2. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's Financial Conditions Index (FCI), in 2022 financing conditions tightened sharply compared with 2021, and also from a historical perspective.

The total assets of domestic monetary financial institutions (MFI) in Malta rose during 2022, contrasting the drop in the asset holdings of international banks. Meanwhile, Maltese residents' deposits continued to expand, albeit at a more moderate pace when compared to 2021. The shift away from longer-term deposits towards more liquid overnight deposits persisted in an environment of low interest rates, as the transmission of the ECB's policy rate hikes to retail deposit rates remained partial. Meanwhile, growth in credit to residents also rose at a slower pace, reflecting a deceleration in loans to general government. By contrast, credit to the private sector rose at a faster pace, mostly reflecting developments in lending to NFCs. At the same time, growth in loans to households eased marginally, reflecting slower growth in loans for house purchases, while consumer credit and other lending to households recovered from the previous year's decline.

Compared with 2021, NFCs' net issuance of corporate debt and equity increased, albeit by a more moderate pace. Meanwhile, net issuance of securities decreased from a year earlier, reflecting lower net issuances by Government.

Interest rates on deposits to Maltese residents edged down marginally during the year. By contrast, interest rates on loans increased, reflecting higher rates charged to NFCs. As a result, the spread between the lending and deposit rate widened, and remained at elevated levels compared with that in the euro area.

In the primary money market, domestic yields rose sharply during 2022. Similarly, yields on five-year and ten-year Maltese government bonds increased, mirroring a similar movement in the corresponding euro area yields, which increased in response to the start of interest rate hikes by the ECB and expectations of further increases in policy rates. In the equity market, the MSE Equity Price Index fell when compared with the level registered at the end of December 2021, with the decline being more pronounced than that registered a year earlier.

Firms continued to benefit from guarantees in terms of the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS), although the number of approved facilities and the overall sanctioned and disbursed amounts decreased compared to December 2021. By the end of 2022, sanctioned amounts under this scheme amounted to €482.6 million.

During 2022, the MDB announced three new schemes to help businesses address the cost pressures triggered by the war in Ukraine. Take up of these schemes, however, was limited, with only four facilities approved by end-December.

Financial conditions

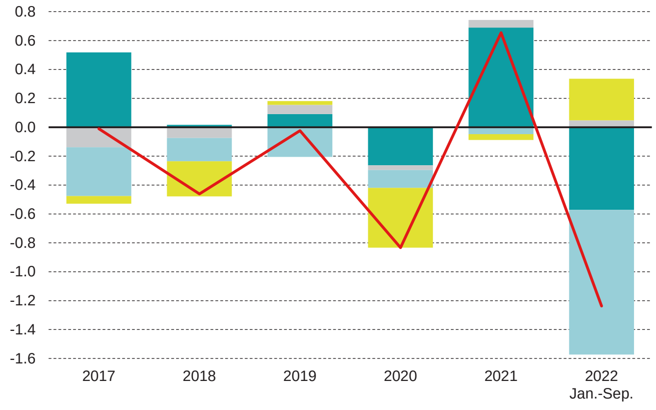
FCI indicates tighter conditions

The Bank monitors domestic financial conditions through a summary measure which combines a number of domestic and international financial variables that influence economic activity.[1]

[1] The analysis in this section is based on the Bank's FCI, as described in Micallef, B., and Borg, I., "A Financial Conditions Index for the Maltese Economy", in Grech, A.G., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the case of Malta*, Central Bank of Malta, 2017, and later updated in the Central Bank of Malta – Annual Report 2017.

Financial conditions for the period January to September 2022 tigthened sharply when compared with 2021. While in 2021, financial conditions were considered as loose, in 2022 they were tight from a historical perspective. They were also less favourable than those prevailing during the pandemic. This mainly reflected foreign factors, although tighter domestic conditions also contributed (see Chart 2.1).

Chart 2.1
CONTRIBUTIONS TO THE FCI
(contributions to the index)



Source: Central Bank of Malta estimates.

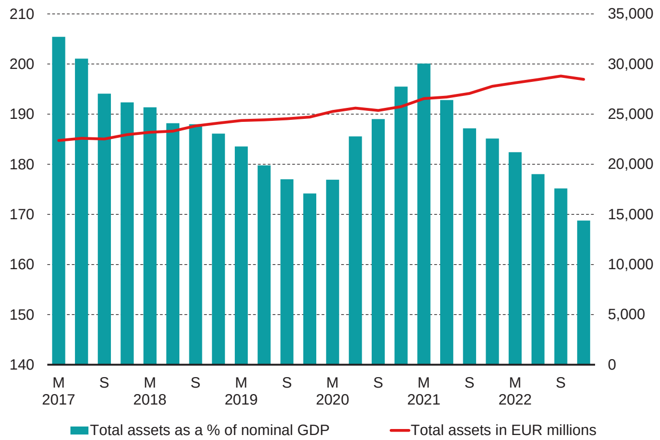
The tightening attributed to foreign factors reflected the fall in stock prices in the euro area during 2022, as well as an increase in financial market uncertainty. Domestic factors also tightened in the period under review, largely reflecting slower growth in real credit and in real deposits, as well as a decline in the return on equity, which are subsumed in the 'balance sheet' factors of domestic banks. Meanwhile, the 'other' category had a marginally smaller loosening effect when compared with the previous year, mostly due to a faster decline in domestic stock prices, which offset higher issues of NFC securities. By contrast, the 'interest rate' component had a broadly neutral contribution like that of 2021. The spread between yields on Maltese long-term government bonds and the German bund widened. However, this was offset by a narrowing in the spread between the domestic lending rate over the policy rate.

Following these developments, the FCI on average signalled significantly tighter conditions compared to historical patterns.

Assets of the banking sector and other monetary aggregates

Total assets pertaining to the Maltese banking system (including the Central Bank of Malta) stood at €52,719.4 million at the end of 2022, a decrease of €2,545.7 million when compared with 2021. This decline masks contrasting developments in the assets of domestic and international banks.

Chart 2.2
TOTAL ASSETS OF CORE DOMESTIC BANKS
(% of nominal GDP; EUR millions)



Sources: Central Bank of Malta; NSO.

The assets of core domestic MFIs increased by €698.0 million, or 2.5%.[2] As a result, the share of core domestic banks' assets in GDP stood at 168.8% at the end of 2022. This was below the 185.1% recorded a year earlier (see Chart 2.2), as GDP outpaced assets by a significant margin. Meanwhile, assets pertaining to non-core

[2] The core domestic banks in Malta are APS Bank Limited, Bank of Valletta plc, BNF Bank plc, HSBC Bank Malta plc, Lombard Bank Malta plc, and MeDirect Bank (Malta) plc.

domestic banks rose by €27.1 million, or 0.8%. On the other hand, assets pertaining to international banks dropped by €1,314.3 million, or 11.5%. The assets of the Central Bank of Malta also decreased during the year, shedding €1,956.5 million, mainly reflecting lower intra-Eurosystem claims.[3]

Residents' deposits expand at a slower pace

Total deposits held by residents with MFIs in Malta rose by 3.0% during 2022, reaching €23,367.8 million by the end of the year (see Table 2.1). This expansion mainly reflects developments in overnight deposits belonging to households. Overnight deposits held by NFCs also increased, but to a lesser extent. Growth in total deposits slowed down compared to 2021, when it had reached 8.8%, with weaker dynamics observed across most deposit categories.

Overnight deposits remained the dominant category of deposits for residents during 2022, reflecting a preference for liquid assets in the context of the low interest rate environment and very limited pass through of the first ECB rate hikes to retail deposit rates. Overnight deposits increased by 8.1% over the 12 months to December, compared with a 12.3% increase a year earlier. As a result, by the end of 2022, the share of overnight deposits in total deposits rose to 87.4%, from 83.3% in December 2021 (see Chart 2.3). This share increased in 2014, when it reached 60.7% from 53.6% at the end of 2013, and continued on an upward trend thereafter, driven by a surge in households' overnight balances.

In contrast to overnight deposits, time deposits with a maturity of less than two years – the second largest category – contracted sharply in 2022. These decreased by 24.7%, following a contraction of 4.3% a year earlier, reflecting efforts by certain credit institutions to reduce the number of fixed term deposits. As a result, their share in overall deposits fell to 7.8% from 10.7% in December 2021. Additionally, deposits classified

Table 2.1
DEPOSITS OF MALTESE RESIDENTS
Annual percentage changes; EUR millions

	2020 Dec.	2021 Dec.	2022 Dec.	2022 Amount outstanding	2022 Absolute change
Overnight deposits	**9.8**	**12.3**	**8.1**	**20,428.0**	**1,523.5**
of which					
Households	14.4	12.8	12.4	14,019.8	1,543.5
NFCs	16.8	11.2	8.1	4,717.0	354.1
Deposits redeemable at notice up to 3 months	**40.1**	**59.9**	**-38.7**	**116.6**	**-73.7**
of which					
Households	4.7	14.7	5.4	41.6	2.1
NFCs	150.1	67.3	-59.5	46.9	-68.8
Deposits with agreed maturity up to 2 years	**-3.3**	**-4.3**	**-24.7**	**1,822.4**	**-598.1**
of which					
Households	-2.3	-6.2	-27.6	1,353.7	-516.7
NFCs	-10.9	-12.8	-3.4	190.7	-6.7
Deposits outside M3[(1)]	**-19.6**	**-13.9**	**-14.4**	**1,000.8**	**-168.6**
of which					
Households	-15.6	-12.7	-9.6	941.7	-99.7
NFCs	-35.9	-1.1	-34.5	34.8	-18.3
Total residents' deposits[(2)]	**5.7**	**8.8**	**3.0**	**23,367.8**	**683.2**

[(1)] Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

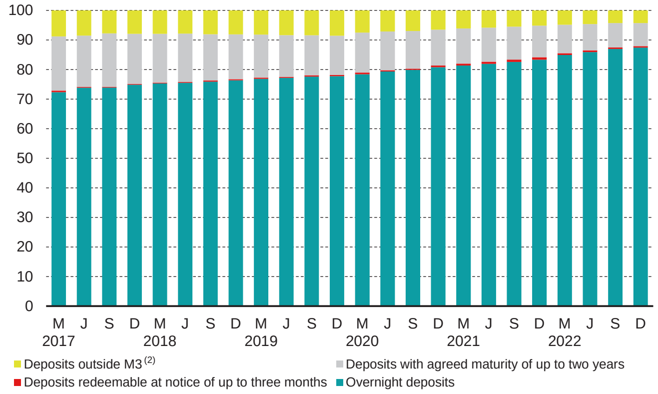
[(2)] Total residents' deposits exclude deposits belonging to Central Government.

