation

26. Fresh water is scarce in Malta, not least because the islands have no rivers. Thus, although a little under half of total water production comes from groundwater, the remainder is produced by reverse osmosis. Accordingly, the costs of producing and supplying water in Malta are high by international standards.

27. The WSC was created in 1992 out of a government department, the Water Works Department (WWD), to supply and distribute water.¹⁵ On establishment, it was transferred the capital assets of the WWD—valued at nearly Lm 46 million, including land and buildings, reverse osmosis plants, and the distribution network—in the form of a debenture loan issued in favor of the government. It was also transferred, on secondment, the WWD’s entire

¹³These problems were mentioned in parliamentary speeches by the economic services minister and the ex finance minister, reported in the local press in February 1999.

¹⁴Due to the lack of technically skilled personnel competent in billing software, Enemalta has had to rely on the WSC to do its billing, an arrangement which has resulted in lengthy delays and cash flow problems.

¹⁵The WSC was one of five government departments to be converted into a public corporation in 1992. The other four were the Maritime Authority, the Planning Authority, the Public Transport Authority, and the Employment and Training Corporation (ETC). Although the move was aimed at enhancing the efficiency of the provision of government services and increasing accountability in the public sector, by all accounts the corporatization of these departments was more in name than in practice.

1600-strong workforce, although subsequent agreements with the labor unions gave the employees the option of converting their employment with the WSC or being transferred back to the civil service.¹⁶

28. The WSC has absorbed subsidies, subventions, and loans from the budget and extrabudgetary sources in excess of 1 percent of GDP annually during 1992–98 (Table 2). In addition, it has obtained government-guaranteed credit from commercial banks. This support was required to cover operational costs and an investment program of Lm 44 million over that period. Despite this financial support, the corporation has incurred substantial financial losses. In light of concerns with its financial solvency, in 1997 the central bank cautioned commercial banks to desist from providing the WSC with further credit, even if covered by a government guarantee.

29. The high cost of water production has not been reflected in the prices charged to consumers. Water and sewage charges are subsidized by the government according to a scheme that differentiates across type of consumer (i.e., domestic, agricultural, industrial, various commercial, and government), household size, and quantity consumed. This results in an extensive range of tariffs which complicates billing calculations and, notably in cases where charges are lowest (such as in agriculture), fails to encourage consumers to economize in their water use. The increase in water rates introduced in November 1997 met with the same fate as the electricity rate increases. The original increase in water rates was estimated to enable the corporation to cover its costs so that the annual government subsidy could be reduced gradually to zero by 2000. In the event, the rates were revised downward, but only after prolonged negotiations that caused serious billing delays in 1998 and the first quarter of 1999 and further intensified the corporation's cash flow problems;¹⁷ as a result, the government subsidy to the WSC in 1998 rose to Lm 18.5 million (well above the Lm 6 million envisaged in the budget for that year).

30. The corporation suffers from various production inefficiencies:¹⁸ its administrative and financial structures need substantial strengthening, and it is lacking in personnel trained in information technology, resulting in inefficiency and substantial delays in billing and revenue collection. At the same time, it is overstaffed by some 30 percent, mostly at the lower grades.

¹⁶Just over one-third of the workforce chose the second option or resigned; about half their number have since been replaced by new hires.

¹⁷Water bills are supposed to be issued every two months, but the switch to a new computer system in 1996 created a backlog in billing which was further exacerbated by the tariff changes in 1997–98; as a result, bills were not sent out regularly, with many consumers not having received their bills in over a year.

¹⁸Many of these problems were identified in a January 1997 government-commissioned report by an independent consultant, Mr. Alfred Mifsud.

It is plagued by extensive leakage and theft, with some 45 percent of its production not billed each year.

31. In recent years, the corporation has taken some steps to contain costs and boost revenue: it has taken over the operation and maintenance of its five reverse osmosis plants from a private contractor;¹⁹ it has solved its technical problems with the billing system; and it has almost halved leakage rates from 19 cubic meters to 10.6 cubic meters per kilometer per day and cut unbilled production by 20 percent in two years. Leakage control in Gozo has been particularly successful and the leakage rate there is now one of the lowest in international comparisons. However, given that the cost of producing water in Malta is high relative to other countries, the cost of leakages is also correspondingly higher.

Malta Drydocks

32. Malta Drydocks was built to serve the needs of the British naval forces. It was taken over by the state following independence in the late 1960s, and granted self management. After the departure of the British forces in the 1970s, the Drydocks focused on commercial operations, specializing in the repair of tankers, bulk carriers, and cruise liners in a fully vertically integrated setup with in-house production of all inputs from textiles to steelwork.

33. The ship repair industry is highly competitive. The Drydocks' main competitors are located in the Mediterranean (Lisbon, Palermo, Greece, and Turkey), Eastern Europe (Croatia), the Middle East (Dubai), and Asia (South Korea); these locations have been able to price competitively due to lower labor costs (particularly in Eastern Europe) and excess capacity (particularly in Asia). In addition to the intensified competition from abroad, weak international demand (particularly in the early 1990s) and declining efficiency have hit the Drydocks hard, resulting in falling turnover and net losses.

34. The Drydocks depend heavily on government aid. This is provided in various forms, including subsidies, loans, and government guarantees on debt. As shown in Table 4, subsidies to the Drydocks have averaged some 0.7 percent of GDP annually since 1990 and ad hoc loans and advances to cover recurrent expenses such as wages have reached as high as 2.4 percent of GDP in a single year. Outstanding government-guaranteed debt to the Drydocks stood at some 3 percent of GDP as of end-1998. Notwithstanding this substantial amount of aid, the Drydocks made net losses of Lm 12.5 million (around 1 percent of GDP) per year in 1995 and 1996, Lm 11.7 million in 1997, and Lm 8.6 million in 1998.

¹⁹The plants are now the responsibility of Malta Desalination Services (MDS), a wholly owned subsidiary of the WSC.

Table 4. Malta: Government Aid to Malta Drydocks and Malta Shipbuilding, 1990-99

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)										
Malta Drydocks										
Total government aid 1/	7.3	8.3	6.9	7.4	6.1	15.5	12.1	36.9	14.4	4.0
Budgetary aid	7.3	8.3	6.9	7.5	5.4	7.0	4.9	30.3	5.0	4.0
Subsidies	7.3	8.3	6.9	7.5	5.4	7.0	4.9	5.7	5.0	4.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.6	0.0	0.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.6	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extrabudgetary advances	0.0	0.0	0.0	-0.1	0.8	8.5	7.2	6.6	9.4	0.0
Disbursements	0.0	0.0	0.0	3.5	0.8	9.1	15.7	40.0	9.4	0.0
Repayments	0.0	0.0	0.0	3.6	0.0	0.5	8.5	33.4	0.0	0.0
Government-guaranteed debt	...	...	...	...	...	...	56.5	51.6	40.4	...
Malta Shipbuilding										
Total government aid 1/	7.0	10.4	10.7	8.9	11.6	11.8	6.4	5.3	8.0	5.0
Budgetary aid	7.0	10.4	7.5	6.0	10.3	12.1	6.4	3.5	8.0	5.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	7.0	10.4	7.5	6.0	10.3	12.1	6.4	3.5	8.0	5.0
Disbursements	7.0	10.4	7.5	6.0	10.3	12.1	6.4	3.5	8.0	5.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extrabudgetary advances	0.0	0.0	3.2	2.9	1.2	-0.2	0.0	1.8	0.0	0.0
Disbursements	0.0	0.0	3.2	2.9	1.2	0.0	0.0	1.8	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Government-guaranteed debt 2/	...	...	...	...	...	...	16.2	21.2	19.4	...
(In percent of GDP 3/)										
Malta Drydocks										
Total government aid 1/	1.0	1.0	0.8	0.8	0.6	1.4	1.0	2.9	1.0	0.3
Budgetary aid	1.0	1.0	0.8	0.8	0.5	0.6	0.4	2.4	0.4	0.3
Subsidies	1.0	1.0	0.8	0.8	0.5	0.6	0.4	0.4	0.4	0.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0
Extrabudgetary advances	0.0	0.0	0.0	0.0	0.1	0.7	0.6	0.5	0.7	0.0
Government-guaranteed debt	...	...	...	...	...	...	4.7	4.0	2.9	...
Malta Shipbuilding										
Total government aid 1/	0.9	1.3	1.2	1.0	1.1	1.0	0.5	0.4	0.6	0.3
Budgetary aid	0.9	1.3	0.9	0.6	1.0	1.1	0.5	0.3	0.6	0.3
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.9	1.3	0.9	0.6	1.0	1.1	0.5	0.3	0.6	0.3
Extrabudgetary advances	0.0	0.0	0.4	0.3	0.1	0.0	0.0	0.1	0.0	0.0
Government-guaranteed debt 2/	...	...	...	...	...	...	1.3	1.7	1.4	...
Memorandum items:										
Employment (in number of employees)										
Malta Drydocks	...	...	3,714	3,427	3,310	3,423	3,355	3,274	3,117	
Malta Shipbuilding	...	...	1,885	1,816	1,764	1,087	885	850	837	
Total government aid per employee (in Maltese liri)										
Malta Drydocks	...	...	1,871	2,159	1,851	4,531	3,616	11,259	4,633	
Malta Shipbuilding	...	...	5,665	4,923	6,561	10,898	7,219	6,291	9,558	
Economy-wide average annual wage of skilled labor (in Maltese liri)										
	...	...	2,626	3,096	3,229	3,286	3,416	3,562	3,650	

Source: Data provided by the Maltese authorities.

1/ Excluding government loan guarantees.

2/ Includes debt incurred by Malta Gantry and Malta Win Containers.

3/ Based on the authorities' GDP estimate for 1998 and GDP projection for 1999.

35. Given the strength of the order book, the Drydocks are overstaffed, and both management and work quality need to be strengthened.²⁰ The company is the largest nongovernment employer in Malta, with over 3,000 employees (2.3 percent of total employment). The employment level has remained relatively stable over the last decade despite a steadily declining volume of work, leading to a serious underutilization of labor: industrial labor utilization on revenue-generating work is estimated at only 41 percent, and the annual ratio of total labor cost to turnover has exceeded 100 percent in recent years. This has been reflected in slow turnaround times, unreliability (in terms of timeliness, the availability of berths, and the willingness to uphold contractual agreements), a poor safety record, and a tense industrial relations climate, all of which have contributed to a deterioration in the company's reputation among its international clientele.

36. There is now widespread recognition, even within the Drydocks, that restructuring of the enterprise is necessary and inevitable; public recognition of the company's sizable contribution to the worsening fiscal situation and the requirements of imminent EU membership have contributed to this change in outlook. Box 1 describes past and ongoing initiatives to restructure the Drydocks.

Box 1. Malta: Past and Ongoing Attempts to Restructure Malta Drydocks

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 enterprise was expected to establish its financial viability. The subsidies, which were intended to be linked to productivity improvements, covered aid for infrastructure development and training, interest on deferred loans, and the cost of two early retirement schemes. Despite the subsidies, little progress was achieved in improving the viability of the Drydocks, and the financial situation actually worsened substantially in the mid-1990s.

As the subsidy program drew to a close, further attempts were made to institute changes at the Drydocks. One concrete measure taken recently was the change in the composition of the nine-member council responsible for managing the Drydocks: in the past, all council members were elected by the workers, but in February 1997, the government, seeking better control of the company, amended the legislation to enable it to appoint a majority of the council members (four council members plus the chairman). Management of the Drydocks has also been strengthened with the recruitment of an experienced chief executive from abroad.

A new restructuring exercise is now underway, based on the recommendations of a July 1997 report by an independent consulting company. Under this exercise, the Drydocks has been divided into two operations: a ship repair operation employing some 1,300 workers and a separate "enterprises" organization with a portfolio of (government-owned) businesses, employing the remaining 2,000 workers in projects of a commercial and social nature (e.g., the construction of solar heating panels and bus chassis) that would form logical spinoffs of existing activities at the Drydocks. Business plans are currently being formulated for these enterprises, some of which may be eligible for privatization later on. The target time frame, negotiated between the Drydocks and the government, is for the ship repair operation to be profitable within three years and for the enterprises section to be profitable in five to six years.

²⁰These problems were highlighted in a November 1996 report by Mr. John Cassar White, as well as in a July 1997 report by Appledore International Limited.

Malta Shipbuilding

37. Malta Shipbuilding was established in 1976 as a centerpiece of the national development program. Its main objectives were, initially, to establish and develop facilities connected with the construction and operation of a shipbuilding yard and, eventually, to construct sea vessels for the local and international markets.

38. Since its establishment, Malta Shipbuilding has been kept in operation only with the help of heavy government assistance of the order of 1 percent of GDP annually (Table 4). Despite this aid, the company made net losses of Lm 10.8 million in 1995, Lm 11 million in 1996, Lm 17.7 million in 1997, and Lm 11.5 million in 1998.²¹ To date, it has accumulated Lm 120 million worth of debt, mostly financed by banks or directly by the government.

39. Malta Shipbuilding is overstaffed, with an inappropriate workforce composition.²² Management structures have been strengthened, partly in order to address these and related challenges. The company now has 831 employees, divided more or less equally between productive and supervisory labor. It is estimated that a quarter of the workforce is nonproductive and untrainable; with no new recruitment for the past several years—a policy that has downsized the labor force, but at the expense of quality and motivation of the remaining workforce—the company now has an aging workforce with an average age of 42. There has, however, been some management restructuring and the shipyard now has a chief executive, a human resources executive, and a finance executive. Box 2 describes past and ongoing attempts to restructure Malta Shipbuilding.

40. It is unclear, however, that Malta Shipbuilding would be viable even if these difficulties in the company structure were addressed. Unlike ship repair and conversion, shipbuilding is an activity in which Malta has less experience, technical expertise, and technological capability than many of its competitors in Europe and Asia. The company currently has a single contract to build three ferries for the Gozo Channel (another parastatal company) which was won despite bidding at a premium to competing yards; this is expected to keep the workforce occupied for the next few years. There is no work lined up once the ferries are completed.

²¹A significant source of loss stemmed from a contract to build eight timber carriers for a company based in the Soviet Union, at a cost of around Lm 6.8 million per ship. Malta Shipbuilding signed the contract in 1984 and delivered the first two ships about five years later; it received Lm 13.6 million. Shortly thereafter, the Soviet Union was dissolved and the Russian authorities claimed they were no longer interested in the remaining six ships. The ships were left in Malta Shipbuilding (where they took up considerable space) until end-1997, when they were sold well below cost.

²²Based on a personal interview with the chairman of the company, Mr. John Cassar White in March 1999.

Box 2. Malta: Past and Ongoing Attempts to Restructure Malta Shipbuilding

In 1994, the government signed an agreement with Malta Shipbuilding, Malta Drydocks, and the General Workers Union (GWU), aimed at restructuring the shipbuilding sector. The agreement envisaged a "merger" of Malta Shipbuilding with Malta Drydocks, in which Malta Shipbuilding's 2,300 employees would be assimilated into the Drydocks' workforce, or encouraged to retire early, or transferred to one of two new government-owned companies (Malta Gantry Manufacturing Ltd. and Malta Win Cargo Containers Ltd.). In accordance with the plan, Malta Shipbuilding's workforce was reduced by approximately 70 percent through reallocations and retirements: 418 workers were transferred to Malta Drydocks, 139 to Malta Win, and 23 to Malta Gantry, while 960 workers either resigned or opted for early retirement.

The two companies formed to absorb surplus labor from Malta Shipbuilding failed. Malta Win, a joint venture between the government and a South Korean corporation, was created in 1993 to produce and market containers. It was liquidated in March 1998, after making accumulated losses of almost Lm 3 million in its last two years. By that time, the company's workforce had dwindled to 50; all returned to Malta Shipbuilding. Malta Gantry Manufacturing, which was set up to manufacture harbor cranes, has made losses since its formation in 1994. By end-1996, the company, together with its subsidiary in Italy, had made losses of Lm 2.3 million; up to that date, the government had been guaranteeing borrowing of up to Lm 10 million. The company is also in the process of closing down.

In early 1998, a Norwegian firm, Ulstein, offered to take over the management of Malta Shipbuilding under certain conditions, such as a reduction in the workforce to 500, an increase in the proportion of direct to indirect workers from 1:1 to 4:1, a commitment by the union to restructuring, a wage freeze, productivity increases of at least 50 percent, and a government commitment of Lm 20 million in capital equipment. However, vocal union protests on the release of the Ulstein report and delays from the change in government last year eventually led to the withdrawal of the contract, although Ulstein has agreed to provide management consultancy to the shipyard.

D. Policy Issues

41. The preceding discussion highlights three key points:
 - the burden that public enterprises impose on public finances is heavy and, given the scale of the current fiscal imbalance, this burden needs to be decisively reduced;
 - this will require substantive changes in the operations of public enterprises, encompassing adjustments to their price structures and all aspects of their productive efficiency; and
 - appropriate measures will vary significantly from case to case; many public enterprises should be privatized, others will require various forms of restructuring which may be achieved in some cases by direct government action and in others by the application of firm financial targets backed up by increased managerial discretion and accountability. Thus, although action is urgent, the technical groundwork should be laid with care.

42. Several general conclusions may be suggested however. The social concerns that have influenced pricing decisions for key enterprises have proved costly in fiscal terms, have proved administratively cumbersome to operate, and because price subsidies are relatively

indiscriminately targeted, have not achieved the social goals that motivated them well. In view of these concerns, a strong case can be made to address social concerns through direct fiscal transfers to households and in the tax system, rather than by means of public enterprise tariff structures. This allows price setting to be motivated by economic considerations such as covering costs and ensuring an adequate return on investment. Concerns that cost coverage might accommodate productive inefficiencies can be addressed by various means, including the strengthening of financial discipline over the companies including the use of benchmarking techniques to assess productive efficiency against the performance of similar producers elsewhere.

43. On the labor front, the lifetime employment guarantee appears to be the source of substantial productive inefficiency. Despite the recognition that overstaffing is a key problem in all the loss-making public enterprises, none of the restructuring plans include plans for shedding excess unskilled labor. Instead, the emphasis has been on finding employment for nonproductive workers, early retirement schemes, hiring freezes, and natural attrition. However, as the case of Malta Shipbuilding starkly illustrates, this approach is actually productivity-reducing as the most experienced workers tend to retire early, those who stay have no incentive to improve, and new workers cannot be hired to do a better job. This aggravates the problems that generated the need for reduced employment in the enterprises affected. The public enterprise sector cannot effectively operate as the employer of last resort and should no longer be required to do so. While it continues to fulfill this function, it slows private sector job creation by distorting the operation of the labor market and by compounding pressures on the public finances.

44. The review of past initiatives to strengthen the performance of the Drydocks and Malta Shipbuilding highlights that if phased reform programs are to be effective, the discipline governing them must be credible. This has proved difficult to achieve in the past, and therefore raises some concerns about the current initiatives which are similarly phased. Credibility may be more readily achieved in current circumstances than in the past, however. The role that public enterprise reforms will play in correcting the fiscal imbalance, the urgency of which is widely understood, may support the current phased reform programs. And prospective entry to the EU may further buttress the credibility of these programs. Nevertheless, it will be essential to reinforce the credibility of the programs through decisive and early action to achieve their aims.

45. In addition, there may be a case for strengthening the institutions that oversee and control these enterprises. There is currently no central controlling authority for all the public enterprises. The Ministry of Economic Services is responsible for certain aspects of the more commercially oriented enterprises, including Enemalta, the WSC, the Drydocks, and the Malta Development Corporation (MDC)—it appoints the board of directors, sets overall policy, and negotiates collective agreements—but regulatory aspects of these enterprises fall under the purview of their relevant ministries (e.g., the Ministry of Transport and Communication in the case of telecommunications and postal services), while the issuance of government guarantees on loans by these enterprises is made by the Ministry of Finance. Other public corporations are the responsibility of various ministries. The day-to-day management of the public enterprises

is not closely monitored by the ministries involved, with the exception of the large loss-makers and companies that are slated for closure or privatization; the latter group are managed by the Malta Investment Management Company (MIMCOL).

46. Privatization is clearly, and appropriately, high on the authorities' agenda. It is a particularly appropriate approach for those public enterprises supplying products or services which could be effectively provided by private companies in competition with one another. In fact, a privatization program has been in place since 1988, when MIMCOL was set up to take over management responsibilities of companies in the portfolio of MDC and MGI and given the task of liquidating companies deemed unviable and improving the performance of those with good prospects to prepare them for sale. Between 1988 and 1998, MIMCOL liquidated over 40 companies and fully privatized some 21 (mostly small) companies; 25 companies are now left in its portfolio, of which 6 are state monopolies. During that period, the government also divested itself of some direct investments, most notably by selling shares in commercial banks, including Mid-Med Bank (in 1991), Lombard Bank (in 1992 and 1994), and the Bank of Valletta (in 1995), and in Maltacom, the telecommunications monopoly (in 1998).²³

47. The government has announced that further privatization will take place in the coming years, the aim being primarily to enhance economic efficiency and secondarily to improve the government's finances. An eight-member privatization unit was formed in March 1999 consisting of senior representatives from the private and public sector. The unit's terms of reference are: to identify potential public enterprises eligible for privatization; to advise on the restructuring needs of these enterprises and their interdependence with other public enterprises; to advise on the method of privatization for each identified enterprise; to consider pre-privatization preparations (e.g., financial projections, legislation to set up a new commercial and regulatory environment, corporatization, and pension, retraining, and other personnel issues); to formulate a time frame and priorities for the privatization program; and to provide estimates of net proceeds and resource requirements. Shortly after its formation, the unit realized the sale of the government's remaining shareholding (67.1 percent) in Mid-Med Bank to the HSBC Group for Lm 83 million.²⁴ The government has targeted a further Lm 160 million in privatization revenues over the next five years, but the pipeline of targeted companies has not been made public.

²³The government sold 40 percent of its stake in Maltacom (previously Telemalta) in June 1998: 20 percent of its shares were sold locally, 17 percent were offered to international investors in the London Stock Exchange, and 3 percent were allocated to Maltacom employees. The sale netted some Lm 35 million.

²⁴The government's target revenue from asset sales in 1999 was Lm 60 million.

III. TAX REFORM IN MALTA, 1990–99²⁵

48. Over the past decade, the Maltese authorities have introduced many changes to the country's tax system—including a fundamental reform of the income tax structure and, more recently, significant modifications in the system of indirect taxation—with a view to improving taxpayer compliance, enhancing its revenue productivity, and moving it toward those prevailing in the EU. This note describes and assesses the key tax reforms undertaken during that period.

A. Historical Background

49. Malta's tax structure prior to the 1990s was characterized by a heavy reliance on income taxes and import duties and the absence of a broad-based consumption tax covering both goods and services and wealth-related taxes (except for a high and progressive death and donation duty with a very low threshold) (Table 5). Personal income tax rates were steeply progressive, reaching the top rate of 65 percent at a taxable income of around 4½ times the per capita GDP, yet tax revenues were relatively inelastic with respect to income growth: the buoyancy estimate for income tax revenue in 1980–89 was only 0.33.²⁶ Import duties were employed for multiple objectives, including revenue raising, equity, and protection, leading to serious distortions in addition to those resulting from other types of import restrictions and licensing. In addition, specific protective levies were imposed on a wide range of imported goods (including certain foods, soft drinks, paint, soaps, plastics, travel cases, paper, shirts, stockings, socks, footwear, glassware, and jewelry), with implicit rates as high as 110 percent; these import levies were introduced under the Local Manufacturers' Promotion Act of 1989, as a replacement for other forms of import restrictions (such as quotas and import prohibitions) on the goods involved. Excise taxes were limited to four goods (soft drinks, cigarettes, color televisions, and beer).

50. After 1989, the Maltese authorities began a fundamental overhaul of their tax system, aimed in part to anticipate eventual EU accession. The key reforms are outlined below.

B. Income Tax Reforms

51. The Maltese authorities undertook a bold reform of the income tax structure in 1990. The reforms included a lowering of the top marginal personal income tax rate from 65 percent to 35 percent, a reduction in the number of personal income tax brackets from 10 to 5, the conversion of most tax allowances and deductions into a tax credit (rebate), and the

²⁵Contributed by Ling Hui Tan.

²⁶Buoyancy is estimated as the percentage change in income tax revenue with respect to a 1 percentage point change in GDP.

