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Contribution to euro area monetary aggregates and counterparts

The contribution of resident Monetary Financial Institutions (MFIs) to the euro area broad money stock (M3) expanded by EUR195.0 million, or 1.9%, in July, reaching EUR10.2 billion (see Table 1). Consequently, the annual growth rate accelerated to 8.0% from 5.6% one month earlier.

The monthly increase in the Maltese contribution to euro area M3 was mainly fuelled by growth in intermediate money (M2), which went up by EUR193.2 million, or 2.0%. Overall, the annual growth rate in M2 accelerated, reaching 8.2% in July, from 5.7% one month earlier. Movements in marketable instruments, mainly an increase in the amount of shares issued by money market funds (MMFs), also contributed, although to a much lesser extent.

Growth in M2 was driven primarily by an increase in deposits with an agreed maturity of up to two years. The latter went up by EUR114.9 million, or 3.0%, fuelled by an increase in balances belonging to private non-financial corporations (NFCs) and households. Deposits redeemable at notice up to three months, which also form part of intermediate money, declined moderately during the period.

Meanwhile, narrow money (M1), the remaining component of M2, also contributed substantially to the increase in M3. During July, M1 expanded by EUR81.4 million, or 1.4%, fuelled by an increase in overnight deposits, which rose by EUR75.0 million, or 1.5%, driven in turn by higher balances belonging to households and private NFCs. This increase completely offset a substantial decline in balances belonging to non-bank financial intermediaries. Currency issued also rose during the period. However, the annual growth rate of M1 lost momentum, declining to 11.3% from 12.3% in June.

Turning to the counterparts of M3, credit to euro area residents expanded by EUR321.7 million, or 2.1%, in July, reversing the decline experienced in June. The rise reflects a substantial increase in credit to residents outside general government, which expanded by EUR591.9 million, or 5.2%. This mainly involved additional bank holdings of securities issued by euro area non-bank financial intermediaries. Conversely, credit to general government decreased by EUR270.2 million, or 6.5%, mainly as a result of a further decline in bank holdings of securities issued by euro

area sovereigns. As a result, the annual growth rate of credit accelerated to 7.5%, from 5.9% one month earlier.

The external counterpart of M3, which reflects transactions between Maltese MFIs and residents of countries outside the euro area, contracted by EUR1.1 billion, or 9.9%, as liabilities increased at a much faster pace than assets. Liabilities went up by EUR2.0 billion, or 8.9%, driven by growth in time deposits belonging to credit institutions resident outside the euro area coupled with increased borrowing through repurchase agreements. Meanwhile, the increase in assets amounted to EUR961.9 million, or 2.9%, and principally reflected a further increase in holdings of non-euro area sovereign bonds that, coupled with a rise in deposits held with banks outside the euro area, outweighed a drop in loans to non-euro area residents.

The other counterparts of M3 contracted by EUR947.7 million, or 5.8%, fuelled by a decline in other liabilities (net). In turn, this mainly reflected transactions with other euro area banks, although a decline in repurchase agreements involving non-bank financial intermediaries also contributed. Meanwhile, liabilities to central government also dropped. An increase in longer-term financial liabilities partly offset these aforementioned drops.

Transactions with Maltese residents: deposit and credit

Deposits belonging to residents of Malta and held with resident MFIs expanded by EUR107.4 million, or 1.2%, in July (see Table 2) as overnight deposits and short-term time deposits both rose. In contrast, short-term savings deposits declined slightly. Overall, the annual growth rate of total deposits edged down to 6.1% from 6.2% in June.

Overnight deposits registered an inflow of EUR69.4 million, or 1.4%, as higher holdings by households and private non-financial companies (NFCs) outweighed a drop in non-bank financial intermediaries' deposits. Deposits with an agreed maturity of up to two years expanded by EUR41.1 million, or 1.1%, during the month. This increase also reflected higher holdings by households and private NFCs. Conversely, deposits redeemable at up to three months' notice declined by EUR3.1 million, or 2.1%, mostly due to lower balances held by households and non-bank financial intermediaries.