Source: Central Bank of Malta.

[3] Data on the banking sector's assets in this chapter may differ from those reported in the financial statements, due to methodological differences.

outside M3 edged down by 14.4% when compared with their end-2021 level. Following this decline, their share in the total stood at 4.3% at the end of 2022, below the 5.2% registered 12 months earlier. Meanwhile, the share of deposits redeemable at notice of up to three months edged down slightly, to 0.5%.

Chart 2.3
DISTRIBUTION OF TOTAL RESIDENT DEPOSITS(1)
(percentage points)



Source: Central Bank of Malta.
(1) Deposits exclude those belonging to central government.
(2) Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

Credit to residents expands at a slower rate

Credit to residents of Malta expanded during 2022, albeit at a slower pace compared to 2021. It reached €18,385.9 million by the end of the year (see Table 2.2). This signifies an increase of €1,305.0 million, or 7.6%, over the December 2021 level. The expansion was mainly driven by developments in credit to residents outside general government, which increased by €978.0 million, or 7.8% (see Chart 2.4). Growth in this component exceeded that of 5.9% a year earlier. Credit to general government rose by €327.0 million, or 7.3%, following an increase of 16.1% in 2021. The slower rate of growth in this component reflects a slower volume of net issues of government securities during the year.

The acceleration in credit to residents outside general government was largely driven by faster growth in loans to NFCs. These rose by 7.8% in 2022, following a 0.3% increase in 2021. At the same time, lending to households rose by 9.5%, following a 9.6% increase over the 12 months to December 2021.

Faster growth in loans to NFCs reflected an increase in lending to private sector NFCs, which offset a stronger decline in credit to public sector NFCs. Meanwhile, MFI holdings of securities and equity issued by the private sector declined in the year to December 2022, after increasing in 2021. This mainly reflected movements in MFI

Table 2.2
MFI CREDIT TO MALTESE RESIDENTS
Annual percentage changes; EUR millions

	2020 Dec.	2021 Dec.	2022 Dec.	2022 Amount outstanding	2022 Absolute change
Credit to general government	**32.3**	**16.1**	**7.3**	**4,815.4**	**327.0**
Credit to residents outside general government	**5.3**	**5.9**	**7.8**	**13,570.5**	**978.0**
Securities & equity	-25.9	11.2	-5.8	323.6	-19.9
Loans	6.5	5.7	8.1	13,247.0	997.9
of which:					
Loans to households	5.4	9.6	9.5	7,673.6	663.1
Mortgages	6.7	10.9	9.8	7,107.7	637.0
Consumer credit and other lending	-6.4	-4.2	4.8	565.9	26.1
Loans to NFCs(1)	8.6	0.3	7.8	4,631.1	336.9
Total credit to residents	**10.9**	**8.4**	**7.6**	**18,385.9**	**1,305.0**

(1) NFCs include sole proprietors and non-profit institutions serving households (NPISH).
Source: Central Bank of Malta.

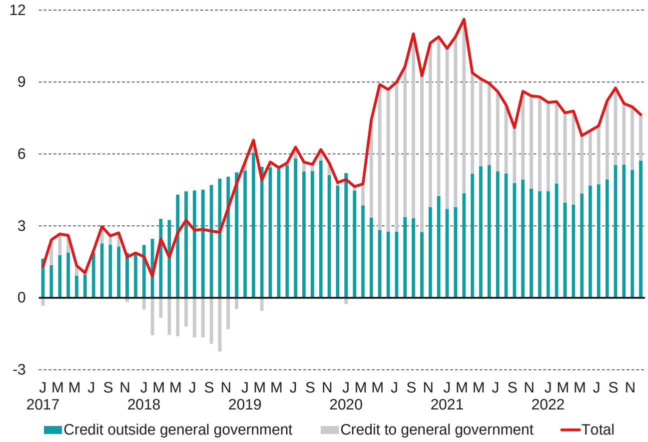
holdings of securities and shares issued by private sector NFCs and financial intermediaries, other than insurance companies and pension funds.

The deceleration in loans to households mainly reflected slower growth in lending for house purchases (see Chart 2.5). Indeed, mortgage lending grew by 9.8% during 2022, compared with a 10.9% increase in 2021. By contrast, consumer credit and other lending recovered from the previous year's contraction, as it increased by 4.8%.

A sectoral breakdown of loans to NFCs suggests a recovery in momentum across most sectors, primarily driven by developments in loans to the sector comprising real estate activities (see Chart 2.6). The latter increased strongly in 2022, following a decline in the previous year. A similar pattern can be observed in loans to the transportation, storage, information and communication sector, as well as the energy sector. At the same time, loans to the wholesale and retail trade sector and the manufacturing sector increased at a faster pace in 2022. By contrast, loans to the accommodation and catering sector contracted, while loans to the construction sector rose at a slower pace compared to 2021.

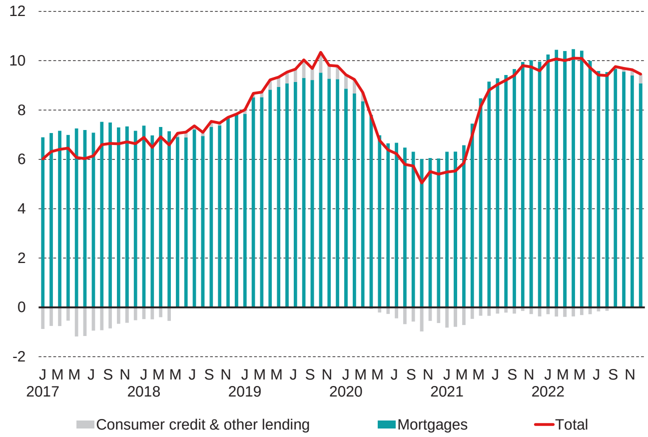
Supplementary data suggest that NFCs have increased their reliance on alternative sources of finance, such as internal funding and capital markets, following a slight decrease in the previous year. By the end of 2022, €1,930.1 million in corporate debt was outstanding on the MSE, 14.9% higher than the amount listed 12 months earlier (see Chart 2.7). Around 66% of this amount was issued by financial entities other than credit institutions. These institutions also accounted for most of the increase

Chart 2.4
CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS
(percentage points; annual percentage change)



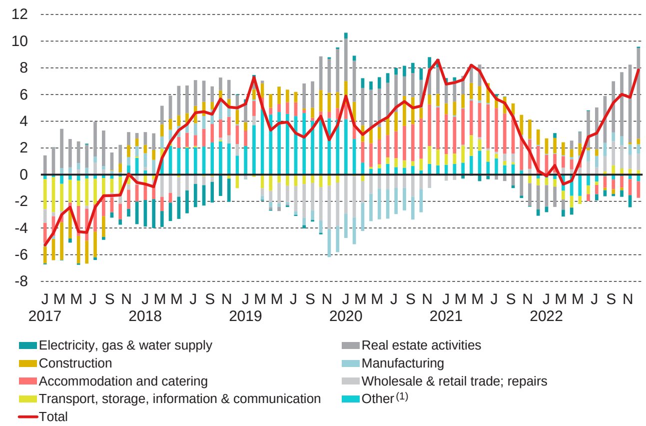
Source: Central Bank of Malta.

Chart 2.5
CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Chart 2.6
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)

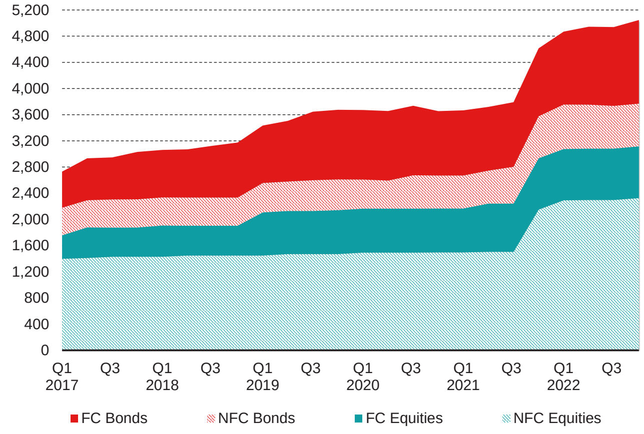


Source: Central Bank of Malta.
(1) Mainly includes entertainment, health, education, professional services, communication, and administration.

since December 2021. The rest was issued by NFCs.

