



**BANK ĊENTRALI TA' MALTA**  
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# **LAUNCHING OF MALTA'S FINANCIAL ACCOUNTS STATISTICS**

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Jesmond Pule<sup>1</sup>

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## Introduction

To resolve a significant omission in economic and financial statistics and to fulfil EU statistical requirements, the Central Bank of Malta initiated the compilation of the first fully fledged set of Malta's Financial Accounts (MFA) statistics, capturing the financial activities of all institutional sectors of the Maltese economy.<sup>2</sup> Tables containing a summarised set of annual MFA statistics going back to 2006 will be published as from *Quarterly Review 2013:4*, as well as on the Bank's website. Initially, the Bank will only publish stock positions, while the corresponding flow figures will be made available at a later stage.

This article introduces these statistics and briefly explains the compilation methodology. It also provides an overview of the financial characteristics of non-financial corporations (NFC) and households, and of the role of financial accounts statistics in the EU Commission's surveillance of macroeconomic imbalances. The article ends with a comparison of certain MFA indicators with those of other EU countries.

## History of financial accounts statistics

When total purchases of our national product increase, where does the money come from to finance them? When purchases of our national product decline, what becomes of the money that is not spent? Is it hoarded or what? Who has and exercises discretion to increase or decrease expenditures on national product? What part do cash balances, other liquid asset holdings, and debts play in the cyclical expansion and contraction of money flow?

Morris Copeland<sup>3</sup>

Stocks and flows statistics in the MFA can address these questions.<sup>4</sup> They enable an assessment of financial wealth and indebtedness. Financial accounts also provide a broad perspective on the financial conditions within which monetary developments and the transmission of monetary policy can be analysed.

Complete financial accounts statistics comprise detailed information on the financing sources of institutional sectors, the form of financing and indebtedness of those sectors, and where and how their surpluses are invested. On the macro scale, financial accounts indicate how indebted sectors obtain the necessary financial resources by acquiring liabilities or reducing assets, and how the net lending sectors allocate their surpluses by acquiring financial assets or reducing their liabilities.<sup>5</sup>

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<sup>1</sup> Mr Pule' is the Head of the Statistics Department. The author would like to thank Dr Bernard Gauci, Mr Anthony Cortis, Mr Michael Caruana and various staff from the Statistics Department for helpful comments and suggestions. Any errors, as well as the opinions expressed in this article, are the author's sole responsibility.

<sup>2</sup> This is required by the (recast) Guideline of the European Central Bank (ECB) of 25 July 2013 on the statistical reporting requirements of the ECB in the field of quarterly financial accounts (ECB/2013/24) and by Regulation (EC) No 1392/2007 of the European Parliament and of the Council of 13 November 2007 with respect to the transmission of national accounts' data.

<sup>3</sup> Copeland, Morris A, "Social accounting for moneyflows". *The Accounting Review*, 24(3), 1949, pp. 254-264. This author is widely regarded as the pioneer of the "moneyflows" or "flow-of-funds" accounts, although various other prominent economists, such as Hicks J.R., Duesenberry J.S., Tobin J. and Mitchell W.R., contributed substantially to the subject.

<sup>4</sup> The latter are also referred to as flow-of-funds statistics.

<sup>5</sup> It is important to note that financial accounts record financial stocks and transactions only; therefore, fixed assets and intangibles are excluded.

Several past crises, including most recently the financial crisis of 2008, highlighted the need for closer attention to vulnerabilities in sectoral balance sheets. Monitoring those vulnerabilities is important for financial stability purposes.

### **Financial accounts collection and compilation methodology**

Financial accounts statistics are part of the general statistical framework of a country's economy, as presented in the European System of Accounts 1995 (ESA 1995).<sup>6</sup>

The Bank compiles a full set of financial accounts, including both transactions (flows) and positions (stocks), as stipulated by ESA 1995.<sup>7</sup> Compilation of such statistics involves a series of distinct stages, the first being the collection of the data on all sectors and sub-sectors of the economy. Data are obtained either directly from the reporting institutions, as primary sources, or indirectly from counterparty information. In collecting primary data, MFA statistics make extensive use of statutory and other returns received by the Bank, while supplementary sources are used to fill any gaps in the primary sources or to improve the quality of the statistics. Data for the compilation of the financial accounts can be obtained from either of the two parties in every financial transaction.<sup>8</sup> The Central Bank of Malta and the National Statistics Office (NSO) cooperate extensively, especially to make use of administrative data to the fullest extent possible.<sup>9</sup> Producing certain data for the household sector presents a particular challenge. In practice, most data on this sector are obtained from counterparty information, i.e., using the statistics of other sectors on the positions of, or transactions with, households.

Another problem arises when data sources provide contradictory estimates. This problem requires statistical compilers to assess the relative quality of the different sources. A ranking of sources normally assigns priority to primary information sources, for instance, by recognising that banking data tend to be more reliable than household data.

The next stage involves placing all the information in an array containing the full set of accounts for the whole economy. This helps to ensure a perfectly reconciled set of financial accounts. However, this is not always the case due to different accounting valuations, timing differences and other considerations. It is also important to recognise that the Bank's financial accounts may not tally perfectly with the non-financial accounts statistics compiled by the NSO. It is not always possible to fully reconcile the two accounts primarily because of differences in the data sources.