Credit issued by resident MFIs to residents of Malta rose by EUR65.0 million, or 0.6%, in July, reflecting an increase in credit to both general government and other sectors. Nonetheless, given that credit had risen even more strongly between the same two months of a year earlier, its annual growth rate slowed to 5.7% in July from 5.9% in June.

Credit to general government expanded by EUR51.8 million, or 2.1%, as banks continued to add to their portfolio of government debt securities during the month. Consequently, the corresponding annual growth rate gained momentum, reaching 11.6% from 10.6% one month earlier.

Similarly, credit to residents outside the general government increased by EUR13.2 million, or 0.2%, following a rise in the amount of loans granted to households – mostly to finance house purchases – and an increase in banks' holdings of shares issued by non-bank financial intermediaries. Nonetheless, the annual growth rate of credit to other residents eased, reaching 4.1% from 4.7% in June.

Net foreign assets of Maltese MFIs

Net foreign assets held by resident MFIs expanded by EUR270.4 million, or 2.3%, in July as a considerable increase in foreign claims offset a smaller increase in liabilities (see Table 2).¹ The former stemmed from higher deposits held with non-resident banks coupled with increased holdings of securities issued by non-residents. Together, these counterbalanced a decline in lending to non-residents. Foreign liabilities went up following an inflow of funds from foreign depositors.

Bank lending and deposit rates²

In July, the weighted average interest rate paid by MFIs on all deposits belonging to households and non-financial companies resident in Malta declined marginally by one basis point to 1.40% when compared with the previous month. The weighted interest rate charged by MFIs on outstanding loans to resident households and non-financial companies edged down by two basis points to 4.33%. When compared to a year earlier, the deposit rate increased by two basis points while that charged on loans fell by seven basis points.

Further economic and monetary information can be obtained from the website of the Central Bank of Malta www.centralbankmalta.org

¹ Net foreign assets are composed of claims held by MFIs residing in Malta on residents of the rest of the world, less liabilities to them. Residents of the rest of the world include non-euro area residents and residents of euro area countries other than Malta.

² Data on interest rates on outstanding amounts cover MFI euro-denominated deposits belonging to, and loans extended to, households and non-financial corporations resident in Malta. The household sector also includes Non-Profit Institutions Serving Households (NPISH). Non-financial corporations include all enterprises except banks, insurance companies and other financial institutions. Hence, these statistics do not cover all economic sectors.

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**TABLE 1: THE CONTRIBUTION OF RESIDENT MFIs TO
THE EURO AREA MONETARY AGGREGATES AND SELECTED COUNTERPARTS⁽¹⁾⁽²⁾**

€ millions

	Jul-12	Jun-12	Monthly Change	Monthly Percentage Change	Jul-11	Annual Change	Annual Percentage Change
MONETARY AGGREGATES⁽³⁾							
NARROW MONEY (M1)	5,859.8	5,778.4	81.4	1.4	5,264.3	595.5	11.3
Currency issued ⁽⁴⁾	723.7	717.4	6.3	0.9	686.5	37.2	5.4
Overnight deposits ⁽⁵⁾	5,136.1	5,061.1	75.0	1.5	4,577.8	558.3	12.2
INTERMEDIATE MONEY (M2)	9,997.6	9,804.4	193.2	2.0	9,237.7	759.9	8.2
Narrow money (M1)	5,859.8	5,778.4	81.4	1.4	5,264.3	595.5	11.3
Deposits redeemable at notice up to 3 months ⁽⁵⁾	143.3	146.3	-3.1	-2.1	130.8	12.4	9.5
Deposits with agreed maturity up to 2 years ⁽⁵⁾	3,994.5	3,879.6	114.9	3.0	3,842.5	151.9	4.0
BROAD MONEY (M3)	10,209.0	10,014.0	195.0	1.9	9,448.5	760.5	8.0
Intermediate money (M2)	9,997.6	9,804.4	193.2	2.0	9,237.7	759.9	8.2
Marketable instruments ⁽⁶⁾	211.4	209.6	1.9	0.9	210.8	0.6	0.3
SELECTED COUNTERPARTS OF M3							
CREDIT COUNTERPART	15,926.3	15,604.6	321.7	2.1	14,819.3	1,106.9	7.5
Credit to general government	3,906.8	4,177.0	-270.2	-6.5	4,256.2	-349.4	-8.2
Credit to other sectors	12,019.5	11,427.6	591.9	5.2	10,563.1	1,456.4	13.8
EXTERNAL COUNTERPART	9,744.9	10,819.2	-1,074.3	-9.9	8,465.8	1,279.1	15.1
Claims on non-residents of the euro area	34,673.6	33,711.7	961.9	2.9	29,794.0	4,879.6	16.4
Liabilities to non-residents of the euro area (-)	24,928.7	22,892.4	2,036.2	8.9	21,328.2	3,600.5	16.9
OTHER COUNTERPARTS (-)	15,462.2	16,409.8	-947.7	-5.8	13,836.6	1,625.6	11.7
Liabilities to the central government	722.3	791.2	-68.9	-8.7	656.3	65.9	10.0
Longer term financial liabilities	12,513.3	12,162.4	350.9	2.9	11,625.7	887.6	7.6
Other liabilities (net)	2,226.6	3,456.3	-1,229.7	-35.6	1,554.5	672.1	43.2

