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Contribution to euro area monetary aggregates and counterparts

The contribution of resident Monetary Financial Institutions (MFIs) to the euro area's broad money stock (M3) contracted marginally by EUR12.3 million, or 0.1%, in August, to EUR10.2 billion (see Table 1). Consequently, its year-on-year growth rate declined to 6.4% from 8.0% in July.

The month-on-month decline in M3 resulted mainly from a drop in the amount of marketable instruments, which contracted by EUR8.8 million, or 4.1%. Meanwhile, intermediate money (M2) contracted by EUR3.6 million, with its annual growth rate decelerating to 6.7% from 8.2% in July.

Among the components of M2, deposits with an agreed maturity up of to two years contracted by EUR20.8 million, or 0.5%, in August. This change stemmed entirely from a considerable outflow of funds belonging to residents of other euro area countries, notably private non-financial corporations (NFCs) and households. Meanwhile, deposits redeemable with up to three months' notice declined by EUR2.6 million, or 1.8%, driven by a drop in balances belonging to private NFCs.

In contrast, narrow money (M1), the remaining component of M2, rose by EUR19.9 million, or 0.3%. This reflected an increase in overnight deposits that offset a decline in currency issued. The former expanded by EUR23.9 million, or 0.5%, following an increase in balances belonging to households, insurance companies & pension funds and non-bank financial intermediaries. Together, these counterbalanced a drop in NFCs' holdings. Consequently, the year-on-year growth rate of narrow money edged up to 11.6% from 11.3% in July.

Turning to the counterparts of M3, credit to euro area residents expanded by EUR79.2 million, or 0.5%, as credit provided to both general government and to the remaining sectors of the economy rose. The increase of EUR8.3 million, or 0.2%, in credit to general government stemmed entirely from additional bank holdings of Maltese government securities. This was partly offset by a decline in credit provided to other euro area sovereigns. Meanwhile, credit to other sectors went up by EUR70.9 million, or 0.6%, reflecting a higher volume of loans granted to non-bank financial intermediaries and private NFCs residing elsewhere in the euro area. At the

same time, since credit had risen even more strongly between the same two months of 2011, its annual growth rate slowed down to 6.2% in August from 7.5% in July.

The external counterpart of M3, which reflects transactions between MFIs residing in Malta and residents of countries outside the euro area, grew by EUR407.8 million, or 4.2%, following a contraction in the previous month. This reflected a considerable decline in liabilities, particularly time deposits belonging to credit institutions and private NFCs outside the euro area. Foreign assets also decreased, though to a lesser extent, principally due to lower holdings of securities issued by non-euro area financial vehicle corporations.¹ Moreover, holdings of non-euro area sovereign bonds decreased.

The “other counterparts” category, which is negatively related to M3, rose by EUR499.4 million, or 3.2%, in August, driven by an increase in other liabilities (net). In turn, this mainly reflected interbank transactions across the euro area. Increases in longer-term financial liabilities and in liabilities to central governments also contributed.

Transactions with Maltese residents: deposits and credit

In August, deposits belonging to residents of Malta and held with resident MFIs expanded by EUR27.6 million, or 0.3%, on the previous month (see Table 2). Nonetheless, the annual growth rate slowed to 5.7% from 6.1% in July.

Overnight deposits rose by EUR25.5 million, or 0.5%, during the month. This was driven by higher balances belonging to households, insurance companies & pension funds and non-bank financial intermediaries, offset by a decline in deposits belonging to NFCs. In contrast, deposits redeemable at notice up to three months edged down by EUR2.6 million, or 1.9%, as holdings belonging to private NFCs fell. At the same time, deposits with agreed maturity up to two years increased by EUR4.7 million, or 0.1%, reflecting additional holdings belonging to non-bank financial intermediaries.

Credit granted by resident MFIs to residents of Malta rose by EUR20.0 million, or 0.2%, entirely driven by credit to general government. Overall, annual credit growth dropped to 5.2% in August from 5.7% one month earlier.

Credit to the general government expanded by EUR20.9 million during the month under review as banks continued to add to their holdings of Malta Government Stocks and Treasury bills. Nonetheless, the corresponding annual growth rate slowed down to 9.2% from 11.6%.

Conversely, credit to residents outside the general government declined marginally by EUR0.9 million, due to a drop in banks’ holdings of securities that offset a small increase in loans. As regards the latter, higher lending to households (mostly for house purchases) and to the wholesale & retail trade sector was offset by lower borrowing by the construction sector as well as by the electricity, gas & water supply sectors. As a result, the annual growth rate of credit to residents other than general government remained stable at 4.1% in August.

¹ A financial vehicle corporation is an entity whose principal activity is to carry out securitisation transactions.