The finalised set of statistics showing the financial accounts of the whole economy is presented in Table 1 in non-consolidated format, in accordance with ESA 1995 classifications. The table shows the main institutional sectors of the economy, the most relevant financial instrument breakdowns and include the sector representing the rest of the world.<sup>10</sup> All information in the table is presented in a balance sheet form, i.e., in outstanding stock positions.

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<sup>6</sup> See *European System of Accounts ESA 1995*, European Commission, 1996, for detailed description of the system. ESA 1995 significantly accelerated the move towards harmonised financial accounts in Europe. In late 2014, it will be replaced by new internationally compatible EU accounting framework, ESA 2010. For details on ESA 2010 see Annex A of Regulation (EU) No 549/2013.

<sup>7</sup> The "financial account" is the last account in the ESA 1995 sequence of integrated economic and financial accounts. Accounts earlier in the sequence record non-financial activities.

<sup>8</sup> The exceptions are monetary gold and special drawing rights (SDR), for which a counterparty does not exist in statistical terms.

<sup>9</sup> Apart from the NSO, administrative data are also sourced from the Malta Financial Services Authority (MFSA) and the Malta Stock Exchange.

<sup>10</sup> According to ESA 1995, the rest-of-the-world sector consists of non-resident units insofar as they are engaged in transactions, or have economic links, with resident institutional units.

**Table 1**  
**NON-CONSOLIDATED FINANCIAL ACCOUNTS OF THE MALTESE ECONOMY (FINANCIAL ASSETS)**

EUR millions

Issuing sectors broken down by financial instrument	2006	2007	2008	2009	2010	2011	2012
<b>Total economy</b>	<b>86,050</b>	<b>102,816</b>	<b>113,280</b>	<b>114,011</b>	<b>133,724</b>	<b>136,499</b>	<b>142,643</b>
Monetary gold and SDRs	42	50	17	110	115	118	120
Currency	1,134	630	671	721	747	798	814
Deposits	23,965	31,551	39,137	38,493	41,515	42,547	43,875
Debt securities	15,873	14,962	14,447	17,045	20,753	22,917	26,207
Loans	25,355	33,958	36,357	33,476	39,760	38,863	38,485
Shares and other equity	13,427	14,029	13,637	15,462	21,584	21,415	22,116
Insurance technical reserves	1,021	1,199	1,222	1,423	1,623	1,678	1,821
Other accounts receivable	5,232	6,437	7,792	7,281	7,628	8,164	9,206
<b>Financial corporations<sup>1</sup></b>	<b>34,863</b>	<b>42,566</b>	<b>47,223</b>	<b>47,277</b>	<b>55,899</b>	<b>56,680</b>	<b>59,468</b>
Monetary gold and SDRs	42	50	17	110	115	118	120
Currency	82	86	83	87	82	92	94
Deposits	3,506	5,868	6,897	7,825	2,488	2,574	2,886
Debt securities	14,081	13,057	12,038	14,453	17,856	19,748	22,752
Loans	15,336	21,675	26,487	22,735	33,350	32,207	31,587
Shares and other equity	1,533	1,464	1,231	1,524	1,605	1,566	1,622
Insurance technical reserves	3	2	1	2	3	2	2
Other accounts receivable	279	364	469	541	401	374	405
<b>General government</b>	<b>1,510</b>	<b>1,662</b>	<b>1,610</b>	<b>1,780</b>	<b>1,943</b>	<b>2,161</b>	<b>2,461</b>
Currency	0	0	0	0	0	0	0
Deposits	432	488	476	577	589	655	424
Debt securities	0	0	0	0	0	0	0
Loans	26	27	33	30	63	148	268
Shares and other equity	843	836	740	798	856	844	1,097
Insurance technical reserves	-	-	-	-	-	-	-
Other accounts receivable	209	311	361	375	435	514	671
<b>Non-financial corporations<sup>2</sup></b>	<b>10,483</b>	<b>11,828</b>	<b>12,695</b>	<b>14,080</b>	<b>15,203</b>	<b>16,200</b>	<b>16,341</b>
Currency	20	25	34	57	40	36	36
Deposits	1,196	1,486	1,432	1,620	1,932	2,235	2,430
Debt securities	71	82	80	80	80	87	91
Loans	2,349	2,670	3,228	3,771	4,338	4,735	4,761
Shares and other equity	3,281	3,722	3,852	4,220	4,412	4,727	4,528
Insurance technical reserves	29	18	17	59	57	48	49
Other accounts receivable	3,536	3,826	4,051	4,273	4,344	4,333	4,446
<b>Households and non-profit institutions</b>	<b>13,178</b>	<b>13,523</b>	<b>13,815</b>	<b>14,805</b>	<b>15,608</b>	<b>15,911</b>	<b>16,673</b>
Currency	1,032	520	553	576	626	670	684
Deposits	6,140	7,000	7,246	7,163	7,406	7,698	8,068
Debt securities	1,445	1,516	1,650	1,970	2,179	2,392	2,573
Loans	431	456	440	572	683	581	581
Shares and other equity	2,986	2,674	2,546	3,016	2,958	2,726	2,803
Insurance technical reserves	989	1,179	1,204	1,362	1,562	1,628	1,770
Other accounts receivable	155	178	176	144	194	216	195
<b>Rest of the world</b>	<b>26,017</b>	<b>33,237</b>	<b>37,937</b>	<b>36,070</b>	<b>45,072</b>	<b>45,546</b>	<b>47,699</b>
Currency	-	-	-	-	-	-	-
Deposits	12,691	16,708	23,086	21,308	29,101	29,384	30,067
Debt securities	275	308	679	542	638	690	791
Loans	7,212	9,129	6,169	6,368	1,325	1,192	1,287
Shares and other equity	4,785	5,333	5,269	5,905	11,754	11,552	12,065
Insurance technical reserves	-	-	-	-	-	-	-
Other accounts receivable	1,053	1,758	2,734	1,948	2,254	2,727	3,489