(1) Figures may not add up due to rounding.

(2) Figures show the contribution of Maltese monetary financial institutions (MFIs) to the euro area totals.

(3) Data on monetary aggregates include deposit liabilities to both residents of Malta and other euro area residents.

(4) This is not a measure of currency in circulation in Malta. It comprises the Central Bank of Malta's share of euro banknotes issued by the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury, less holdings of issued euro banknotes and coins held by the MFI sector. For 2008, remaining outstanding Maltese lira banknotes and coins are included. This represents the residual amount after deducting holdings of euro banknotes and coins (and, temporarily, of Maltese lira currency) reported by MFIs in Malta from the currency issued figure.

(5) Deposits with MFIs exclude interbank deposits and deposits held by central government.

(6) Marketable instruments include debt securities up to 2 years' maturity issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the euro area. This row shows net amounts (issues less holdings by MFIs in Malta) and may be negative. Figures also include Money Market Funds (MMF) shares/units and repurchase agreements that are not conducted through central counterparties.

Source: Central Bank of Malta.

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TABLE 2: RESIDENTS OF MALTA - DEVELOPMENTS IN DEPOSITS AND SELECTED COUNTERPARTS⁽¹⁾

€ millions

	Jul-12	Jun-12	Monthly Change	Monthly Percentage Change	Jul-11	Annual Change	Annual Percentage Change
DEPOSITS							
TOTAL RESIDENTS' DEPOSITS⁽²⁾	8,769.3	8,661.9	107.4	1.2	8,266.9	502.4	6.1
Overnight deposits	4,954.5	4,885.0	69.4	1.4	4,448.9	505.5	11.4
Deposits redeemable at notice up to 3 months	141.1	144.2	-3.1	-2.1	129.3	11.8	9.1
Deposits with agreed maturity up to 2 years	3,673.7	3,632.6	41.1	1.1	3,688.6	-14.9	-0.4
SELECTED COUNTERPARTS							
TOTAL CREDIT TO RESIDENTS	11,162.3	11,097.3	65.0	0.6	10,562.9	599.4	5.7
Credit to general government	2,502.2	2,450.4	51.8	2.1	2,242.1	260.1	11.6
Credit to other sectors	8,660.1	8,646.9	13.2	0.2	8,320.8	339.3	4.1
NET FOREIGN ASSETS	12,026.1	11,755.7	270.4	2.3	11,113.5	912.6	8.2
Claims on non-residents of Malta	45,482.2	43,483.4	1,998.8	4.6	41,226.6	4,255.6	10.3
Liabilities to non-residents of Malta (-)	33,456.1	31,727.7	1,728.4	5.4	30,113.1	3,343.0	11.1

(1) Figures may not add up due to rounding.

(2) Deposits with MFIs exclude interbank deposits and deposits held by central government.

Source: Central Bank of Malta.