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OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR

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BOX 2: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR[1,2]

The Central Bank of Malta has been compiling Malta's Financial Accounts statistics since 2004. The latest available statistics in this regard refer to September 2018. Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified by institutional sectors, namely households, NFCs, financial corporations (including credit institutions), the general government, and the 'rest-of-the-world' sector.[3,4]

This Box includes three sections: the first section contains an analysis of the net financial wealth of each sector of the economy; the second provides an analysis of private sector debt as stipulated in the EC's Macroeconomic Imbalance Procedure (MIP) Notification; and the final section outlines the financial interlinkages between the resident sectors.

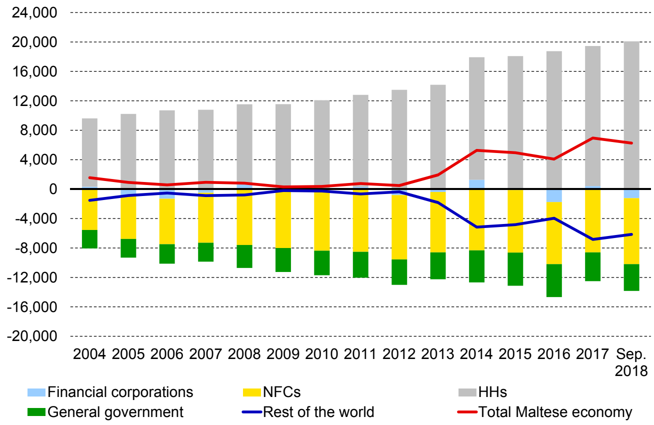
Net financial wealth of the Maltese economy

Sectoral level balance sheet statistics on net financial wealth show that overall, the resident economic sectors continued to be net lenders in September 2018 (see Chart 1). Their net financial wealth of the total resident economy amounted to €6,261.1 million compared with €6,943.6 million in December 2017.[5] The decrease was mainly driven by a drop in the net financial wealth of financial corporations and NFCs which offset the improvement in net financial wealth of both households and the general government sector.[6]

Financial assets and liabilities of the financial corporations sector

The aggregate net financial wealth of Malta's financial corporations, including the credit institutions, amounted to -€1,229.4 million in September 2018, down from €418.9 million at the end of 2017. The decrease since December 2017 was mainly due to a higher level of liabilities, largely in the form of equity, which exceeded the growth in financial assets.

Chart 1
NET WEALTH OF THE MALTESE ECONOMY AND THE REST-OF-THE-WORLD SECTOR
(EUR millions)



Source: Central Bank of Malta.

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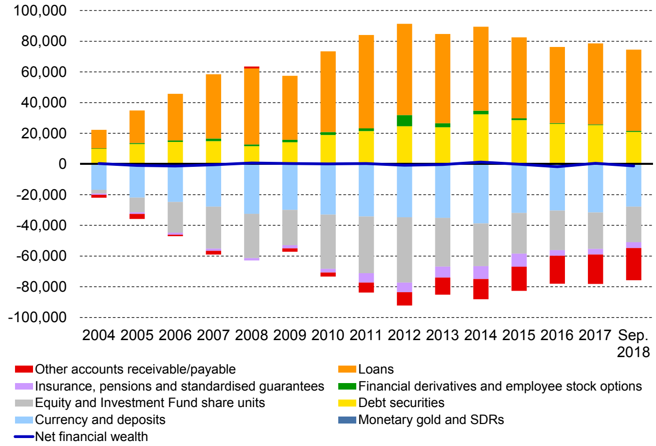
[1] Prepared by Kimberly Mamo, Economist Statistician and Janica Muscat, Expert at the External, Payments and Securities Statistics Office within the Statistics Department. The views expressed are those of the authors and do not necessarily reflect those of the Central Bank of Malta.
[2] For the purpose of this Box, the term 'Maltese economy' is used interchangeably with the term 'resident sectors/economy'.
[3] *Annual Report* 2016, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.
[4] The rest of the world sector comprises of non-resident units engaging in transactions with domestic institution units.
[5] Net financial wealth is defined as the difference between financial assets and liabilities. It shows which sectors are net lenders and which are net borrowers.
[6] In line with the European System of Accounts (ESA) 2010, financial corporations include the central bank, depositary-taking corporations except the central bank, money market funds, non-money market funds, insurance corporations, pension funds, other financial intermediaries, financial auxiliaries and captive financial institutions and money lenders.

Chart 2 shows the main contributors to net financial wealth of the financial sector. Over the period December 2017 to September 2018, net holdings of debt securities decreased significantly, even if this category continued to show a net asset position. Loans, which explain most of the net asset position of this sector, were broadly flat. The decrease in holdings of debt securities offset smaller decreases in net liabilities arising from deposits held with this sector and from accounts payable.