<sup>1</sup> Including the international banking institutions.

<sup>2</sup> Including the subsidiary holding corporations.

**Table 1**  
**NON-CONSOLIDATED FINANCIAL ACCOUNTS OF THE MALTESE ECONOMY (LIABILITIES)**

EUR millions

Issuing sectors broken down by financial instrument	2006	2007	2008	2009	2010	2011	2012
<b>Total economy</b>	<b>86,008</b>	<b>102,766</b>	<b>113,263</b>	<b>113,901</b>	<b>133,609</b>	<b>136,381</b>	<b>142,523</b>
Currency	1,134	630	671	721	747	798	814
Deposits	23,965	31,551	39,137	38,493	41,515	42,547	43,875
Debt securities	15,873	14,962	14,447	17,045	20,753	22,916	26,207
Loans	25,355	33,958	36,357	33,476	39,760	38,863	38,485
Shares and other equity	13,427	14,029	13,637	15,462	21,584	21,415	22,115
Insurance technical reserves	1,021	1,198	1,222	1,423	1,623	1,678	1,821
Other accounts payable	5,232	6,437	7,792	7,281	7,628	8,164	9,207
<i>Net Financial Assets/Liabilities</i>	<i>42</i>	<i>50</i>	<i>17</i>	<i>110</i>	<i>115</i>	<i>118</i>	<i>120</i>
<b>Financial corporations<sup>1</sup></b>	<b>35,777</b>	<b>43,408</b>	<b>47,699</b>	<b>47,604</b>	<b>56,356</b>	<b>57,061</b>	<b>59,421</b>
Currency	1,113	610	629	673	701	738	758
Deposits	20,865	26,683	33,428	32,557	40,573	41,499	42,845
Debt securities	143	221	506	478	612	752	865
Loans	6,289	7,969	5,040	5,176	52	57	70
Shares and other equity	5,997	5,777	5,436	6,667	12,221	11,797	12,462
Insurance technical reserves	1,021	1,198	1,222	1,423	1,623	1,678	1,821
Other accounts payable	349	950	1,437	629	574	541	600
<i>Net Financial Assets/Liabilities</i>	<i>-915</i>	<i>-842</i>	<i>-476</i>	<i>-327</i>	<i>-458</i>	<i>-381</i>	<i>47</i>
<b>General government</b>	<b>3,923</b>	<b>4,015</b>	<b>4,513</b>	<b>4,800</b>	<b>5,134</b>	<b>5,566</b>	<b>5,961</b>
Currency	-	8	31	37	41	46	50
Deposits	-	-	-	-	-	-	-
Debt securities	3,297	3,309	3,663	3,994	4,307	4,625	4,890
Loans	266	273	284	237	237	260	346
Shares and other equity	-	-	-	-	-	-	-
Insurance technical reserves	-	-	-	-	-	-	-
Other accounts payable	360	425	535	532	549	634	674
<i>Net Financial Assets/Liabilities</i>	<i>-2,413</i>	<i>-2,352</i>	<i>-2,903</i>	<i>-3,021</i>	<i>-3,192</i>	<i>-3,404</i>	<i>-3,499</i>
<b>Non-financial corporations<sup>2</sup></b>	<b>15,533</b>	<b>17,357</b>	<b>18,757</b>	<b>20,219</b>	<b>21,800</b>	<b>22,755</b>	<b>22,623</b>
Currency	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-
Debt securities	507	550	522	690	776	757	750
Loans	6,404	7,056	7,963	8,929	9,747	10,152	9,863
Shares and other equity	5,839	6,626	6,820	7,094	7,510	7,870	7,824
Insurance technical reserves	-	1	-	-	-	-	-
Other accounts payable	2,783	3,124	3,453	3,507	3,766	3,976	4,185
<i>Net Financial Assets/Liabilities</i>	<i>-5,051</i>	<i>-5,529</i>	<i>-6,063</i>	<i>-6,140</i>	<i>-6,597</i>	<i>-6,555</i>	<i>-6,282</i>
<b>Households and non-profit institutions</b>	<b>3,415</b>	<b>3,749</b>	<b>4,147</b>	<b>4,561</b>	<b>4,820</b>	<b>5,047</b>	<b>5,164</b>
Currency	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-
Loans	2,636	2,977	3,308	3,649	3,884	4,092	4,262
Shares and other equity	-	-	-	-	-	-	-
Insurance technical reserves	-	-	-	-	-	-	-
Other accounts payable	779	771	839	912	936	955	902
<i>Net Financial Assets/Liabilities</i>	<i>9,762</i>	<i>9,774</i>	<i>9,668</i>	<i>10,243</i>	<i>10,788</i>	<i>10,864</i>	<i>11,510</i>
<b>Rest of the world</b>	<b>27,359</b>	<b>34,238</b>	<b>38,146</b>	<b>36,716</b>	<b>45,498</b>	<b>45,952</b>	<b>49,355</b>
Currency	21	12	10	10	5	14	6
Deposits	3,100	4,868	5,709	5,935	942	1,047	1,029
Debt securities	11,926	10,883	9,756	11,883	15,056	16,782	19,702
Loans	9,760	15,683	19,762	15,484	25,840	24,303	23,944
Shares and other equity	1,592	1,626	1,381	1,702	1,853	1,748	1,829
Insurance technical reserves	-	-	-	-	-	-	-
Other accounts payable	960	1,167	1,527	1,702	1,802	2,058	2,845
<i>Net Financial Assets/Liabilities</i>	<i>-1,342</i>	<i>-1,001</i>	<i>-209</i>	<i>-647</i>	<i>-426</i>	<i>-406</i>	<i>-1,656</i>