Table 5. Malta: Tax Revenue, 1985-99

	Average 1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In percent of GDP 1/)											
Tax receipts	25.7	26.7	26.3	27.1	28.0	26.6	29.9	28.2	30.2	27.4	29.0
Direct taxes	15.1	14.6	13.9	14.5	16.1	15.2	15.5	14.7	16.0	14.5	15.2
Income taxes	8.2	7.8	7.6	8.2	9.1	8.5	8.7	7.8	8.6	7.9	8.5
Social security contributions 2/	6.5	6.5	5.9	6.1	6.9	6.6	6.8	7.0	7.4	6.5	6.6
Death & donation duties	0.4	0.4	0.3	0.2	0.2	0.1	--	--	--	--	--
Indirect taxes	10.6	12.1	12.5	12.5	12.0	11.4	14.4	13.5	14.2	12.9	13.9
VAT	--	--	--	--	--	--	6.8	6.5	4.6	-0.4	5.5
CET	--	--	--	--	--	--	--	--	2.0	5.2	0.3
ETP and ETS	--	--	--	--	--	--	--	--	0.7	2.7	0.2
ETI	--	--	--	--	--	--	--	--	1.3	2.5	0.2
Import duties	7.7	8.2	8.3	8.4	8.1	6.1	0.8	0.7	0.7	0.6	0.7
Excise taxes	1.1	1.0	1.1	1.0	0.8	0.9	2.1	2.0	2.7	3.1	3.1
Licenses, levies, and fines	1.9	2.9	3.1	3.1	3.1	4.4	4.8	4.3	4.2	4.4	4.2
(In percent of total tax revenue)											
Tax receipts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct taxes	58.7	54.8	52.6	53.7	57.3	57.2	51.8	52.2	53.0	52.8	52.3
Income taxes	31.9	29.2	29.0	30.1	32.3	32.1	29.1	27.5	28.5	29.0	29.4
Social security contributions 2/	25.4	24.2	22.6	22.7	24.4	24.8	22.7	24.7	24.5	23.8	22.9
Death & donation duties	1.4	1.4	1.0	0.9	0.6	0.4	0.0	0.0	0.0	0.0	0.0
Indirect taxes	41.3	45.2	47.4	46.3	42.7	42.8	48.2	47.8	47.0	47.2	47.7
VAT	--	--	--	--	--	--	22.8	23.2	15.1	-1.6	19.0
CET	--	--	--	--	--	--	--	--	6.7	19.1	1.2
ETP and ETS	--	--	--	--	--	--	--	--	2.3	9.9	0.6
ETI	--	--	--	--	--	--	--	--	4.4	9.2	0.6
Import duties	29.8	30.8	31.5	31.0	28.8	23.1	2.6	2.4	2.4	2.3	2.4
Excise taxes	4.1	3.6	4.2	3.8	2.9	3.2	6.9	7.0	8.8	11.5	10.8
Licenses, levies, and fines	7.4	10.9	11.7	11.6	11.0	16.5	15.9	15.2	14.0	15.9	14.4

Sources: Ministry of Finance and Commerce, *Estimates*; and data provided by the Maltese authorities.

1/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

2/ Excludes the state contribution in terms of the Social Security Act of 1987 but includes the amount paid by the government as an employer.

introduction of separate assessments for married working women. At the same time, the flat 32.5 percent corporation tax rate was raised to 35 percent, in order to remove the discrepancy with the top personal marginal rate.²⁷

52. As intended by the authorities, the changes were revenue-neutral: the income tax to GDP ratio averaged 8.3 percent over 1990–95, compared to 8.2 percent over 1985–89. The potential revenue loss from the personal income tax rate reductions was balanced by improved tax compliance due to the corporation tax reform and the simplification of the personal income tax structure, slightly higher female labor force participation,²⁸ and improved collection efforts aided by computerization. The reforms appear to have improved the elasticity of income tax revenue: the buoyancy estimate increased to 1.3 for 1990–95.

53. A further reform in the income tax structure was introduced in the mid-1996, a year and a half following the introduction of the VAT (see below). The changes were intended to reduce the average rate of taxation and make the system more equitable, simplify further the tax structure so as to minimize abuse and cut down on administrative costs, and move from the PAYE system toward a final withholding tax system. They involved raising the tax exemption threshold from Lm 2,000 to Lm 3,000 per annum for single taxpayers and Lm 3,000 to Lm 4,000 per annum for married taxpayers filing jointly—a move estimated to have exempted some 100,000 persons from income tax payment—and raising the personal income tax brackets so that the maximum rate of 35 percent applied to an annual income exceeding Lm 10,000 (up from Lm 6,000) for single individuals and Lm 8,000 (up from Lm 4,900) for married couples.²⁹ The income tax to GDP ratio fell from 8.3 percent in 1990–95 to 7.8 percent in 1996, although it rebounded to 8.6 percent in 1997 mainly due to the collection of arrears.³⁰

54. Malta's current corporation tax rate of 35 percent is more or less in line with those in the EU but relatively high compared with the EU applicants in its cohort (Table 6). Notwithstanding the global trend toward declining corporation tax rates and the need to attract foreign direct investment, there is no pressing need to reduce the current rate. Under

²⁷This discrepancy had created the incentive for individuals to form limited liability companies to take advantage of the lower tax burden afforded by the company tax and the incentive for companies to retain rather than distribute profits in order to help the owners avoid the high marginal rates of personal income tax.

²⁸The share of females in the labor force rose from an average of 24.7 percent in 1985–89 to 26 percent in 1990–95.

²⁹In 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.

³⁰The 1997 income tax collection was boosted by an exceptional amount of Lm 7 million (0.5 percent of GDP) due to the clearance of arrears by Malta Drydocks.

Table 6. Malta: Comparison of Corporate Income Tax Rates, 1999

Country	Tax rate (in percent)	
Austria	34	
Belgium	40.17	1/
Denmark	34	
Finland	28	
France	33 $\frac{1}{3}$	2/
Germany	45	3/
Greece	35 / 40	4/
Ireland	28	5/
Italy	37	6/
Luxembourg	30	7/
Netherlands	35	
Portugal	34	
Spain	35	8/
Sweden	28	
United Kingdom	30	9/
Cyprus	25	10/
Czech Republic	35	11/
Estonia	26	
Hungary	18	
Poland	34	
Slovenia	25	
Malta	35	

Source: Ernst & Young.

1/ Income below BF 13 million is taxed at rates ranging from 28.84 percent to 42.23 percent.

2/ A 10 percent surtax is imposed on gross corporate income for financial years ending on or after 1995. The surtax is increased to 20 percent for financial years ending in 1999 unless a company has an annual turnover of less than F 50 million and at least 75 percent of the company is owned directly or indirectly by individuals.

3/ The rate is 30 percent on distributed profits.

4/ The 40 percent rate applies to unlisted Greek corporations; Greek and foreign banks; and foreign corporations operating in Greece. All other Greek legal entities, including joint ventures, are subject to tax at a rate of 35 percent.

5/ Profits from the sale of goods manufactured in Ireland and from certain other activities are taxed at an effective rate of 10 percent.

6/ A 19 percent tax rate may apply to a portion of taxable income. A regional tax on productive activities is imposed on the net value of production.

7/ In addition, a municipal business tax (generally 9.1 percent) and an additional 4 percent unemployment fund contribution are levied on income.

8/ Other rates apply to specified entities.

9/ Before April 1, 1999, the rate is 31 percent. The "small" companies rate of 20 percent (21 percent until March 31, 1999) applies in certain circumstances if taxable profits are below £ 300,000.

10/ 20 percent on income up to €C 40,000.

11/ Investment funds, mutual funds, and pension funds are subject to tax at a rate of 25 percent.

the Industrial Development Act of 1988, qualifying companies in Malta are eligible for a wide range of tax incentives that serve to lower the effective rate of corporation tax. These incentives include a 10-year tax holiday (for companies exporting at least 95 percent of total sales), tax exemption for profits resulting from certain percentage increases in exports, reduced tax rates for approved reinvestment programs, generous investment allowances and accelerated depreciation,³¹ and tax exemption for recipients of dividends paid by qualifying companies (if the dividends are paid out of income that is tax-exempt as the result of a tax holiday, increases in exports, or investment allowances granted under the Act). Moreover, international experience indicates that stability and good infrastructure are more important determinants of foreign direct investment than marginal changes in the corporation tax rate, thus given the recent policy reversals with regard to indirect taxes and EU membership, a reduction of the corporation tax rate (and corresponding changes to the personal income tax rate structure that would be necessary to discourage incorporation for tax purposes) is unlikely to be useful at this time.

C. Value-Added Tax

VAT (I)

55. As mentioned earlier, Malta's tax system prior to the 1990s reforms lacked a broad-based tax on the consumption of goods and services. As a prelude to the introduction of a such a tax, the authorities introduced, over 1990-94, a number of interim measures, including: expenditure levies on food served in hotels, restaurants, and other establishments (10 percent tax), airline tickets (10 percent tax), and tourist accommodation (5 percent tax); a motor vehicle registration tax to replace import duties on motor vehicles; and excise taxes on cement, petroleum oils, and alcohol to replace import duties on those products.

56. The plan to introduce a VAT in 1995 was first announced in the budget for 1994. The announcement was followed by an extensive, and often contentious, public debate on the issue. The government implemented the VAT on January 1, 1995, while simultaneously removing a range of indirect taxes including the expenditure levies on restaurant meals, airline tickets, and tourist accommodations; excise duties on beer, mineral water, soft drinks, crown corks, and television sets; the entertainment tax; and customs duties on EU imports (see below).³²

³¹Qualifying Maltese-owned (foreign-owned) companies benefit from investment allowances of 33 percent (30 percent) on plant and machinery and 16.5 percent (15 percent) on industrial buildings or structures, and accelerated depreciation rates of 33⅓ percent (25 percent) on plant and machinery and 5 percent (4 percent) on industrial buildings or structures.

³²The VAT also substituted for some of the profits hitherto transferred to the government from Enemalta and Telemalta: the services provided by these two public enterprises were subject to VAT, but the tax was not passed on to their consumers.

57. The VAT was levied at a standard rate of 15 percent on all taxable goods and services (both imported and domestically produced) and a reduced rate of 10 percent for selected items including catering services and tourist accommodation. Zero-rated items included exports, certain food items, pharmaceutical goods, medical services, bus and ferry transport, and education.³³ Financial services, letting, and transfers of immovable property, and nonprofit organizations were exempt.³⁴ There was no minimum exemption threshold for small traders.

58. The VAT proved to be an effective revenue-raising tool, generating some 6½ percent of GDP in 1995 and 1996 (23 percent of tax revenue) (Table 5). The productivity of the tax, at 0.45 percentage points of GDP for every percentage point of the standard rate, compared favorably with VATs in the EU (Table 7). This strong performance could largely be explained by the high proportion of imports in the VAT base and the existence of only one, minor, reduced rate.

59. The creation of an audit trail under the VAT also helped to reduce the scope for tax evasion in Malta, and uncovered a large portion of the hitherto underground economy: recorded GDP in 1995 jumped by 7.3 percent in real terms (11.4 percent in nominal terms) and recorded employment at end-1995 jumped by 3.3 percent relative to end-1994.

The Customs and Excise Tax System (CET)

60. A change of administration in October 1996 changed the course of tax policy in Malta. The new administration immediately froze Malta's membership application to the EU and set about constructing a new system of indirect taxation to replace the VAT.

61. In July 1997, the customs and excise tax (CET) system was introduced to replace the VAT. The CET system consisted of three excise taxes: an excise tax on products (ETP), an excise tax on services (ETS), and an excise tax on imports (ETI).

³³The complete list of zero-rated items is as follows: (i) exports; (ii) services connected with exports; (iii) services to companies registered but not operating in Malta; (iv) goods in bond, supplies by duty free shops, and Freeport activities; (v) port services; (vi) international transport; (vii) the provisioning and fueling of ships and aircraft; (viii) the supply, repair, modification, chartering, and hiring of ships and aircraft; (ix) food, excluding catering; (x) pharmaceutical goods; (xi) health and welfare; (xii) education; (xiii) services by band clubs; (xiv) transport; (xv) investment services; (xvi) the supply of gold to the central bank; (xvii) printed matter and other articles; (xviii) water; and (xix) the supply of objects intended for religious worship.

³⁴The complete list of exemptions is as follows: (i) the transfer and letting of immovable property (excluding tourist accommodation, parking premises, and permanently installed equipment and machinery); (ii) insurance services; (iii) credit, banking, and other services; (iv) postal services; (v) cultural and religious services; (vi) sports; (vii) services related to health, welfare, and education; (viii) lotteries; and (ix) imports that are exempt from duty.

Table 7. Malta: Comparison of VAT Rates, Revenue, and Productivity, 1995

	Standard rate	Other rates	Revenue	Productivity
	(in percent)		(in percent of GDP)	
Austria	20	10, 12, 32	5.5	0.28
Belgium	21	1, 6, 12	6.9	0.33
Denmark	25		9.9	0.40
Finland	22	6, 12, 17	7.9	0.36
France	20.6	2.1, 5.5	7.8	0.38
Germany	15	7	3.8	0.25
Greece	18	4, 8	7.6	0.42
Ireland	21	3.3, 10, 12.5	7.5	0.36
Italy	19	4, 10, 16	n.a.	n.a.
Luxembourg	15	3, 6, 12	5.6	0.37
Netherlands	17.5	6	6.8	0.39
Portugal	17	5, 12	7.6	0.44
Spain	16	4, 7	4.3	0.27
Sweden	25	6, 12, 21	7.5	0.30
United Kingdom	17.5		6.6	0.38
Malta	15	10	6.8	0.45

Sources: IMF, *Government Financial Statistics*; and data provided by the Maltese authorities.

62. The ETP was levied at a rate of 5 percent on the wholesale price of all taxable goods (both imported and domestic) sold in Malta. Unlike the VAT, the ETP was a single-stage excise tax. It was charged and collected (by the seller) on every transaction involving the sale of taxable goods within the commercial chain from manufacturers/importers to wholesalers, and from wholesalers to retailers; it was not collected by retailers when they sold to the general public.³⁵ A limited system of refunds was devised to mitigate the double taxation effects of the ETP: for example, wholesalers and distributors who sold a taxable product on which they had paid the ETP at the time of purchase were allowed to set off the ETP paid against the ETP collected on the sale of the product; also, manufacturers who paid the ETP on raw materials used in the manufacture of finished products were allowed to charge the ETP on the selling price of their output. In general, most items that were exempt or zero-rated under the VAT were also exempt from the ETP.³⁶ In addition, businesses with total sales below a threshold of Lm 12,000 per annum were exempt from ETP on their sales.

63. The ETS was levied at the rate of 5 percent on the total value of taxable services provided in Malta. Unlike the VAT or the ETP, the ETS was a turnover tax, i.e., it was not charged on each individual transaction, but on the total value of taxable services provided during a given tax period (normally three months). Exempt services included: those used in the production of exports, food, and pharmaceuticals; the international transport of goods and services; health and welfare services; and certain services related to real estate, finance, banking, and insurance. Businesses whose total value of services supplied fell below the threshold of Lm 6,000 per annum were exempt from ETS.

64. The ETI was charged at the rate of 15 percent on the c.i.f. value of taxable imports (both consumer and industrial goods imports), and collected by the customs department before the goods were released for use. In general, most of the goods that were not subject to VAT or import duty were also exempt from ETI; they included certain capital goods and raw

³⁵ETP was charged at the rate of 4.1 percent of the taxable value when a wholesaler or distributor (i.e., any agent other than a retailer who had paid ETP) sold a taxable product directly to the general public.

³⁶The main exemptions were: (i) exports; (ii) goods exempt from import duty; (iii) certain industrial capital equipment; (iv) goods in bond, supplies by duty free shops, and Freeport activities; (v) goods solely for agricultural and fishing use; (vi) the provisioning and fueling of ships and aircraft; (vii) food; (viii) pharmaceutical goods; (ix) products related to the provision of health and welfare services; (x) books, newspapers, and other printed matter; (xi) water; and (xii) fuel and electricity.

materials, essential consumer products such as food and pharmaceuticals, and imports that were already subject to a protective levy.³⁷

65. The CET system was liable to the criticism of cascading. In contrast to the VAT, these excise taxes were not creditable except for certain exemptions, and as such, they represented a cost to businesses that was eventually factored into the pricing decision. Attempts to replicate the VAT system of crediting through the use of exemptions and refunds only exacerbated the degree of arbitrariness in the system and facilitated increased avoidance and evasion.³⁸

66. The revenue impact of the CET is difficult to gauge precisely as the system was in place for less than two years: the ETI was implemented only in July 1997, and ETP and ETS were only partially operational as late as September 1997. Receipts from ETI during July–December 1997 amounted to Lm 17 million (1.3 percent of GDP); receipts from ETP and ETS during September–December 1997 amounted to Lm 9.1 million (0.7 percent of GDP). The CET yield in 1998, the first (and only) full year of implementation, was Lm 72.6 million, or 5.2 percent of GDP, some 1½ percentage points of GDP less than the yield obtained under the VAT.³⁹

VAT (II)

67. A further change in administration in 1998 marked the reintroduction of the VAT, which replaced the CET in January 1999. The new VAT retains the same standard rate as the previous one, i.e., 15 percent on all taxable goods and services. There is one reduced rate of

³⁷The main exemptions were: (i) imports that are exempt from import duty; (ii) imports that are subject to an import levy; (iii) certain industrial capital equipment; (iv) goods solely for agricultural or fishing use; (v) personal belongings by individuals transferring their normal residence to Malta; (vi) the importation of one private motor vehicle by individuals transferring their residence to Malta; (vii) goods and food that are exempt from ETP; (viii) the temporary importation of goods; (ix) re-exports; and (x) the importation of goods into the Freeport.

³⁸For example, under the CET system, when certain qualifying companies (e.g., export-oriented companies, those engaged in the manufacture of food and pharmaceuticals, small enterprises, or hotels) imported an input directly, they were exempt from ETI and ETP. However, if these companies were to have purchased the same input from a domestic importer/distributor, they would have been charged the ETI and ETP in the sale price. In order to remove this anomaly—which would not have arisen under the VAT—the CET system entitled these companies to a refund of 16 percent of the input price in the latter case (12 percent in the case of hotels). The CET system did not provide for refunds of ETS.

³⁹The difference is reduced when one takes into account VAT refunds of Lm 6 million that were paid out only in 1998.

5 percent, applicable only to tourist accommodation.⁴⁰ The list of zero-rated items is basically the same as before, but no longer includes the supply of water by the WSC.⁴¹ The list of exempt items is also basically the same, except that it now includes the supply of cable telephony.⁴² Electricity, gas, and other energy products sold by Enemalta are not specifically included in the list of exempt products, but are exempt in practice.⁴³

68. An important refinement under the new VAT was the introduction of minimum exemption thresholds for small traders. Registered businesses with an annual turnover below the relevant amount shown in the second column of the table below may opt out of the system, i.e., be exempted. However, this exempt status is withdrawn once turnover equals or exceeds the relevant amount shown in the third column of the table below. While the exemption of small traders is an improvement over the old VAT, the existence of several thresholds seems unnecessarily complex and goes against international standard practice. In addition, the lack of a clear definition of which activities fall into each of the three categories listed below introduces a degree of arbitrariness into the system.

Malta: VAT Thresholds

Category	Threshold below which a person may opt out	Threshold above which a person has to be in
Economic activities consisting principally in the supply of goods	Lm 12,000	Lm 15,000
Economic activities consisting principally in the supply of services with a relatively low value added	Lm 8,000	Lm 10,000
Other economic activities	Lm 5,000	Lm 6,000

Source: VAT Act of 1998.

⁴⁰The reduced rate applies to tourist accommodation and 80 percent of any other supplies to persons to whom this accommodation is provided, to the extent that the price of these other supplies is included in the price of the accommodation.

⁴¹Also excluded from the list of zero-rated items are services to companies registered but not operating in Malta and the supply of objects intended for religious worship.

⁴²The list of exemptions now excludes postal services and imports that are exempt from duty.

⁴³This exemption is provided for under Part II of the VAT Act which states that the activities of public authorities are excluded from the scope of the tax. (The first VAT Act had a similar provision but the government chose to impose the tax on Enemalta and Telemalta and prohibited the corporations from passing the tax on to their consumers.)

69. The authorities project VAT revenue of Lm 80 million in 1999 (5.6 percent of GDP); they estimate the impact of the opt-outs to be small.

D. Import Tax Reforms

70. The introduction of the VAT in 1995 was accompanied by a sweeping liberalization of trade: customs duties on EU imports were removed, and those on non-EU imports reduced substantially to bring them in line with the EU common external tariff. These reforms lowered the implicit import duty rate—calculated as the ratio of total import duties collected to the total c.i.f. value of imports—to 1 percent, from an average of 9 percent in 1990–94. However, to mitigate the impact on domestic industry of the tariff reduction, protective 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. At the same time, quantitative restrictions on agricultural goods imports were dismantled and replaced with import levies, bringing the total number of items subject to such levies to over 1,200.

71. As expected, the tariff reductions led to a surge in imports, especially those from the EU, and a plunge in revenue from import duties, from an average of 7.8 percent of GDP (29 percent of total tax revenue) in 1990–94 to 0.7 percent of GDP (2.5 percent of total tax revenue) in 1995–96⁴⁴ (Table 8). On balance, however, the indirect taxation reforms in 1995 were revenue raising: the ratio of indirect tax revenue to GDP rose from an average of 12.1 percent in 1990–94 to 14.4 percent in 1995; indeed, the total tax yield rose by 3 percentage points of GDP, from an average of 27 percent in 1990–94 to 30 percent in 1995.

72. The indirect tax reforms of 1997 marked a return to the bias against imports in the Maltese tax system. In addition to the 15 percent ETI (on top of which ETP was also charged), the new system also provided for increased import duty rates—at least 8.1 percent—for non-EU imports. Hence, the implicit import tariff (i.e., the sum of the revenue from import duties, import levies, and the ETI, expressed as a ratio of the total c.i.f. value of merchandise imports), which had dropped substantially in 1995–96, rose to 3.6 percent in 1997 and 5.2 percent in 1998 (Table 8).

73. This bias against imports has since been removed (again). As mentioned above, the ETI was eliminated in 1999. At the same time, the import tax regime was reverted to the one prevailing in 1995. The authorities are currently in the process of drawing up a timetable for the dismantling of the import levies, which is one of the requirements for entry into the EU (see Chapter V).

⁴⁴Revenue from import duties plus import levies fell from an average of 8.2 percent of GDP (30.3 percent of total tax revenue) in 1990–94 to 1.4 percent of GDP (5 percent of total tax revenue) in 1995–96.

Table 8. Malta: Revenue from import taxes, 1990-99

	Average 1990-94	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)						
Revenue from import taxes	71.0	17.3	16.6	35.1	53.4	22.2
Import duties	67.9	9.0	8.2	9.2	8.9	10.3
Levies on imports	3.1	8.3	8.4	8.9	9.5	9.5
Excise tax on imports (ETI)	--	--	--	17.0	35.0	2.4
(In percent of GDP 1/)						
Revenue from import taxes	8.2	1.5	1.4	2.7	3.8	1.5
Import duties	7.8	0.8	0.7	0.7	0.6	0.7
Levies on imports	0.4	0.7	0.7	0.7	0.7	0.7
Excise tax on imports (ETI)	--	--	--	1.3	2.5	0.2
(In percent of total tax revenue)						
Revenue from import taxes	30.3	5.0	4.9	9.1	14.0	5.3
Import duties	29.0	2.6	2.4	2.4	2.3	2.4
Levies on imports	1.3	2.4	2.5	2.3	2.5	2.3
Excise tax on imports (ETI)	--	--	--	4.4	9.2	0.6
(In percent)						
Implicit import tax rate	9.5	1.7	1.7	3.6	5.2	1.9
Import duties	9.1	0.9	0.8	0.9	0.9	0.9
Levies on imports	0.4	0.8	0.8	0.9	0.9	0.8
Excise tax on imports (ETI)	--	--	--	1.7	3.4	0.2
(In millions of Maltese liri)						
Memorandum item:						
Merchandise imports, c.i.f. 2/	760.4	1,037.7	1,007.8	984.2	1,034.9	1,144.8

1/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

2/ The 1999 figure is a staff estimate.

E. Reforms in Tax Administration

74. The authorities have recently also begun to take steps to raise tax compliance. A recent report by a government-commissioned independent consultant estimated nondeclaration and understatement of direct tax by businesses to be as much as Lm 15 million per year and undeclared benefits and over-allowed expense claims plus arrears to be as much as Lm 5 million per year, implying noncompliance losses of up to Lm 20 million each year; including outstanding tax arrears from businesses of around Lm 50 million, the total amount of under- or undeclared tax and unpaid tax arrears would be some Lm 70 million.

75. A key aspect of this problem has been the lack of adequate staffing—both in terms of numbers and of caliber—in the revenue collecting departments, particularly at the Inland Revenue Department (IRD).⁴⁵ These shortfalls are reflected in inadequate enforcement, including the limited imposition of penalties on non-filers (estimated at around 40 percent of individuals and 60 percent of companies to whom returns were issued), little or no effective challenge to the accuracy and completeness of those returns and accounts that have been submitted, and significant delays in enforcing the payment of outstanding tax arrears (some of them more than 10 years old).