Meanwhile, the outstanding amount of equity listed on the MSE increased by 6.2% in annual terms, to €3,116.5 million. Around three-fourths of this volume was issued by NFCs, with financial corporations (FC) playing a secondary role. The largest equity issues were in companies within the real estate sector, and in infrastructure projects. Overall, the amount of listed equity outstanding at the end of 2022 exceeded that of bonds by over 60%.[4]

Chart 2.7
OUTSTANDING SECURITIES OF NFCs AND FCs LISTED ON MSE
(EUR millions outstanding as at end-period)



Sources: MSE; Central Bank of Malta estimates.

Interest rates on deposits broadly stable, while rates on loans increase

Interest rates on residents' deposits with MFIs in Malta edged down marginally in 2022, with the weighted average deposit rate offered to households and NFCs going down by 1 basis point to 0.15% by the end of the year (see Table 2.3).[5] This was mainly driven by a lower rate on households' time deposits with a maturity

Table 2.3
INTEREST RATES ON DEPOSITS AND LOANS
Percentages per annum to residents of Malta; weighted average rates as at end of period

	2019	2020	2021	2022			
	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec.
Total deposits(1)	**0.30**	**0.21**	**0.16**	**0.16**	**0.15**	**0.14**	**0.15**
of which							
Overnight deposits							
Households	0.05	0.02	0.02	0.02	0.02	0.02	0.02
NFCs	0.03	0.01	0.01	0.03	0.03	0.02	0.03
Time deposits (less than 2 years)							
Households	0.71	0.57	0.51	0.53	0.50	0.54	0.72
NFCs	0.72	0.58	0.49	0.44	0.47	0.59	0.74
Time deposits (more than 2 years)							
Households	1.97	1.87	1.78	1.78	1.78	1.77	1.73
NFCs	1.53	1.39	1.12	1.11	1.36	1.60	1.60
Total Loans(1)	**3.46**	**3.36**	**3.23**	**3.19**	**3.18**	**3.25**	**3.32**
of which							
Households and NPISH	**3.29**	**3.21**	**3.01**	**2.97**	**2.96**	**2.94**	**2.87**
Lending for house purchses	3.03	2.98	2.80	2.78	2.77	2.75	2.67
Consumer credit and other lending	4.87	4.77	4.67	4.55	4.56	4.52	4.54
NFCs	**3.76**	**3.61**	**3.63**	**3.59**	**3.60**	**3.82**	**4.15**
Spread(2)	**3.16**	**3.15**	**3.06**	**3.03**	**3.03**	**3.11**	**3.16**

Source: Central Bank of Malta.
(1) Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.
(2) Difference between composite lending rate and composite deposit rate.

[4] Apart from the official MSE platform, small and medium-sized enterprises (SMEs) can also obtain finance through the specifically-geared platform – Prospects.
[5] Basis points are rounded to the nearest whole number.

of over two years. The decrease in residents' deposits was concentrated in the first half of the year, while some increases were recorded in the last quarter of the year, likely in response to the start of policy rate tightening by the ECB.

Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs increased by 9 basis points, reaching 3.32%. This increase – which was also concentrated in the second half of the year – was driven by higher rates paid by NFCs, which rose further above those charged to households, reflecting differences in credit risk. By contrast, rates charged to households fell by 14 basis points. Mortgage rates and rates on consumer credit and other lending declined by 13 basis points, to 2.67% and 4.54%, respectively. Decreases were reported by most banks, and were particularly significant in the case of one MFI.

The spread between the weighted average lending rate and the deposit rate closed the year under review at 316 basis points, somewhat above the 306 basis points recorded at the end of 2021.

BOX 1: ACCESS TO FINANCE IN 2022[1]

SMEs account for most of the value added produced in the economy but face unique challenges when it comes to obtaining finance, especially in terms of access to capital markets.[2,3] The aim of this box is to analyse information collected through the Survey on Access to Finance of Enterprises (SAFE) on developments in the financial situation of enterprises in Malta and across the European Union (EU) in 2022.[4]

The SAFE was conducted by the European Commission in cooperation with the ECB between 7 September and 27 October 2022 among 15,625 enterprises across the European Union, including 101 Maltese firms. It covers the period between April and September 2022.

The financial situation of SMEs

Survey results show that between April and September 2022 – the reference period for the latest survey – 44% of SMEs in Malta reported an unchanged turnover level. Around 35% of SMEs reported an increase, while 20% reported a decline.[5] As a result, on balance, 15% of respondents assessed turnover to have increased over the 6 months preceding the survey. This is an improvement over 2021, when on balance, turnover was assessed to have remained unchanged. By contrast, between April and September 2022, a net 16% of domestic SMEs in Malta reported a decrease in profits, a marginally smaller share compared with the net 18% of domestic SMEs which reported lower profit in 2021.

In the EU, a net 18% of SMEs reported higher turnover, slightly higher than that of 14% reporting higher sales a year earlier.[6] Meanwhile, profits fell for 20% of firms in 2022 compared to 6% of firms in the preceding year. Hence, in Malta and across the EU, firms on balance reported a decline in profits despite higher turnover, with the share of SMEs' reporting a decline in profits slightly lower in Malta.

With regard to labour and other costs, on balance, 85% and 83% of Maltese SMEs respectively claimed that these have increased during the reference period. While the net share of respondents reporting higher labour costs is higher than that for the EU27 (68%), Maltese SMEs were slightly less likely to report increases in non-labour costs (including materials, energy and other costs) than those in the EU (91%). These figures mark a significant increase in the incidence of firms which report cost increases relative to 2021 – when only 44% and 58% of domestic SMEs reported higher labour and other costs, respectively. Survey results for 2022 show that the share of firms reporting such higher costs is now even above that recorded in recent years (see Chart 1).

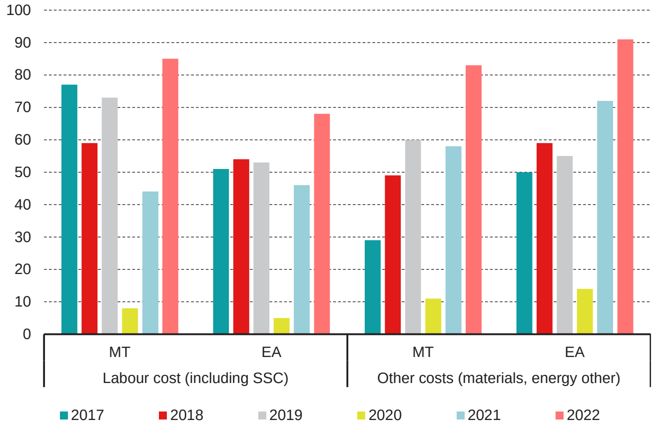
During the period covered by the survey, on balance, the number of employees was assessed to have increased by 14% of SMEs in Malta, as opposed to 5% of SMEs in the EU. The share of domestic SMEs reporting a net increase in the number of employees in 2022 contrasts with that recorded a year earlier, when the number of employees was assessed to have remained stable. The pace of hiring seems to have moderated compared to 2019, when 22% of SMEs in Malta had reported a net

1 Prepared by Sandra Zerafa. Ms. Zerafa is the coordinator of economic publications within the Economic Analysis Department of the Central Bank of Malta. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the author's own.
2 Structural Business Statistics published by the NSO indicate that in 2020, 99.7% of firms in the non-financial business economy were SMEs.
3 SMEs account for 77.7% of all persons employed in Malta and for 65.9% of all turnover. See NSO *News Release* 116/2022 https://nso.gov.mt/en/News_Releases/Documents/2022/07/News2022_116.pdf
4 Companies that employ less than 250 persons and make less than 50 million in turnover are classified as SMEs.
5 Figures from SAFE are rounded, in line with the approach followed by the ECB when commenting on SAFE results.
6 Net percentages refer to the difference between the percentage of respondents reporting that a given factor has increased and those reporting that it has decreased.

increase in the number of employees, likely reflecting the increasing difficulties to find personnel with the required skills.

Meanwhile, a net 22% of firms in Malta recorded an increase in inventories and working capital, compared with 7% in the EU.

Chart 1
SMEs REPORTING HIGHER LABOUR AND OTHER COSTS
(net share of respondents)



Source: SAFE, various editions.

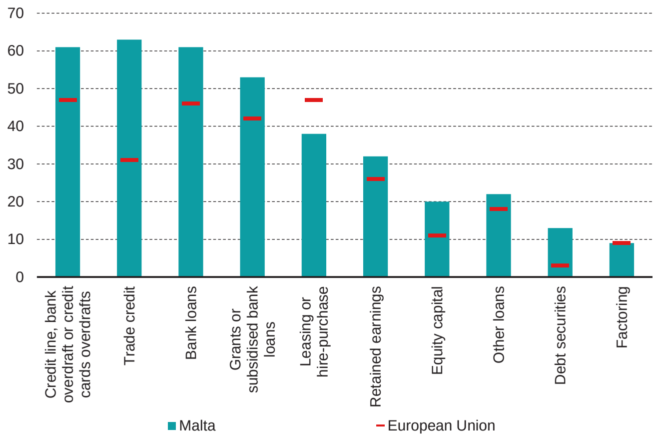
In 2022, 67% of firms reported an unchanged level of fixed investment; while a fifth of respondents reported an increase, and slightly less than a tenth reported a decrease. Hence, on balance, 13% of SMEs in Malta reported an increase in investment in plant, machinery, or equipment. This compares with 9% of SMEs in the EU. While the increase in the share of domestic SMEs that reported higher investment signals a recovery over the past two years, the net balance in Malta is still below that reported in 2019, when it stood at 35%.