<sup>1</sup> Including the international banking institutions.

<sup>2</sup> Including the subsidiary holding corporations.

## Highlights of MFA statistics

Table 1 shows the evolution of MFA assets and liabilities, respectively, from 2006 to 2012. The instruments are classified according to their liquidity and negotiability, in line with ESA 1995 standards, and attributed to the issuing sector.

Moreover, as already stated, data in the table are not consolidated, so that intra-sectoral positions do not offset each other. For instance, if a company extends a loan to another company, or if a subsidiary provides a loan to its parent company, both the loan liability and the counterpart asset are shown in the table.

On the assets side, in Table 1, financial assets of all sectors increased from €86.0 billion to €142.6 billion between 2006 and 2012. The magnitude of these figures and the volatility in the levels of certain instruments were in large part because of transactions between the international banking institutions resident in Malta with the rest of the world. These international banking institutions are largely unconnected to the domestic economy.

The financial corporations' sector comprises the Bank, banking institutions, investment funds, insurance corporations and all other financial institutions resident in Malta. This sector increased its share in the financial assets of the economy from 40.5% to 41.7%, as its assets climbed from €34.9 billion to €59.5 billion during the seven-year period under consideration.

The rest-of-the-world sector, representing the foreign liabilities of the Maltese economic sectors, including those of international banking institutions (already referred to in a previous paragraph), reached a share of 33.4% in 2012, a significant increase from the 30.2% recorded in 2006. Meanwhile, assets held by the NFC sector, which includes intragroup assets on a gross basis, and by households & non-profit institutions also increased during that period, reaching a share of 11.5% and 11.7%, respectively, in 2012. At €2.5 billion in 2012, the assets of the general government sector, made up of both central and local government, amounted to 1.7% of total financial assets.

Table 1 also lists the liabilities of the total economy which, at aggregate level, increased by 65.7% from €86.0 billion to €142.5 billion between 2006 and 2012. The liabilities of financial corporations, including those of the international banking institutions, amounted to €59.4 billion, raising their share in the total from 41.6% in 2006 to 41.7% in 2012. This sector accounts for the largest share of liabilities in the whole economy.

As a proportion of the total, the liabilities of the rest-of-the-world sector, which correspond to the foreign assets of the national economy, grew from 31.8% in 2006 to 34.6% in 2012, reaching €49.4 billion. This sector has the second largest share of total liabilities. Meanwhile, the share of liabilities of NFCs, which include intragroup liabilities, went down from 18.1% to 15.9% during the same period, while the liabilities of the households and non-profit institutions decreased their share from 4.0% to 3.6%.

The table also provides information on various types of financial instruments, whether assets or liabilities, held by the main sectors. At the total economy level, each instrument category on the assets side is matched with the instrument category on the liabilities side. The exceptions are monetary gold and SDRs, for which a counterpart does not exist in statistical terms.

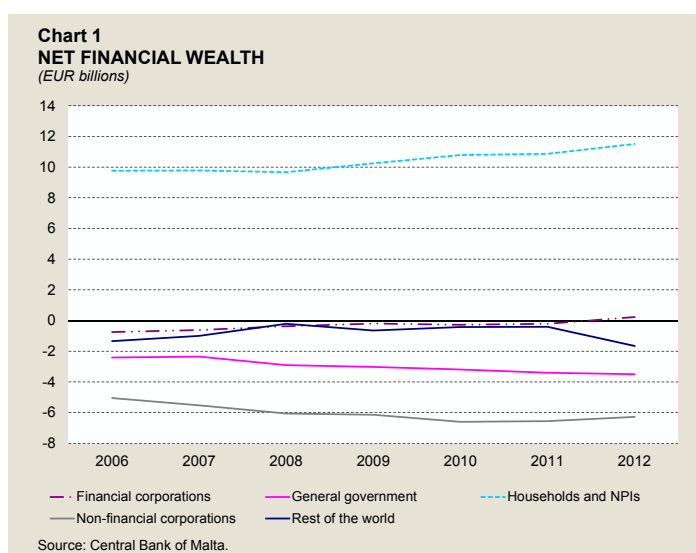
The main financial instruments of the Maltese economy were in the form of deposits lodged with banks or held abroad. These accounted for €43.9 billion, or 30.8% of total financial assets. At €38.5 billion, loans made up the second largest portion, or 27.0% of total financial assets. Concurrently, debt securities amounted to €26.2 billion, or 18.4% of the total, while shares and other equity, at €22.1 billion, represented approximately one-sixth of total financial wealth. Other financial instruments were mainly in the form of other accounts receivable/payable and insurance technical reserves.