76. The authorities have taken steps to address the staffing shortage. A recruitment exercise is currently under way to engage additional personnel. Also, the Final Settlement System (FSS) was implemented in 1998 whereby taxpayers whose sole source of income is from employment and those below the tax thresholds are no longer required to file a return; this has reduced the amount of paperwork and helped free up resources at the IRD to focus on other tasks.

77. The authorities have also intensified their efforts in arrears collection. The FSS resolved some aspects of this problem as it required employees with income tax arrears to enter into a written agreement to clear them over a given period. The authorities have also started (in November 1997) to apply interest charges of 1 percent per month on income tax arrears. In the VAT department, starting in 1999, VAT refunds are now withheld from those with VAT arrears, to be applied toward the clearance of those arrears.

78. Measures currently under way to improve compliance include a public education campaign and the introduction of legislative amendments aimed at strengthening the IRD, covering, among other things, nondeclarations, fines on late submission of returns, interest on late payments, and self assessment of returns. Additional measures in the pipeline include data sharing among the revenue collecting departments, staff training, and re-engineering of the IRD's information system.

⁴⁵For example, the IRD has only two investigators available to test tax compliance by 35,000 businesses paying around Lm 45 million of tax each year.

F. Conclusion

79. The tax reforms of the 1990s have been quite successful: notwithstanding the (momentary) setback caused by the policy reversal on the VAT, tax revenue has risen from an average of 25.7 percent of GDP per annum in 1985–89 to 28.9 percent of GDP per annum in 1995–98. Income tax reductions, the introduction of an audit trail under the VAT, and recent improvements in tax administration have all contributed to a sustainable widening of the tax base relative to the pre-reform period.

80. The overhaul of Malta's tax system is now nearly complete. With the reintroduction of the VAT in 1999, the tax system is now well in line with those in the EU, and future changes are expected to be in terms of fine-tuning rather than major reforms. As outlined in Chapter V, these changes include abolishing the import levies and adopting the EU's common external tariff, modifying the VAT system to bring zero ratings and exemptions into line with EU standards, and increasing excise tax rates for tobacco and alcohol.

IV. MALTA'S EXCHANGE RATE AND EXCHANGE CONTROL REGIME⁴⁶

81. Malta has had a fixed exchange rate since 1968 prior to which it was part of the sterling area. Recently, there has been some consideration to allowing more flexibility to the regime in the context of an increasingly liberalized capital account and to address the current fiscal imbalance. This paper compares Malta's exchange regime with those of other small island economies, and outlines several exchange rate regime options for the future.

A. History of Malta's Exchange Rate Regime

82. When the Central Bank of Malta (CBM) was established in 1968, the new Maltese currency was fixed at par to sterling. In response to sterling's float after the collapse of the Bretton Woods system in 1971–72, the Maltese lira was pegged to a trade weighted basket of major European currencies instead of just sterling. In 1974, the U.S. dollar was added to the basket in order to take into account the increasing share of dollar-priced external trade following the 1973 oil price increase. In 1985, the composition of the basket was changed to reflect trade in services, particularly tourism, rather than just merchandise trade. In 1989, the number of currencies was reduced from ten to three (including for the first time the ECU). In 1992, in response to turmoil in European currency markets, the Maltese lira was devalued by 10 percent in order to sustain Maltese competitiveness relative to other EU tourist destinations. The current Maltese basket consists of the euro, with a weight of 56.8 percent, and the U.S. dollar and sterling, each with a weight of 21.6 percent. Throughout this period, Malta's peg has been backed by wide-ranging capital controls on both inward and outward flows which has provided some scope for autonomy in the CBM's monetary policy stance.

⁴⁶Contributed by David W. H. Orsmond.

83. Malta's peg arrangement has served the country well. The peg has successfully performed the dual roles of an exchange rate, namely as part of the nominal anchor framework and as a key relative price. With the exception of the oil price shocks, inflation has remained low throughout the post independence period. External imbalances have rarely created strains which raised the prospect that exchange rate changes would be required. Indicators of competitiveness on either a CPI-REER basis or vis-à-vis alternative tourism destinations (such as Spain, Greece, and Turkey) do not show that there are substantive difficulties in this area (Figure 1). Finally, official reserves are strong, at over 110 percent of base money. As a result, the peg is well understood and is highly credible.

B. Comparison of Malta's Exchange and Control Arrangements with Other Countries

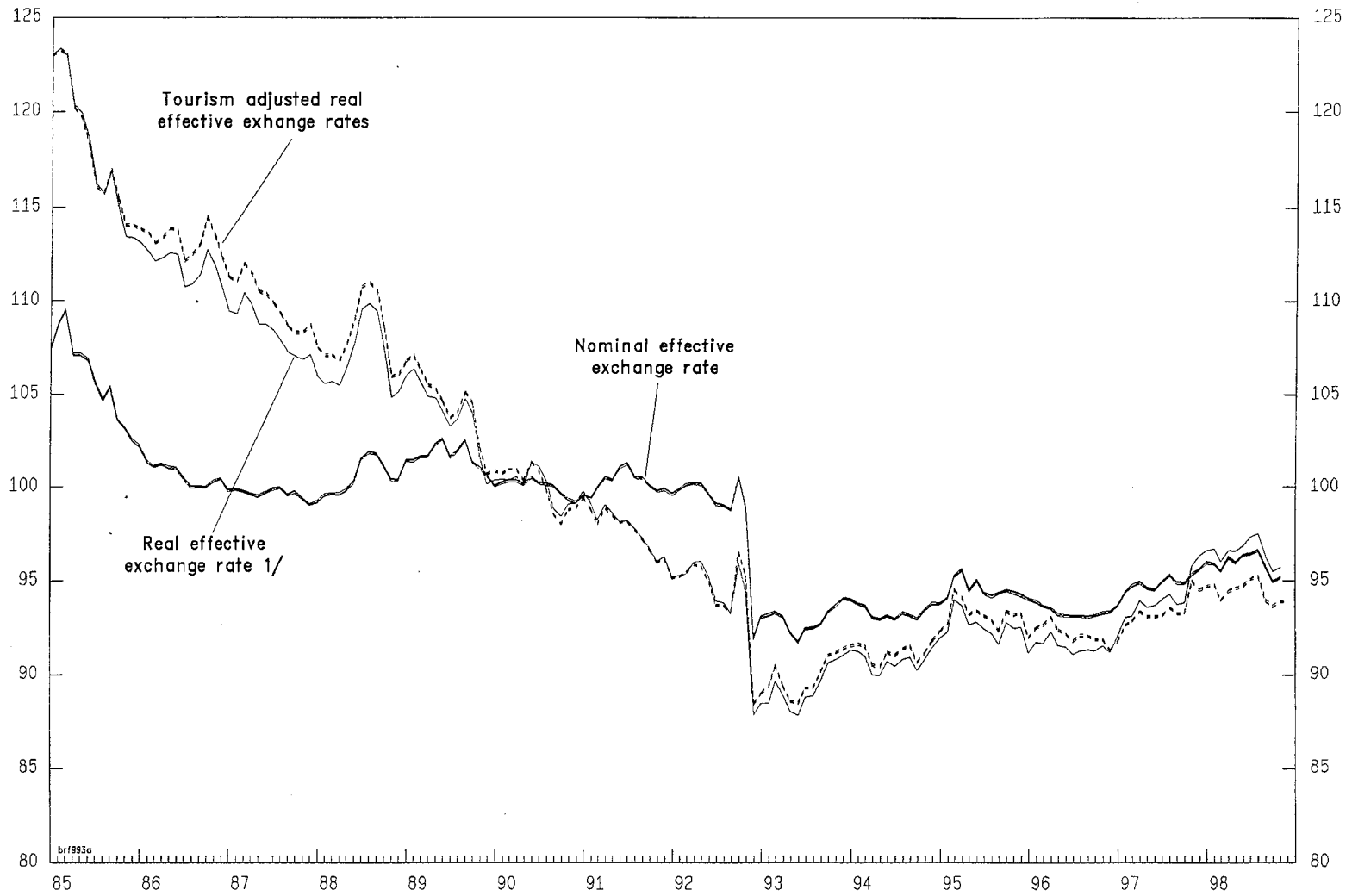
84. Malta's current exchange rate regime is similar to that of most other comparable economies. Table 9 classifies Malta and 20 other small island economies where data were available according to their exchange rate regime.⁴⁷ As can be seen, as in Malta, the majority of these economies have long standing peg arrangements, either to the U.S. dollar or to a currency basket; only four such countries have utilized a floating arrangement. The table also indicates that countries that use an exchange rate peg tend to be those with smaller economies and higher export/GDP shares, and (most notably) tend to have lower average inflation levels than those with a floating regime.

85. Table 9 also indicates for these 21 countries the number of restrictions that have been placed on current transactions (out of a total of 3 possible types) and on capital transactions (out of a total of 13 possible types).⁴⁸ Although the data are only indicative—since they show the presence rather than the restrictiveness of each type of control—they suggest that countries with a fixed exchange rate regime (such as Malta) tend to support the peg through recourse to a larger number of restrictions than those with a floating exchange rate regime. Nonetheless, the scope that these controls provide such countries to have an independent monetary policy is fairly minimal; the difference between the deposit and lending rates relative

⁴⁷The data were taken from International Monetary Fund, *International Financial Statistics*.

⁴⁸The 3 types of current transaction controls cover restrictions on payment for invisible transactions and current transfers, whether there is a repatriation requirement, and whether there is a surrender requirement. The 13 types of capital transaction controls cover restrictions with respect to capital market securities, money market securities, collective investment securities, derivatives and other securities, commercial credits, financial credits, guarantees, direct investment, liquidation of direct investment, real estate transactions, personal capital movements, and specific provisions related to commercial banks and credit institutions and to institutional investors. Where data for some types of transactions were not available, it was assumed that there are no controls.

Figure 1. Malta: Effective Exchange Rates, 1985-98



Sources: International Monetary Fund, INS and staff estimates.

1/ Based on consumer price indices.

Table 9: Exchange Rate Arrangements and Macroeconomic data for Selected Countries, 1992-97 1/

	Nom. GDP (USD mil)	Exp/GDP (percent)	Inflation (percent)	Spreads in percent 2/ Deposit Lending		Transaction controls Current 3/ Capital 4/	
Countries pegged to the US dollar							
Antigua and Barbuda	500	85.8	2.0	1.3	4.7	1	2
Bahamas	2958	52.6	1.6	0.2	-0.6	3	11
Barbados	1838	56.1	2.0	-0.5	2.7	3	12
Dominica	218	40.0	1.4	-0.8	2.6	3	9
Grenada	275	44.4	2.3	-0.3	2.9	3	11
Maldives 5/	276	110.0	6.8	1.1	-1.7	0	2
St. Kitts and Nevis	220	53.0	3.6	0.9	5.2	3	8
St. Lucia	532	65.7	2.1	1.1	2.7	2	10
St. Vincent and Grenadines	250	48.5	2.3	0.0	3.8	3	8
Countries pegged to a basket							
Fiji	1889	54.6	2.9	-1.6	3.6	3	13
Mauritius 5/	3794	31.4	7.3	5.3	11.4	0	2
Malta	2968	91.7	3.6	-0.3	0.5	3	10
Samoa	106	34.4	4.2	0.9	4.4	3	10
Seychelles	490	57.6	0.5	4.7	8.1	2	4
Tonga	152	20.9	1.7	-0.7	3.0	3	3
Vanuatu	209	46.6	2.4	-0.4	5.8	0	0
Countries with an exchange rate band							
Cyprus	7713	47.5	3.5	1.2	1.5	3	12
Countries with floating arrangements							
Dominican Republic	12152	23.4	8.0	10.0	19.2	3	10
Haiti	2223	9.2	24.7	0.2	1.7	0	1
Jamaica	4630	57.0	20.3	21.9	36.2	0	4
Trinidad and Tobago	5321	48.3	6.4	0.3	8.0	0	4
Averages for countries with:							
Peg to the U.S. dollar	785	61.8	2.7	0.3	2.5	2.3	8.1
Peg to a basket	1373	48.2	3.2	1.1	5.3	2.0	6.0
Floating rates	6082	34.4	14.8	8.1	16.3	0.8	4.8

Sources: International Monetary Fund, *International Financial Statistics*; *Annual Report of Exchange Arrangements and Exchange Restrictions*; and staff calculations.

1/ Data reflect available years within this period for each country.

2/ Relative to those in the United States.

3/ Out of a total of three types.

4/ Out of a total of thirteen types.

5/ Technically these countries have managed floats; in practice the exchange rate is pegged.

to those in the United States is typically quite small. These spreads are on average larger in countries with floating rates, although these countries also have a higher level of inflation.

C. Exchange Rate Arrangements for the Future

86. While the peg has served Malta well, the ongoing liberalization of the capital account, large fiscal imbalance, and associated desire to preserve some independence of domestic monetary policy have led to some reconsideration of the exchange rate regime. The steady liberalization of the capital account in recent years has reduced the margin for Malta to run an independent monetary policy, and may have increased Malta's exposure to volatile capital flows. Further, the fiscal imbalance has increased sharply to over 10 percent of GDP in 1998, although the government has recently announced a medium-term fiscal retrenchment program to reduce the fiscal deficit to 4 percent by 2004.

87. There are three approaches that could be considered to address the volatility of capital flows, and/or enhance the independence of monetary policy: increase exchange rate flexibility, strengthen the peg arrangements, and/or adjust other domestic policies and arrangements to be more consistent with capital account liberalization and the current exchange rate regime.⁴⁹

Enhanced flexibility

88. Increased exchange rate flexibility could, in principle, provide a greater opportunity to use restrictive monetary policy to offset the impulse deriving from the large fiscal imbalance, and could also be used as a means to discourage speculative capital. However, there are disadvantages in this approach. In particular, for such an open economy with few nontraded goods, a fixed peg is an appropriate nominal anchor. Furthermore, at present there is no alternative and credible nominal anchor that could be quickly established if the current fixed exchange rate regime was changed, such as an inflation targeting regime. An intermediate step between a fixed and a fully floating rate could be considered, such as adopting an exchange rate band. However, to be effective the band would probably have to be quite wide in order to fulfill its function in discouraging speculative capital flows by ensuring that the rate would only rarely approach the band edges. But the wider the band, the more the regime would resemble a floating rate with the commensurate difficulties for the Maltese nominal anchor noted above.

Tighter commitment to the peg

89. An alternative way to address speculative capital flows would be to tighten the official commitment of the authorities to the exchange rate peg. Options include granting full independence to the CBM and specifying that price stability is its primary goal, and abolishing

⁴⁹See Chapter V for a discussion of the remaining capital controls in Malta and the implications of EU's accession application for further capital account liberalization steps and the exchange rate regime.

the Ways and Means Facility that enables the government to obtain CBM credit.⁵⁰ Credibility in the official commitment to the exchange rate peg could also be enhanced by increasing the required backing of base money by official reserves from the current level of 60 percent to, say, 100 percent, thereby strengthening the commitment to use monetary and accompanying fiscal arrangements for the defense of the exchange rate. This would constitute a step toward the adoption of a currency board arrangement. A third option would be the eventual adoption of the euro, which indeed is a medium-term commitment for all new countries that accede to the EU.

Implications under the future capital account liberalization program

90. The way that the capital account liberalization program is undertaken, and the supporting institutional and policy frameworks, will also have an important bearing on the risks to the economy that this process entails. With respect to sequencing, although there are no firm rules, it is generally best if limits on inflows and outflows are gradually increased, with full liberalization of long-term flows before short-term flows. It is also important that prior to capital account liberalization, the authorities have put in place sound prudential control and supervision. This includes ensuring that there are alternative information gathering facilities to those available under the capital control regime to ensure ongoing appropriate supervision, which may suggest that the requirement to report large transactions should be maintained (a step which would also assist in the compilation of accurate balance of payments data). Conducting regular stress tests of the banking sector to external shocks—including by the commercial banks themselves—can also assist in strengthening the domestic financial system to a more liberalized capital account environment. Finally, and perhaps most importantly, a more liberalized capital account regime, and indeed sustainability of either a fixed or floating rate regime requires the achievement and then ongoing maintenance of sound macroeconomic policies.

V. MALTA'S APPLICATION FOR MEMBERSHIP TO THE EUROPEAN UNION⁵¹

91. Malta recently reactivated its application to join the European Union (EU), which has been in suspension since October 1996. This chapter outlines the areas where the most substantial efforts will be needed to satisfy the economic criteria for EU membership, both from a legislative and a macroeconomic perspective.

92. In broad terms, admission to the EU would offer several advantages to Malta, not least from the implied closer economic, social, and political link with the rest of Europe. As discussed in detail below, in terms of the economic issues, given the open access Malta already enjoys for its exports to the EU, the main benefits from accession are likely to arise

⁵⁰The current institutional arrangements concerning independence of the CBM and remaining facilities for the provision of CBM credit to the government are outlined in Chapter V.

⁵¹Contributed by David W.H. Orsmond.

from two sources: (i) greater efficiency in Malta's large and small industries as they are restructured and strengthened in order to compete on an equal footing with those in the EU; and (ii) consolidation of Malta's macroeconomic indicators—primarily reducing the size of the currently large fiscal deficit—to ensure sustainable price stability over the medium term. However, the changes required to fulfill the requirements of the EU accession process will come at some cost, which will be felt most strongly in the current relatively inefficient sectors, costs which may in part be financed from the EU itself. Nonetheless, it is important that these costs not be viewed solely as a result of Malta's decision to accede to the EU; rather, as the authorities are fully aware, Malta needs to improve the efficiency of its production sectors and lower its fiscal deficit regardless of the EU process—and this implies some adjustment costs will have to be incurred—in order to establish a sound basis for strong medium-term growth.

A. Malta's Economic Relations with the EU since 1970

93. Until recently, Malta's formal economic relations with the EU mainly concerned trade issues. In particular, the 1971 Association Agreement between Malta and the EU envisioned the creation of a customs union between Malta and the EU with Malta also adopting the EU's common external tariff for third countries in two five-year steps. Shortly after the initiation of the Agreement, the EU removed all tariffs on Malta's industrial good exports, and Malta took the first steps toward a customs union by applying a tariff on EU industrial good exports that was 35 percent less than that applicable for goods exported from non-EU countries. Thereafter, no additional liberalization steps were taken until 1995 when the VAT was originally introduced in Malta. At that time, all tariffs on EU imports were eliminated and duties on non-EU imports were reduced to rates more in line with the EU's common external tariff levels.⁵² Excises on imports from all EU and non-EU country sources (but not on domestically produced goods) were reintroduced after the VAT was suspended in early 1997, but this action was reversed when the VAT was reintroduced in January 1999.

94. However, although since 1995 there have been no tariffs against EU imports, Malta still employs an extensive system of levies, which are applied against all imports including those from the EU, and which in practice serve as additions to the explicit tariffs. These levies were first introduced to replace quantitative restrictions on industrial products in 1989 (under the Local Manufacturers Promotion Act) and then those on agricultural products in 1995.⁵³ As at March 1999, there were 1,206 levies, 893 on agricultural products; virtually all are

⁵²Around one half of Malta's merchandise exports are to the EU, and around three-fourths of its merchandise imports are from the EU. With these changes, the average effective tariff for industrial goods declined from 32.3 percent in 1994 to 6.5 percent in 1996.

⁵³In general, nontariff barriers are now imposed only for health, environment, and standards (although these are not in general in conformity with the requirements as laid out in the *avis*). The exceptions relate to the import of handmade lace and of gold and silver artworks, which is banned to protect the domestic industry.

specific rather than ad valorem. Around 1,000 ad hoc exemptions to these levies are granted each year.

95. Malta first applied to join the EU in June 1990. A subsequent *avis* was finalized in June 1993 which outlined the changes in Malta's institutions, laws and regulations that would be necessary to bring them into line with those of the EU, and called for a substantial overhaul of legislation, especially in the areas of trade, economic, financial, and competition policy before EU accession could proceed. A reform program was agreed between Malta and the Commission in March 1994 which primarily focused on monetary policy, tax policy (especially introduction of a VAT), dismantling of most tariff protection, alignment to the EU's common customs tariff, and adoption of new competition and environmental laws. Significant progress was made, and in June 1995 a structural dialogue between Malta and the EU was established which included agreement on concern transport, environment, common foreign and security policy, and justice and home affairs issues. This dialogue was suspended in October 1996 after a new administration froze Malta's application for membership in favor of an alternative approach to relations with the EU, including the development of a free trade agreement and ongoing political dialogue and cooperation such as in justice and home affairs issues.

96. Following a general election in September 1998, the new administration reactivated Malta's application for membership. In February 1999, the EU issued an updated *avis*, and the EU Council has since confirmed that negotiations with Malta should begin at the end of 1999, with a view to having Malta join the six "fast track" candidate countries where accession negotiations are already underway.⁵⁴ Malta is now preparing a timetable to bring its legislation into line with the requirements noted in the *avis*, including the suggested transition arrangements that will cover some areas after accession.⁵⁵ This timetable will then form the basis of Malta's accession negotiations with the EU. In order to prepare the timetable and suggested transition arrangements, the Maltese authorities are proceeding on the working assumption that accession will take place on January 2003, which is the tentative date being considered by most of the other "fast track" countries. An update on Malta's efforts to respond to the issues raised in the *avis* is expected to be prepared by the EU and submitted to the European Council by end 1999, after which Malta may be formally invited to join the fast-track candidates. Finally, a referendum in Malta on EU membership has been promised by the current government, although its timing and nature are yet to be discussed.

B. The EU Membership Process

97. The broad framework for membership by new countries to the EU was set out in the conclusions of the European Council in Copenhagen in June 1993. In particular, acceding countries should be able to assume the obligations of membership by satisfying economic and

⁵⁴Hungary, Poland, the Czech Republic, Estonia, Slovenia, and Cyprus.

⁵⁵At this stage, the authorities are considering applying for transition arrangements for competition, environment, agricultural and trade protection policies.

political conditions that include: (i) stability of its institutions guaranteeing democracy, rule of law, human rights and respect for and protection of minorities; (ii) a functioning market economy, as well as the capacity to cope with competitive pressures and market forces in the EU; and (iii) adherence to the aims of political, economic, and monetary union.

98. These criteria are quite general. The specific requirements for membership by a particular country are determined by an *avis* which (as noted earlier) outlines the changes in a country's institutions, laws and regulations, including its capacity to implement and enforce them, that are necessary to bring them into line with those of the EU (the *acquis communautaire* which represents the set of policies, laws, and rules that have been jointly adopted by current EU members and which future members undertake to follow). The most important of these relate to the EU's Single Market Program, under which the EU countries have committed to a space where laws, regulations, standards, and institutions are harmonized and/or mutually recognized in order to ensure free EU-wide competition. There is no presumption, however, that all the aspects of the EU's *acquis communautaire* have been adopted prior to a country's accession; rather the timetable to fully comply with each area of the *acquis* is a matter for negotiation between the EU and the prospective member.

99. Macroeconomic criteria for accession—the level of the fiscal deficit, inflation, exchange rate arrangement and so forth—are not directly covered by the *acquis communautaire* and hence by the *avis*. Since countries joining the EU are not required to be members of the Economic Monetary Union (EMU, or the euro area) at the time of accession, there is no presumption that they need to satisfy the Maastricht criteria at that time.⁵⁶ In consequence, meeting the Maastricht criteria is not part of the Copenhagen framework, and the EU has not indicated they will be interpreted as membership criteria. Nonetheless, acceding countries are required to eventually “adhere to the monetary union” meaning that they must commit to eventually join the euro area. This commitment, as well as the importance the EU places on the maintenance of price stability for EU members, may imply

⁵⁶Specifically: (i) year-on-year CPI inflation should not exceed at most the average of the three best performing countries in the EU (whether they are in the EMU or not) by more than 1.5 percentage points and this performance should be sustainable; (ii) average 12-month interest rates on 10-year government debt should not exceed at most the average of the foregoing three economies by more than 2 percentage points; (iii) the general government deficit should not exceed 3 percent of GDP in the year prior to membership, or should have declined substantially and continuously to a level close to 3 percent, or any excess over 3 percent of GDP should be of a temporary and exceptional nature; (iv) gross debt of the general government should not exceed 60 percent of GDP or at least be declining as a share in GDP at a satisfactory pace; and (v) for two years, the exchange rate must have been held within the normal fluctuation range of the ERM against other member countries without severe tensions and without a devaluation. The subsequent Stability and Growth Law commits each EU member to aim for a medium-term budgetary position close to balance or in surplus so that the fiscal deficit has sufficient flexibility to allow the full operation of the automatic stabilizers over the business cycle and yet keep the fiscal deficit below 3 percent of GDP.

that a new member must be in a position at the time of accession whereby it will eventually meet the convergence criteria such as those outlined in the Maastricht Treaty. This would imply, for instance, that an acceding country will eventually be able to maintain a sustainable fiscal position, but not that the country had achieved the Maastricht fiscal deficit level of less than 3 percent of GDP—or any other particular level—at the time of accession, particularly since the structural and other reforms being undertaken to satisfy a country's *avis* may have a fiscal cost in the short run yet place the fiscal accounts on a sustainable medium-term path. Maintaining a sustainable fiscal position may also suggest that newly acceding countries will have to achieve a debt/GDP ratio no higher than the Maastricht criterion (60 percent), or at least be in a position such that if the debt ratio at the time of accession is higher than this level, it is declining at a “sufficient pace.”