Chart 2
FINANCIAL SECTOR'S NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)

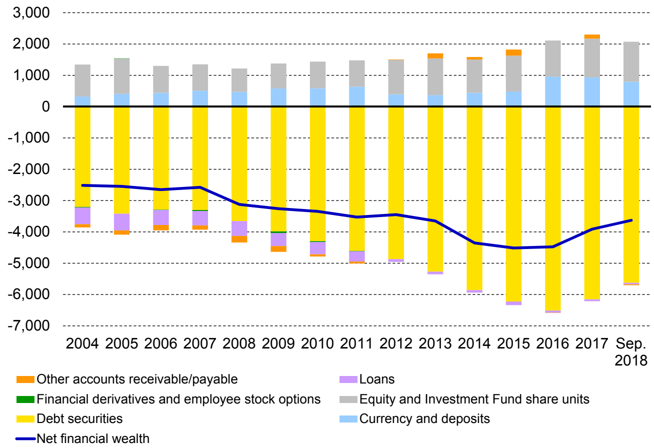


Source: Central Bank of Malta.

Financial assets and liabilities of the general government

The net financial wealth of the general government has been persistently in negative territory since 2004, although this negative position has been narrowing since 2016, reflecting the improvement in the government's fiscal position. In September 2018 this stood at -€3,630.0 million, improving by €281.8 million or 7.2%, when compared with December 2017. Chart 3 shows that the general government remained a net asset holder of equity and currency and deposits and a net liability holder, mainly of debt securities. The smaller net liability position since end 2017 was driven by a decrease in debt securities outstanding, which offset an increase in accounts payable and, on the asset side, a small decrease in deposits.

Chart 3
GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)



Source: Central Bank of Malta.

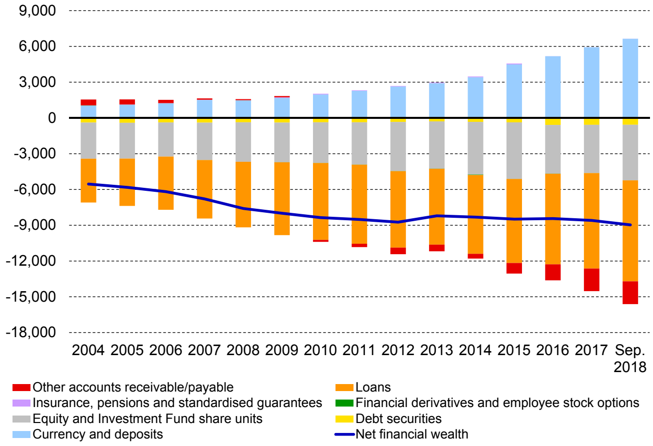
Financial assets and liabilities of NFCs

Chart 4 shows the net financial wealth of NFCs. These had net financial liabilities of €8,968.6 million as at September 2018, an increase of €376.2 million or 4.4% since December 2017. This was due to an increase in liabilities outstripping the increase in financial assets. In September 2018, NFCs continued to be net asset holders of currency and deposits and net liability holders mainly of loans, equity and other accounts payable. When compared with December 2017, the increase in NFCs' net liability position is due to the increase in their financing through loans and equity which offset a rise in holdings of currency and deposits.

Financial assets and liabilities of households

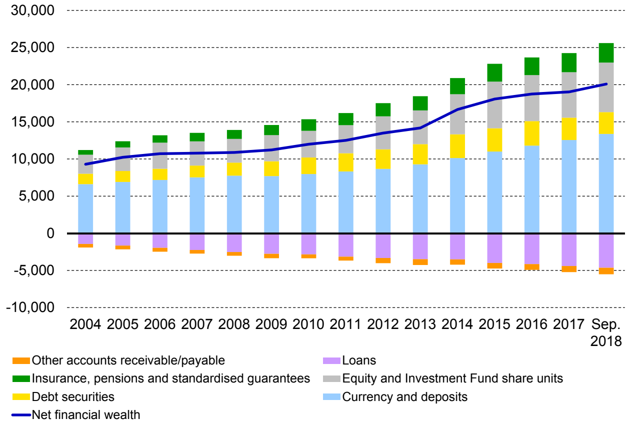
In September 2018, households' net financial wealth reached €20,089.1 million. It thus increased by 5.6%, or €1,060.3 million, when compared with December 2017. This was due to an increase in holdings of financial assets, which surpassed the increase in liabilities. Chart 5 shows that households maintained large net assets in the form of currency and deposits, and equity, but also held smaller net asset positions related to insurance products as well as bonds. By contrast, this sector was a net liability holder of loans and other accounts payable. The improved net financial wealth position since 2017 was driven by an increase in currency and deposits, and equity, which offset an increase in loans mainly for mortgage purposes.