The SAFE also reveals that the share of local SMEs reporting an increase in interest rate expenses rose to 16%, from 13% a year earlier. More widespread increases were observed in the EU, where this share rose to 28%, from 10% in 2021.

Sources of finance used by SMEs

In 2022, the proportion of domestic SMEs that considered trade credit as relevant to their business rose to 63% from 56% a year earlier. This share was marginally higher than that of Maltese SMEs that deem bank-related products and bank loans as relevant (see Chart 2). The fact that trade credit was the most relevant source of finance by SMEs suggests that certain businesses might have found it easier to resort to this type of financing to fill liquidity gaps.

Chart 2
SOURCES OF FINANCE DEEMED RELEVANT BY SMEs
(used in the past or consider using in the future; percentage of respondents)



Source: SAFE (2022).

During the period under review, a significant share of SMEs in Malta continued to prefer bank-related products such as overdrafts and credit lines, as well as bank loans over most market-based products and other sources of finance. However, the share of SMEs in Malta that used credit lines, bank overdrafts or credit cards overdraft, or that expected to use them in the future, fell to 61%. This marks the lowest rate recorded since 2016. The relevance of this type of financing has been consistently decreasing – falling gradually from 83% in 2016 to 71% in 2019 and 2020, before increasing to 78% in 2021. Similarly, the share of firms that used bank loans in the past or considered using them in the future fell to 61% from 64% in 2021.

By comparison, in the EU, just below half of the respondent SMEs used bank loans and credit lines, bank overdrafts or credit cards overdraft, or expected to use them in the future – with the share being broadly stable over recent years.

The share of SMEs in Malta that considered grants or subsidised bank loans as being relevant to their enterprise edged up to 53% in 2022, from 48% a year earlier. By contrast, the share of SMEs in the EU that mentioned this type of financing as being relevant fell marginally to 42% from 43% in 2021.

Meanwhile, the relevance of internal funds (retained earnings or asset sales) as a source of finance also fell in Malta, following a significant increase in 2021. In 2022, 32% of domestic SMEs considered this source as relevant for their business, down from 52% a year earlier, and below that of 46% recorded pre-pandemic. Nevertheless, it was still above a net 26% reported in the EU.

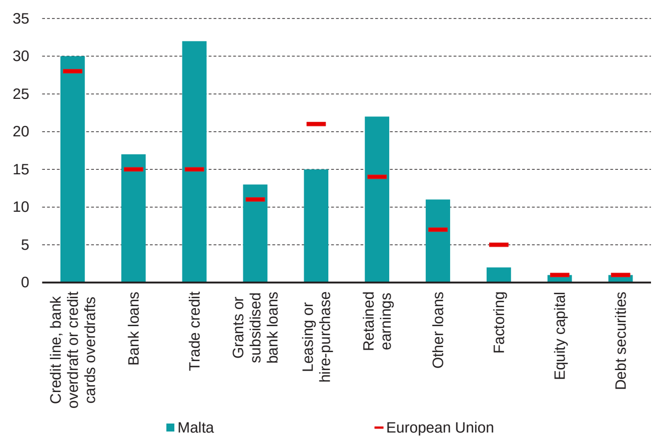
Chart 3 reports on the use of different types of funding sources used during 2022. Trade credit as well as credit lines, bank overdrafts and credit cards overdraft were used most often. However, the share of domestic SMEs using these types of financing fell.

The proportion of those that used trade credit in 2022 fell to 32% from 38% a year earlier, and stood in the same level as that recorded in 2020. Although the share of SMEs in Malta that used this type of financing was more than double that in the EU on average, the SAFE notes some heterogeneity among countries. At 42%, SMEs in Ireland were the highest users of this source of financing, followed by Cyprus (40%), and Greece as well as Poland (34%). Meanwhile, in France, Germany, Hungary, the Czech Republic, Luxembourg, Slovenia and Croatia, less than 10% of SMEs used this type of financing.

The share of domestic SMEs using credit lines, bank overdrafts and credit lines decreased to 30% from 49% in 2021, and marks the lowest rate recorded since 2015. The share of domestic SMEs that used this type of financing in 2022 was slightly above the share of EU firms reporting that they used this source of funding in recent months (28%).

Similarly, the share of firms that used bank loans in the last six months preceding the survey fell to 17%

Chart 3
SOURCES OF FINANCE USED BY SMEs IN 2022
(over the preceding six months; percentage of respondents)

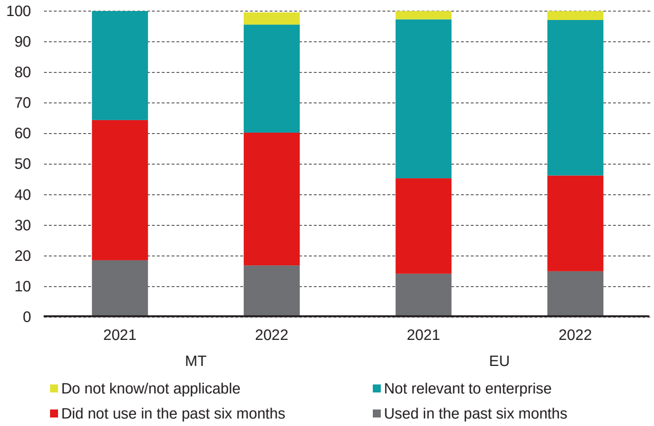


Source: SAFE (2022).

in Malta from 19% a year earlier, standing below the share of firms that had recently relied on internal funds (22%), though above that of 15% in the EU.

In general, the use of instruments of finance by Maltese firms was in line with or higher than that in the EU, with the exception of leasing, hire purchase and factoring, where the fraction of firms using such financing stood lower in Malta.

Chart 4
NEW LOANS OR LOAN RENEWALS
(percentage of respondents who took new loans or renewed the loans in the past six months)



Sources: SAFE (2021); SAFE (2022).

Less than half (43%) of domestic SMEs did not use bank loans in 2022, as opposed to 46% in 2021, while 35% replied that they considered them irrelevant for their enterprise, marginally down from 36% a year earlier. Meanwhile, in the EU, 31% of SMEs claimed that they did not use bank loans in the six months preceding the survey, while half of SAFE respondents stated that bank loans were irrelevant for their enterprise. The figures for 2022 were thus broadly similar to those reported in the preceding year, with EU firms still more likely to say that bank loans were not used or were irrelevant than Maltese firms (see Chart 4).

When asked to elaborate on why bank loans are not deemed relevant, 78% of domestic SMEs stated that they did not need this type of financing. Meanwhile, 7% reported that interest rates or prices were too high, while a further 5% of domestic SMEs claimed that no bank loans were available, while 10% cited other reasons.[7]

In the EU, 74% of firms that considered bank loans as being irrelevant replied that they do not need such financing. A further 9% mentioned too high interest rates, while only 3% reported that bank loans were unavailable. Another 14% of SMEs mentioned other reasons.

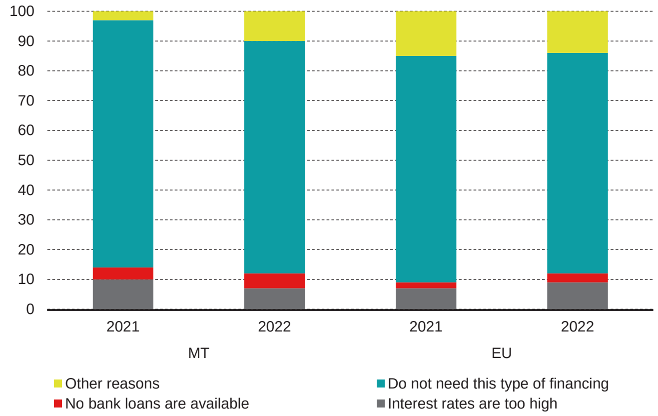
The reasons behind the irrelevance of bank loans cited by EU firms were largely unchanged from those reported in 2021. Meanwhile in Malta, the composition of responses changed slightly from that reported in 2021. The share of SMEs that cited bank loan unavailability rose marginally, while those that claimed that they do not need this type of finance fell (see Chart 5).

The share of SMEs that used retained earnings or proceeds from the sale of assets fell to 22% in 2022, from 28% a year earlier (see Chart 3). This share remained above that in the EU, which remained stable at 14%. This could explain why Maltese firms were more likely than their EU counterparts to report that they did not need bank financing. Hence, although there remains a much higher recourse to retained earnings in Malta when compared to the EU, the gap has narrowed somewhat.

[7] 'Other reasons' include insufficient collateral or guarantees, reduced control over the enterprise, too much paperwork and unspecified reasons.

The share of firms that reported using subsidised loans or grants decreased to 13% in 2022, from 15% in 2021. This share was marginally higher than that reported for the EU (11%). This suggests that the use of this type of financing is converging to that recorded in the pre-pandemic period (2019: 10%), after increasing to 20% in 2020. Following the outbreak of the pandemic, a number of SMEs benefitted from moratoria on loan repayments to ease liquidity shortage caused by the COVID-19 pandemic.

Chart 5
REASONS WHY BANK LOANS ARE DEEMED IRRELEVANT FOR BUSINESS
(percentage of respondents who replied that bank loans were irrelevant for their enterprise)



Sources: SAFE (2021); SAFE (2022).