100. Finally, new countries are not required even to join the ERM at the time of their accession to the EU, although there is a strong presumption that in practice new members will do so at that time.⁵⁷ Whether they join the ERM or not, however, all new members that are not part of the euro area are required from accession to fulfill the monetary aspects applicable to other EU countries that are also not part of the euro area, unless the new member has negotiated transitional arrangements.⁵⁸ These include: (i) granting full independence to the central bank which has price stability as its primary goal and a term for the governor of at least five years who can only be removed on grounds of serious misconduct or inability to fulfill his functions; (ii) prohibiting monetary financing of government deficits by way of overdraft facilities (outside of intraday credit), advances, and direct purchase from public institutions of government securities, including purchase on the primary market;⁵⁹ and (iii) full liberalization of capital flows vis-à-vis third countries.

C. Macroeconomic Criteria for Malta

101. In reference to the specific macroeconomic criteria, the recent *avis* states only that “Malta will need to build a track record in the establishment of a stable and sound macroeconomic environment and in the continued implementation of reform and liberalization.” Nonetheless, as discussed above, an indication of the specific direction if not the levels for macroeconomic variables and associated reforms required in the near future can be inferred.

⁵⁷Countries in the ERM commit to keep their currency within a band of +/- 15 percent from a central rate. There is at present a presumption that a country needs to have been in the ERM for a period of two years before joining the euro area. At present, 11 of the 15 EU countries are in the euro area; two are in the ERM (Denmark and Greece), and two are outside of the ERM (Sweden and the United Kingdom).

⁵⁸The Commission has determined to limit such “derogations.”

⁵⁹Indirect credit to the government through the purchase from third parties for open market operations is allowed.

102. As noted earlier, countries that accede to the EU are required to eventually join the euro area, and before doing so they must have had a period of exchange rate stability for at least two years, probably by way of membership in the ERM. While Malta (along with other newly acceding countries) will probably not join the euro area at the time of accession, although the issue is at this stage unclear, Malta may be able to continue with its fixed exchange rate arrangement after accession as a means to satisfy the requirement that there be a period of exchange rate stability prior to joining the euro area.

103. Assuming that Malta remains outside of the euro area at the time of accession, it would then have to satisfy the three requirements noted above for all EU countries that are outside the euro area. With respect to central bank arrangements, the current Central Bank of Malta Act does not provide a clear statement that maintenance of price stability is the primary goal of the CBM. Rather, under the current Act, the orderly development of the economy and promoting a rising level of income and employment are also important concerns. Further, the Act allows for a *maximum* term of five years for the governor and there are no restrictions on reasons for his removal (in recent periods, the governor's terms have been for less than two years; the current governor has a term of just two years). The CBM is also not independent of the minister of finance, who retains residual powers to instruct the governor to adjust interest rates (although these powers have not recently been used).

104. With respect to the provision of credit, the CBM is authorized to grant advances to the government to cover temporary liquidity gaps of up to 15 percent of ordinary revenue for the current year. These advances must be repaid as soon as possible and in any case by the end of the fiscal year. The rate of interest on such advances is negotiated between the CBM and the MoF. A 1994 amendment to the CBM Act provides for the eventual removal of this facility, but the amendment has not been brought into force. Nonetheless, the government has voluntarily refrained from seeking access to this facility since end-1996. In addition, the CBM is authorized to purchase in the primary market government securities maturing within 93 days, and may purchase bonds or share issued by public corporations for the purpose of financing government development plans under certain limits specified in the CBM Act.

105. Liberalization of capital movements has been gradual and remains incomplete. The *avis* clearly notes that Malta will have to completely liberalize capital movements against all EU and other countries,⁶⁰ and for this purpose will need to have a financial system strong enough to face a fully liberalized capital account regime and increased competition by foreign financial institutions. In this regard, at end 1994 Malta accepted the obligations of the IMF's Article VIII which prevents the government from imposing restrictions on payments and transfers for current international transactions or from engaging in discriminatory currency arrangements. Remaining restrictions on inflows by nonresidents include those on FDI in sensitive areas such as in the wholesale, retail, utilities, and monopolized sectors, on the acquisition of real estate, and of securities that are not traded on the Malta Stock Exchange.

⁶⁰Transitory periods for certain flows such as short-term flows were granted to Spain, Portugal, Greece, and Ireland.

Bonds or securities, even as part of a collective investment scheme, may not be issued by nonresidents in Malta unless they are permitted by the Malta Financial Services Center. After further relaxation of capital controls in the 1999 budget, most outward flows by residents for any purposes are controlled if they exceed Lm 8,000 per annum; the limit is Lm 300,000 per annum for outward FDI and acquisition of real estate. Residents may not issue bonds or securities abroad without permission of the CBM, and permission must also be sought for borrowing that is in excess of Lm 8,000 per annum from nonresidents if the term of the loan is for less than three years. Special provisions relate to the activity of banks, subject to supervisory limits associated with large exposure and net foreign asset exposure. The *avis* notes that Malta needs to adopt a precise calendar in order to embark on an orderly liberalization path, starting with the dismantling of remaining restrictions on long-term inward and outward capital flows.⁶¹

106. Although not formal accession requirements, Malta already meets most of the Maastricht convergence criteria. Malta's inflation level in the 12 months to March 1999 (1.8 percent) was less than the Maastricht ceiling (no more than 1.5 percentage points over at most the average of the three lowest EU countries (which was 0.6 percent as of March 1999)). The interest rate on long-term public debt (5.9 percent) was also less than the Maastricht ceiling (no more than 2 percentage points above at most the average of the three lowest EU countries (which was 4.0 percent as of March 1999)). The debt ratio is 55 percent of GDP compared to the Maastricht criteria of 60 percent, although it has been rising sharply in recent years. The only major divergence is the size of the fiscal balance, which at close to 10 percent of GDP is clearly unsustainable and will need to be reduced prior to accession.

D. Legislative Economic Criteria Noted in the 1999 *Avis*

107. The *avis* is much more specific in the legislative changes required to bring Malta's laws and practices in line with the *acquis communautaire* of the EU. These are detailed below.

Taxation policy

108. The introduction of the VAT from January 1999 was a major step in bringing Malta's tax system into conforming to the EU tax policy standards. However, the *avis* notes that there is a need to bring zero rating and exemptions into line with EU standards, as well as adding provisions for refunding VAT to nonregistered foreign taxable persons not established within the country (whereupon the VAT represents an increased cost to such traders).

109. Regarding excise rates, in general Malta's duty levels are below the minimum levels applicable within the EU, especially for cigars and pipe tobacco (which are taxed at a zero-rate in Malta). For cigarettes, only a specific tax is applied, instead of an ad valorem rate as in

⁶¹It will be important that the capital account liberalization process is undertaken in a manner that does not leave the small Maltese economy open to large financial forces.

EU countries. Malta will need to apply the same rate per liter of alcohol for all types of spirit, and to make a distinction between wine and intermediate products. Kerosene for international flights will have to be made exempt.

110. With respect to tax holidays, EU legislation allows continuity of tax holidays but only if they are not discriminatory. This appears to imply that the 10-year tax holiday currently granted to exporting firms such as ST Microelectronics will have to be terminated. Further, under the *avis* offshore companies are required to move onshore, as they will all be by 2004.

Procurement policy

111. New public procurement regulations came into effect in Malta in August 1996, and there is now no restrictive concerning the country of origin for procurement by government departments and some public enterprises. The *avis* notes that this approach will have to be extended to cover all the other public bodies not already covered, including local government. Further, current Maltese law provides preferential treatment of local manufacturers, who in practice are allowed a 10 percent preferential price margin over foreign suppliers; the *avis* requires that this be removed.

Public enterprise reform

112. State-owned enterprises have long been a significant recipient of public financial support, especially for shipbuilding and repair. To comply with the *avis*, a proper legal framework, a fully transparent register of aid (the magnitude of which is on a downward path over time), and an independent state aid monitoring authority need to be established to manage such assistance. Further, legal rules need to be altered to provide an opportunity for greater competition in areas such as telecommunications and postal services.⁶²

Trade policy and restructuring of small- and medium-sized enterprises

113. After accession, Malta will be required to have no trade barriers with respect to the EU and to have adopted the EU's common external tariff, which will imply a reduction in current levels of protection and in trade tax revenue (total trade tax revenue is estimated at 0.7 percent of GDP in the 1999 Budget). Further, on accession Malta will have to renounce its developing country status at the WTO and thereby its right to transitional periods for intellectual property rights (which Malta will in any case end by January 2000) and customs valuation methods. The *avis* also notes that improvements are needed in customs administration aspects, including adoption of a Binding Tariff Information System, the Single Administrative Document, better computerization, investigation, and infrastructure support, increase in the training of staff, and changes in legislation concerning customs warehousing. Legislation on counterfeited and pirated goods also needs to be reviewed.

⁶²In this respect, Maltacom has a monopoly until 2010 on the provision of voice telephony and most other telecommunication services.

114. The *avis* notes that several industries in Malta will have difficulty competing on an equal footing with imports from the EU, especially small enterprises in the agricultural, services, handicrafts, and furniture sectors. In this light, the authorities are considering a timetable for elimination of protection against all EU imports by end 2004. The small- and medium-sized enterprises (SMEs) affected by the phase out of remaining protection are to be assisted by a government-funded program (the Institute for the Promotion of Small Enterprises). The IPSE will have three main activities: (i) restructuring of SMEs affected by the phase down in levies; (ii) encouraging a switch in the sales of SMEs from local to export orientation; and (iii) encouraging the general development of SMEs through the provision of premises for 2–3 years. The form of assistance to be offered is still being determined and will be based on the business plans of the restructuring SMEs. The *avis* notes that whatever restructuring efforts and instruments are adopted by the IPSE, it will be important that they be compatible with an industrial policy based on an open and competitive market.

Agricultural policy

115. In addition to the removal of the import duties on agriculture, Malta's agricultural policy measures are not in line with EU legislation and the general role played by the State in the production and marketing of agricultural produce under the Common Agricultural Policy (since Malta's assistance is largely in the form of just trade protection rather than the EU's preference for production subsidies as well). For example, current financial assistance schemes in Malta provide grants to cover part of the capital investment costs and subsidies on interest on commercial loans received. For the beef sector, specific support measures exist, including guaranteed minimum prices for local beef and an intervention scheme. These systems will need to be brought into conformity with those of the EU. Similar issues also concern the fisheries sector.

Financial sector policies

116. The *avis* notes that since 1994 Malta has implemented a wide range of financial sector reform. Private sector lending and deposit interest rates have been effectively deregulated, and the CBM has been given greater independence in setting official interest rates. Prudential controls on onshore and offshore banks have been brought largely into line with EU directives in areas such as licensing procedures, capital adequacy ratios, liquidity ratios, and single customer exposure limits. Legislation over the insurance sector has been modified, and the two major banks have been partially privatized.

117. The remaining areas noted under the *avis* are as follows. The initial capital required for a banking license has to be increased to euro 5 million, a deposit guarantee program has to be introduced, supervision needs to be on a consolidated basis, full coverage of all firms under the Capital Adequacy Directive needs to be implemented, a scheme for investor compensation has to be established, legislation concerning cross-border credit transfers and settlement finality in payment and securities settlement systems has to be made more explicit, and large payment transactions have to be introduced under the EU's Real Time Gross Settlement

System. The authorities understand that the full privatization of Mid-Med Bank is also necessary, and this has recently been announced.

Competition policy

118. Malta's Competition Act came into force in February 1995 and is substantially in compliance with EU norms (although the *avis* notes that specific instruments for merger controls should be added). The division of tasks between the Commission for Fair Trading (responsible for decision-making) and the Office of Fair Competition (responsible for investigation) needs to be clarified. Appeals procedures with respect to the decisions of the Commission for Fair Trading have to be introduced. A regulator for the development and monitoring of energy policy needs to be created. Further, changes in consumer policy in regard to product liability, misleading advertising, unfair contract terms, and distance selling need to be strengthened.

Labor law and the free movement of labor

119. Labor laws in Malta are in substantial conformity with EU standards. Laws to ensure the equal treatment of men and women and for occupational health and safety are already substantially in compliance, although there is a need for changes with respect to conditions of work for part-time employees. Adoption of the Social Chapter, including a maximum workweek of 48 hours with overtime, needs to be established.

120. The right of EU citizens to enter, reside, and obtain employment in Malta is partly restricted, and there is a need for mutual recognition of professional qualifications. Malta will also have to abolish all checks on persons for air and sea transport within the EU space.

Environment

121. The *avis* notes that limited progress has been made in adopting the EU environmental standards, yet notes the recent establishment and staffing of an independent Ministry for the Environment and preparation of the national State of the Environment Report as encouraging steps. Some implementation aspects are being undertaken in the waste and water sectors but not with an explicit focus on the requirements of the *avis*. Air and water quality, waste management, and nature protection seem to be the most sensitive areas for implementation.

Statistics

122. The Central Bureau of Statistics in Malta has not been able to meet many EU requirements. The most urgent are in the areas of GDP estimation, harmonized CPI, short-term indicators, social statistics, business register, and balance of payments.

MALTA: TAX SUMMARY (AS OF JANUARY 1999)

Tax	Rates	Taxable Base	Exemptions	Remarks
<p>Personal Income Tax</p>	<p>Progressive rates from 15 percent to 35 percent; different tax bands exist in respect of married couples and other persons</p>	<p>Income tax is payable on: (1) the capital gains accruing or derived from Malta or elsewhere, and whether received in Malta or not; and (2) the income of any person accruing in or derived from Malta or elsewhere, whether received in Malta or not, in respect of (a) gains or profits from any trade, business, profession, or vocation; (b) gains or profits from any employment or office; (c) dividends, premiums, interest, or discounts; (d) any pension, charge, annuity, or annual payment; (e) rents, royalties, premiums and any other profits arising from property; and (f) gains or profits not falling under any of the above.</p> <p>The following income elements may be subject to withholding taxation: (1) gains or profits from employment or office (governed by the Final Settlement System); (2) interest (final tax at 15 percent with option to declare); (3) dividends (at 35 percent); and (4) part time work (fixed at 15 percent rate).</p> <p>A married couple files a joint return and chooses who of the two shall be the responsible spouse. They may opt for a separate computation in respect of the income of the other spouse, provided such income is derived from trade, business, profession, vocation, employment, or pension.</p>	<ul style="list-style-type: none"> • Certain allowances and benefits payable under the Social Security Act 1987. • Interest or royalties accruing to or derived by a nonresident (unless he/she has a permanent establishment in Malta). • Gains or profits accruing to or derived by any person not resident in Malta on a disposal of any units in a collective investment scheme. • Income of any pension or provident fund. • Philanthropic institutions. • Political parties. • Certain wound and disability pensions. • Capital sums received by way of commutation of pension. • Income arising from a scholarship. • Income of any trade union. • Nonresident shipowners (provided that his/her country extends a similar exemption to shipowners who are not resident in that country but who are resident in Malta). • <i>Bona fide</i> sports clubs. • Cooperative societies. • Collective investment schemes. • Interest income on certain government securities. • Capital gains on transfer of own residence. • Capital gains from immovable property obtained by transferor <i>causa mortis</i>. • Capital gains from transfer of Malta government bonds and stocks. • Capital gains from transfer of securities listed on the Malta Stock Exchange. 	<p>The Income Tax Act requires all taxpayers to file an annual return in which all their income from various sources and their capital gains are declared.</p> <p>Interest paid to Maltese individuals and companies (excluding banks and insurance companies) and received from domestic bank deposits, government, and Maltese public corporations is subject to a final withholding tax of 15 percent. There is the option to elect to have the interest paid gross, in which case such income is to be disclosed on the tax return and tax is paid on such income at the normal applicable rates. Any tax deducted will be credited.</p> <p>All Maltese dividends received by Maltese individuals will have paid full tax at the rate of 35 percent and do not bear any further tax. Dividends paid out of untaxed income to a Maltese individual are subject to tax deduction at source of 15 percent. One may not elect to have dividend income paid gross. Dividend income received from overseas remains taxable at the normal rates.</p>

Tax	Rates	Taxable Base	Exemptions	Remarks
Corporation Tax	<p>35 percent.</p> <p>International trading companies registered under the Malta Financial Services Center (MFSC) Act 1988 are subject to tax at a flat rate of 5 percent based on the principle of self-assessment.</p>	<p>Net income as per financial statements, to which is added expenses which are not tax deductible.</p>	<ul style="list-style-type: none"> • Nontrading companies registered under the MFSC Act 1988. • Dividends, interest, and other income paid by offshore companies to nonresidents. • Licensed funds under the Investment Services Act (ISA). • Capital gains realized by ISA funds. <p>Under the Industrial Development Act 1988, qualifying companies are eligible for a wide range of tax incentives including the following:</p> <ul style="list-style-type: none"> • a 10-year tax holiday if exports account for at least 95 percent of sales; • tax exemption for profits resulting from certain percentage increases in exports (export incentive scheme); • a reduced rate of tax for approved reinvestment programs; • investment allowances and accelerated depreciation; and • tax exemption in the hands of recipients for dividends paid by qualifying companies if the dividends are paid out of income that is tax-exempt as a result of a tax holiday, increases in exports, or investment allowances granted under the Act. <p>ISA companies enjoy tax relief on excess funds invested in their own schemes and double deductions on building occupancy costs (rent, heating, etc.) and on salaries paid to Maltese staff for the first 10 years.</p>	<p>There are 3 categories of distributable income in a Maltese company: taxed income, divided into "Maltese taxed account" and a "foreign income account"; and untaxed income. The foreign income account includes all income and capital gains arising from overseas assets and profits derived from a permanent establishment. The Maltese taxed account contains the balance of the taxed income that has not been allocated to the foreign income account. The difference between the distributable income of the company and the sum of these two accounts is allocated to the untaxed account.</p> <p>Income received by a Maltese company from its participating holdings overseas will be allocated to its foreign income account and will be taxed in the normal way. However, when profits derived by a Maltese company from its participating holdings are subsequently distributed to a nonresident shareholder, there will be a full repayment of the Malta tax paid on the income or gain.</p> <p>Companies are deemed to be in the same group if one is the 51 percent subsidiary of the other or both are 51 percent subsidiaries of a third company resident in Malta, and the parent company is beneficially entitled to more than 50 percent of the profits of the subsidiary. Companies are allowed to surrender losses which may be set off against the profits of another company in the same group for the corresponding year or assessment. Excess losses which have been surrendered can be carried forward and utilized in subsequent years.</p> <p>Double taxation relief is available if the foreign tax has been paid: (1) in a country with which Malta has a double tax treaty; or (2) in respect of Commonwealth income tax; or (3) through unilateral relief; or (4) through a system of a flat rate foreign tax credit.</p> <p>A collective investment scheme which is not a constituted unit trust may elect to waive its right to an exemption from tax on its income, in which case it will be liable to tax at 25 percent on its income. Capital gains realized by the fund remain tax-exempt. Funds which are taxable remain entitled to treaty relief. Maltese residents can invest in ISA funds and they are subject to a 15 percent final tax withheld on distributions.</p>

Tax	Rates	Taxable Base	Exemptions	Remarks
Value Added Tax	<p>15 percent</p> <p>5 percent for: (1) the supply of accommodation in any premises licensed by the Hotels and Catering Establishments Act or the Guest Houses and Holiday Furnished Premises Act; and (2) 80 percent of any other supplies to persons to whom the said accommodation is provided to the extent that the price of such other supplies is included in the price for the accommodation.</p>	All nonexempt goods and services and imports.	<p>Exemptions with credit:</p> <ul style="list-style-type: none"> • Exports. • Services connected with exports and importation. • Goods in bond, supplies by duty free shops, and Freeport activities. • Port services. • International transport. • Provisioning and fueling of ships and aircraft. • Supply, repairs, etc. of ships and aircraft. • Food (excluding food supplied in the course of catering). • Pharmaceutical goods. • Health and welfare. • Education. • Services by band clubs. • Transport. • Investment services. • Supply of gold. • Printed matter and other articles. • Exempt importations as listed in the Fifth Schedule of the VAT Act 1999. <p>Exemptions without credit:</p> <ul style="list-style-type: none"> • Immovable property. • Insurance services. • Credit, banking, and other services. • Supply of cable telephony. • Culture. • Sports. • Services related to certain exempt services. • Services by nonprofit making organizations to their members. • Lotteries. 	<p>The economic activity of a registered nonexempt individual qualifies as a "small business" if the turnover of that individual for the relevant period is less than:</p> <ul style="list-style-type: none"> • Lm 12,000 for economic activities consisting principally in the supply of goods; • Lm 8,000 for economic activities consisting principally in the supply of services with a relatively low value added; • Lm 5,000 for other economic activities. <p>Individuals below these thresholds may opt out of (i.e., be exempted from) the VAT.</p> <p>An individual classified as exempt is not entitled to remain so classified if the turnover from his/her economic activity for the relevant period is equal to or exceeds:</p> <ul style="list-style-type: none"> • Lm 15,000 for economic activities consisting principally in the supply of goods; • Lm 10,000 for economic activities consisting principally in the supply of services with a relatively low value added; • Lm 6,000 for other economic activities.

Tax	Rates	Taxable Base	Exemptions	Remarks
Customs Duty	Levied at different rates	CIF price of imported goods	<ul style="list-style-type: none"> • Reimported goods • Goods imported by the government, by the University of Malta, or for Malta Drydocks. • Artificial limbs. • Bird rings for use by qualified bird ringers. • <i>Bona fide</i> samples. • Braille articles. • Goods for divine worship. • Food and drink for mendicant religious orders. • Gluten paste. • Hearing aid apparatus. • Household effects. • Musical instruments and sport equipment for specific originations. • Vehicles for returned migrants and for persons who transfer their residence to Malta. • Scientific instruments for educational purposes. • Sound and video recordings of an educational character; sound and video language courses. • Original statues and artistic decorations. • Protective clothing for industry. 	<p>The goods as listed in the Second Schedule of the Import Duties Act qualify for relief from import taxes.</p> <p>According to the Import Duties Act, goods entering temporarily into Malta are subject to a guarantee/deposit to cover the import taxes involved.</p> <p>According to the Import Duties Act, tourists are entitled to an exemption on import taxes as follows: (1) Lm 50 worth of goods; (2) 1 liter of spirits; (3) 200 cigarettes; (3) 100 cigarillos; (4) 50 cigars; (5) 250 smoking tobacco; (6) 60 ml perfumery; and (7) 250 ml toilet water.</p>
Import Levy	Levied at different specific rates	Certain imported goods including agricultural goods and goods covered by the Local Manufacturers Promotion Act 1989.		
Petroleum Consumption Tax	<ul style="list-style-type: none"> • Lm 122 per 1000 liters for unleaded petrol. • Lm 133 per 1000 liters for leaded petrol. • Lm 61 per 1000 liters for diesel. • Lm 11 per 1000 liters for kerosene. • Lm 50 per 1000 liters for propane. 	According to specific rates and ad valorem CIF rates.	<ul style="list-style-type: none"> • Lubricating oil. • Fuel oil. 	
Excise Taxes	Levied at different specific rates	<ul style="list-style-type: none"> • Machine made cigarettes. • Tobacco. • Spirits. • Petroleum. • Kerosene. 		

MALTA: RECENT DEVELOPMENTS IN THE EXCHANGE AND TRADE SYSTEM

A full description of the exchange control system (and changes up to December 1998) is available from the *Annual Report on Exchange Arrangements and Exchange Restrictions, 1998*. This appendix updates developments from May 1997 to May 1999.

I. EXCHANGE ARRANGEMENT

In January 1999, the ECU was replaced by the euro in the currency basket. The weights of the basket components are: euro, 56.8 percent; pound sterling, 21.6 percent; and U.S. dollar, 21.6 percent.

II. EXCHANGE CONTROLS

There were no developments in exchange control liberalization during 1997. The following measures were announced in the budget for 1999 effective from January 1999: (i) the annual limit on portfolio investments abroad by residents was raised from Lm 5,000 to Lm 8,000; (ii) the limit on foreign direct investment by individuals and nonfinancial companies was raised from Lm 150,000 per year to Lm 300,000 per year; (iii) the period of retention by exporters of export proceeds in a foreign currency account was increased from four months to six months.