Table 1 also shows the net financial assets of the whole economy and of each sector of the economy. “Net financial assets” represent the difference between financial assets and liabilities of the country or sector.

Although financial assets must generally equal liabilities at the total instrument level, this is not usually the case at the sectoral level.<sup>11</sup> The difference between a sector’s financial assets and liabilities is equivalent to that sector’s net financial assets or liabilities. Indeed, different sectors in the economy are either net borrowers or net lenders, recording either net liability or a net financial asset position.<sup>12</sup> When domestic institutional units engage in financial transactions with each other, the surplus assets of one sector are made available to other sectors, such that the positive net financial wealth of the surplus sectors matches the negative net counterpart of the deficit sectors.

As in many other countries, the NFC and general government sectors record net financial liabilities, while households hold the largest part of net financial assets. In comparison with other sectors, financial corporations generally have small amounts of net financial worth, although their gross financial assets and liabilities are comparatively large, due to their primary role as intermediaries between borrowers and lenders.<sup>13</sup>

Chart 1 illustrates the evolution over the last seven years of the net financial position of the institutional sectors of the Maltese economy, including the rest-of-the-world sector. As illustrated in Chart 1, in 2012 the general government and the NFC sectors registered net financial liabilities of €3.5 billion and €6.3 billion, respectively. Households & non-profit institutions (NPI) are clearly, on a net basis, the major source of funds, holding net financial assets of €11.5 billion. The household sector’s net asset position has edged up



<sup>11</sup> With the exception of monetary gold and SDRs.

<sup>12</sup> In the ESA 1995, all liabilities are considered as being financial liabilities.

<sup>13</sup> In addition, net borrowers can bypass financial intermediaries by transacting directly with net lenders. For example, governments can issue securities in the market that can be purchased by households, NFCs, and rest-of-the-world sectors.

consistently since 2008. The rest-of-the-world sector registered net liabilities of €1.7 billion. Conceptually, the financial balance sheet of the rest of the world corresponds to Malta's International Investment Position (IIP), where IIP assets for Malta are recorded as rest-of-the-world liabilities, and conversely, IIP liabilities are recorded as rest-of-the-world assets.

In Chart 1, one may also note that the financial corporations sector moved from a previous net debtor position to a net creditor position in 2012, although the amounts in question were consistently relatively small.

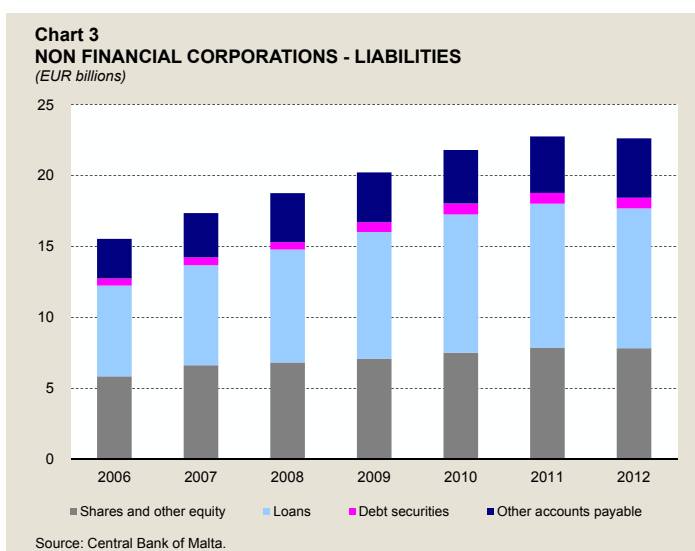
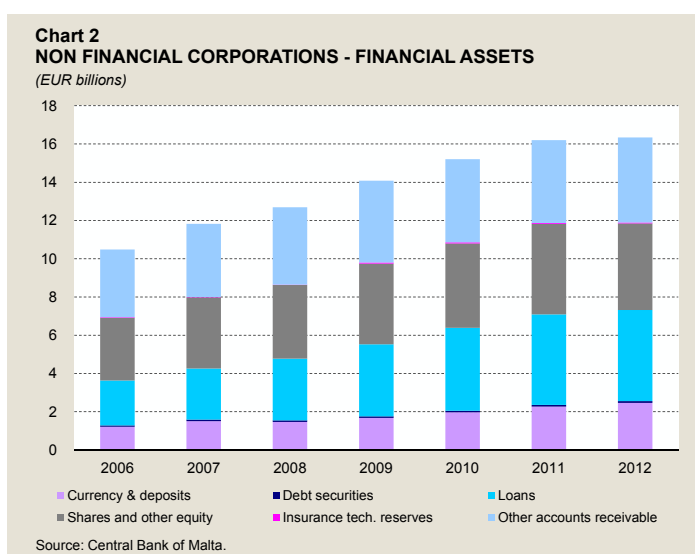
### The financial balance sheet of NFCs<sup>14</sup>

As already mentioned, resident NFCs have accumulated financial assets at a fairly steady rate, reaching €16.3 billion in 2012 from €10.5 billion in 2006 (see Chart 2). These are unconsolidated figures, which include intragroup assets on a gross basis.