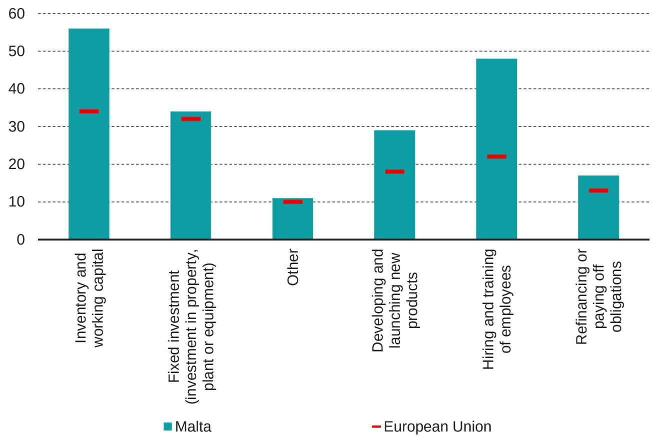
Meanwhile, the proportion of firms that used leasing or hire-purchase more than doubled and stood at 15% in 2022, up from 6% in 2021. Nevertheless, it stood below that of 21% reported in the EU. During the period under review, the use of other loans such as those from family and friends, a related enterprise or shareholders, increased slightly to 11% from 10% a year earlier. During the same period, only 1% of domestic SMEs made use of equity and debt securities. In fact, debt securities, factoring and equity capital remained the three sources of finance that were least used in Malta and across the EU.

Uses of external finance

Chart 6 shows the purpose for which SMEs in Malta and in the EU used external financing obtained during 2022. The share of SMEs that obtained external finance for inventory or working capital fell to 56% in 2022 from 59% a year earlier but remained above that of 34% in EU. In the latter case, this share also fell from 38% a year earlier.

The proportion of domestic SMEs that used external financing for fixed investment in property, plant or equipment remained unchanged at 34%, and stood marginally above that of 32% in the EU. Meanwhile, the proportion of SMEs in Malta that used external financing for the development and launching of new products rose to 29% from 24% in the preceding year and stood above that of 18% in the EU.

Chart 6
USES OF EXTERNAL FINANCE
(over the preceding six months; percentage of respondents)



Source: SAFE (2022).

During the period under review, the share of domestic SMEs that used external financing for the hiring and training of employees rose significantly to 48%, from 29% a year earlier. This share is the highest recorded since 2015 and might reflect the tight labour market conditions and broadening wage pressures. It also stood significantly above that of 22% recorded among respondent firms in the EU. A further 17% of domestic SMEs used external finance to refinance or pay off obligations, compared to 13% in the EU.

Most pressing problems facing SMEs

Chart 7 provides a breakdown of the most pressing problems that SMEs faced between 2018 and 2022. The share of respondent SMEs that cited the availability of skilled staff or experienced managers as the most pressing problem stood at 35% in 2022, up from 30% a year earlier and slightly above the shares recorded in the three years preceding the pandemic. This was also the most pressing problem for SMEs in the EU (27%).

SAFE results show that in 2022 the countries with a larger share of respondents than Malta that cited skills availability as most problematic were the Netherlands (40%), Austria (37%) and Croatia (37%).

Meanwhile, 18% of domestic SMEs have reported 'other problems' than those listed in the survey as the most challenging issues that they faced in 2022, as opposed to 21% in the EU.

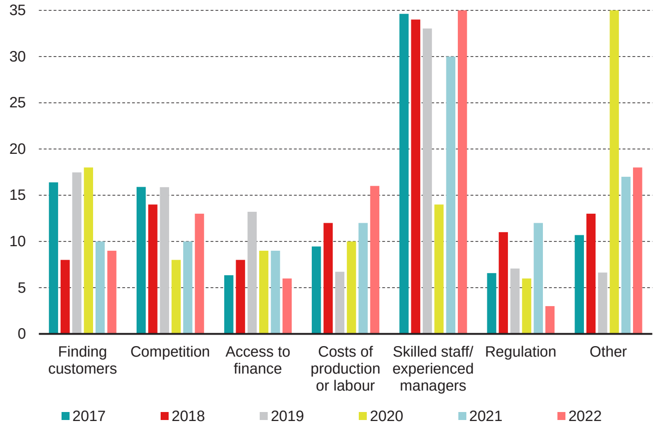
Other non-financial barriers that undermine firm growth include costs of production and labour. The share of SMEs in Malta that consider higher costs as their most pressing ones rose to 16% in 2022 from 12% a year earlier but was below that of 18% in the EU. Meanwhile, the share of SMEs that cited a burdensome regulatory framework as a most important problem in 2022 dropped to 3%, from 12% in the preceding year. The share of firms concerned with these issues in 2022 was below that of 9% reported by their EU counterparts.

During the reference period, 9% of SMEs in Malta considered the problem of finding customers for their products or services as their most pressing problem, down marginally from 10% reported a year earlier and that of 12% in the EU.

Meanwhile, 13% of domestic SMEs considered competition as the most pressing problem – above the share of 10% in 2021 but still below that of 16% reported pre-pandemic. In 2022, competition was considered as a most important problem for only 7% of SMEs across the EU.

With regard to access to finance, the share of SMEs in Malta that considered this as a most pressing problem has declined compared with recent years. It fell to 6% in 2022 – the same proportion as that in the EU. According

Chart 7
MOST PRESSING PROBLEM FACING FIRMS
(percentage of respondents)



Source: SAFE, various editions.

to SAFE 2022, access to finance remained a very pressing problem to SMEs in Greece, where it was mentioned by around 14% of participating firms, and least of a problem in Ireland, Slovenia and the Netherlands – reported by less than 5% of respondents in each country.

Availability of financing

When asked about the availability of different types of financing, a net share of 3% reported a deterioration in the availability of bank loans in Malta – an unchanged share when compared to a year earlier. By contrast, in the EU the net share reporting a deterioration stood at 8%, compared with a net share of 6% that reported an improvement a year earlier.

Furthermore, a net 2% of SMEs in Malta believed that the availability of credit lines, bank or credit card overdrafts improved in 2022, as opposed to a net share of 3% that signalled a deterioration in 2021. Meanwhile, in the EU the net share of SMEs reporting a deterioration stood at 4% in 2022 compared with a net 6% of SMEs that reported improved availability a year earlier.

On balance, a smaller net share of SMEs (1%) in Malta claimed improved availability of trade credit compared to 2021 (7%). Meanwhile, the availability of 'other loans' worsened as 4% of domestic SMEs reported a deterioration as opposed to a 7% net improvement in 2021.

By contrast, on balance, 18% of domestic respondents claimed that the availability of financing through leasing or hire-purchase improved, as opposed to a small deterioration reported in 2021.

Looking forward to the six months ahead, domestic SMEs expected a deterioration in the availability of bank loans, credit line, bank overdraft or credit cards overdraft, trade credit and 'other loans'. By contrast, they expected an improvement in equity capital, leasing or hire-purchase as well as debt securities. Meanwhile, in the EU, on balance, surveyed SMEs expected a deterioration in the availability of the various types of financing mentioned above.

Credit demand

The SAFE also provides information on the demand for finance by participating firms to complement replies on the availability of financing (supply). Table 1 shows the number of firms that applied for bank loans, trade credit, bank overdraft, credit line or credit card overdraft since 2018. The proportion of SMEs that applied for bank overdraft, credit lines or credit card overdrafts remained unchanged at 14% in 2022. During the same period, 46% did not apply because of sufficient internal funds. Internal earnings thus remained the main factor behind firms' reluctance to apply for a bank loan (EU: 42%). The share of those that did not apply because of possible rejection rose to 8% from 4% a year earlier, while the proportion of those that did not apply for other reasons increased to 32%.

Table 1
FOR EACH OF THE FOLLOWING WAYS OF FINANCING, COULD YOU PLEASE INDICATE WHETHER YOU:
Over the preceding six months; per cent of responding firms

	Bank overdraft, credit line or credit card overdrafts					Bank loans					Trade credit				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Applied over the past six months	42	24	26	14	14	22	16	20	21	15	48	32	29	32	26
Did not apply because of possible rejection	2	8	3	4	8	1	6	1	3	7	0	1	1	2	4
Did not apply because of sufficient internal funds	32	48	51	55	46	45	53	59	58	40	32	29	44	48	31
Did not apply for other reasons	23	14	20	28	32	25	16	19	18	38	16	28	23	18	39

Source: SAFE (2022).

During 2022, the proportion of domestic SMEs that applied for bank loans fell to 15% from 21% a year earlier and stood marginally lower than the share of 16% recorded in the pre-pandemic period. The share of respondent firms that did not apply because of possible rejection rose to 7%, while the proportion of those that did not apply for other reasons more than doubled and stood at 38%. Meanwhile 40% of firms did not seek bank loans due to sufficient internal funds – down from 58% in 2021 and less than 43% of SMEs in the EU.

The percentage of respondents that applied for trade credit fell to 26% in 2022 from 32% in the preceding year. This was marginally below that of 28% in the EU. Survey results show that a significantly lower share of respondents (31%) did not apply because of sufficient internal funds compared with 48% a year earlier. While only 4% did not apply for fear of rejection, 39% did not apply for other reasons – a considerable higher share than that reported in SAFE carried out in preceding years.