Chart 4
NFCs' NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)



Source: Central Bank of Malta.

Chart 5
HOUSEHOLDS' NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)



Source: Central Bank of Malta.

Malta's private sector debt

Financial accounts statistics also shed light on Malta's private sector debt. In line with the methodology prescribed by the EC's MIP which inter alia produces such indicators on an annual basis, Chart 6 shows Malta's consolidated private sector debt split by sector and compares it to the consolidated private sector debt of the euro area. The chart shows that in total, up to 2016, Malta's consolidated private sector debt as a per cent of GDP has been relatively higher than the threshold of 133% prescribed by the EC under the MIP although this ratio has been constantly falling since 2012.[7,8] In 2017, the indicator decreased below the set threshold and was at its lowest level since 2012. The indicator stood at 129.3%, down from 134.4% in 2016. The fall in private sector debt as a proportion of GDP between 2016 and 2017 was principally driven by a decrease in NFCs' debt ratio, which fell by 3.6 percentage points, although households' debt also decreased, from 51.0% of GDP in 2016 to 49.5% in 2017.

[7] The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs and households and NPISH. Transactions within sectors are eliminated (i.e. consolidated statistics). The threshold of 133% of GDP is derived from the upper quartile of the statistical distribution of the indicator. Annual data for the period 1995-2007 were used to establish the threshold.

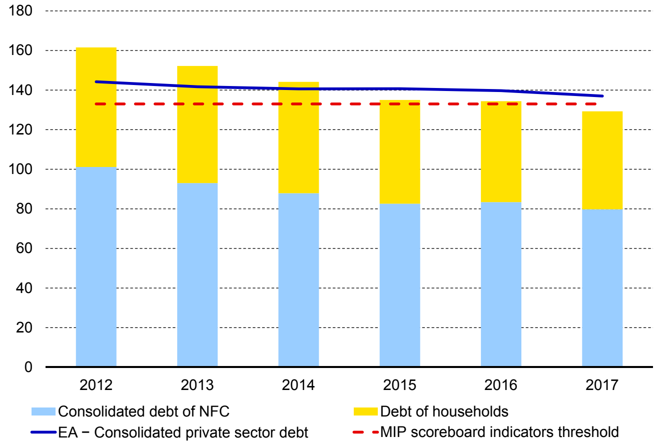
[8] In terms of EU Regulation No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances.

Up to 2014, Malta's consolidated private sector debt was also higher than that of the euro area, though it then fell at a faster rate than the latter. By 2017, it stood 7.7 percentage points lower than the euro area average.

While household debt in Malta has been typically lower than that of the euro area, the consolidated debt of the resident NFCs was higher than its euro area counterpart for the period between 2012 and 2014. Since 2015 the resident NFCs debt ratio was consistently lower than that in the euro area. In 2017, the private sector debt indicator for Malta reached 79.8% of GDP, which is marginally below the debt ratio of NFCs within the euro area, which stood at 80.1%.

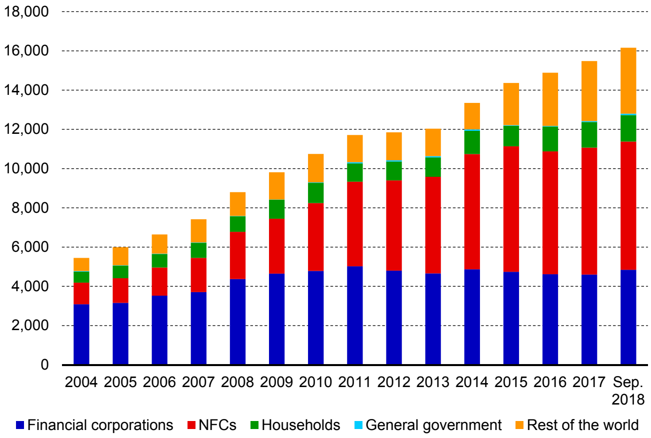
Generally, corporate debt constitutes more than half of the consolidated private sector debt in Malta. Chart 7 shows the debt of NFCs in the form of debt securities and loans by creditor sectors, that is, financial corporations, households, NFCs, general government and the rest of the world. From this perspective, the largest exposures stemmed from liabilities to financial corporations and the NFC sector itself.

Chart 6
PRIVATE SECTOR'S DEBT IN % OF GDP (CONSOLIDATED)
(per cent)



Sources: Central Bank of Malta; Eurostat.

