

BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

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

## BOX 2: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR<sup>1,2</sup>

The Central Bank of Malta has been compiling Malta's financial accounts statistics since 2004. The latest available statistics in this regard refer to end-September 2022. Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified by institutional sector, namely households, NFCs, credit and financial institutions, the general government, and the 'rest-of-the-world' sector.<sup>3,4</sup>

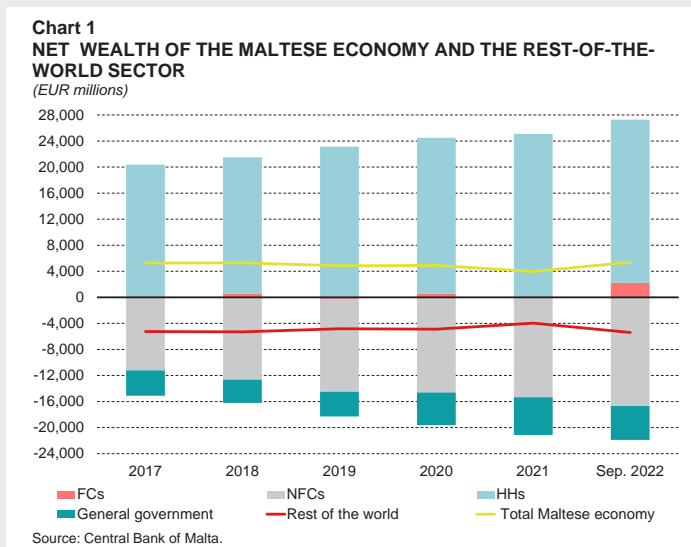
This Box includes three sections: The first section contains an analysis of the net financial wealth of each sector of the economy, the second provides an analysis of private sector debt on the basis of the European Commission's Macroeconomic Imbalance Procedure (MIP), and the final section outlines the financial interlinkages among the resident sectors.<sup>5</sup>

### 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 2022 (see Chart 1). The net financial wealth of the resident economy amounted to €5,398.9 million at end September 2022, increasing from €3,963.0 million in December 2021.<sup>6</sup> The increase was mainly driven by an improvement in the net financial wealth of FCs and, to a lesser extent, that of the general government, which offset the drop in the net financial wealth of NFCs and households.<sup>7</sup>

### Financial assets and liabilities of the financial corporations sector

The aggregate net financial wealth of Malta's FCs amounted to €2,226,1 million in September 2022 (see Chart 2). The increase since December 2021 was mainly due to lower net liabilities in the form of equity and insurance technical reserves, as well as higher net assets in the form of loans. These offset increases in net liabilities arising from deposits and other accounts payable, and a decrease in net holdings



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<sup>2</sup> For the purpose of this Box, the term 'Maltese economy' is used interchangeably with the term 'resident sectors/economy'.

<sup>3</sup> See also *Annual Report 2016*, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.

<sup>4</sup> The 'rest of the world' sector comprises non-resident units engaging in transactions with resident institutions.

<sup>5</sup> Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances sets out the MIP procedure.

<sup>6</sup> 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.

<sup>7</sup> In line with *ESA 2010*, FCs include the central bank, depositary-taking corporations except the central bank, money market funds, non-money market investment funds, insurance corporations, pension funds, other financial intermediaries, financial auxiliaries, and captive financial institutions and money lenders.

of debt securities and financial derivatives. The main changes in the net financial wealth of FCs were driven by the non-domestically relevant FCs.

### Financial assets and liabilities of the general government

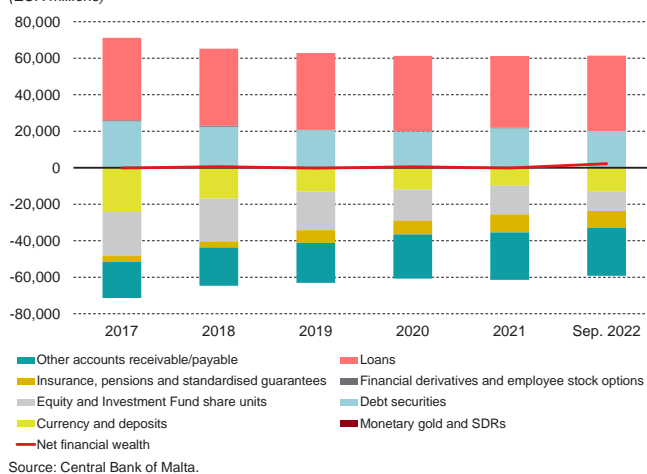
The net financial wealth position of the general government has been persistently in negative territory. Although this negative position narrowed slightly over the period 2017 to 2019, reflecting the improvement in the Government's fiscal position, it widened in 2020 and 2021, mainly as a result of increased financing needs following the introduction of COVID-19 fiscal support measures. In September 2022, the net financial position of general government improved and stood at -€5,189.2 million, improving by €614.9 million or 10.6% when compared with December 2021. The decrease in the net liability position since the end of 2021 was driven mainly by an increase in deposits and a decrease in debt securities

outstanding. This offset an increase in net liabilities in the form of other accounts payable. As shown in Chart 3, the general government remained a net asset holder of currency and deposits as well as equity, but a net liability holder of other instruments, mainly of debt securities.