Looking forward, when asked about the type of external financing they would solicit to realise their growth ambitions, domestic SMEs expressed a strong preference for bank loans. 76% of SMEs in Malta prefer this type of financing. Only 14% of domestic SMEs showed preference to taking loans from other sources, while just 1% of respondents replied that they would seek equity investment. The preferences of domestic SMEs in Malta are largely in line with those reported by their EU counterparts, though at 63%, a smaller share of SMEs in the EU prefer bank loans, while a higher proportion of SMEs (6%) would choose equity capital.

When asked about the limiting factors for obtaining finance, 22% of domestic SMEs believed that there were no obstacles as opposed to 36% across the EU. Both in Malta and in the EU, this share fell when compared to a year earlier. The share of SMEs that considered interest rates or price as being a potential limiting factor stood at 16% in Malta, marginally lower than 17% reported in 2021. However, this share rose to 26% in the EU from 12% a year earlier. Meanwhile, 21% of local respondents said that they had insufficient collateral or guarantee, as opposed to 13% in the preceding year – more than double the share of 10% reported in the EU as whole. Furthermore, almost a fifth of domestic SMEs reported too much paperwork as a limiting factor, up from 7% in 2021 and across the EU.

Conclusion

The SAFE 2022 indicates that on balance, SMEs in Malta and in the EU signalled a recovery in business activity, with a higher net share of domestic SMEs reporting an increase in turnover in 2022 compared with a year earlier as well as with their EU counterparts. Nonetheless, profitability fell for a greater proportion of firms over a year earlier on account of higher labour and other costs, though Maltese SMEs were slightly less likely to report increasing costs of materials and energy than those in the EU. This likely reflects the fact that energy prices remained unchanged in Malta thereby limiting scope for cost increases compared to a scenario in which such prices would have responded to higher international commodity prices. On the other hand, labour shortages and labour costs seem to have become ever more challenging, with indications that funding resources might be diverted to address such issues instead of being put to more productive use.

While in large part, domestic SMEs continued to obtain external finance for inventory or working capital purposes, the proportion of those that used external financing for the hiring and training of employees rose significantly and stood well-above that recorded among respondent firms in the EU. This reflects tight domestic labour market conditions. In fact, the proportion of SMEs in Malta citing the availability of skilled staff or experienced managers as their most pressing problem rose above the level recorded in the three years preceding the pandemic.

Access to finance continued to stand among the least pressing problems during the period under review. The share of SMEs in Malta that reported a deterioration in the availability of bank loans was also unchanged from a year earlier. Respondents however, expected availability of bank related products to worsen in the months ahead – though to a lesser extent than that in the EU, where expectations of deterioration among the various types of financing are shared by a significantly larger proportion of firms. Meanwhile, collateral scarcity is still a limiting factor for some businesses.

The SAFE also reveals that a higher proportion of local SMEs reported an increase in interest rates compared to 2021. Domestically, developments were not as strong as those observed in the EU, possibly reflecting the fact that locally the transmission of tighter monetary policy across the euro area, was more limited.

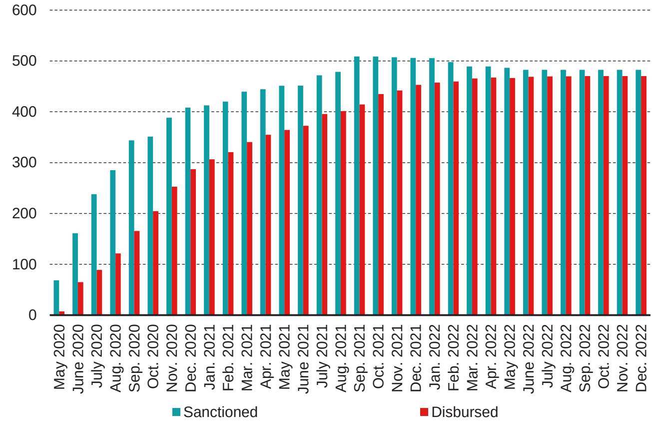
Liquidity support measures

To alleviate liquidity challenges as a result of the pandemic, in 2020 the Government launched the MDB CGS. This scheme provides guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. The scheme was eventually extended to cover the refinancing of loans. It enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.[6]

By the end of 2022, 622 facilities were approved and still outstanding under the scheme, covering total sanctioned lending of €482.6 million. As the scheme partly guarantees new loans for working capital, the amounts actually disbursed under the scheme may fall short of those sanctioned. In fact, €470.2 million were disbursed by the end of the year. By the end of December, 62.0% of the total portfolio volume was sanctioned, while 60.5% was disbursed (see Chart 2.8). The amount of disbursed loans in terms of the scheme stood at 10.2% of total outstanding loans.

In value terms the sector comprising accommodation and food service activities had the largest total value of sanctioned loans at €119.0 million, spread over 146 facilities (see Table 2.4). This was followed by the sector comprising wholesale

Chart 2.8
SANCTIONED AND DISBURSED LOANS OUTSTANDING UNDER THE MDB CGS
(EUR millions)



Sources: Central Bank of Malta; MDB.

Table 2.4
MDB CSG – AS AT DECEMBER 2022
Number of facilities; EUR millions

	Total number of facilities[(1)]	Sanctioned amount[(2)]
Manufacturing	55	24.5
Construction	34	46.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	170	89.8
Transportation and storage and information and communication	39	45.2
Accommodation and food service activities	146	119.0
Professional, scientific and technical activities	37	20.4
Administrative and support service activities	38	13.7
Real estate	17	7.3
Other[(3)]	86	115.9
Total	**622**	**482.6**

Source: MDB.

[(1)] The number of facilities taken by various sectors.

[(2)] The total number of loans sanctioned under the scheme as at end month, in EUR millions.

[(3)] Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation and other services activities, activities of households, electricity, gas & water supply sector and agriculture, forestry and fishing, and public administration and defence.

[6] The CGS is administered by the MDB for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx for further details.

and retail activities, with a total value of sanctioned loans at €89.8 million and 170 facilities. The construction sector as well as the sector comprising transportation, storage, information and communication also had a significant value of sanctioned loans.

In May 2022, the MDB launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-December, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €11.8 million.

In June 2022, the MDB launched two other support measures that fall under the Liquidity Support Guarantee Scheme (LSGS). This scheme covers two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans are available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A, and 80% under LSGS-B. By the end of December 2022, a total of €24.5 million was approved under one of these schemes.

Credit standards, terms and conditions remain broadly stable

Results from the BLS show that credit standards, and credit terms and conditions on loans to NFCs in Malta remained unchanged in 2022. Responses with regards to demand for credit by NFCs were more mixed. At the beginning of the year, half of the surveyed banks reported that demand had somewhat declined, but by the end of 2022, half of the respondents said that demand had somewhat increased, with the remaining banks reporting unchanged demand.

Credit standards, and terms and conditions for house purchases as well as consumer credit and other lending were mostly unchanged throughout the year. Likewise, most banks reported no change in the demand for these credit categories.

In response to a series of ad hoc questions on changes in banks' access to wholesale and retail funding, and on their risk transfer capability as a result of the prevailing situation in financial markets, throughout most of the year, the majority of banks reported unchanged market access to retail funding and risk transfer capabilities. By the end of the year, however, results with regards to access to short-term and long-term retail funding were more mixed.

Participating banks claimed that their non-performing loan (NPL) ratio had not affected their credit standards, and credit terms and conditions during 2022. In the last quarter of the year, banks were also asked to gauge the impact of regulatory or supervisory requirements relating to capital, liquidity or provisioning on their assets, capital and funding conditions as well as on their lending policies. The majority of surveyed banks reported no changes in their capital positions, total assets and credit margins. Moreover, all banks said that there were no changes relating to funding conditions and credit standards as a result of the regulatory or supervisory requirements.

Banks were also asked to assess the impact of the ECB's APP on their financial situation, assets and lending behaviour. The majority of surveyed banks said that the APP had no impact on their assets and the banks' profitability. None of the participating banks reported that the APP affected their credit standards, lending volumes, and terms and conditions.

With regard to the impact of the ECB's negative deposit facility rate, the majority of participating banks reported a fall in their overall profitability as a result of lower net interest income. On the contrary, surveyed banks did not report any changes in their lending rates, and in their lending and deposits volumes. Furthermore, most banks stated that there were no changes to their deposit rates, and non-interest rate charges as a result of the negative deposit facility rate.

Respondent banks were also asked about the impact of the ECB's two-tier system for remunerating excess liquidity holdings on their financial situation, lending and deposit rates. Most of the banks reported an improvement in their overall profitability. Interest rates on loans and deposits were unaffected. Surveyed banks were also asked to gauge the impact of the Eurosystems's third TLTRO. The majority of respondents reported no impact on their bank's financial situation, lending policy and lending volumes.

Respondent banks were asked to state how their credit standards, terms and conditions on new loans and the demand for loans had changed across the main sectors of economic activity – namely manufacturing, construction, services, wholesale and retail trade, and real estate. Generally respondent banks reported no change in credit standards and the terms and conditions in the past six months. Replies regarding demand for loans were more mixed across participating banks and sectors.

The money market

In the domestic primary market, the yield on three-month Treasury bills rose to 2.23% at the end of 2022, from -0.41%, 12 months earlier.

In total, the Treasury issued €2,511.2 million worth of bills in 2022, which is higher than the amount of €1,904.2 million issued in 2021. The majority of bills issued had a maturity of three months, followed by those with a maturity of six months. Together they made up over 95% of all bills. The remainder consisted largely of new bills with a longer maturity. The amount of Treasury bills issued in 2022 was lower than the amount of maturing bills, which stood at €2,263.9 million.