Additional measures included: the classification of certain types of insurance policies as permitted foreign portfolio investment; and authorization for domestic commercial banks to enter into forward contracts with nonresident banks involving the Maltese lira, so long as these contracts covered current account transactions (of the balance of payments).

The remaining exchange controls continue to be administered by the Central Bank on behalf of the government. It is the intention of the government to continue the capital liberalization process at a faster pace, particularly in view of EU membership negotiations. An implementation plan for total liberalization over the next few years is currently being prepared.

III. TRADE SYSTEM

In July 1997, the VAT was replaced by a customs and excise tax system (CET) which included a 15 percent excise tax on all imports, including those from the EU. At the same time, import duty rates were increased by at least 8.1 percent for non-EU imports.

Concurrent with the reintroduction of the VAT at the beginning of 1999, the CET was abolished and import duties were adjusted back in line with those that were in effect from January 1995 to July 1997.

Table A1. Malta: GDP in Constant Prices, 1992-98

	1992	1993	1994	1995	1996	1997	Estimated 1998 1/
(In millions of Maltese liri; 1973 prices)							
Total consumption	317.6	324.1	334.9	368.4	397.4	398.3	402.1
Private	239.2	241.0	246.5	272.5	293.4	295.9	298.1
Public	78.4	83.1	88.4	95.9	104.0	102.4	104.0
Gross fixed capital formation	82.6	91.8	99.6	117.3	112.9	103.7	102.7
Construction	36.0	38.7	42.8	53.2	57.0	53.1	...
Machinery	46.6	53.1	56.8	64.1	55.9	50.5	...
Increase in stocks 2/	0.1	1.8	4.5	0.5	-0.6	-1.2	2.0
Total domestic demand	400.3	417.7	439.0	486.2	509.7	500.8	506.8
Exports of goods and nonfactor services	304.0	320.1	342.9	361.3	337.0	347.6	365.3
Imports of goods and nonfactor services	275.8	292.0	314.0	345.5	323.7	311.0	318.3
Foreign balance	28.2	28.1	28.9	15.8	13.3	36.6	47.0
GDP	428.5	445.8	467.9	502.0	523.0	537.4	553.8
Net factor income from abroad	18.0	14.8	7.9	4.8	1.6	8.5	...
GNP	446.5	460.6	475.8	506.8	524.6	545.9	...
(Annual percentage change)							
Total consumption	5.4	2.0	3.3	10.0	7.9	0.2	1.0
Private	4.3	0.8	2.3	10.5	7.7	0.9	0.7
Public	8.9	6.0	6.4	8.5	8.4	-1.5	1.6
Gross fixed capital formation	-0.2	11.1	8.5	17.8	-3.8	-8.1	-1.0
Construction	4.0	7.5	10.6	24.3	7.1	-6.8	...
Machinery	-3.3	13.9	7.0	12.9	-12.8	-9.7	...
Increase in stocks 3/	-1.9	0.4	0.6	-0.9	-0.2	-0.1	0.6
Total domestic demand	2.1	4.3	5.1	10.7	4.8	-1.7	1.2
Exports of goods and nonfactor services	9.7	5.3	7.1	5.4	-6.7	3.1	5.1
Imports of goods and nonfactor services	3.0	5.9	7.5	10.0	-6.3	-3.9	2.3
Foreign balance 3/	4.7	0.0	0.2	-2.8	-0.5	4.5	1.9
GDP	6.7	4.0	5.0	7.3	4.2	2.8	3.1

Sources: Central Office of Statistics; and Central Bank of Malta.

1/ Central Bank of Malta estimate.

2/ Deflated by the implicit GDP deflator.

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

Table A2. Malta: GDP by Expenditure Components, 1992-98

	1992	1993	1994	1995	1996	1997	Estimated 1998 1/
(In millions of Maltese liri; current prices)							
Total consumption	695.9	750.4	817.8	935.6	1,024.7	1,067.5	1,125.1
Private	531.5	561.5	608.3	700.4	764.9	803.1	840.0
Public	164.3	188.9	209.5	235.2	259.8	264.4	285.1
Gross fixed capital formation	240.9	276.8	305.4	365.2	345.3	325.5	330.0
Construction	67.3	73.6	85.1	108.0	120.2	114.8	...
Machinery	173.5	203.2	220.2	257.2	225.1	210.7	...
Increase in stocks	0.1	3.7	10.0	1.2	-1.4	-2.8	5.1
 Total domestic demand	 936.9	 1,030.9	 1,133.2	 1,302.0	 1,368.6	 1,390.2	 1,460.2
Exports of goods and nonfactor services	804.1	896.3	994.4	1,074.7	1,045.6	1,096.3	1,181.6
Imports of goods and nonfactor services	866.0	987.2	1,099.0	1,231.2	1,212.8	1,204.5	1,254.6
 Foreign balance	 -62.0	 -90.8	 -104.6	 -156.5	 -167.2	 -108.2	 -73.0
 GDP	 874.9	 940.0	 1,028.6	 1,145.5	 1,201.4	 1,282.0	 1,387.2
Net factor income from abroad	41.7	35.5	19.3	12.0	3.2	4.1	-29.5
 GNP	 916.6	 975.5	 1,047.9	 1,157.5	 1,204.6	 1,286.1	 1,357.7
(In percent of GDP; current prices)							
Total consumption	79.5	79.8	79.5	81.7	85.3	83.3	81.1
Private	60.8	59.7	59.1	61.1	63.7	62.6	60.6
Public	18.8	20.1	20.4	20.5	21.6	20.6	20.6
Gross fixed capital formation	27.5	29.4	29.7	31.9	28.7	25.4	23.8
Construction	7.7	7.8	8.3	9.4	10.0	9.0	...
Machinery	19.8	21.6	21.4	22.5	18.7	16.4	...
Increase in stocks	0.0	0.4	1.0	0.1	-0.1	-0.2	0.4
 Total domestic demand	 107.1	 109.7	 110.2	 113.7	 113.9	 108.4	 105.3
Exports of goods and nonfactor services	91.9	95.4	96.7	93.8	87.0	85.5	85.2
Imports of goods and nonfactor services	99.0	105.0	106.8	107.5	100.9	94.0	90.4
 Foreign balance	 -7.1	 -9.7	 -10.2	 -13.7	 -13.9	 -8.4	 -5.3
 GDP	 100.0	 100.0	 100.0	 100.0	 100.0	 100.0	 100.0
Net factor income from abroad	4.8	3.8	1.9	1.0	0.3	0.3	-2.1
 GNP	 104.8	 103.8	 101.9	 101.0	 100.3	 100.3	 97.9

Source: Central Office of Statistics; and Central Bank of Malta.

1/ Central Bank of Malta estimate.

Table A3. Malta: Gross Fixed Investment, 1992-97

	1992	1993	1994	1995	1996	1997
	(In millions of Maltese liri)					
Total gross fixed investment	240.9	276.8	305.4	365.2	345.3	325.5
By sector:						
Private enterprises and households 1/	177.6	216.1	232.7	290.0	236.7	243.0
Agriculture and fisheries	2.2	3.0	2.2	3.3	3.1	...
Construction and quarrying	6.8	6.4	8.4	8.5	7.0	...
Manufacturing, shipbuilding, and repairs	38.1	51.3	57.6	69.6	66.9	...
Transport and communications	69.8	78.9	72.4	102.5	81.1	...
Wholesale and retail trade	4.7	6.3	7.4	7.2	5.2	...
Hotels	12.5	12.4	13.9	11.8	18.1	...
Private services	16.8	20.6	30.3	37.7	33.5	...
Other services	26.7	37.1	40.4	49.3	21.8	...
Public enterprises 2/	32.2	18.6	24.8	32.5	26.9	25.4
General Government 3/	31.1	42.2	48.0	42.6	52.7	57.1
By type of asset:						
Dwellings and other construction works	67.3	73.6	85.1	108.0	120.2	114.8
Total machinery and equipment	173.6	203.2	220.2	257.2	225.1	210.7
Transport equipment	58.3	78.2	64.4	74.3	58.3	...
Non-electrical machinery	44.2	48.6	58.7	59.9	62.3	...
Electrical machinery and appliances	35.1	39.5	45.2	56.7	42.4	...
Other machinery and equipment	36.0	36.9	52.0	66.3	62.1	...
	(In percent of total)					
By sector:						
Private enterprises and households 1/	73.7	78.1	76.2	79.4	68.6	74.7
Agriculture and fisheries	0.9	1.1	0.7	0.9	0.9	...
Construction and quarrying	2.8	2.3	2.8	2.3	2.0	...
Manufacturing, shipbuilding, and repairs	15.8	18.5	18.9	19.1	19.4	...
Transport and communications	29.0	28.5	23.7	28.1	23.5	...
Wholesale and retail trade	1.9	2.3	2.4	2.0	1.5	...
Hotels	5.2	4.5	4.6	3.2	5.2	...
Private services	7.0	7.4	9.9	10.3	9.7	...
Other services	11.1	13.4	13.2	13.5	6.3	...
Public enterprises 2/	13.4	6.7	8.1	8.9	7.8	7.8
General Government 3/	12.9	15.2	15.7	11.7	15.3	17.5
By type of asset:						
Dwellings and other construction works	27.9	26.6	27.9	29.6	34.8	35.3
Total machinery and equipment	72.1	73.4	72.1	70.4	65.2	64.7
Transport equipment	24.2	28.2	21.1	20.4	16.9	...
Non-electrical machinery	18.3	17.6	19.2	16.4	18.0	...
Electrical machinery and appliances	14.6	14.3	14.8	15.5	12.3	...
Other machinery and equipment	14.9	13.3	17.0	18.2	18.0	...
<u>Memorandum item:</u>						
Total gross fixed investment (annual percentage change)	0.7	14.9	10.3	19.6	-5.5	-5.7

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(In millions of Maltese liri)						
Gross domestic savings 1/	179.1	189.7	210.8	209.9	176.7	214.5	262.1
Net factor income from abroad	41.7	35.5	19.3	12.0	3.2	4.1	-29.5
Net unrequited transfers from abroad	29.9	23.3	35.6	18.2	35.5	25.8	27.3
Gross national savings 2/	250.7	248.4	265.7	240.0	215.4	244.4	259.9
Public sector 3/	48.8	37.4	16.5	20.8	-12.8	...	...
Private sector	201.6	211.2	235.6	219.3	228.1	...	...
Households 3/	103.9	112.4	137.2	93.6	92.1	259.4	...
Corporations 4/	97.7	98.7	98.4	125.7	136.0	...	...
Foreign savings 5/	-9.6	32.1	49.9	126.3	128.5	78.9	68.6
Gross savings (national plus foreign)	241.0	280.5	315.6	366.4	343.9	323.3	328.5
Gross domestic investment 6/	241.0	280.5	315.4	366.4	343.9	322.7	335.1
	(In percent of GDP 7/)						
Gross domestic savings 1/	20.5	20.2	20.5	18.3	14.7	16.7	18.9
Net factor income from abroad	4.8	3.8	1.9	1.0	0.3	0.3	-2.1
Net unrequited transfers from abroad	3.4	2.5	3.5	1.6	3.0	2.0	2.0
Gross national savings 2/	28.6	26.4	25.8	21.0	17.9	19.1	18.7
Public sector 3/	5.6	4.0	1.6	1.8	-1.1	...	...
Private sector	23.0	22.5	22.9	19.1	19.0	...	...
Households 3/	11.9	12.0	13.3	8.2	7.7	20.2	...
Corporations 4/	11.2	10.5	9.6	11.0	11.3	...	...
Foreign savings 5/	-1.1	3.4	4.9	11.0	10.7	6.2	4.9
Gross savings (national plus foreign)	27.5	29.8	30.7	32.0	28.6	25.2	23.7
Gross domestic investment 6/	27.5	29.8	30.7	32.0	28.6	25.2	24.2

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.

7/ Based on the CBM's estimate of GDP for 1998.

Table A5. Malta: Household Disposable Income, 1992-97

	1992	1993	1994	1995	1996	1997
	(In millions of Maltese liri)					
Wages and salaries	359.5	396.5	426.1	479.4	518.8	531.4
Employers' social security contributions	24.0	31.6	33.0	38.1	40.8	46.0
Nonwage income 1/	236.9	243.0	271.7	274.4	288.0	324.0
Net transfers from Government 2/	91.4	98.6	108.2	117.2	132.0	141.8
Net transfers from abroad	12.2	13.4	13.6	12.8	13.5	15.3
Less: income taxes on households	94.4	116.0	121.9	136.2	145.5	163.1
Disposable income	629.6	667.1	730.8	785.7	847.6	895.4
Less: private consumption	531.5	561.5	608.3	700.4	764.9	803.1
Household savings 3/	98.1	105.6	122.5	85.3	82.7	92.3
	(In percent of household disposable income)					
Wages and salaries	57.1	59.4	58.3	61.0	61.2	59.3
Employers' social security contributions	3.8	4.7	4.5	4.9	4.8	5.1
Nonwage income 1/	37.6	36.4	37.2	34.9	34.0	36.2
Net transfers from Government 2/	14.5	14.8	14.8	14.9	15.6	15.8
Net transfers from abroad	1.9	2.0	1.9	1.6	1.6	1.7
Less: Income taxes on households	15.0	17.4	16.7	17.3	17.2	18.2
Disposable income	100.0	100.0	100.0	100.0	100.0	100.0
Private consumption	84.4	84.2	83.2	89.1	90.2	89.7
Household savings 3/	15.6	15.8	16.8	10.9	9.8	10.3
	(Annual percentage change)					
Wages and salaries	8.2	10.3	7.5	12.5	8.2	2.4
Employers' social security contributions	10.7	31.7	4.5	15.4	6.9	12.8
Nonwage income 1/	11.0	2.6	11.8	1.0	5.0	12.5
Net transfers from Government 2/	10.3	7.9	9.8	8.3	12.6	7.4
Net transfers from abroad	-27.8	9.4	1.7	-6.0	5.5	13.3
Income taxes on households	13.8	22.9	5.0	11.8	6.8	12.1
Disposable income	7.8	5.9	9.5	7.5	7.9	5.6
Private consumption	7.5	5.6	8.3	15.1	9.2	5.0
Household savings 3/	9.4	7.6	16.0	-30.3	-3.1	11.6
<u>Memorandum item:</u>						
Real disposable income 4/	4.6	1.0	3.4	3.2	6.4	1.5

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; current prices)							
GDP at factor cost	769.6	834.1	919.3	988.9	1,052.9	1,117.5	1,194.3
Agriculture and fisheries	23.5	25.1	25.7	28.3	30.7	32.5	33.2
Industry	278.8	290.6	327.4	336.9	342.9	366.7	398.1
Manufacturing, shipbuilding and repairs	191.8	200.9	223.1	240.9	248.1	251.0	269.0
Construction and quarrying	25.3	26.2	33.7	35.3	35.7	37.1	36.9
Public enterprises 1/	61.8	63.4	70.6	60.7	59.0	78.7	92.1
Services	467.3	518.4	566.3	623.7	679.4	718.2	763.1
Transport and communication	52.2	59.4	65.8	65.6	67.7	71.7	76.5
Wholesale and retail trade	110.0	115.7	120.4	131.8	132.9	135.0	135.8
Insurance, banking, and real estate	57.1	59.6	61.0	72.9	88.6	95.6	98.5
Private services	73.5	84.2	90.0	98.9	106.5	116.9	123.3
Property	57.5	64.4	81.1	89.9	101.2	117.4	140.7
Public administration	117.0	135.0	148.0	164.5	182.4	181.6	188.2
(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	3.1	3.0	2.8	2.9	2.9	2.9	2.8
Industry	36.2	34.8	35.6	34.1	32.6	32.8	33.3
Manufacturing, shipbuilding and repairs	24.9	24.1	24.3	24.4	23.6	22.5	22.5
Construction and quarrying	3.3	3.1	3.7	3.6	3.4	3.3	3.1
Public enterprises 1/	8.0	7.6	7.7	6.1	5.6	7.0	7.7
Services	60.7	62.2	61.6	63.1	64.5	64.3	63.9
Transport and communication	6.8	7.1	7.2	6.6	6.4	6.4	6.4
Wholesale and retail trade	14.3	13.9	13.1	13.3	12.6	12.1	11.4
Insurance, banking, and real estate	7.4	7.2	6.6	7.4	8.4	8.6	8.2
Private services	9.6	10.1	9.8	10.0	10.1	10.5	10.3
Property	7.5	7.7	8.8	9.1	9.6	10.5	11.8
Public administration	15.2	16.2	16.1	16.6	17.3	16.3	15.8
(Annual percentage change)							
GDP at factor cost	8.4	8.4	10.2	7.6	6.5	6.1	6.9
Agriculture and fisheries	0.4	6.7	2.3	10.4	8.3	6.0	1.9
Industry	2.2	4.2	12.7	2.9	1.8	7.0	8.6
Manufacturing, shipbuilding and repairs	1.9	4.8	11.0	8.0	3.0	1.1	7.2
Construction and quarrying	-4.7	3.7	28.6	4.8	1.1	3.8	-0.4
Public enterprises 1/	6.0	2.7	11.4	-14.1	-2.7	33.3	17.1
Services	13.0	10.9	9.2	10.1	8.9	5.7	6.2
Transport and communication	24.8	13.8	10.7	-0.3	3.2	5.8	6.8
Wholesale and retail trade	8.5	5.2	4.1	9.5	0.8	1.5	0.6
Insurance, banking, and real estate	15.0	4.4	2.3	19.6	21.5	7.9	3.0
Private services	12.9	14.6	6.9	9.9	7.7	9.8	5.5
Property	12.0	11.9	25.9	10.9	12.6	16.0	19.8
Public administration	12.3	15.4	9.6	11.1	10.9	-0.4	3.6

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; current prices)							
Income from employment	383.5	428.1	459.1	517.5	559.6	579.9	611.7
Income from farming, fishing, and private services 1/	49.7	54.0	57.0	58.8	58.3	62.5	65.7
Gross trading profits 1/	242.9	250.9	280.2	296.9	310.5	317.4	325.4
Gross trading surpluses of public enterprises 1/	36.0	36.7	42.0	25.9	23.3	40.2	50.9
Income from property 1/	57.5	64.4	81.1	89.9	101.2	117.4	140.7
GDP at factor cost	769.6	834.1	919.3	988.9	1,052.9	1,117.5	1,194.3
Net factor income from abroad	41.7	-35.5	19.3	12.0	3.2	4.1	-29.5
GNP at factor cost	811.3	869.6	938.7	1,000.9	1,056.1	1,121.6	1,164.9
Indirect taxes net of subsidies	105.1	105.9	109.2	156.6	148.4	170.8	170.1
GDP at market prices	874.8	940.0	1,028.5	1,145.5	1,201.3	1,288.2	1,364.4
GNP at market prices	916.4	975.5	1,047.9	1,157.5	1,204.5	1,292.3	1,334.9
(Annual percentage change)							
Income from employment	8.4	11.6	7.2	12.7	8.1	3.6	5.5
Income from farming, fishing, and private services 1/	10.2	8.7	5.4	3.2	-0.9	7.3	5.0
Gross trading profits 1/	8.0	3.3	11.7	6.0	4.6	2.2	2.5
Gross trading surpluses of public enterprises 1/	4.4	2.0	14.4	-38.4	-9.7	72.1	26.6
Income from property 1/	12.0	11.9	25.9	10.9	12.6	16.0	19.8
GDP at factor cost	8.4	8.4	10.2	7.6	6.5	6.1	6.9
Net factor income from abroad 2/	-1.0	-0.8	-1.9	-0.8	-0.9	0.1	-3.0
GNP at factor cost	6.8	7.2	7.9	6.6	5.5	6.2	3.9
Indirect taxes net of subsidies 3/	1.0	0.1	0.3	4.6	-0.7	1.9	-0.1
GDP at market prices	8.4	7.5	9.4	11.4	4.9	7.2	5.9
GNP at market prices	7.0	6.4	7.4	10.5	4.1	7.3	3.3
(In percent of GDP at factor cost)							
Income from employment	49.8	51.3	49.9	52.3	53.1	51.9	51.2
Income from farming, fishing, and private services 1/	6.5	6.5	6.2	5.9	5.5	5.6	5.5
Gross trading profits 1/	31.6	30.1	30.5	30.0	29.5	28.4	27.2
Gross trading surpluses of public enterprises 1/	4.7	4.4	4.6	2.6	2.2	3.6	4.3
Income from property 1/	7.5	7.7	8.8	9.1	9.6	10.5	11.8

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In thousands, unless otherwise specified)							
Tourist arrivals 1/	1,002.4	1,063.2	1,176.2	1,116.0	1,053.8	1,111.2	1,182.2
Cruise passengers	52.3	67.5	62.8	77.2	69.2	126.6	144.1
Tourist-days stayed	11,855	11,755	11,951	10,919	10,665	10,939	...
Average length of stay per tourist	11.8	11.1	10.2	9.8	10.1	9.8	...
Full-time employment in hotels and catering establishments (end-year) 2/	8.2	8.6	8.2	8.6	8.5	9.1	9.0
(In percent of total employment)	6.3	6.5	6.2	6.3	6.2	6.6	6.6
(In percent of total arrivals)							
Tourist arrivals by nationality							
United Kingdom	52.4	49.0	45.1	41.3	37.9	39.3	38.0
Germany	15.3	16.6	17.0	16.8	17.5	17.4	17.2
Italy	7.6	8.1	8.4	8.7	8.5	8.1	7.7
Other	24.7	26.4	29.5	33.1	36.2	35.2	37.2
(In percent of total tourist-days stayed)							
Type of accommodation							
Hotels	42.2	41.6	42.4	42.5	43.6	45.8	...
<i>Of which</i>							
4-star and 5-star	19.2	20.0	22.1	25.0	26.4	27.7	...
Villages, complexes, and aparthotels	23.6	26.2	25.5	26.4	24.4	22.3	...
Holiday furnished flats	33.6	31.3	31.3	30.1	31.3	31.4	...
Guest houses and hostels	0.5	1.0	0.9	1.0	0.7	0.6	...
(In millions of Maltese liri, unless otherwise specified)							
Gross foreign exchange earnings 3/	180.5	232.2	241.9	232.8	228.9	249.8	254.5
(In millions of U.S. dollars)	567.9	607.7	640.7	659.6	635.0	642.1	655.2
(In percent of exports of GNFS)	22.4	25.9	24.3	21.7	21.9	22.8	...
(In percent of GDP 4/)	20.6	24.7	23.5	20.3	19.1	19.5	...
Per tourist (in Maltese liri)	343.4	445.9	456.1	504.8	573.7	571.8	567.1
(Annual percentage change)							
Tourist arrivals	12.0	6.1	10.6	-5.1	-5.6	5.4	6.4
Cruise passengers	30.0	28.9	-6.9	22.9	-10.3	82.9	13.8
Gross foreign exchange earnings 3/							
In Maltese liri	3.0	28.6	4.2	-3.8	-1.7	9.2	1.9
In U.S. dollars	4.5	7.0	5.4	2.9	-3.7	1.1	2.0

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.

4/ Based on the CBM's estimate of GDP for 1998.

Table A9. Malta: Population, Labor Force, and Employment, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In thousands; end of period)							
Total population	363.0	366.4	369.4	371.2	373.9	376.3	378.1
Labor force 1/	137.2	138.4	136.1	140.1	142.4	143.9	144.8
Male	101.5	102.1	100.4	103.2	104.1	104.7	104.9
Female	35.7	36.3	35.7	36.9	38.3	39.2	39.9
Gainfully occupied 2/	131.6	132.3	130.5	134.8	136.1	136.8	137.4
Male	97.0	96.8	95.6	98.8	98.9	98.7	98.5
Female	34.6	35.4	34.9	36.1	37.3	38.1	38.9
Registered unemployed	5.5	6.2	5.6	5.2	6.2	7.1	7.4
Male	4.5	5.3	4.8	4.4	5.2	6.0	6.4
Female	1.1	0.9	0.8	0.8	1.1	1.1	1.0
Self-employed	16.8	16.3	15.5	15.8	15.6	15.4	15.2
Male	14.2	13.8	13.6	13.9	13.6	13.5	13.3
Female	2.6	2.5	1.9	1.9	1.9	1.9	1.9
(In percent)							
Labor force / Population	37.8	37.8	36.8	37.7	38.1	38.2	38.3
Females / Labor force	26.0	26.3	26.2	26.3	26.9	27.2	27.6
Unemployed / Labor force	4.0	4.5	4.1	3.7	4.4	5.0	5.1
(Annual percentage change)							
Total population	1.0	0.9	0.8	0.5	0.7	0.6	0.5
Labor force	1.4	0.9	-1.7	2.9	1.6	1.1	0.6
Gainfully occupied	1.0	0.5	-1.3	3.3	1.0	0.5	0.4
(In thousands, unless otherwise specified; period average)							
<u>Memorandum items</u>							
Labor force 1/	136.2	138.3	139.4	143.1	146.0	143.9	144.1
Gainfully occupied 2/	131.0	132.5	133.6	138.2	140.6	137.3	137.0
Registered unemployed	5.2	5.8	5.8	5.0	5.4	6.7	7.1
Unemployed / Labor force (in percent)	3.8	4.2	4.2	3.5	3.7	4.6	4.9

Source: Central Office of Statistics.