Chart 7
NFC DEBT
(EUR millions)



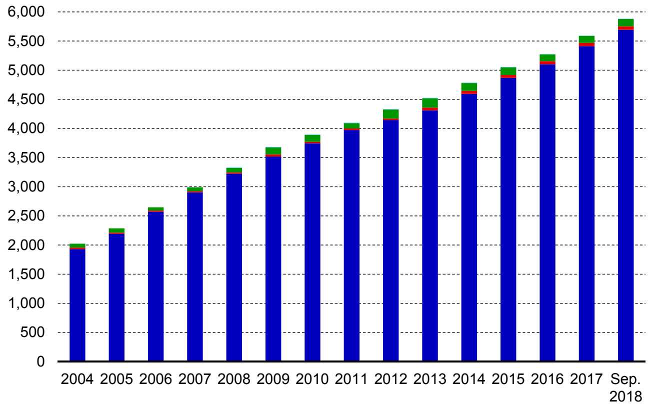
Source: Central Bank of Malta.

Firms in Malta rely significantly more on loans than on debt securities. Even though the issuance of debt securities increased over the years, this still remained relatively low, amounting to 4.3% of total NFCs' debt in the third quarter of 2018. Over the years, bank credit has been one of the main sources of financing for NFCs, although the importance of this source of funding has been declining over the last few years. In turn, non-bank financing became more significant, particularly taking the form of intra-group lending or lending from related parties.[9] In fact, as at September 2018 loans from other corporates amounted to €6,531.2 million, or 40.4% of total NFCs' debt while loans from financial corporations, mainly bank loans, amounted to €3,587.7 million or 22.2% of total NFCs' debt. Another important source of finance for resident corporates were loans from abroad which amount-

[9] Box 2: NFCs' loans from other corporates – evidence from Malta's Financial Accounts Statistics, *Financial Stability Report*, 2017.

ed to €3,129.3 million in September 2018, reflecting the number of foreign-owned subsidiaries operating in Malta. Meanwhile, loans from households (mainly from directors and shareholders) amounted to €1,023.6 million in September 2018.

Chart 8
HOUSEHOLDS' DEBT
(EUR millions)



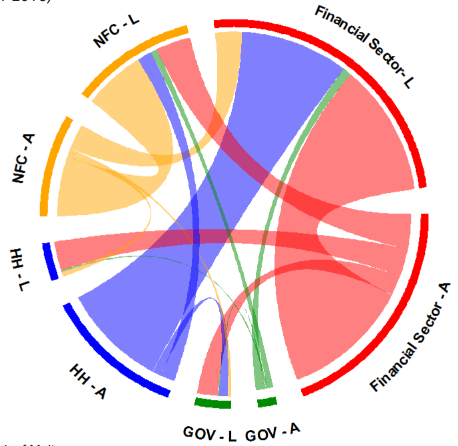
Source: Central Bank of Malta.

Chart 8 shows that households' debt as at end September 2018 stood at €5,881.9 million, increasing by €289.9 million since end December 2017 primarily due to an increased take-up of loans from credit institutions. Households' debt is in fact composed mainly of loans from credit institutions. These amounted to 96.8% of households' debt. The remaining debt mainly consists of directors/shareholders' loans, which amounted to around €177.4 million. Nonetheless, household debt as a ratio of their total assets declined marginally from 21.8% in December 2017 to 21.6% in September 2018, reflecting lower leverage and hence a strengthening of this sector's financial resilience.

Financial interlinkages between resident sectors

Financial accounts identify financial linkages among economic sectors, whereby one sector is an asset holder while the counterpart sector is the borrower. Such accounts are also referred to as the from-whom-to-whom accounts. Chart 9 shows the interlinkages between the resident sectors as at September 2018.[10] The largest holders of assets of the financial sector are intra-sectoral holdings, that is, holdings with other financial corporations, mainly in the form of equity and investments funds and deposits. This amounted to 61.0% of their total domestic holdings in the third quarter of 2018, a marginal decrease from 61.5% in December 2017. Chart 9 also shows that the financial sector has significant interlinkages with households and NFCs mainly through banks' funding. Moreover, the general government holds around 48.6% of its total domestic financial assets with the financial sector, which decreased

Chart 9
FINANCIAL INTERLINKAGES BETWEEN RESIDENT SECTORS
(as at September 2018)



Source: Central Bank of Malta.
Note: Nodes along the circle represent the total financial assets (A) and liabilities (L) of each economic sector. Each sector is represented by a different colour and the arc's width is proportional to financial assets and liabilities with other sectors.

[10] The comparison with interlinkages between resident sectors as at December 2017 are not being shown graphically since there were no major changes.

from 53.1% in December 2017, primarily in the form of deposits. With regards to NFCs, the majority of their assets are held by other NFCs. They rose marginally to 63.8% of their total domestic assets from 63.6% over the period December 2017 to September 2018. Finally, households' domestic financial asset holdings with the financial sector increased to 82.2% in September from 81.6% in December 2017. These were mainly in the form of deposits, showing the importance of households' assets for funding and liquidity of banks.

Further statistical information can be found on the website of the Central Bank of Malta at: www.centralbankmalta.org/financial-accounts.