The capital market

In the capital market, total issues of long-term debt by the Government and the private sector declined to €1,481.3 in 2022, from €1,697.4 million in 2021 (see Table 2.5). Taking into account the amount of redemptions, roll-overs and buybacks made over the year, positive net issues of long-term debt were recorded in 2022. These stood at €945.6 million, mostly consisting of net issuances of MGS, as against €1,188.9 million in 2021.

Table 2.5
ISSUES OF LONG-TERM DEBT SECURITIES[(1)]
EUR millions [(2)]

	2018	2019	2020	2021	2022
Government					
Total issues[(3)]	150.0	350.0	1,335.0	1,455.2	1,044.7
Redemptions & roll-overs[(4,5)]	384.1	422.2	461.1	458.8	374.6
Net issues	-234.1	-72.2	873.9	996.4	670.1
Corporate sector					
Total issues	117.3	377.6	176.0	242.2	436.6
Redemptions, roll-overs & buybacks[(5,6)]	85.5	167.9	162.0	49.7	161.1
Net issues	31.8	209.7	14.0	192.5	275.5
Total net issues	**-202.3**	**137.5**	**887.9**	**1,188.9**	**945.6**

Sources: Central Bank of Malta; MSE; Treasury.

(1) Banks, non-MFIs and public NFCs are included with corporate issuers. Long-term securities are those with an original term to maturity exceeding one year, and include preference shares.

(2) Amounts denominated in foreign currency are converted to euro according to the exchange rate prevailing on the day of transactions.

(3) Data exclude MGSs that were issued directly to the Foundation for Church Schools.

(4) Redemptions exclude the redemption of MGSs that were issued directly to the Foundation for Church Schools.

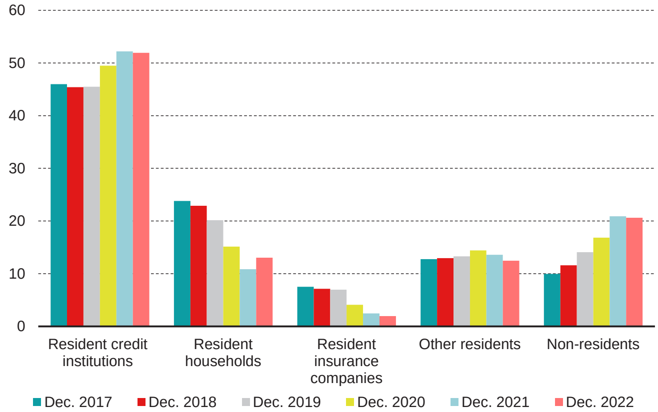
(5) Roll-overs refer to the reinvesting of funds from a mature security into a new issue of the same or a similar security. They are therefore deducted from new issues.

(6) Buy-backs, which consist of the purchase of corporate bonds by the issuing company are also deducted from new issues.

New issues of MGS exceed redemptions

In 2022, the Government issued €1,044.7 million in long-term debt and redeemed €374.6 million, such that net issues for the year were positive for the third consecutive year (see Table 2.5). The Treasury tapped the bond market five times in 2022, through 13 individual issues spread across households and wholesale investors. These issues had maturity dates ranging from five to 30 years.

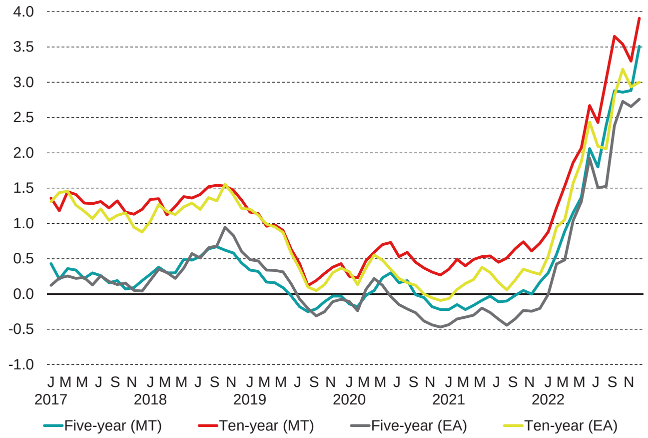
Chart 2.9
OUTSTANDING MGS BY INVESTOR BASE(1)
(percentages)



Sources: Central Bank of Malta; MSE.
(1) Incorporates both fixed-rate and floating-rate MGS.

The amount of outstanding MGS increased to €7,307.2 million at the end of 2022, of which 79.4% was held domestically and 20.6% was held by non-residents (see Chart 2.9). Resident credit institutions held 51.9% of outstanding MGS, compared to 52.2% in 2021. After having fallen in the previous year, the share of MGS held by resident households increased to 13.1% from 10.8% previously.

Chart 2.10
GOVERNMENT BOND YIELDS
(percentages per annum; end of month)



Sources: Central Bank of Malta; ECB.

Secondary market turnover of MGS fell during 2022. It stood at €108.4 million compared with €144.8 million a year earlier.

Secondary market yields on domestic MGS increased significantly during 2022, with the five-year and ten-year yields rising by 334 and 319 basis points, respectively, to 3.51% and 3.91% at end-December (see Chart 2.10). Meanwhile, in the euro area, the benchmark five-year yield increased by 297 basis points compared with its end-2021 level, and ended the year at 2.76%. The euro area ten-year yield rose by 272 basis points to 3.00%. As domestic yields outpaced euro area benchmark yields, the spreads against the latter widened. At the end of 2021, the spreads on the five-year and ten-year yields stood at 75 and 91 basis points, respectively. Maltese sovereign yields have been trending upwards in line with other euro area yields, which were affected by the ECB's first policy rate increases and expectations of further hikes in policy rates, in light of elevated inflation.

Corporate bond issues increase

In the corporate bond market, new issues of long-term debt listed on the MSE stood at €436.6 million in 2022. As the amount of redemptions and buybacks stood at €161.1 million, net issues for the year were positive and higher than a year earlier. During 2022, 18 private companies had new bonds listed on the MSE.

By the end of the year, 21 firms had listed bonds through Prospects, one less compared with end-2021.[7]

[7] Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.

Turnover in the secondary corporate bond market increased during 2022. It stood at €99.9 million, up from €89.5 million in the previous year.

MSE index declines further

In 2022, turnover in the equity market fell marginally to €32.0 million, from €32.5 million, a year earlier. The MSE Equity Price Index fell by 9.9% during 2022 and ended the year at 3554.2 (see Chart 2.11). This decline was more than double that registered in 2021, when the index lost 4.5%.

Meanwhile, the MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 9.7% lower than its level at end-December 2021.

Chart 2.11
MSE EQUITY PRICE INDEX
(end of month)

Source: MSE.

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 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.[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 on the basis of the European Commission's Macroeconomic Imbalance Procedure (MIP), and the final section outlines the financial interlinkages among the resident sectors.[5]

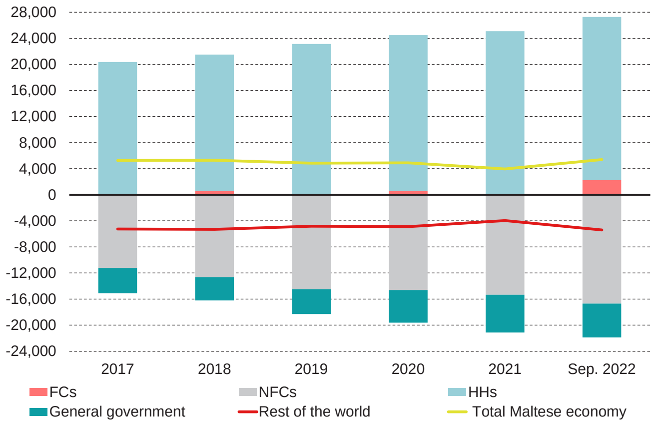
Net financial wealth of the Maltese economy

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.[6] 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.[7]

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

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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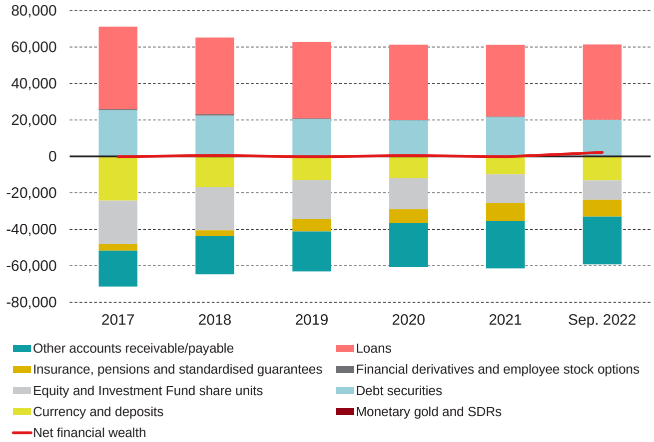
[2] For the purpose of this Box, the term 'Maltese economy' is used interchangeably with the term 'resident sectors/economy'.
[3] See also *Annual Report* 2016, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.
[4] The 'rest of the world' sector comprises non-resident units engaging in transactions with resident institutions.
[5] Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances sets out the MIP procedure.
[6] 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.
[7] 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.