1/ Includes members of the armed forces.

2/ Includes temporary employment.

Table A10. Malta: Employment by Sector, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In thousands; end of period)							
Gainfully occupied	131.6	132.3	130.5	134.8	136.1	136.8	137.4
Private sector	75.4	76.8	74.5	80.6	81.0	82.0	82.8
Direct production	38.0	37.7	36.7	38.2	37.6	37.1	37.4
Agriculture and fisheries	3.2	3.1	2.5	2.6	2.5	2.5	2.5
Construction and quarrying	5.4	5.3	5.1	5.8	5.9	5.6	5.5
Manufacturing	29.3	29.3	29.1	29.8	29.2	29.0	29.4
Market services	37.5	39.1	37.8	42.4	43.4	44.9	45.4
Transport and communications	5.8	5.8	5.2	5.6	5.5	5.5	5.7
Wholesale and retail trade	13.8	14.1	13.5	15.0	15.0	15.4	15.2
Hotels and catering	7.7	8.1	7.7	8.2	8.1	8.7	8.7
Other services	10.2	11.1	11.4	13.7	14.9	15.3	15.8
Public sector	51.3	50.8	51.8	50.1	50.6	50.3	49.7
General government 1/	32.1	32.3	32.4	32.2	32.6	32.1	32.2
Public enterprises 2/	9.3	9.1	9.8	10.1	10.2	10.3	8.2
Cos. with govt./MDC majority shareholding	9.8	9.4	9.6	7.8	7.8	7.9	9.3
Temporary employment 3/	4.9	4.6	4.2	4.1	4.5	4.5	4.9
(In percent of labor force)							
Gainfully occupied	96.0	95.5	95.9	96.3	95.6	95.0	94.9
Private sector	55.0	55.5	54.8	57.5	56.9	57.0	57.2
Direct production	27.7	27.2	27.0	27.3	26.4	25.8	25.8
Agriculture and fisheries	2.3	2.3	1.8	1.8	1.8	1.8	1.7
Construction and quarrying	4.0	3.8	3.7	4.1	4.1	3.9	3.8
Manufacturing	21.4	21.2	21.4	21.3	20.5	20.1	20.3
Market services	27.3	28.3	27.8	30.3	30.5	31.2	31.4
Transport and communications	4.2	4.2	3.8	4.0	3.9	3.8	3.9
Wholesale and retail trade	10.1	10.2	9.9	10.7	10.5	10.7	10.5
Hotels and catering	5.6	5.9	5.7	5.8	5.7	6.1	6.0
Other services	7.4	8.0	8.4	9.8	10.4	10.6	10.9
Public sector	37.4	36.7	38.1	35.8	35.6	34.9	34.3
General government 1/	23.4	23.3	23.8	23.0	22.9	22.3	22.2
Public enterprises 2/	6.8	6.6	7.2	7.2	7.2	7.2	5.7
Cos. with govt./MDC majority shareholding	7.2	6.8	7.1	5.6	5.5	5.5	6.5
Temporary employment 3/	3.6	3.3	3.1	2.9	3.2	3.1	3.4
(In percent of gainfully occupied)							
Private sector	57.3	58.1	57.1	59.8	59.5	60.0	60.3
Public sector	39.0	38.4	39.7	37.2	37.2	36.7	36.2
Temporary employment 3/	3.7	3.5	3.2	3.0	3.3	3.3	3.6

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(In Maltese liri)						
National minimum wage (per week)	35.6	36.6	38.1	40.4	42.4	44.1	45.6
Average weekly earnings per employee 1/	60.2	65.8	71.6	77.4	82.8	84.2	87.3
Survey data (unionized sector): 2/							
Average weekly wage	...	...	59.3	61.5	65.3	68.5	70.7
Unskilled laborers	...	...	49.4	50.7	54.6	57.5	59.4
Skilled laborers	...	...	62.1	63.2	67.3	70.9	73.0
Clerks and supervisors	...	...	63.6	65.6	69.8	72.9	75.5
Managers 3/	...	...	101.6	118.7	118.6	122.1	125.1
Weighted average weekly wage (inclusive of cost of living adjustment)	...	65.5	69.6	75.0	78.3	83.3	86.9
	(Annual percentage change)						
National minimum wage (per week)	4.4	2.8	4.1	5.9	5.0	4.1	3.3
Average weekly earnings per employee 1/	6.6	9.2	8.9	8.1	7.0	1.7	3.7
Survey data (unionized sector): 2/							
Average weekly wage	...	...	4.6	3.7	6.1	4.9	3.2
Unskilled laborers	...	...	5.8	2.6	7.7	5.3	3.4
Skilled laborers	...	...	4.3	1.8	6.4	5.4	3.0
Clerks and supervisors	...	...	2.3	3.1	6.4	4.4	3.5
Managers 3/	...	...	3.7	16.8	-0.1	2.9	2.5
Weighted average weekly wage (inclusive of cost of living adjustment)	...	...	6.2	7.8	4.4	6.4	4.4
Memorandum items:							
CPI	1.8	4.0	4.1	4.0	2.4	3.1	2.4
Output per employee	5.2	3.0	5.8	3.7	2.9	2.1	2.4

Sources: Ministry of Finance and Commerce, *Economic Survey*; and Central Bank of Malta, *Annual Report*.

1/ Total wage and salary income (excluding employers' social security contributions) divided by the number of gainfully employed (excluding self-employed).

2/ 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.

3/ 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, 1992-99 1/

	All items	Food	Beverages & tobacco	Clothing & footwear	Housing	Fuel & power	Durable household goods	Transport & communications	Personal care & health	Education & entertainment	Other goods & services
Weights (1995=100)	100.0	29.9	7.3	10.1	5.3	2.5	9.3	16.0	6.5	8.3	4.7
(Annual percentage change)											
1992	1.6	0.0	1.2	3.6	0.3	0.0	1.3	2.0	1.5	2.4	0.9
1993	4.0	5.2	3.0	3.0	1.8	0.2	3.9	3.9	3.9	5.5	3.4
1994	4.1	3.6	4.7	0.4	1.8	0.1	5.3	5.1	5.0	7.2	7.4
1995	4.0	3.3	8.7	1.2	9.6	0.1	6.4	0.8	5.2	4.9	5.3
1996	2.4	5.8	2.2	-3.3	3.8	14.8	0.1	3.1	1.8	-3.6	0.3
1997	3.1	1.5	5.7	-0.7	4.9	0.1	1.3	8.5	2.7	4.5	0.4
1998	2.4	2.0	5.6	2.1	3.0	-1.6	0.2	3.6	3.4	2.5	-0.3
(Percentage change relative to same month of previous year)											
1998											
January	3.5	5.2	5.1	1.5	3.2	-2.0	-0.1	5.0	2.9	3.0	-0.1
February	3.4	5.5	5.1	1.5	3.2	-2.0	-0.1	4.1	3.1	2.6	-0.2
March	3.2	4.5	5.1	1.5	5.4	-2.0	0.5	4.1	3.4	2.6	-0.8
April	2.7	2.9	5.8	1.5	3.5	-2.0	0.5	4.1	3.1	2.3	-0.9
May	2.9	3.5	5.8	3.2	3.1	-2.0	0.5	3.4	3.1	2.3	-1.0
June	2.3	1.6	5.8	3.2	3.1	-2.0	0.4	3.4	3.5	2.3	-1.1
July	2.4	1.5	5.9	3.2	3.1	-2.0	0.4	3.4	3.5	2.7	-0.6
August	2.2	2.1	5.9	-0.1	3.7	-1.8	0.4	3.1	3.5	2.7	-0.4
September	2.0	1.4	5.9	-0.1	3.7	-1.8	0.1	3.1	3.5	2.7	0.1
October	1.9	1.2	5.7	-0.1	3.7	-1.8	0.1	3.1	3.6	2.2	0.1
November	1.1	-2.5	5.7	4.7	0.2	0.4	0.1	3.2	3.6	2.2	0.6
December	1.3	-1.9	5.7	4.7	0.2	0.4	0.1	3.2	3.5	2.2	0.7
1999											
January	1.4	-1.0	9.3	-1.5	0.2	0.3	2.9	1.5	3.7	2.8	1.5
February	1.9	0.2	17.5	-12.2	0.9	0.4	5.7	2.1	3.2	2.8	2.0
March	1.8	0.6	9.3	-1.5	-1.9	0.3	3.1	1.5	3.3	2.8	2.2

Source: Central Office of Statistics.

1/ 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 1996-97, 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 rate in 1996 is not directly comparable with those in other years.

Table A13. Malta: Government Budget Accounts, 1992-99 1/

	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)								
Total revenue	294.2	352.4	378.0	426.0	425.5	466.6	462.3	504.1
Tax revenue	236.8	263.5	273.9	342.7	339.3	387.5	381.1	422.1
Direct taxes	127.1	151.0	156.8	177.4	177.0	205.4	201.1	220.6
Indirect taxes	109.7	112.5	117.1	165.3	162.3	182.1	180.0	201.5
Non-tax revenue	57.4	89.0	104.1	83.3	86.2	79.0	81.2	82.0
Total expenditure and net lending	351.2	381.1	429.2	470.2	529.0	590.6	606.3	627.7
Current expenditure	...	...	...	432.1	480.0	509.6	535.6	561.4
Capital expenditure	...	...	...	35.0	42.9	47.8	53.4	54.2
Net lending	1.2	-4.8	5.9	3.1	6.1	33.2	17.3	12.0
Repayment	6.3	10.8	4.4	9.0	0.3	0.3	5.7	0.0
Loans 2/	7.5	6.0	10.3	12.1	6.4	33.4	22.9	12.0
Balance	-56.9	-28.7	-51.2	-44.2	-103.5	-124.0	-144.0	-123.6
Financing	56.9	28.7	51.2	44.2	103.5	124.0	144.0	123.6
Domestic loans, net	30.1	25.5	3.9	18.5	68.9	166.1	104.5	...
Disbursements	36.0	28.8	28.7	32.5	70.0	167.3	110.0	100.0
Repayments	5.9	3.3	24.8	14.0	1.1	1.2	5.5	...
Foreign loans, net	-4.2	-0.7	6.8	-4.0	-1.7	-2.3	-4.0	...
Disbursements	0.9	2.9	11.3	0.7	3.2	3.3	0.0	3.5
Repayments	5.1	3.6	4.5	4.7	4.9	5.6	4.0	...
Asset sales	0.4	0.6	12.7	14.6	0.0	0.1	35.4	60.0
Change in cash balances	30.7	3.3	27.8	15.1	36.2	-39.9	8.2	...
(In percent of GDP 3/)								
Total revenue	33.6	37.5	36.8	37.2	35.4	36.4	33.2	34.7
Tax revenue	27.1	28.0	26.6	29.9	28.2	30.2	27.4	29.0
Direct taxes	14.5	16.1	15.2	15.5	14.7	16.0	14.5	15.2
Indirect taxes	12.5	12.0	11.4	14.4	13.5	14.2	12.9	13.9
Non-tax revenue	6.6	9.5	10.1	7.3	7.2	6.2	5.8	5.6
Total expenditure and net lending	40.1	40.5	41.7	41.0	44.0	46.1	43.6	43.2
Current expenditure	...	...	...	37.7	40.0	39.7	38.5	38.6
Capital expenditure	...	...	...	3.1	3.6	3.7	3.8	3.7
Net lending	0.1	-0.5	0.6	0.3	0.5	2.6	1.2	0.8
Repayment	0.7	1.1	0.4	0.8	0.0	0.0	0.4	0.0
Loans	0.9	0.6	1.0	1.1	0.5	2.6	1.6	0.8
Balance	-6.5	-3.0	-5.0	-3.9	-8.6	-9.7	-10.4	-8.5
Financing	6.5	3.0	5.0	3.9	8.6	9.7	10.4	8.5
Domestic loans, net	3.4	2.7	0.4	1.6	5.7	13.0	7.5	...
Disbursements	4.1	3.1	2.8	2.8	5.8	13.0	7.9	6.9
Repayments	0.7	0.4	2.4	1.2	0.1	0.1	0.4	...
Foreign loans, net	-0.5	-0.1	0.7	-0.4	-0.1	-0.2	-0.3	...
Disbursements	0.1	0.3	1.1	0.1	0.3	0.3	0.0	0.2
Repayments	0.6	0.4	0.4	0.4	0.4	0.4	0.3	...
Asset sales	0.0	0.1	1.2	1.3	0.0	0.0	2.5	4.1
Change in cash balances	3.5	0.3	2.7	1.3	3.0	-3.1	0.6	...
(In millions of Maltese liri)								
Memorandum items:								
GDP at current market prices 3/	874.9	940.0	1,028.6	1,145.5	1,201.4	1,282.0	1,391.0	1,454.5
Balance (authorities' presentation) 4/	-49.4	-47.8	-68.4	-57.7	-124.6	-128.7	-150.4	-134.6
Foreign grants	16.4	8.4	12.9	4.5	20.8	9.8	10.0	11.0
Repayment of government loans	6.3	10.8	4.4	9.0	0.3	0.3	0.3	0.0

Sources: Ministry of Finance, *Consolidated Account Structure: Trends and Projections*; and Treasury, *Financial Report*.

1/ Consolidated with the Social Security Account.

2/ Includes extrabudgetary loans to Malta Shipbuilding, Malta Drydocks, WSC, and Gozo Ferries.

3/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

4/ The authorities classify foreign grants and repayment of government loans as financing items; in the staff presentation, these transactions are placed above the line.

Table A14. Malta: Current Budgetary Revenue, 1992-99

	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)								
Total revenue	294.2	352.4	378.0	426.0	425.5	466.6	462.3	504.1
Tax receipts	236.8	263.5	273.9	342.7	339.3	387.5	381.1	422.1
Direct taxes	127.1	151.0	156.8	177.4	177.0	205.4	201.1	220.6
Income taxes	71.4	85.1	87.9	99.8	93.3	110.5	110.6	124.0
Individuals	36.2	45.8	54.6	63.6	61.0	66.3	66.5	75.5
Corporations	35.1	39.3	33.2	36.2	32.3	44.3	44.1	48.5
Social security contributions 1/	53.7	64.4	67.9	77.7	83.7	94.9	90.5	96.6
Death and donation duties	2.1	1.5	1.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	109.7	112.5	117.1	165.3	162.3	182.1	180.0	201.5
Customs and excise taxes	82.3	83.5	72.0	32.6	32.0	43.2	52.7	55.7
Excise taxes	9.0	7.7	8.8	23.6	23.7	34.0	43.8	45.4
Import duties	73.3	75.8	63.2	9.0	8.2	9.2	8.9	10.3
VAT/CET 2/	--	--	--	78.1	78.6	84.6	66.6	85.0
Licenses, taxes, and levies	27.4	29.0	45.1	54.6	51.7	54.3	60.7	60.7
Non-tax receipts	57.4	89.0	104.1	83.3	86.2	79.0	81.2	82.0
Foreign grants	16.4	8.4	12.9	4.5	20.8	9.8	10.0	11.0
Fees & reimbursements	6.8	7.7	10.0	10.1	10.0	17.8	17.9	17.8
Rents, dividends, interest	-7.0	26.2	26.5	23.1	17.6	17.8	17.9	17.8
Central Bank profits	21.4	24.2	30.0	24.5	23.1	22.2	24.1	30.0
Lotteries	4.6	5.6	6.2	6.5	6.8	6.5	6.9	7.0
Civil aviation and posts 3/	9.9	9.2	11.2	8.2	5.9	6.7	4.6	1.4
Miscellaneous	5.4	7.5	7.4	6.4	2.0	5.5	7.0	3.2
(In percent of GDP 4/)								
Total revenue	33.6	37.5	36.8	37.2	35.4	36.4	33.2	34.7
Tax receipts	27.1	28.0	26.6	29.9	28.2	30.2	27.4	29.0
Direct taxes	14.5	16.1	15.2	15.5	14.7	16.0	14.5	15.2
Income taxes	8.2	9.1	8.5	8.7	7.8	8.6	7.9	8.5
Individuals	4.1	4.9	5.3	5.6	5.1	5.2	4.8	5.2
Corporations	4.0	4.2	3.2	3.2	2.7	3.5	3.2	3.3
Social security contributions 1/	6.1	6.9	6.6	6.8	7.0	7.4	6.5	6.6
Death and donation duties	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Indirect taxes	12.5	12.0	11.4	14.4	13.5	14.2	12.9	13.9
Customs and excise taxes	9.4	8.9	7.0	2.8	2.7	3.4	3.8	3.8
Excise taxes	1.0	0.8	0.9	2.1	2.0	2.7	3.1	3.1
Import duties	8.4	8.1	6.1	0.8	0.7	0.7	0.6	0.7
VAT/CET 2/	--	--	--	6.8	6.5	6.6	4.8	5.8
Licenses, taxes, and levies	3.1	3.1	4.4	4.8	4.3	4.2	4.4	4.2
Non-tax receipts	6.6	9.5	10.1	7.3	7.2	6.2	5.8	5.6
Foreign grants	1.9	0.9	1.2	0.4	1.7	0.8	0.7	0.8
Fees & reimbursements	0.8	0.8	1.0	0.9	0.8	1.4	1.3	1.2
Rents, dividends, interest	-0.8	2.8	2.6	2.0	1.5	1.4	1.3	1.2
Central Bank profits	2.4	2.6	2.9	2.1	1.9	1.7	1.7	2.1
Lotteries	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Civil aviation and posts 3/	1.1	1.0	1.1	0.7	0.5	0.5	0.3	0.1
Miscellaneous	0.6	0.8	0.7	0.6	0.2	0.4	0.5	0.2
(In percent of tax revenue)								
Direct taxes	53.7	57.3	57.2	51.8	52.2	53.0	52.8	52.3
Income taxes	30.1	32.3	32.1	29.1	27.5	28.5	29.0	29.4
Individuals	15.3	17.4	19.9	18.6	18.0	17.1	17.4	17.9
Corporations	14.8	14.9	12.1	10.6	9.5	11.4	11.6	11.5
Social security contributions 1/	22.7	24.4	24.8	22.7	24.7	24.5	23.8	22.9
Death and donation duties	0.9	0.6	0.4	0.0	0.0	0.0	0.0	0.0
Indirect taxes	46.3	42.7	42.8	48.2	47.8	47.0	47.2	47.7
Customs and excise taxes	34.8	31.7	26.3	9.5	9.4	11.1	13.8	13.2
Excise taxes	3.8	2.9	3.2	6.9	7.0	8.8	11.5	10.8
Import duties	31.0	28.8	23.1	2.6	2.4	2.4	2.3	2.4
VAT/CET 2/	--	--	--	22.8	23.2	21.8	17.5	20.1
Licenses, taxes, and levies	11.6	11.0	16.5	15.9	15.2	14.0	15.9	14.4

Sources: Ministry of Finance, *Budget Estimates*; and staff estimates.

1/ Excludes the state contribution but includes the amount paid by the government as employer.

2/ The CET (Customs and Excise Tax) replaced the VAT in July 1997. The VAT replaced the CET in January 1999.

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

4/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

Table A15. Malta: Current Budgetary Expenditure, 1992-99

	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)								
Total current expenditure	...	...	...	432.1	480.0	509.6	535.6	561.4
Functional classification								
Education	41.2	47.9	50.6	56.0	57.6	59.7	59.2	66.4
Health services and administration	38.1	43.5	46.4	49.2	48.8	59.1	60.0	65.1
Pensions 1/	12.3	13.4	13.8	14.9	18.5	19.0	19.9	20.2
Social security benefits 2/	97.7	105.8	115.5	123.9	140.0	153.2	160.9	180.1
Police and armed forces	15.9	18.3	20.4	21.7	23.4	24.0	23.6	23.7
Public works	15.0	16.8	17.7	17.8	15.7	20.2	20.9	22.6
Water	7.4	9.0	11.0	11.8	14.6	14.6	18.5	11.9
Agriculture	5.0	5.6	5.9	5.8	6.6	6.5	6.4	7.7
Interest payments	11.7	13.6	16.5	18.8	22.6	32.2	40.5	49.7
Other administrative, economic and social services	...	...	...	112.2	132.3	121.1	125.7	114.1
Economic classification								
Personnel expenditures 3/	110.0	124.5	136.9	145.3	157.4	157.9	163.6	170.8
Operational and maintenance expenditures	27.2	31.3	32.5	35.9	36.3	43.8	43.8	41.2
Programs and initiatives	127.8	140.5	156.4	178.2	201.0	212.6	218.5	243.3
<i>Of which: Social security benefits</i>	98.0	105.8	115.5	123.9	140.0	150.3	160.9	180.1
Transfers to government entities	...	...	...	53.1	61.8	62.4	68.6	55.9
<i>Of which: Water Services Corporation</i>	7.4	9.0	11.0	11.8	14.6	14.6	18.5	11.9
Interest payments	11.7	13.6	16.5	18.8	22.6	32.2	40.5	49.7
Special expenditures	0.4	0.8	0.9	0.8	0.9	0.7	0.6	0.5
(In percent of total current expenditure, selected items)								
Education	...	...	...	13.0	12.0	11.7	11.1	11.8
Health services and administration	...	...	...	11.4	10.2	11.6	11.2	11.6
Social security benefits 2/	...	...	...	28.7	29.2	30.1	30.0	32.1
Interest payments	...	...	...	4.4	4.7	6.3	7.6	8.8
Personnel expenditure 3/	...	...	...	33.6	32.8	31.0	30.6	30.4
Transfers to government entities	...	...	...	12.3	12.9	12.3	12.8	10.0
(In percent of GDP, selected items 4/)								
Total current expenditure	...	...	...	37.7	40.0	39.7	38.5	38.6
Education	4.7	5.1	4.9	4.9	4.8	4.7	4.3	4.6
Health services and administration	4.4	4.6	4.5	4.3	4.1	4.6	4.3	4.5
Social security benefits 2/	11.2	11.3	11.2	10.8	11.7	12.0	11.6	12.4
Interest payments	1.3	1.4	1.6	1.6	1.9	2.5	2.9	3.4
Personnel expenditure 3/	12.6	13.2	13.3	12.7	13.1	12.3	11.8	11.7
Transfers to government entities	...	...	...	4.6	5.1	4.9	4.9	3.8

Sources: Ministry of Finance, *Budget Estimates*; and staff estimates.

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

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

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

4/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

Table A16. Malta: Budgetary Capital Expenditure and Lending, 1995-99 1/

	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)					
Capital expenditure and net lending	38.1	49.0	81.0	70.7	66.2
Capital expenditure	35.0	42.9	47.8	53.4	54.2
Infrastructure	14.5	19.3	25.2	26.4	23.2
Roads	2.9	5.4	2.7	5.5	5.8
Sewers	3.8	5.6	3.5	3.3	2.7
Airport development	1.3	1.3	0.3	0.1	0.0
Public buildings, plant and equipment	1.0	0.7	5.5	2.9	2.3
Other	5.5	6.2	13.2	14.7	12.6
Social	9.9	14.1	17.6	19.4	24.6
Health	3.2	5.9	5.6	6.8	11.2
Housing	0.5	0.5	0.9	1.0	0.4
Education	3.2	4.3	7.6	8.2	7.6
Other	3.0	3.3	3.6	3.4	5.4
Other	10.5	9.6	5.1	9.6	6.4
Development of industries	3.0	3.2	2.5	2.7	2.8
Agriculture and fisheries	0.8	0.7	1.0	1.1	0.7
Other	6.7	5.6	1.6	5.8	2.9
(In percent of total capital expenditure and lending)					
Infrastructure	38.2	39.3	31.1	37.3	35.1
Social	26.1	28.7	21.7	27.4	37.1
Other	27.6	19.5	6.2	13.6	9.6

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

1/ Prior to 1995, the capital expenditure figures include subsidies to government entities.