At €9.3 billion, loans and shares alone amounted to over half of NFC assets. Deposits, worth €2.4 billion and largely placed with domestic monetary financial institutions (MFI), amounted to 14.9%. NFCs also owned a relatively small portfolio of debt securities and a small amount of insurance technical reserves, equivalent to 0.6% and 0.3% of the total, respectively. Other accounts receivable, amounting to 27.2% of the total, were largely due from other NFCs and from the rest-of-the-world sector. These receivables also consisted of deferred or refundable income tax or VAT, dues from third parties and a residual component.

Chart 3 shows liabilities of NFCs. The stock of liabilities of NFCs reached €22.6 billion in 2012, making the NFC sector a net debtor or user of funds.

Turning to specific liabilities, in 2012 loans extended to NFCs amounted to €9.9 billion,



<sup>14</sup> For more detail, see the Bank's *Financial Stability Report 2012*, which is available on the Bank's website.



or 43.5% of their total liabilities. Such loans partly reflect active local intra-NFC lending and financing from abroad. Equity financing constitutes another important source of financing for NFCs, reflecting the large role of intra-NFC and household participation in business financing. Equity amounted to 34.6% of the total. Foreign direct investment, which also includes reinvested earnings, was an important factor in the build-up of equity financing.<sup>15</sup> Debt securities amounted solely to 3.3% of the total.

Other accounts payable, which amounted to 18.4% of total liabilities, were largely made up of trade credit extended to other NFCs and to rest-of-the-world counterparties.<sup>16</sup> Other accounts payable also comprise taxes, fees and licences payable, as well as the residual component.

### **“From-whom-to-whom” accounts**

In the near future, the Bank will also publish a set of accounts known as “from-whom-to-whom” accounts, which considerably enriches the information content of the MFA. “From-whom-to-whom” accounts as shown in Table 2 show financial assets and liabilities vis-à-vis the counterpart sector, by sector and type of financial instrument. Hence, such accounts do not simply answer the question of “who does what business?”, but “who does what business with whom?” This overview presents from-whom-to-whom accounts only for NFCs, although the Bank compiles similar information for all sectors of the economy (see Table 2).

Table 2 shows that at the end of 2012, on the assets side of their balance sheet, NFCs held €2.0 billion in the form of deposits lodged with resident financial corporations, predominantly with MFIs, and €0.4 billion worth of deposits abroad (i.e., held with the rest-of-the-world sector). Their portfolio of debt securities was mainly in the form of long-term government bonds and smaller holdings of debt securities issued by other NFCs and resident financial corporations. They also had marginal holdings of debt securities issued by the rest-of-the-world sector. As previously mentioned, intragroup positions heavily influence both sides of the NFC balance sheet.

Loans primarily reflect intra-NFC activity while, similarly, the NFC portfolio of shares and other equity is predominantly in securities issued by other NFCs. Conversely, NFCs’ stock of outward foreign direct investment and their holdings of shares issued by financial corporations are relatively low. Other accounts receivable, amounting to €4.4 billion are mainly in the form of trade credits and advances with the rest-of-the-world sector, largely explained by transactions between companies operating from Malta and non-residents.

The liabilities side of the from-whom-to-whom accounts of the NFC sector shows that, as at the end of 2012, more than half of their issued debt securities, worth €0.8 billion, was held by households, although the rest-of-the-world sector held quite a sizeable portion (see Table 2). Loans, totalling €9.9 billion, included €3.9 billion worth of short-term and long-term loans extended by the local MFI sector and €1.0 billion worth of borrowings from abroad, apart from intra-NFC borrowing. The €7.8 billion worth of shares and other equity issued by NFCs,

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<sup>15</sup> The number of newly registered companies on the MFSA’s Companies Registry increased by an annual average of around 3,500 firms over the period 2010–2012. This was another factor that contributed to the increase in shares and other equity. Unquoted shares significantly exceeded quoted shares in the total stock of shares and other equity. Source: *Annual Report 2012*, MFSA, p. 80.

<sup>16</sup> The results of the Central Bank of Malta’s 2010 Wage Dynamics Survey, which can be viewed on the Bank’s website, indicate that the effects of the economic crisis were mainly in the form of a fall in demand for the firms’ main products followed by difficulties in obtaining payments and, to a lesser extent, difficulties in sourcing supplies.

excluding local intra-NFC participation amounting to €3.9 billion, comprised a substantial stock of inward direct investment from abroad at €2.2 billion and, to a lesser extent, participation by households and Government's own investment in public NFCs. Their other accounts payable, amounting to €4.2 billion, were mainly in the form of trade credits and advances from the rest-of-the-world sector.