Net Foreign Assets of Maltese MFIs

Net foreign assets held by resident MFIs increased by EUR52.4 million, or 0.4%, in August as a considerable decline in foreign liabilities exceeded a drop in the corresponding claims (see Table 2).² The former stemmed from lower time deposits belonging to non-euro area residents, particularly foreign credit institutions and private NFCs. The drop in foreign claims primarily stemmed from lower holdings of securities issued by non-residents. Overall, the year-on-year growth rate of net foreign assets increased marginally, reaching 8.3% from 8.2% one month earlier.

Bank lending and deposit rates³

In August, the weighted average interest rate paid by resident MFIs on all deposits belonging to Maltese households and non-financial companies edged up by one basis point, reaching 1.41%. Meanwhile, the weighted average interest rate charged by MFIs on outstanding loans to resident households and non-financial companies remained constant at 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

² 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.

³ Data on interest rates on outstanding amounts cover MFI euro-denominated deposits belonging to households and non-financial corporations resident in Malta and loans extended to them. 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

	Aug-12	Jul-12	Monthly Change	Monthly Percentage Change	Aug-11	Annual Change	Annual Percentage Change
MONETARY AGGREGATES⁽³⁾							
NARROW MONEY (M1)	5,879.7	5,859.8	19.9	0.3	5,268.6	611.1	11.6
Currency issued ⁽⁴⁾	719.7	723.7	-4.1	-0.6	685.1	34.6	5.1
Overnight deposits ⁽⁵⁾	5,160.0	5,136.1	23.9	0.5	4,583.5	576.5	12.6
INTERMEDIATE MONEY (M2)	9,994.0	9,997.6	-3.6	0.0	9,370.3	623.7	6.7
Narrow money (M1)	5,879.7	5,859.8	19.9	0.3	5,268.6	611.1	11.6
Deposits redeemable at notice up to 3 months ⁽⁵⁾	140.6	143.3	-2.6	-1.8	134.8	5.8	4.3
Deposits with agreed maturity up to 2 years ⁽⁵⁾	3,973.6	3,994.5	-20.8	-0.5	3,966.9	6.8	0.2
BROAD MONEY (M3)	10,196.7	10,209.0	-12.3	-0.1	9,584.0	612.6	6.4
Intermediate money (M2)	9,994.0	9,997.6	-3.6	0.0	9,370.3	623.7	6.7
Marketable instruments ⁽⁶⁾	202.7	211.4	-8.8	-4.1	213.7	-11.1	-5.2
SELECTED COUNTERPARTS OF M3							
CREDIT COUNTERPART	16,005.5	15,926.3	79.2	0.5	15,072.7	932.8	6.2
Credit to general government	3,915.1	3,906.8	8.3	0.2	4,506.6	-591.5	-13.1
Credit to other sectors	12,090.4	12,019.5	70.9	0.6	10,566.0	1,524.3	14.4
EXTERNAL COUNTERPART	10,152.7	9,744.9	407.8	4.2	8,199.1	1,953.7	23.8
Claims on non-residents of the euro area	33,866.2	34,673.6	-807.4	-2.3	29,076.1	4,790.0	16.5
Liabilities to non-residents of the euro area (-)	23,713.4	24,928.7	-1,215.2	-4.9	20,877.1	2,836.4	13.6
OTHER COUNTERPARTS (-)	15,961.5	15,462.2	499.4	3.2	13,687.7	2,273.8	16.6
Liabilities to the central government	805.6	722.3	83.3	11.5	758.7	46.9	6.2
Longer term financial liabilities	12,543.4	12,513.3	30.1	0.2	11,692.8	850.6	7.3
Other liabilities (net)	2,612.6	2,226.6	385.9	17.3	1,236.2	1,376.4	111.3

(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

	Aug-12	Jul-12	Monthly Change	Monthly Percentage Change	Aug-11	Annual Change	Annual Percentage Change
DEPOSITS							
TOTAL RESIDENTS' DEPOSITS⁽²⁾	8,796.9	8,769.3	27.6	0.3	8,320.4	476.5	5.7
Overnight deposits	4,980.0	4,954.5	25.5	0.5	4,453.8	526.2	11.8
Deposits redeemable at notice up to 3 months	138.5	141.1	-2.6	-1.9	132.8	5.7	4.3
Deposits with agreed maturity up to 2 years	3,678.4	3,673.7	4.7	0.1	3,733.8	-55.4	-1.5
SELECTED COUNTERPARTS							
TOTAL CREDIT TO RESIDENTS	11,182.4	11,162.3	20.0	0.2	10,632.0	550.4	5.2
Credit to general government	2,523.2	2,502.2	20.9	0.8	2,311.3	211.9	9.2
Credit to other sectors	8,659.2	8,660.1	-0.9	0.0	8,320.7	338.5	4.1
NET FOREIGN ASSETS	12,078.5	12,026.1	52.4	0.4	11,157.3	921.2	8.3
Claims on non-residents of Malta	44,226.0	45,482.2	-1,256.2	-2.8	40,567.7	3,658.3	9.0
Liabilities to non-residents of Malta (-)	32,147.5	33,456.1	-1,308.6	-3.9	29,410.4	2,737.1	9.3

(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.