Table A17. Malta: Social Security Account, 1992-99

	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri)								
Revenue	80.5	97.0	101.8	115.5	126.2	142.2	135.7	144.5
Contributions	54.0	64.4	67.9	77.7	83.7	94.9	90.5	96.3
by employees, private employers, and the self-employed	45.8	53.5	56.8	66.0	...	...	78.1	82.6
by the government as employer	8.2	10.9	11.1	11.7	...	...	12.4	13.7
State contribution in terms of Social Security Act 1987	26.5	32.6	33.9	37.8	42.5	47.3	45.1	48.2
Expenditure	133.9	145.8	163.3	175.9	191.9	211.1	226.2	247.6
Benefits and expenses	98.0	105.8	115.5	123.9	140.0	150.3	160.9	180.1
Contributory benefits	78.3	84.0	92.4	99.9	113.4	121.6	...	146.6
Retirement pensions	36.5	39.8	43.4	48.3	54.6	57.6	...	76.0
Bonus	4.7	6.1	8.1	8.3	8.8	8.9	...	9.5
Children's allowance	14.5	14.5	15.6	15.5	18.3	20.4	...	20.3
Other benefits	22.6	23.7	25.3	27.8	31.8	34.7	...	40.7
Noncontributory benefits 1/ of which:	19.7	21.8	23.1	24.0	26.6	28.8	...	33.5
Old age pensions	3.4	3.5	3.6	3.7	4.5	5.2	...	6.2
Bonus	1.4	1.8	2.5	2.3	2.4	2.5	...	3.4
Health services	34.2	38.4	46.3	50.3	50.1	58.8	63.2	65.1
Hospitalization and community care	28.0	32.3	39.6	41.8	40.1	48.4	...	55.4
Care of the elderly	6.3	6.1	6.7	8.5	10.0	10.4	...	9.7
Administration expenses	1.7	1.6	1.6	1.7	1.8	1.9	2.1	2.4
Overall balance	-53.5	-48.8	-61.6	-60.4	-65.7	-68.9	-90.6	-103.2
(In percent of GDP 2/)								
Revenue	9.2	10.3	9.9	10.1	10.5	11.1	9.8	9.9
Contributions	6.2	6.9	6.6	6.8	7.0	7.4	6.5	6.6
by employees, private employers, and the self-employed	5.2	5.7	5.5	5.8	...	...	5.6	5.7
by the government as employer	0.9	1.2	1.1	1.0	...	...	0.9	0.9
State contribution in terms of Social Security Act 1987	3.0	3.5	3.3	3.3	3.5	3.7	3.2	3.3
Expenditure	15.3	15.5	15.9	15.4	16.0	16.5	16.3	17.0
Benefits and expenses	11.2	11.3	11.2	10.8	11.7	11.7	11.6	12.4
Contributory benefits	8.9	8.9	9.0	8.7	9.4	9.5	...	10.1
Retirement pensions	4.2	4.2	4.2	4.2	4.5	4.5	...	5.2
Bonus	0.5	0.6	0.8	0.7	0.7	0.7	...	0.7
Children's allowance	1.7	1.5	1.5	1.4	1.5	1.6	...	1.4
Other benefits	2.6	2.5	2.5	2.4	2.6	2.7	...	2.8
Noncontributory benefits 1/ of which:	2.3	2.3	2.2	2.1	2.2	2.2	...	2.3
Old age pensions	0.4	0.4	0.3	0.3	0.4	0.4	...	0.4
Bonus	0.2	0.2	0.2	0.2	0.2	0.2	...	0.2
Health services	3.9	4.1	4.5	4.4	4.2	4.6	4.5	4.5
Hospitalization and community care	3.2	3.4	3.8	3.6	3.3	3.8	...	3.8
Care of the elderly	0.7	0.7	0.7	0.7	0.8	0.8	...	0.7
Administration expenses	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2
Overall balance	-6.1	-5.2	-6.0	-5.3	-5.5	-5.4	-6.5	-7.1
Memorandum items:								
Revenue from contributions less contributory benefits	-2.8	-2.1	-2.4	-1.9	-2.5	-2.1	...	-3.5
Revenue from contributions less pensions and bonuses	0.9	1.4	1.0	1.3	1.1	1.6	...	0.1

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

1/ Includes old age pensions, disability pensions and allowances, social assistance, medical assistance, bonuses, and supplementary assistance.

2/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

Table A18. Malta: Government Debt, 1992-99

	1992	1993	1994	1995	1996	1997	1998	Budget 1999
(In millions of Maltese liri; end of period)								
Total outstanding government debt	245.8	304.8	339.3	409.3	514.5	661.4	765.5	819.3
Domestic	197.4	254.3	283.0	355.8	462.7	611.0	716.6	773.3
Local stocks & debentures	167.7	224.6	253.3	286.0	356.1	523.4	633.1	723.3
Treasury bills	29.7	29.7	29.7	69.8	106.6	87.5	83.4	50.0
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
External 1/	48.4	50.5	56.3	53.4	51.8	50.4	48.9	46.0
Italy	15.1	18.4	24.8	23.9	23.6	-22.7	...	20.1
European Union	15.7	16.1	16.3	9.0	11.4	10.5	...	9.1
Council of Europe	0.0	0.0	2.5	2.4	2.4	5.2	...	5.2
Japan (Sumitomo Bank)	0.0	0.0	0.0	7.6	5.6	4.6	...	2.8
Federal Republic of Germany	4.8	4.4	4.2	3.9	3.3	2.8	...	2.1
Saudi Arabia	8.6	7.7	6.2	4.9	3.9	3.1	...	1.8
United States	1.6	1.6	1.4	1.3	1.3	1.4	...	1.2
Canada	0.2	0.2	0.2	0.2	0.2	0.2	...	0.2
China	1.2	1.3	0.2	0.0	0.0	0.0	...	0.0
France	0.2	0.1	0.1	0.0	0.0	0.0	...	0.0
Abu Dhabi and Kuwait Funds	1.0	0.7	0.4	0.2	0.0	0.0	...	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	...	3.5
Outstanding government-guaranteed debt	352.7	410.0	419.2	458.3	519.2	518.5	513.0	...
(In percent of GDP 2/)								
Total outstanding government and government-guaranteed debt	68.4	76.0	73.7	74.1	86.0	92.0	91.9	...
Outstanding government debt	28.1	32.4	33.0	34.1	42.8	51.6	55.0	56.3
Domestic	22.6	27.1	27.5	29.6	38.5	47.7	51.5	53.2
External	5.5	5.4	5.5	4.4	4.3	3.9	3.5	3.2
Outstanding government-guaranteed debt	40.3	43.6	40.8	40.0	43.2	40.4	36.9	...

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

1/ Includes amounts borrowed directly by the government and on-lent to public enterprises and other organizations.

2/ Based on the Finance Ministry's estimate for 1998 and projection for 1999 GDP.

Table A19. Malta: Monetary Base, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; end of period)							
Sources							
NFA of the central bank	475.0	533.4	617.6	508.7	508.6	541.6	610.8
Net credit to government	56.6	15.6	37.5	47.5	51.5	34.5	-11.3
Other	-102.6	-117.9	-203.5	-108.7	-96.3	-89.3	-94.8
Monetary base	429.1	431.2	451.6	447.5	463.8	486.7	504.7
Uses							
Currency issued	350.6	364.0	379.1	367.4	380.2	384.7	389.5
Bank reserves	78.5	67.2	73.0	80.0	72.0	100.5	115.2
Other	0.0	0.0	-0.5	0.0	11.5	1.6	0.0
(In percent of monetary base; end of period)							
Sources							
NFA of the central bank	110.7	123.7	136.8	113.7	109.7	111.3	121.0
Net credit to government	13.2	3.6	8.3	10.6	11.1	7.1	-2.2
Other	-23.9	-27.3	-45.1	-24.3	-20.8	-18.3	-18.8
Uses							
Currency issued	81.7	84.4	83.9	82.1	82.0	79.0	77.2
Bank reserves	18.3	15.6	16.2	17.9	15.5	20.6	22.8
Other	0.0	0.0	-0.1	0.0	2.5	0.3	0.0
Memorandum item:							
NFA of the central bank, including official funds held at the treasury	114.7	127.4	152.9	129.8	119.5	115.4	124.0
(Percentage change)							
Sources							
NFA of the central bank	15.7	12.3	15.8	-17.6	0.0	6.5	12.8
Net credit to government	-2.4	-72.4	139.7	26.8	8.3	-33.1	-132.9
Monetary base	5.3	0.5	4.7	-0.9	3.6	4.9	3.7
Uses							
Currency issued	-1.1	3.8	4.1	-3.1	3.5	1.2	1.3
Bank reserves	48.5	-14.4	8.7	9.6	-10.0	39.5	14.6
(In percent)							
Memorandum items:							
Multiplier, narrow money	0.95	0.99	1.03	0.98	0.98	0.99	1.03
Multiplier, broad money	2.89	3.17	3.48	3.78	4.03	4.21	4.40

Sources: Central Bank of Malta, *Quarterly Review*.

Table A20. Malta: Deposit Money Banks' Assets and Liabilities, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; end of period)							
Assets	1,142.9	1,337.7	1,576.4	1,880.7	2,142.3	2,351.6	2,646.6
Cash and deposits at the CBM	93.8	83.3	194.5	100.6	96.8	125.2	140.2
Foreign assets	330.1	378.6	417.4	557.4	588.6	534.8	575.1
Local lending and bills discounted	539.4	627.6	707.4	938.4	1,079.6	1,205.3	1,324.6
Local investments	147.0	212.8	210.5	234.4	263.2	365.3	477.9
Fixed and other assets	32.5	35.5	46.5	50.0	114.2	121.0	128.9
Liabilities	1,142.9	1,337.7	-1,576.4	1,880.7	2,142.3	2,351.6	2,646.6
Deposits	886.5	1,002.6	1,179.7	1,330.4	1,496.7	1,672.3	1,829.9
Demand	57.9	59.6	72.4	79.2	87.2	110.5	146.0
Savings	365.0	415.8	462.8	510.5	538.2	574.4	581.9
Time	463.7	527.2	644.5	740.6	871.3	987.5	1,102.0
Foreign liabilities	62.0	105.0	95.3	193.4	229.6	226.8	305.5
Capital and reserves	194.3	230.1	301.4	356.9	416.0	452.5	511.2
(In percent of total assets)							
Cash and deposits at the CBM	8.2	6.2	12.3	5.4	4.5	5.3	5.3
Foreign assets	28.9	28.3	26.5	29.6	27.5	22.7	21.7
Local lending and bills discounted	47.2	46.9	44.9	49.9	50.4	51.3	50.1
Local investments	12.9	15.9	13.4	12.5	12.3	15.5	18.1
Fixed and other assets	2.8	2.7	3.0	2.7	5.3	5.1	4.9
(In percent of total liabilities)							
Deposits	77.6	75.0	74.8	70.7	69.9	71.1	69.1
Demand	5.1	4.5	4.6	4.2	4.1	4.7	5.5
Savings	31.9	31.1	29.4	27.1	25.1	24.4	22.0
Time	40.6	39.4	40.9	39.4	40.7	42.0	41.6
Foreign liabilities	5.4	7.9	6.0	10.3	10.7	9.6	11.5
Capital and reserves	17.0	17.2	19.1	19.0	19.4	19.2	19.3
(Percentage change)							
Assets	18.6	17.0	17.8	19.3	13.9	9.8	12.5
Cash and deposits at the CBM	49.4	-11.3	133.6	-48.3	-3.8	29.4	12.0
Foreign assets	33.9	14.7	10.3	33.5	5.6	-9.1	7.5
Local lending and bills discounted	12.3	16.4	12.7	32.7	15.0	11.7	9.9
Local investments	0.0	44.7	-1.1	11.3	12.3	38.8	30.8
Fixed and other assets	21.0	9.1	31.3	7.3	128.7	5.9	6.5
Liabilities	18.6	17.0	17.8	19.3	13.9	9.8	12.5
Deposits	14.0	13.1	17.7	12.8	12.5	11.7	9.4
Foreign liabilities	-32.7	69.3	-9.3	103.0	18.7	-1.2	34.7
Capital and reserves	107.5	18.4	31.0	18.4	16.5	8.8	13.0

Source: Central Bank of Malta, *Quarterly Review*.

Table A21. Malta: Deposit Money Banks' Loans and Advances by Sector, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; end of period)							
Energy and water	...	30.4	32.6	80.8	86.9	98.1	106.9
Transport, storage and communication	...	22.9	24.6	55.0	63.6	69.2	76.0
All banking institutions	84.2	108.9	119.0	65.6	55.4	45.7	58.1
Agriculture and fisheries	5.1	5.6	7.1	8.6	11.5	10.8	10.6
Manufacturing, shipbuilding and repair	125.5	149.0	161.4	188.8	204.0	205.1	196.0
<i>Of which:</i> Shipbuilding and repair	...	64.6	66.5	63.5	64.1	60.5	47.8
Building and construction	27.7	28.1	43.3	65.5	73.6	71.6	82.0
Hotel, restaurants and tourist trades	28.5	30.3	38.1	79.2	110.3	154.1	170.2
Wholesale and retail trades	95.4	113.8	137.5	181.8	208.3	224.2	243.5
Personal	53.9	58.4	64.1	91.3	124.7	140.4	162.7
House purchases	15.4	16.1	35.5	46.4	62.6	78.4	91.7
Consumer durables	3.6	3.5	9.0	22.9	32.9	36.0	44.6
Other	34.9	38.8	19.5	22.0	29.2	26.0	26.3
Other services	...	16.6	22.3	36.7	46.1	54.5	60.8
Other	...	62.8	56.1	82.4	95.3	113.6	125.5
Total local lending	529.3	691.3	772.4	999.2	1,143.8	1,247.6	1,340.1
Total foreign lending	9.9	5.9	6.3	13.5	14.0	14.3	5.2
Total	539.2	697.2	778.7	1,012.7	1,157.7	1,262.0	1,345.3
(In percent of total local lending)							
Energy and water	...	4.4	4.2	8.1	7.6	7.9	8.0
Transport, storage and communication	...	3.3	3.2	5.5	5.6	5.5	5.7
All banking institutions	15.9	15.8	15.4	6.6	4.8	3.7	4.3
Agriculture and fisheries	1.0	0.8	0.9	0.9	1.0	0.9	0.8
Manufacturing, shipbuilding and repair	23.7	21.6	20.9	18.9	17.8	16.4	14.6
<i>Of which:</i> Shipbuilding and repair	...	9.3	8.6	6.4	5.6	4.8	3.6
Building and construction	5.2	4.1	5.6	6.6	6.4	5.7	6.1
Hotel, restaurants and tourist trades	5.4	4.4	4.9	7.9	9.6	12.4	12.7
Wholesale and retail trades	18.0	16.5	17.8	18.2	18.2	18.0	18.2
Personal	10.2	8.4	8.3	9.1	10.9	11.3	12.1
House purchases	2.9	2.3	4.6	4.6	5.5	6.3	6.8
Consumer durables	0.7	0.5	1.2	2.3	2.9	2.9	3.3
Other	6.6	5.6	2.5	2.2	2.5	2.1	2.0
Other services	...	2.4	2.9	3.7	4.0	4.4	4.5
Other	...	9.1	7.3	8.3	8.3	9.1	9.4

Source: Central Bank of Malta, *Quarterly Review*.

Table A22. Malta: Financial Position of the Government vis-a-vis the Financial System, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; end of period)							
Deposits with:							
Central bank	5.7	2.4	1.7	20.2	22.8	24.7	35.7
Commercial banks	2.0	2.7	2.2	6.7	9.0	10.0	11.8
Special government deposits account	11.5	18.7	20.7	10.8	0.0	0.0	0.0
Credit from:							
Central bank	62.3	18.1	39.2	67.7	74.3	59.2	24.3
Treasury bills 1/	20.5	0.0	2.6	24.7	27.2	22.7	16.9
LDRs	41.8	18.1	36.6	43.0	47.1	36.4	7.4
Ways and means	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	78.2	142.7	135.9	149.8	182.4	297.0	390.9
Treasury bills 1/	7.2	29.2	26.6	30.2	46.1	28.8	34.9
LDRs	71.0	113.5	109.3	119.6	136.3	268.2	356.0
Net liabilities	121.5	137.0	150.5	179.8	246.3	0.0	0.0

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

1/ The ceiling on the total amount of treasury bills outstanding was raised from Lm 30 million to Lm 100 million in January 1995, and to Lm 200 million in November 1996.

Table A23. Malta: Deposit Money Banks' Income and Expenditure, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri)							
Gross operating income	78.9	92.1	94.5	113.2	137.8	176.5	179.7
Income from domestic sources	50.8	55.4	68.3	85.5	104.9	123.4	144.2
Loans and overdrafts	35.4	37.7	45.0	59.6	76.8	86.8	96.7
Securities	6.8	8.4	10.5	9.4	12.5	17.3	24.0
Equities	0.0	0.0	0.0	0.0	0.0	0.0	0.9
Balances with the central bank	3.0	3.9	5.1	4.8	2.9	4.9	5.8
Exchange and commissions	4.0	4.0	5.9	9.4	9.1	8.2	13.0
Other	1.6	1.4	1.8	2.4	3.6	6.1	3.7
Income from foreign sources	28.1	36.6	26.2	27.7	32.9	53.1	35.5
Loans and overdrafts	0.6	0.4	0.5	0.7	0.9	1.2	1.3
Deposits and balances with banks abroad	9.1	8.1	4.2	4.6	1.8	1.5	1.1
Money at call	0.0	0.3	0.1	1.6	2.9	22.0	2.3
Foreign securities	13.3	11.3	15.0	20.9	22.7	22.0	25.5
Foreign equities	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Exchange and capital gains/losses	5.1	12.9	6.4	-0.1	4.6	6.4	5.1
Other	...	...	...	7.6	8.3	8.3	2.9
Operating expenses	63.6	73.3	82.3	103.6	120.9	143.1	157.1
Interest payments on deposits	42.6	46.9	54.5	68.6	80.0	94.9	110.3
Demand deposits	...	0.2	0.1	0.4	0.3	2.1	5.8
Savings deposits	...	14.4	16.3	18.8	21.2	26.0	36.0
Time deposits	...	32.3	38.1	48.2	54.3	61.3	64.1
Other	2.0	0.0	0.0	1.3	4.2	5.5	4.3
Wages and salaries	13.6	15.8	16.9	18.8	22.0	24.4	24.6
Provisions	-0.1	1.2	0.8	3.6	5.6	5.2	4.2
Other	7.5	9.4	10.1	12.6	13.3	18.6	18.0
Income before tax	15.3	18.8	12.2	9.6	16.9	33.4	22.6
(In percent of gross operating income)							
Gross operating income	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Income from domestic sources	64.4	60.2	72.3	75.5	76.1	69.9	80.2
Loans and overdrafts	44.9	40.9	47.6	52.6	55.7	49.2	53.8
Public securities and treasury bills	8.6	9.1	11.1	8.3	9.1	9.8	13.4
Balances with the central bank	3.8	4.2	5.4	4.2	2.1	2.8	3.2
Exchange and commissions	5.1	4.3	6.2	8.3	6.6	4.6	7.3
Other	2.0	1.5	1.9	2.1	2.6	3.5	2.1
Income from foreign sources	35.6	39.7	27.7	24.5	23.9	30.1	19.8
Loans and overdrafts	0.8	0.4	0.5	0.6	0.6	0.7	0.7
Deposits and balances with banks abroad	11.5	8.8	4.4	4.0	1.3	0.9	0.6
Money at call	0.0	0.3	0.1	1.4	2.1	12.5	1.3
Foreign securities	16.9	12.3	15.9	18.5	16.5	12.5	14.2
Exchange and capital gains/losses	6.5	14.0	6.8	-0.1	3.3	3.6	2.8
Operating expenses	80.6	79.6	87.1	91.5	87.7	81.1	87.4
Interest payments on deposits	54.0	50.9	57.7	60.6	58.0	53.8	61.4
Wages and salaries	17.2	17.2	17.9	16.6	16.0	13.8	13.7
Provisions	-0.1	1.3	0.8	3.2	4.0	2.9	2.3
Other	9.5	10.2	10.7	11.1	9.7	10.5	10.0
(Annual percentage change)							
Gross operating income	11.6	16.7	2.6	19.8	21.7	28.1	1.8
Income from domestic sources	14.2	9.1	23.3	25.2	22.6	17.7	16.9
Income from foreign sources	7.3	30.2	-28.4	5.7	18.9	61.2	-33.0
Operating expenses	12.4	15.3	12.3	25.9	16.6	18.4	9.8
Income before tax	8.5	22.9	-35.1	-21.4	76.6	97.2	-32.2

Sources: Data provided by the Maltese authorities.

Table A24. Malta: Selected Monetary Indicators, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In percent of broad money; end of period) 1/							
Composition of money supply							
Narrow money	33.0	31.1	29.5	25.8	24.3	23.4	23.5
Currency	27.3	25.8	23.3	20.8	19.4	17.8	16.6
(in percent of narrow money)	82.6	83.1	78.9	80.4	79.7	75.8	70.7
(in percent of quasi money)	40.7	37.5	33.1	28.0	25.6	23.2	21.7
Demand deposits	5.7	5.3	6.2	5.1	4.9	5.7	6.9
Quasi-money	67.0	68.9	70.5	74.2	75.7	76.6	76.5
Savings deposits	29.6	30.4	29.4	30.2	28.8	28.0	26.4
Time deposits	37.4	38.5	41.0	44.0	46.9	48.5	50.2
Of which:							
Resident foreign currency deposits	7.9	7.8	7.8	9.2	9.3	8.9	8.7
(In percent)							
Contribution to broad money growth							
Net foreign assets	77.5	36.1	69.0	-53.1	-33.4	-10.6	67.3
Monetary authorities	49.5	44.8	69.2	-90.2	-15.1	4.3	37.1
Financial system	28.1	-8.7	-0.3	37.1	-18.3	-14.8	30.2
Domestic credit	59.8	76.9	53.7	211.7	116.1	120.4	102.5
Claims on general government	1.9	12.3	6.5	24.1	33.6	46.1	27.1
Claims on private and parastatal sectors	57.8	64.6	47.1	187.6	82.6	74.3	75.4
Claims on private sector	...	43.6	36.2	147.5	73.8	69.9	83.5
Velocity 2/							
GDP / Currency	2.6	2.7	2.8	3.3	3.3	3.5	3.8
GDP / Narrow money	2.1	2.2	2.2	2.6	2.6	2.7	2.7
GDP / Quasi money	1.1	1.0	0.9	0.9	0.8	0.8	0.8
GDP / Broad money	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Memorandum items: 2/							
Nominal GDP growth rate	8.4	7.4	9.4	11.4	4.9	6.7	8.2
Real GDP growth rate	6.7	4.0	5.0	7.3	4.2	2.8	3.1

Source: Central Bank of Malta, *Quarterly Review*.

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

2/ Based on the CBM's estimate for GDP in 1998.