**Table 2 "From-whom-to-whom" accounts of the non-financial corporations, as at 2012**

EUR millions

	Classification of positions by counterparty					Total
	Financial corporations <sup>1</sup>	General government	Non-financial corporations <sup>2</sup>	Households and non-profit institutions	Rest of the world	
<b>Total financial assets</b>	<b>2,539</b>	<b>407</b>	<b>8,883</b>	<b>801</b>	<b>3,710</b>	<b>16,341</b>
<i>Currency and deposits</i>	2,081	2	0	0	383	2,466
Currency	35	2	0	0	0	36
Deposits	2,047	0	0	0	383	2,430
<i>Debt securities</i>	15	62	12	0	2	91
Short-term	0	3	0	0	0	3
Long-term	11	59	12	0	2	85
Financial derivatives	3	0	0	0	0	3
<i>Loans</i>	3	7	4,248	101	403	4,761
Short-term	0	7	2,407	65	28	2,506
Long-term	3	0	1,841	36	375	2,255
<i>Shares and other equity</i>	231	0	3,935	0	362	4,528
Quoted shares	54	0	547	0	1	602
Unquoted shares	102	0	3,389	0	360	3,851
Investment fund shares	75	0	0	0	0	75
<i>Insurance technical reserves</i>	49	0	0	0	0	49
<i>Other accounts receivable</i>	161	337	687	701	2,560	4,446
Trade credits and advances	116	39	385	613	2,560	3,714
Other accounts receivable	44	299	302	87	0	732
<b>Total liabilities</b>	<b>4,173</b>	<b>1,044</b>	<b>8,883</b>	<b>1,977</b>	<b>6,546</b>	<b>22,623</b>
<i>Debt securities</i>	123	0	12	396	219	750
Short-term	0	0	0	0	0	0
Long-term	107	0	12	396	215	731
Financial derivatives	15	0	0	0	4	19
<i>Loans</i>	3,924	75	4,248	578	1,037	9,863
Short-term	1,066	6	2,407	152	26	3,658
Long-term	2,859	69	1,841	426	1,011	6,206
<i>Shares and other equity</i>	94	614	3,935	938	2,243	7,824
Quoted shares	75	55	547	195	212	1,083
Unquoted shares	19	559	3,389	744	2,031	6,741
Investment fund shares	0	0	0	0	0	0
<i>Other accounts payable</i>	32	355	687	64	3,048	4,185
Trade credits and advances	13	19	385	43	3,048	3,508
Other accounts payable	18	336	302	21	0	677
<b>Net financial assets/liabilities</b>	<b>-1,633</b>	<b>-637</b>	<b>0</b>	<b>-1,175</b>	<b>-2,836</b>	<b>-6,282</b>

<sup>1</sup> Including the international banking institutions.

<sup>2</sup> Including the subsidiary holding corporations.

Source: Central Bank of Malta.

## “Scoreboard” for the surveillance of macroeconomic imbalances

Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011, on the prevention and correction of macroeconomic imbalances, provides for the setting up of a “scoreboard” serving as an early warning signal of potentially harmful macroeconomic imbalances in Member States. It consists of a limited set of relevant economic, financial and structural indicators, with their corresponding indicative thresholds.

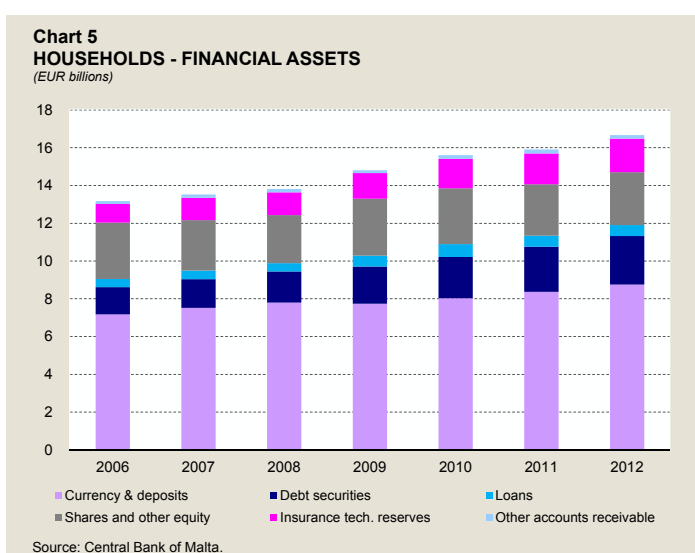
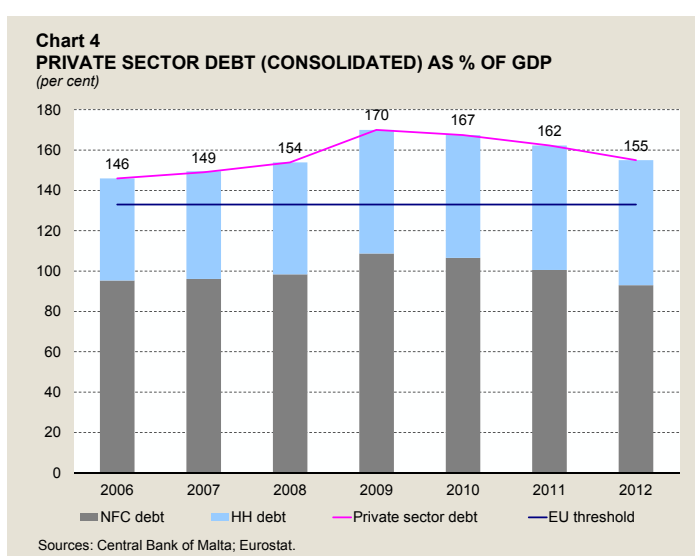
One of the indicators is the private sector’s debt, measured on a consolidated basis and as a proportion of gross domestic product (GDP).<sup>17</sup> For the purposes of this exercise, the private sector comprises NFCs and households, while debt consists of the sum of loans and issued debt securities. The proposed EU threshold for this indicator is 133.0% of nominal GDP. In such consolidated statistics, intra-NFC financing is netted out (see Chart 4).