### Financial assets and liabilities of NFCs

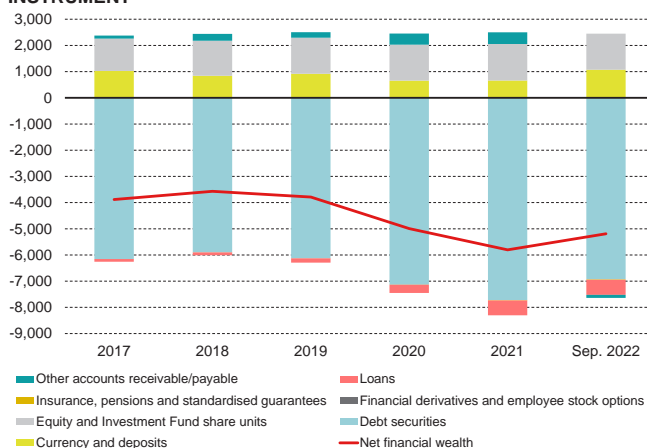
Chart 4 shows that NFCs had net financial liabilities of €16,688.7 million as at September 2022, a decrease of €1,503.1 million since December 2021. In September 2022, NFCs continued to be net asset holders of currency and deposits and net liability holders, mainly of equity, loans, other accounts payable, and debt securities. When compared with December 2021, the increase in the NFCs' net liability position was due to a rise in their financing through equity, followed by other accounts payable and loans. These offset an increase in holdings of currency and deposits.

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



Source: Central Bank of Malta.

**Chart 3**  
**GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT**



Source: Central Bank of Malta.

## Financial assets and liabilities of households

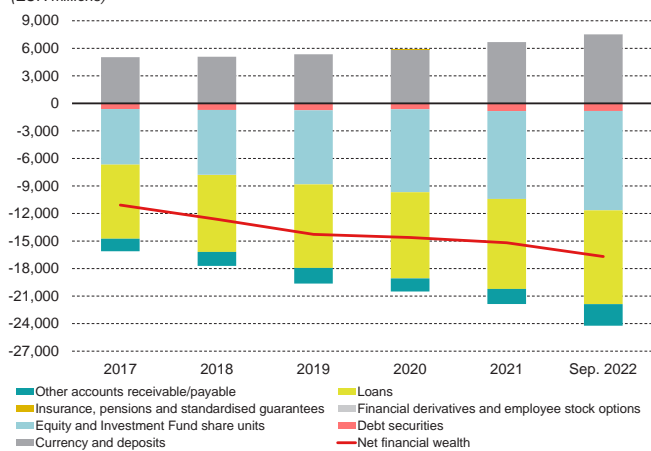
In September 2022, households' net financial wealth reached €25,050.7 million, a marginal decrease of €41.0 million or 0.2%, when compared with December 2021. This was due to an increase in liabilities surpassing the increase in holdings of financial assets. Chart 5 shows that households maintained large net assets in the form of currency and deposits, and equity and investment fund share units, and also held smaller net asset positions related to insurance products as well as debt securities. By contrast, this sector was a net liability holder of loans and other accounts payable. The marginal decrease in net financial wealth position since 2021 was mostly driven by an increase in loans, and a decrease in holdings of insurance technical reserves and debt securities, which offset an increase in deposits.

## Malta's private sector debt

Financial accounts statistics also shed light on Malta's private sector debt. In line with the methodology of the EU's MIP – which, inter alia, prescribes such indicators on an annual basis – Chart 6 shows Malta's consolidated private sector debt as a percentage of GDP by sector, and compares it to those for the euro area. In recent years, this ratio has been on average within the debt-to-GDP threshold of 133% set by the MIP.<sup>8,9</sup>