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

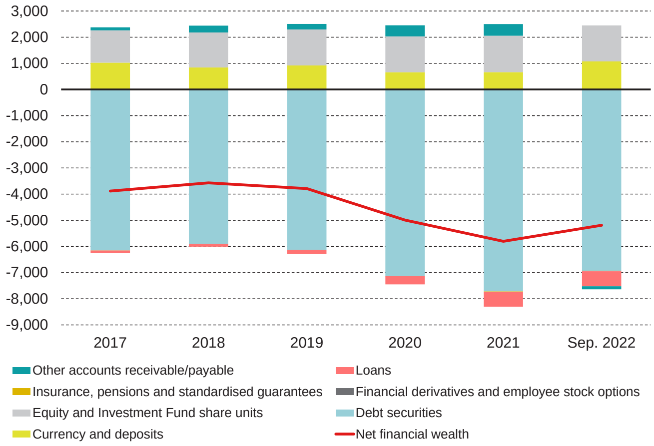


Source: Central Bank of Malta.

Financial assets and liabilities of the general government

The net financial wealth 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.

Chart 3
GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT



Source: Central Bank of Malta.

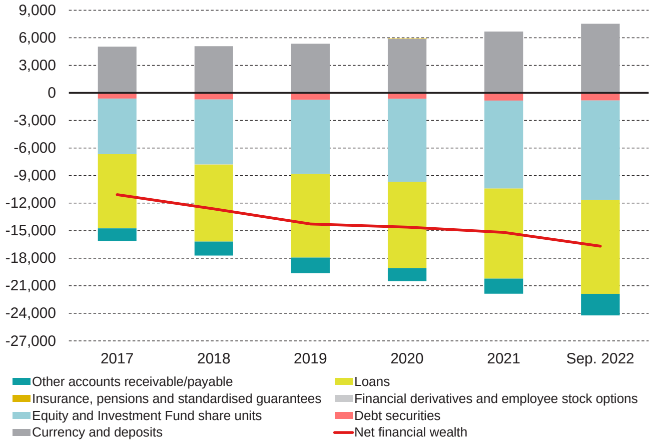
Financial assets and liabilities of NFCs

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.

Financial assets and liabilities of households

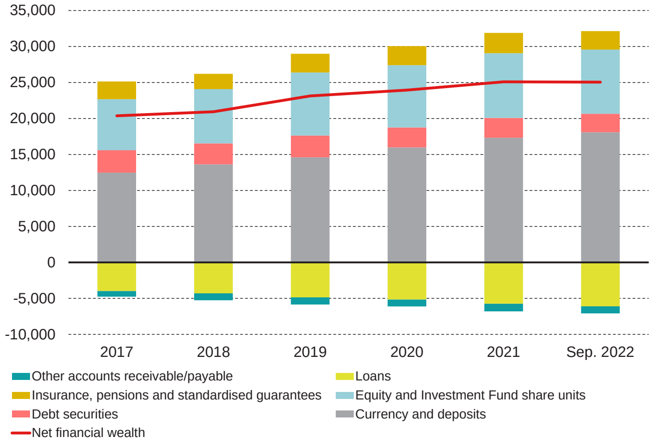
In September 2022, households' net financial wealth reached €25,050.7 million, a marginal decrease of €41.0 million or 0.2%, when compared with December 2021. This was due to an increase in liabilities surpassing the increase in holdings of financial assets. Chart 5 shows that households maintained large net assets in the form of currency and deposits, and equity and investment fund units, but 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.

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 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.[8,9]

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

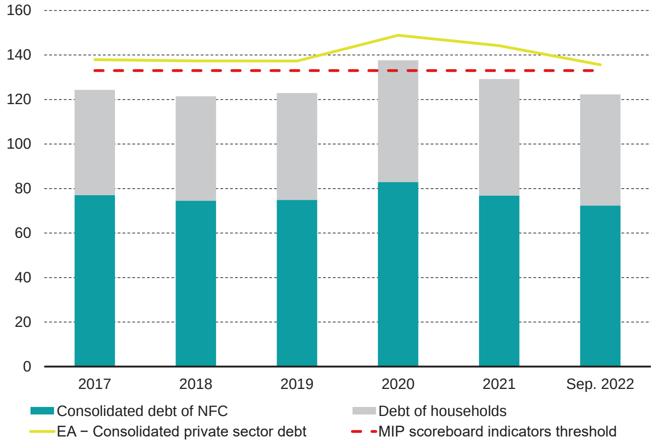
[8] The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs, Households, and NPISH. Transactions within sectors are eliminated (i.e., statistics are thus on a consolidated basis). The threshold of 133% of GDP is derived from the upper quartile 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.

[9] 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).[10]

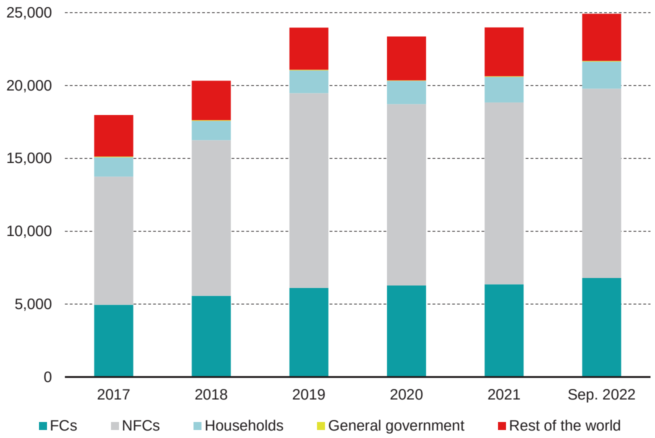
Corporate debt since 2017 constitutes, on average, 60.5% of the consolidated private sector debt. Chart 7 shows the unconsolidated debt of NFCs in the form of debt securities and loans by creditor sectors, the latter constituting FCs, households, NFCs, general government, and the rest of the world sectors.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

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.

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.[11] 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

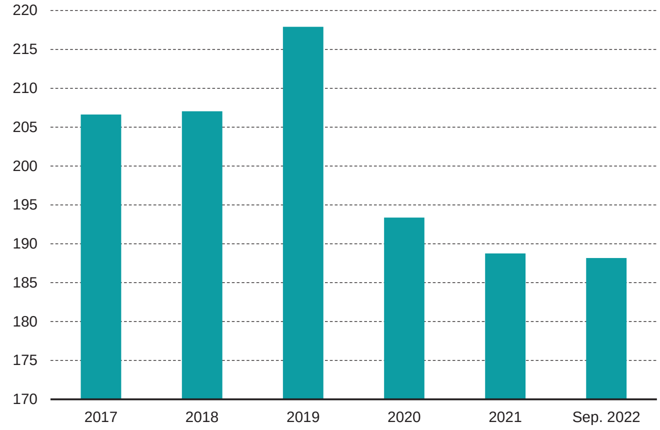
[10] Eurostat statistics for the euro area are only available annually. On the other hand, the ECB's Statistical Data Warehouse contains quarterly data. There are discrepancies between the two sources due to different vintages. For this analysis, Eurostat's data were used until 2021, while ECB data were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

[11] 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).[12]

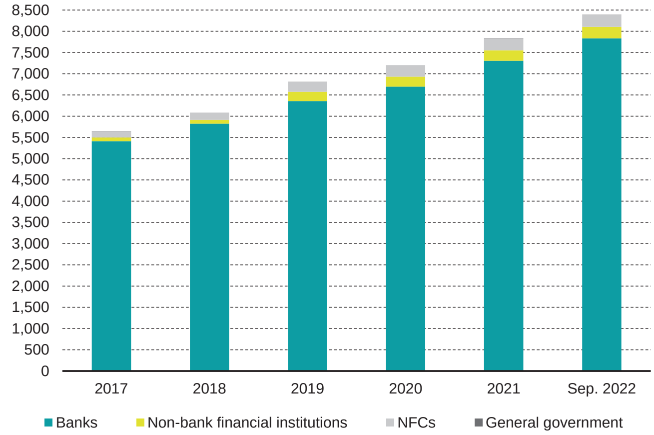
Chart 9 shows that households' debt as at end-September 2022 stood at €8,391.6 million, increasing by €558.0 million since end-December 2021 – primarily due to an increased take up of loans from credit institutions. Indeed, household debt mainly comprises loans from banks which amounted to 93.3% of the 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.

Chart 8
NFCs' LEVERAGE RATIO
(per cent)



Source: Central Bank of Malta.

Chart 9
HOUSEHOLDS' DEBT
(EUR millions)



Source: Central Bank of Malta.

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.[13] 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%

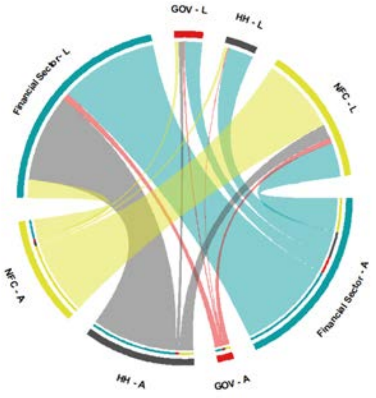
[12] Leverage ratio is defined as total debt divided by total equity. Total debt in Chart 8 includes debt securities, loans, other accounts payable and financial derivatives.

[13] The interlinkages between resident sectors as at December 2021 is not being shown graphically since there were no major changes.

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)



NFC - A: NFCs' Asset
Financial Sector - A: Financial Sector Assets
GOV - A: Central Government Assets
HH - A: Households Assets
NFC - L: NFCs' Liabilities
Financial Sector - L: Financial Sector Liabilities
GOV - L: Central Government Liabilities
HH - L: Households Liabilities

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.