Table A25. Malta: Financial Survey, 1992-98 1/

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri; end of period)							
Net foreign assets	691.0	737.2	877.5	812.9	754.1	735.2	851.6
Monetary authorities	492.2	549.5	690.4	580.7	554.1	561.7	625.8
Financial system	198.8	187.7	187.1	232.2	200.0	173.5	225.8
Domestic credit	759.7	858.0	967.2	1,224.8	1,429.6	1,644.7	1,821.9
Claims on the government	121.6	137.3	150.6	179.9	239.1	321.5	368.4
Claims on the private sector	502.0	557.8	631.4	810.9	941.0	1,065.9	1,210.2
Claims on the parastatal sector	136.1	162.9	185.2	234.0	249.5	257.3	243.3
Total assets = Total liabilities	1,450.6	1,595.2	1,844.8	2,037.7	2,183.7	2,379.9	2,673.5
Narrow money	408.6	425.1	463.5	437.4	454.1	479.9	521.0
Currency	337.6	353.3	365.9	351.8	362.1	363.8	368.1
Demand deposits	70.9	71.8	97.6	85.6	92.0	116.1	152.9
Quasi-money	830.2	941.7	1,106.7	1,254.6	1,414.2	1,567.1	1,698.9
Savings deposits	367.1	415.3	462.4	510.8	537.3	574.1	585.1
Time deposits	463.1	526.4	644.3	743.8	876.9	993.0	1,113.8
Broad money	1,238.8	1,366.7	1,570.3	1,692.0	1,868.3	2,047.0	2,219.9
Other items, net	197.8	213.0	274.5	346.3	315.4	332.9	453.6
(In percent of total assets; end of period)							
Net foreign assets	47.6	46.2	47.6	39.9	34.5	30.9	31.9
Monetary authorities	33.9	34.4	37.4	28.5	25.4	23.6	23.4
Financial system	13.7	11.8	10.1	11.4	9.2	7.3	8.4
Domestic credit	52.4	53.8	52.4	60.1	65.5	69.1	68.1
Claims on the government	8.4	8.6	8.2	8.8	10.9	13.5	13.8
Claims on the private sector	34.6	35.0	34.2	39.8	43.1	44.8	45.3
Claims on the parastatal sector	9.4	10.2	10.0	11.5	11.4	10.8	9.1
Narrow money	28.2	26.6	25.1	21.5	20.8	20.2	19.5
Currency	23.3	22.1	19.8	17.3	16.6	15.3	13.8
Demand deposits	4.9	4.5	5.3	4.2	4.2	4.9	5.7
Quasi-money	57.2	59.0	60.0	61.6	64.8	65.8	63.5
Savings deposits	25.3	26.0	25.1	25.1	24.6	24.1	21.9
Time deposits	31.9	33.0	34.9	36.5	40.2	41.7	41.7
Broad money	85.4	85.7	85.1	83.0	85.6	86.0	83.0
Other items, net	13.6	13.4	14.9	17.0	14.4	14.0	17.0
(Annual percentage change)							
Net foreign assets	13.5	6.7	19.0	-7.4	-7.2	-2.5	15.8
Monetary authorities	11.9	11.6	25.7	-15.9	-4.6	1.4	11.4
Financial system	17.6	-5.6	-0.3	24.1	-13.9	-13.2	30.1
Domestic credit	9.1	12.9	12.7	26.6	16.7	15.0	10.8
Claims on the government	1.7	12.9	9.7	19.4	32.9	34.5	14.6
Claims on the private sector	...	11.1	13.2	28.4	16.0	13.3	13.5
Claims on the parastatal sector	...	19.7	13.7	26.3	6.6	3.1	-5.4
Total assets = Total liabilities	11.1	10.0	15.6	10.5	7.2	9.0	12.3
Narrow money	0.5	4.0	9.1	-5.6	3.8	5.7	8.6
Currency	-1.9	4.6	3.6	-3.9	2.9	0.5	1.2
Demand deposits	13.7	1.3	36.0	-12.3	7.5	26.2	31.7
Quasi-money	14.3	13.4	17.5	13.4	12.7	10.8	8.4
Savings deposits	18.3	13.1	11.4	10.5	5.2	6.9	1.9
Time deposits	11.3	13.7	22.4	15.4	17.9	13.2	12.2
Broad money	9.3	10.3	14.9	7.8	10.4	9.6	8.4
Other items, net	35.8	7.7	28.9	26.2	-8.9	5.6	36.2

Source: Central Bank of Malta, *Quarterly Review*.

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(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	5.5
Call balances ("free" deposits) 1/	3.0-4.0	3.0-4.0	2.5	2.5	2.5	--	--
Required deposits	4.8	4.8	4.3	2.5	2.8	...	...
Seven-day repo rate	--	--	4.4	5.5	5.4	5.5	5.5
Seven-day reverse repo rate	--	--	--	4.9	5.0	5.2	5.4
Government securities							
Treasury bill yield							
Three months	4.6	4.6	4.4	4.9	5.0	5.2	5.5
Six months	...	...	...	5.2	5.3	5.3	5.5
Twelve months	...	...	...	5.3	5.4	5.4	5.5
Government bonds							
Five years	6.8	6.4	5.8	6.6	6.7	6.8	5.8
Ten years	7.8	7.0	6.7	7.1	7.2	7.3	6.0
Deposit money bank deposits 2/							
Average deposit rate	3.9	3.9	4.0	4.0	4.2	4.4	4.4
Demand deposits	1.0	1.0	1.0	1.0	3.0	1.4	1.5
Savings deposits	3.0	3.0	3.0	3.0	3.3	5.4	3.0
Time deposits							
Three months	4.0	4.0	4.0	4.0	4.0	...	...
Six months	4.5	4.5	4.5	4.5	4.5	...	...
One year	5.0	5.0	5.0	5.0	5.5	...	...
Two years	5.3	5.3	5.3	5.3	5.8	...	...
Three years	5.5	5.5	5.5	5.5	6.1	...	...
Loans and advances 3/							
Deposit money banks	7.1	7.2	7.3	7.5	7.7	...	...
Other financial institutions	7.4	6.6	7.3	7.2	7.2	...	...
Real interest rates 4/							
Central Bank of Malta							
Discount rate	3.6	1.4	1.3	1.5	3.0	2.3	3.0
Call balances ("free" deposits)	1.4-2.4	-1.1-0.1	-1.6	-1.4	0.1	--	--
Seven-day reverse repo rate	...	...	...	0.9	2.6	2.0	3.0
Government securities							
Three month treasury bills	2.7	0.5	0.3	0.9	2.6	2.1	3.0
Government bonds							
Five years	4.8	2.2	1.6	2.5	4.2	3.6	3.3
Ten years	5.8	2.9	2.4	3.0	4.7	4.0	3.5
Deposit money banks							
Average deposit rate	2.0	-0.2	-0.2	0.0	1.8	1.2	2.0
Average lending rate	5.2	3.0	3.0	3.4	5.4	4.8	5.6
Memorandum item:							
RPI inflation rate	1.8	4.0	4.1	4.0	2.4	3.1	2.4

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

1/ The CBM stopped paying interest on overnight call balances in July 1996.

2/ 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 retained for term and savings deposits.

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

4/ Nominal rates deflated by the RPI inflation rate.

Table A27. Malta: Summary Balance of Payments, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(In millions of Maltese liri)						
Trade balance	-174.4	-228.7	-237.6	-264.1	-288.0	-271.3	-240.5
Exports, f.o.b.	496.6	518.2	593.3	669.9	615.1	612.8	688.0
Imports, f.o.b.	671.1	746.9	830.9	934.0	903.1	884.1	928.4
Balance on services	112.5	137.9	132.7	107.6	120.8	162.5	174.0
Exports	307.4	378.2	400.9	404.8	430.5	483.0	506.0
<i>Of which: Tourism 1/</i>	256.5	317.3	330.5	321.1	327.2	358.8	368.9
Imports	195.0	240.3	268.2	297.2	309.7	320.4	332.0
Investment income, net	41.7	35.5	19.3	12.0	3.2	4.1	-29.5
Unrequited transfers, net	29.9	23.3	35.6	18.2	35.5	25.8	27.3
Private	13.7	15.4	23.4	14.5	15.1	14.2	16.2
Public	16.3	7.9	12.2	3.7	20.4	11.5	11.1
Current account balance	9.6	-32.1	-49.9	-126.3	-128.5	-78.9	-68.6
Direct investment	12.6	26.2	57.7	43.0	23.0	23.2	46.1
Other long term capital	34.3	18.6	95.5	-8.2	7.4	-13.9	23.2
Portfolio investment	1.5	5.1	93.4	6.4	-10.9	-3.7	28.9
Official long term capital	32.8	13.5	2.1	-14.6	18.3	-10.2	-5.7
Short term capital, net 2/	0.0	14.2	32.5	0.7	14.5	10.3	24.7
Change in net foreign position of banks	-38.3	18.2	-4.0	-23.9	32.9	26.4	17.7
Capital account balance	8.6	77.1	181.7	11.6	77.8	45.9	111.7
Errors and omissions	-5.3	6.5	12.6	3.7	20.2	35.7	20.9
Overall balance 3/	12.9	51.6	144.5	-111.0	-30.6	2.7	64.0
	(In percent of GDP 4/)						
Current account balance	1.1	-3.4	-4.9	-11.0	-10.7	-6.2	-4.9
Merchandise	-19.9	-24.3	-23.1	-23.1	-24.0	-21.2	-17.3
Services	12.9	14.7	12.9	9.4	10.1	12.7	12.5
Investment income	4.8	3.8	1.9	1.0	0.3	0.3	-2.1
Transfers	3.4	2.5	3.5	1.6	3.0	2.0	2.0
Memorandum items:							
Official reserves 5/	56.3	58.5	67.1	50.7	46.1	43.8	45.1
(in millions of Maltese liri)	492.2	549.5	690.4	580.7	554.1	561.7	625.8
(in millions of U.S. dollars)	1,315.5	1,390.7	1,875.6	1,647.9	1,538.2	1,432.9	1,654.7
(in months of imports of goods and services)	6.8	6.7	7.5	5.7	5.5	5.6	6.0

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/ Based on the CBM's estimate of GDP for 1998.

5/ 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, 1992-98 1/

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri)							
Total exports	490.9	518.3	592.4	674.9	624.1	629.2	711.8
Domestic exports	451.5	476.7	547.2	629.7	569.9	564.2	664.6
Food, beverages, and tobacco	9.7	11.1	12.2	10.2	13.6	15.9	15.6
Crude materials, fuels, and oils	1.2	1.9	1.3	1.6	1.5	2.3	1.5
Chemicals	8.6	10.1	10.3	11.3	14.3	14.7	13.2
Semi-manufactured goods	31.5	33.1	34.7	37.5	42.1	42.8	48.2
Machinery and transport	274.7	280.4	356.6	425.9	354.6	342.6	444.9
<i>Of which:</i> Electronic components	237.1	227.7	302.8	356.0	304.0	281.8	383.0
Manufactures	124.6	139.8	131.9	142.6	143.4	145.7	140.7
<i>Of which:</i> Clothing	55.7	58.0	54.1	56.2	58.3	61.4	58.3
Miscellaneous	1.2	0.3	0.1	0.5	0.4	0.2	0.5
Re-exports	39.4	41.6	45.2	45.2	54.2	65.0	47.2
(In percent of total exports)							
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic exports	92.0	92.0	92.4	93.3	91.3	89.7	93.4
Food, beverages, and tobacco	2.0	2.1	2.1	1.5	2.2	2.5	2.2
Crude materials, fuels, and oils	0.3	0.4	0.2	0.2	0.2	0.4	0.2
Chemicals	1.8	2.0	1.7	1.7	2.3	2.3	1.9
Semi-manufactured goods	6.4	6.4	5.9	5.6	6.7	6.8	6.8
Machinery and transport	55.9	54.1	60.2	63.1	56.8	54.5	62.5
<i>Of which:</i> Electronic components	48.3	43.9	51.1	52.7	48.7	44.8	53.8
Manufactures	25.4	27.0	22.3	21.1	23.0	23.2	19.8
<i>Of which:</i> Clothing	11.3	11.2	9.1	8.3	9.3	9.8	8.2
Miscellaneous	0.2	0.1	0.0	0.1	0.1	0.0	0.1
Re-exports	8.0	8.0	7.6	6.7	8.7	10.3	6.6
(Annual percentage change)							
Total exports	21.1	5.6	14.3	13.9	-7.5	0.8	13.1
Domestic exports, f.o.b.	21.4	5.6	14.8	15.1	-9.5	-1.0	17.8
Semi-manufactured goods	8.8	4.9	4.9	8.1	12.2	1.6	12.6
Machinery and transport	27.1	2.1	27.2	19.4	-16.7	-3.4	29.9
<i>Of which:</i> Electronic components	34.7	-4.0	33.0	17.5	-14.6	-7.3	35.9
Manufactures	12.6	12.2	-5.6	8.1	0.5	1.6	-3.4
<i>Of which:</i> Clothing	4.5	4.2	-6.7	3.9	3.7	5.3	-5.0
Other	26.7	13.3	2.2	-1.3	26.0	10.9	-6.9
Re-exports	17.6	5.6	8.7	0.0	19.9	19.9	-27.4

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

1/ Customs basis.

Table A29. Malta: Direction of Trade, 1992-98 1/

	Exports 2/							Imports						
	1992	1993	1994	1995	1996	1997	1998	1992	1993	1994	1995	1996	1997	1998
	(In percent of total exports)							(In percent of total imports)						
Europe	79.3	74.5	75.3	73.2	59.0	57.1	53.9	81.9	76.3	81.1	75.8	72.8	75.1	72.9
EU	75.3	71.7	73.8	71.4	56.9	54.2	52.8	76.7	71.6	75.7	72.7	68.6	71.4	69.3
United Kingdom	6.5	8.1	7.3	7.5	8.3	8.1	7.7	12.9	13.4	15.3	15.6	14.3	14.7	12.4
Italy	40.8	32.2	37.4	30.4	12.5	5.7	4.8	37.7	27.2	26.5	27.4	19.5	20.2	19.3
Germany	14.2	15.6	14.1	15.0	14.5	13.1	12.6	10.7	14.3	17.6	12.2	9.4	10.0	10.5
France	9.1	10.4	9.8	12.2	15.0	19.3	20.7	6.3	8.4	8.4	8.3	15.9	16.6	17.8
Other EU countries	4.7	5.4	5.2	6.3	6.7	8.0	7.0	9.0	8.3	7.9	9.2	9.5	9.9	9.4
Other European countries	3.9	2.8	1.5	1.8	2.1	2.7	1.1	5.2	4.7	5.4	3.1	4.2	3.7	3.6
America	6.0	8.1	8.6	10.4	15.6	17.6	18.2	4.0	9.7	5.9	6.9	7.7	9.0	9.7
Asia and the Middle East	5.9	7.9	7.2	11.1	18.6	16.6	20.8	11.2	11.2	10.1	13.4	14.3	12.9	14.9
Africa	5.7	6.1	5.8	3.0	3.0	4.7	3.6	2.7	2.6	2.6	3.6	4.7	2.5	2.3
Oceania	0.1	0.0	0.4	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.6

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

1/ Customs basis.

2/ Includes re-exports. Numbers do not sum to 100 percent due to the exclusion of ship and aircraft exports.

Table A30. Malta: Imports by Final Use, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri)							
Total imports	747.8	830.9	918.8	1,037.7	1,007.8	984.2	1,035.0
Consumer goods	152.9	159.9	164.8	226.0	230.7	241.3	238.6
Food and beverages	54.1	57.5	54.7	76.0	74.9	83.6	84.8
Durable goods	69.4	70.7	72.1	105.1	106.5	102.2	98.7
Other	29.4	31.7	38.0	44.9	49.3	55.5	55.1
Industrial supplies	432.0	470.8	540.0	582.8	545.2	525.6	589.3
Primary	17.5	17.9	18.2	18.3	21.5	18.3	16.9
Semi-finished	398.1	430.9	502.4	542.2	500.8	480.6	551.6
Finished	16.4	22.0	19.4	22.3	22.9	26.7	20.8
Capital goods and others	162.9	200.2	213.9	228.9	231.9	217.3	207.0
Capital goods	119.6	155.0	163.7	179.2	166.7	155.4	158.4
<i>Of which:</i> Aircraft	12.3	35.7	28.2	9.3	0.0	0.0	0.0
Fuel	34.1	38.4	40.5	40.7	53.7	51.9	39.3
Nonspecified and gold	9.2	6.8	9.7	9.0	11.5	10.0	9.3
(In percent of total imports)							
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumer goods	20.4	19.2	17.9	21.8	22.9	24.5	23.1
Food and beverages	7.2	6.9	6.0	7.3	7.4	8.5	8.2
Durable goods	9.3	8.5	7.8	10.1	10.6	10.4	9.5
Other	3.9	3.8	4.1	4.3	4.9	5.6	5.3
Industrial supplies	57.8	56.7	58.8	56.2	54.1	53.4	56.9
Primary	2.3	2.2	2.0	1.8	2.1	1.9	1.6
Semi-finished	53.2	51.9	54.7	52.3	49.7	48.8	53.3
Finished	2.2	2.6	2.1	2.1	2.3	2.7	2.0
Capital goods and others	21.8	24.1	23.3	22.1	23.0	22.1	20.0
Capital goods	16.0	18.7	17.8	17.3	16.5	15.8	15.3
<i>Of which:</i> Aircraft	1.6	4.3	3.1	0.9	0.0	0.0	0.0
Fuel	4.6	4.6	4.4	3.9	5.3	5.3	3.8
Nonspecified and gold	1.2	0.8	1.1	0.9	1.1	1.0	0.9
(Annual percentage change)							
Total imports	9.3	11.1	10.6	12.9	-2.9	-2.3	5.2
Consumer goods	12.8	4.6	3.1	37.1	2.1	4.6	-1.1
Food and beverages	2.1	6.3	-4.9	38.9	-1.4	11.6	1.4
Durable goods	25.5	1.9	2.0	45.8	1.3	-4.0	-3.4
Other	8.1	7.8	19.9	18.2	9.8	12.6	-0.7
Industrial supplies	10.0	9.0	14.7	7.9	-6.5	-3.6	12.1
Primary	13.6	2.3	1.7	0.5	17.5	-14.9	-7.7
Semi-finished	12.6	8.2	16.6	7.9	-7.6	-4.0	14.8
Finished	-30.8	34.1	-11.8	14.9	2.7	16.6	-22.1
Capital goods and others	4.6	22.9	6.8	7.0	1.3	-6.3	-4.7
Capital goods	7.7	29.6	5.6	9.5	-7.0	-6.8	1.9
Fuel	0.3	12.6	5.5	0.5	31.9	-3.4	-24.3
Nonspecified and gold	-14.0	-26.1	42.6	-7.2	27.8	-13.0	-7.0

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

Table A31. Malta: Imports by Commodity Groups, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri)							
Total imports, c.i.f.	747.8	830.9	918.8	1,037.7	1,007.8	984.2	1,035.0
Food, beverages, and tobacco	74.1	79.3	79.2	101.6	105.4	114.5	112.3
Crude materials, fuels, and oils	50.9	55.2	59.8	58.6	69.5	67.5	56.6
Chemicals	50.7	56.4	63.6	70.8	74.3	78.9	80.1
Semi-manufactured goods	126.7	130.4	131.2	143.7	141.8	140.8	143.3
Machinery and transport	361.7	416.1	482.0	533.3	486.1	459.6	520.2
Manufactures	74.6	86.8	93.3	120.9	119.6	113.2	113.4
Miscellaneous	9.1	6.8	9.7	8.7	11.2	9.6	9.1
(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	9.9	9.5	8.6	9.8	10.5	11.6	10.9
Crude materials, fuels, and oils	6.8	6.6	6.5	5.6	6.9	6.9	5.5
Chemicals	6.8	6.8	6.9	6.8	7.4	8.0	7.7
Semi-manufactured goods	16.9	15.7	14.3	13.8	14.1	14.3	13.8
Machinery and transport	48.4	50.1	52.5	51.4	48.2	46.7	50.3
Manufactures	10.0	10.4	10.2	11.7	11.9	11.5	11.0
Miscellaneous	1.2	0.8	1.1	0.8	1.1	1.0	0.9
(Annual percentage change)							
Total imports, c.i.f.	9.3	11.1	10.6	12.9	-2.9	-2.3	5.2
Food, beverages, and tobacco	6.3	7.0	-0.1	28.3	3.7	8.7	-2.0
Crude materials, fuels, and oils	3.3	8.5	8.3	-1.9	18.5	-2.8	-16.2
Chemicals	8.5	11.2	12.7	11.4	4.9	6.3	1.5
Semi-manufactured goods	1.8	2.9	0.7	9.5	-1.3	-0.7	1.8
Machinery & transport	12.4	15.0	15.8	10.6	-8.9	-5.4	13.2
Manufactures	21.1	16.4	7.4	29.6	-1.1	-5.4	0.2
Others	4.9	6.9	7.4	13.0	8.6	3.9	-4.6

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

Table A32. Malta: Invisible Transactions, 1992-98

	1992	1993	1994	1995	1996	1997	1998
(In millions of Maltese liri)							
Balance on services	112.5	137.9	132.7	107.6	120.8	162.5	174.0
Exports of services	307.4	378.2	400.9	404.8	430.5	483.0	506.0
Freight and insurance	9.2	11.3	13.3	20.3	20.5	27.6	30.0
Other transportation 1/	76.0	85.1	88.8	88.3	98.3	109.0	114.2
Travel	180.5	232.2	241.7	232.8	228.9	249.8	254.7
Other services	41.7	49.6	57.1	63.4	82.7	96.6	107.1
Private	34.6	41.9	49.7	55.6	75.8	88.0	97.6
Official	7.1	7.7	7.4	7.8	6.9	8.6	9.5
Imports of services	195.0	240.3	268.2	297.2	309.7	320.4	332.0
Freight and insurance	72.4	79.9	87.3	99.9	99.7	96.1	101.6
Other transportation	24.5	40.8	46.9	47.3	50.7	54.1	54.8
Travel	43.9	59.0	67.0	75.4	78.9	73.6	75.2
Other services	54.2	60.6	67.0	74.6	80.4	96.6	100.3
Private	46.3	54.4	59.9	68.2	74.6	85.9	87.2
Official	7.8	6.2	7.0	6.4	5.8	10.8	13.2
Investment income, net	41.7	35.5	19.3	12.0	3.2	4.1	-29.5
Credit	77.7	83.2	76.0	96.6	107.8	137.6	194.4
Debit	36.0	47.7	56.7	84.6	104.6	133.5	223.9
Unrequited transfers, net	29.9	23.3	35.6	18.2	35.5	25.8	27.3
Private, net	13.7	15.4	23.4	14.5	15.1	14.2	16.2
Official, net	16.3	7.9	12.2	3.7	20.4	11.5	11.1
Total invisible transactions, net	184.1	196.6	187.7	137.8	159.5	192.4	171.8
(In percent of GDP 2/)							
Balance on services	12.9	14.7	12.9	9.4	10.1	12.7	12.5
Exports of services	35.1	40.2	39.0	35.3	35.8	37.7	36.5
Freight and insurance	1.1	1.2	1.3	1.8	1.7	2.1	2.2
Other transportation 1/	8.7	9.0	8.6	7.7	8.2	8.5	8.2
Travel	20.6	24.7	23.5	20.3	19.1	19.5	18.4
Other services	4.8	5.3	5.5	5.5	6.9	7.5	7.7
Imports of services	22.3	25.6	26.1	25.9	25.8	25.0	23.9
Freight and insurance	8.3	8.5	8.5	8.7	8.3	7.5	7.3
Other transportation	2.8	4.3	4.6	4.1	4.2	4.2	4.0
Travel	5.0	6.3	6.5	6.6	6.6	5.7	5.4
Other services	6.2	6.4	6.5	6.5	6.7	7.5	7.2
Investment income, net	4.8	3.8	1.9	1.0	0.3	0.3	-2.1
Credit	8.9	8.9	7.4	8.4	9.0	10.7	14.0
Debit	4.1	5.1	5.5	7.4	8.7	10.4	16.1
Unrequited transfers, net	3.4	2.5	3.5	1.6	3.0	2.0	2.0
Private, net	1.6	1.6	2.3	1.3	1.3	1.1	1.2
Official, net	1.9	0.8	1.2	0.3	1.7	0.9	0.8
Total invisible transactions, net	21.0	20.9	18.2	12.0	13.3	15.0	12.4
Memorandum items:							
Tourism earnings 3/							
(in millions of Maltese liri)	256.5	317.3	330.5	321.1	327.2	358.8	368.9
(in percent of GDP)	29.3	33.8	32.1	28.0	27.2	28.0	26.6
(in percent of exports of goods and services)	43.7	37.3	34.6	31.9	31.7	34.2	41.0

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/ Based on the CBM's estimate of GDP for 1998.

3/ Travel and other transportation services exports.

Table A33. Malta: Exchange Rate Developments, 1992-99

	US dollar per Maltese lira	Pound sterling per Maltese lira	ECU per Maltese lira	Nominal effective exchange rate 1/	Real effective exchange rate 2/
	(Period average)				
1992	3.15	1.78	2.43	98.97	94.36
1993	2.62	1.74	2.23	92.97	89.26
1994	2.65	1.73	2.23	93.38	90.75
1995	2.83	1.79	2.17	94.54	92.65
1996	2.77	1.78	2.19	93.42	91.48
1997	2.59	1.58	2.29	94.83	93.91
1998	2.57	1.55	2.30	95.90	95.58
1994					
Q1	2.55	1.71	2.26	93.85	91.19
Q2	2.60	1.73	2.24	93.08	90.22
Q3	2.71	1.75	2.21	93.16	90.74
Q4	2.73	1.73	2.21	93.43	90.84
1995					
Q1	2.78	1.76	2.19	94.40	92.78
Q2	2.87	1.80	2.16	95.04	93.08
Q3	2.84	1.81	2.16	94.31	92.11
Q4	2.84	1.82	2.16	94.39	92.63
1996					
Q1	2.79	1.82	2.17	93.90	91.54
Q2	2.74	1.80	2.19	93.33	91.78
Q3	2.78	1.79	2.19	93.15	91.24
Q4	2.78	1.70	2.20	93.29	91.35
1997					
Q1	2.65	1.63	2.25	94.30	92.78
Q2	2.61	1.59	2.28	94.70	93.67
Q3	2.53	1.56	2.32	95.06	94.07
Q4	2.58	1.56	2.30	95.27	95.12
1998					
Q1	2.52	1.53	2.32	95.79	95.66
Q2	2.55	1.54	2.32	96.18	95.76
Q3	2.57	1.56	2.30	96.26	95.96
Q4	2.66	1.59	2.26	95.10	94.63
1999					
Q1	2.56	1.57	...	94.63	94.37

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.