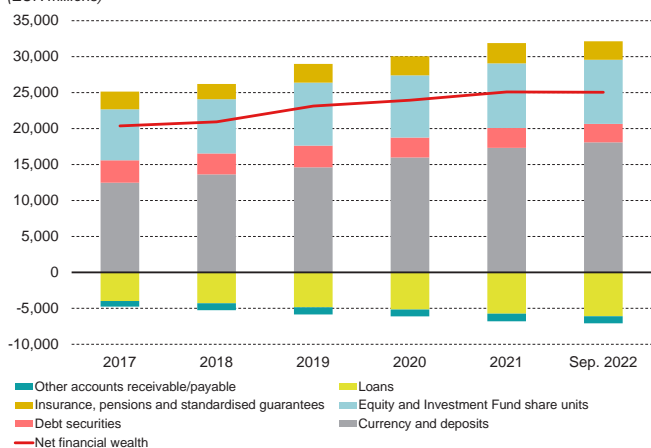
As at September 2022, the indicator stood at 122.3%, registering a drop of 6.9% when compared to December 2021. This drop was brought about by an increase in GDP which outweighed the increase of corporate and households' debt in level terms. Over the period 2017 to 2022 the indicator stood

**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.

<sup>8</sup> The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs, Households, and NPISH. Transactions within sectors are eliminated (i.e., statistics are thus on a consolidated basis). 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. The definition of private sector debt is in line with the EU's MIP definitions.

<sup>9</sup> 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.

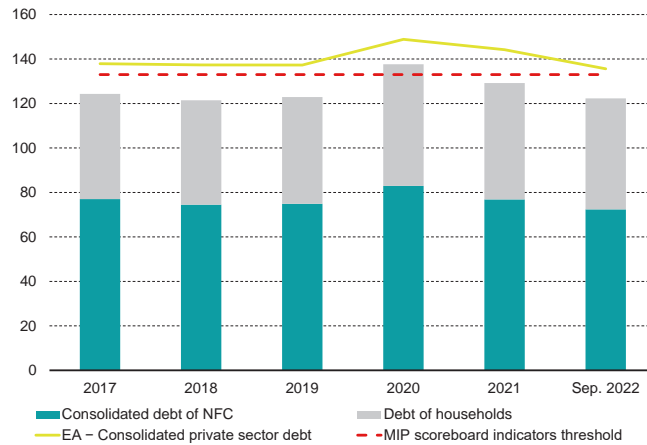
well below the euro area average (see Chart 6).<sup>10</sup>

Corporate debt since 2017 constitutes, on average, 60.5% of the consolidated private sector debt. Chart 7 shows the unconsolidated debt of NFCs in the form of debt securities and loans by creditor sectors, the latter constituting FCs, households, NFCs, general government, and the rest of the world sectors. From this perspective, the largest exposures stemmed from liabilities to the NFC sector itself, followed by liabilities to FCs.

Firms in Malta rely significantly more on loans than on debt securities to finance their activities. Even though the issuance of debt securities increased over the years, this remained relatively low, amounting to 3.9% of total NFCs' debt in the third quarter of 2022. 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 time. In turn, non-bank

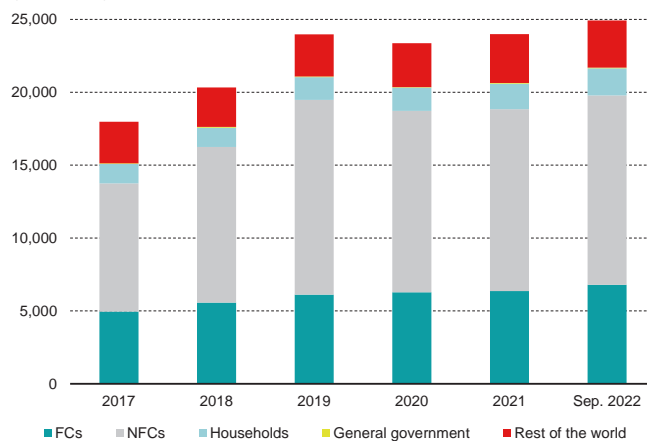
financing became more significant, particularly taking the form of intra-group lending or lending from related parties.<sup>11</sup> In fact, as at September 2022, debt from other corporates amounted to €12,990.7 million, or 52.1% of total NFCs' unconsolidated debt. Debt from FCs, mainly bank loans, amounted to €6,796.5 million or 27.3% of total NFCs' debt. Another important source of finance for resident corporates was debt from abroad, which amounted to €3,241.1 million in September 2022, partly reflecting the number of foreign-owned subsidiaries operating in Malta. Meanwhile, debt from households (mainly loans from directors and shareholders) amounted to €1,854.3 million in September 2022. Nonetheless NFCs' leverage ratio has been decreasing since 2019; it decreased

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



Sources: Central Bank of Malta; Eurostat; ECB.

**Chart 7**  
NFC DEBT BY CREDITOR SECTOR  
(EUR millions)



Source: Central Bank of Malta.

<sup>10</sup> Eurostat statistics for the euro area are only available annually. On the other hand, the ECB's Statistical Data Warehouse contains quarterly data. There are discrepancies between the two sources due to different vintages. For this analysis, Eurostat's data were used until 2021, while ECB data were used for September 2022 data.