Eurostat provides a comparison of such an indicator for all EU countries, with data for 2012 being the latest published information.<sup>18</sup> Malta’s private sector debt to GDP stood at 155.1% of GDP, ranking 11th after Luxembourg (317.4%), Ireland (306.4%), Cyprus (299.2%), Denmark (238.9%), Portugal (223.7%), the Netherlands (219.3%), Sweden (212.2%), Spain (194.4%), United Kingdom (178.5%) and Finland (157.8%).

## The financial balance sheet of the households and non-profit institutions sector

Although information about saving and borrowing behaviour of households is considered essential for macroeconomic analyses, statistics on households’ assets and liabilities have previously been incomplete.<sup>19</sup>

As illustrated in Chart 5, Maltese households’ financial assets reached €16.7 billion in 2012, an increase of 26.5% from €13.2 billion in 2006. Currency and

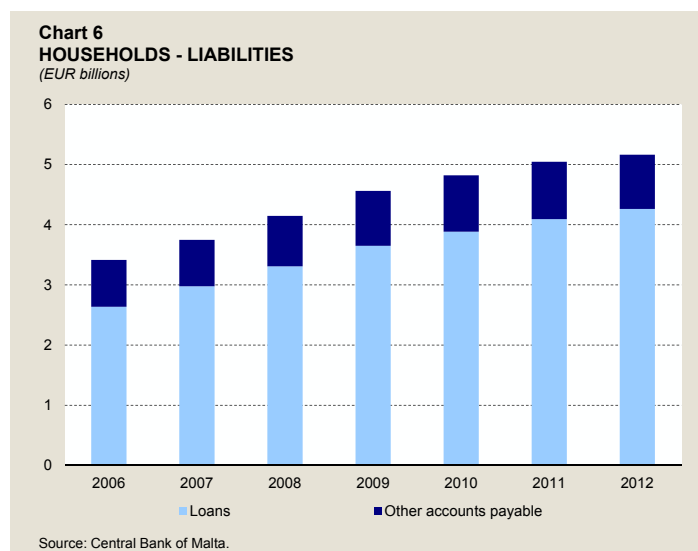


<sup>17</sup> A related indicator within the scoreboard relates to private sector credit flow, i.e., the change in private sector debt as percentage of GDP.

<sup>18</sup> See “Report from the Commission to the European Parliament, the Council, the European Central Bank and the European Economic and Social Committee – Alert Mechanism Report 2014”, COM(2013) 790, European Commission, 13 November 2013.

<sup>19</sup> MFA statistics are just one stage in a larger project by the Bank to create an integrated picture of household wealth. The Bank’s participation in the European System of Central Banks’ Household Finance and Consumption Survey is another step forward that may also provide input for the estimation of a number of components of financial accounts statistics.

deposits, amounting to €8.8 billion, remained the largest repository of households' financial assets. However, their share in total households' financial assets has decreased from 54.4% in 2006 to 52.5% in 2012 on account of an increased portfolio of debt securities, in the form of government bonds, shares and other investments. Other households' assets consisted of loans to NFCs, as well as accounts receivable, mainly dues from general government and NFC sectors.



As shown in Chart 6, the level of household liabilities reached €5.2 billion in 2012, representing a 51.2% increase from the €3.4 billion reported in 2006. A feature of the economy during the period was the prominence of long-term loans in the form of lending for house purchases and consumer credit. These amounted to €3.1 billion and €0.4 billion, respectively. On the other hand, other accounts payable, which include dues to third parties and to general government, stood at only €0.9 billion.

## Conclusion

Preliminary annual financial accounts statistics will henceforth be published by the Central Bank of Malta within nine months after year-end. As results are primarily derived from various data sources, revisions to the statistics will depend on revisions of these sources. In particular, the estimation of households' foreign assets and the companies' business register are areas which are targeted for further development. Moreover, the introduction of ESA 2010 in late 2014 will, inter alia, bring about reclassifications of certain sub-sectors. Holding corporations, for instance, will be classified with the financial corporations sector.

The launching of MFA statistics by the Central Bank of Malta offers a wide array of benefits. They include new information that was not previously measured or reported, in particular detailed information on non-financial sectors, such as households and NFCs. These new statistics also contain consistent information on each institutional sector as a whole, and on the interrelations across institutional sectors. Moreover, the compilation of Malta's financial accounts is another step in the preparation of a set of integrated economic accounts for the Maltese economy. These should eventually permit the integration within a unified framework of the financial and non-financial sides of Malta's national accounts.