<sup>11</sup> See Box 2: Non-Financial Corporations' loans from other corporates – evidence from Malta's Financial Accounts Statistics, *Financial Stability Report 2017*.

marginally from 188.8% in December 2021 to 188.2% in September 2022 (see Chart 8).<sup>12</sup>

Chart 9 shows that households' debt as at end-September 2022 stood at €8,391.6 million, increasing by €558.0 million since end-December 2021 – primarily due to an increased take up of loans from credit institutions. Indeed, household debt mainly comprises loans from banks which amounted to 93.3% of the sector's total debt. The remaining debt mainly consisted of directors/shareholders' loans from NFCs and non-bank financial institutions and dues to a government authority.

### Financial interlinkages between resident sectors

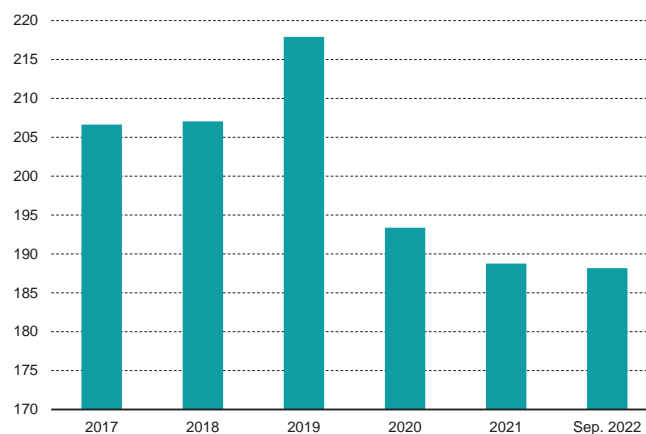
Financial accounts identify financial linkages among economic sectors, whereby one sector is an asset holder while the counterpart sector is the borrower. Such accounts are also referred to as 'from-whom-to-whom' accounts. Chart 10 shows the interlinkages between the resident sectors as at

September 2022.<sup>13</sup> The largest asset position of the financial sector, including banks, reflects intra-sectoral holdings, that is, holdings with other credit institutions and FCs, mainly in the form of equity and investments funds, and deposits. These amounted to 56.0% of their total domestic holdings in the third quarter of 2022, a decrease of 3.4% from 59.4% in December 2021. Chart 10 also shows that the financial sector has significant interlinkages with households and NFCs, mainly through banks' funding. Moreover, the general government holds around 45.2% of its total domestic financial assets with the financial sector, primarily in the form of deposits, increasing from 42.2% in December 2021. With regards to NFCs, most of their assets are held by other NFCs. These increased marginally to 74.5%

<sup>12</sup> Leverage ratio is defined as total debt divided by total equity. Total debt in Chart 8 includes debt securities, loans, other accounts payable and financial derivatives.

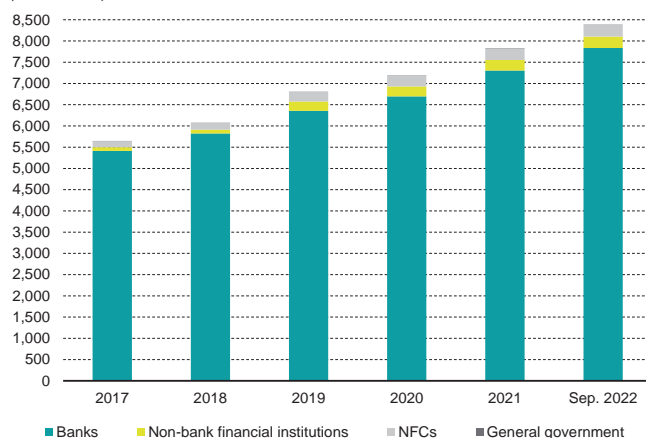
<sup>13</sup> The interlinkages between resident sectors as at December 2021 is not being shown graphically since there were no major changes.

**Chart 8**  
**NFCs' LEVERAGE RATIO**  
(per cent)



Source: Central Bank of Malta.

**Chart 9**  
**HOUSEHOLDS' DEBT**  
(EUR millions)



Source: Central Bank of Malta.

of NFC's total domestic assets in September 2022, from 74.1% in December 2021. Finally, households' domestic asset holdings continued to be held mainly with the financial sector. Households' domestic financial asset holdings increased to 82.6% of their total assets in September 2022, from 82.1% in December 2021.

Further statistical information can be found on the website of the Central Bank of Malta at: <https://www.centralbank-malta.org/financial-accounts>.

**Chart 10**  
**FINANCIAL INTERLINKAGES BETWEEN RESIDENT SECTORS**  
*(as at September 2022)*

