6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the fourth quarter of 2022, financing conditions were tight from a historical perspective.

In December, annual growth in Maltese residents' deposits with MFIs in Malta, moderated compared to September.[1] The shift to overnight deposits persisted, amid a continued preference for liquidity. Growth in credit to Maltese residents continued to expand at a strong pace, although the annual rate of change eased compared to September. This reflected a slower increase in credit to general government. Meanwhile, credit to residents outside general government accelerated, reflecting faster growth in loans to NFCs. Growth in loans to households eased slightly in the year to December, as mortgage credit moderated. The weighted average interest rate on deposits stood marginally below its year-ago level, while that on loans increased when compared with a year earlier. Thus, the spread between the two rates widened.

In December, the primary market yield on Treasury bills increased further from that prevailing three months earlier. Secondary market yields on five and ten-year MGS also rose. As the domestic ten-year yield rose at a faster pace compared with the euro area benchmark yield, the spread against the latter widened. Domestic share prices declined between September and December and were also lower compared with a year earlier.

The number of outstanding loans benefitting from guarantees in terms of the MDB schemes was mostly unchanged during the quarter under review.

Monetary and financial conditions

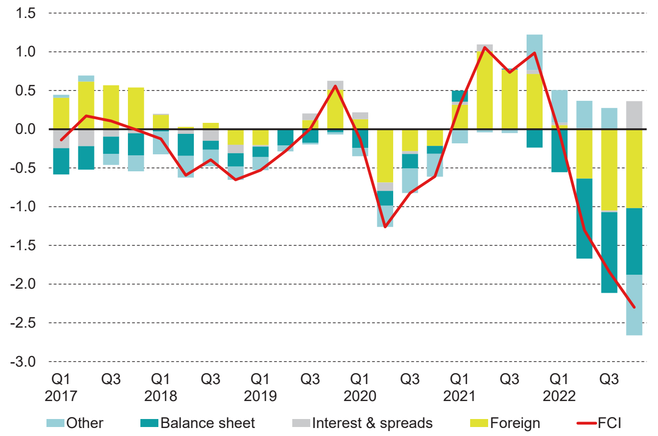
Financial conditions tighten[2]

According to the Bank's FCI, in the fourth quarter of 2022, financial conditions were tight from a historical perspective (see Chart 6.1). Indeed, conditions are among the tightest in the last ten years.

Financial conditions worsened compared with the third quarter of 2022, notably reflecting a deterioration in domestic influences. By contrast, the contribution of foreign factors stood slightly less negative.

The additional tightening attributed to domestic factors was driven entirely by the 'other' component, which was affected by a negative contribution from net issues of securities issued by NFCs.

Chart 6.1
CONTRIBUTIONS TO THE FCI
(contributions to the index)



Source: Central Bank of Malta estimates.

[1] Monetary data analysed in this chapter are compiled on the basis of the statistical standards found in the Statistics section of the Bank's website.

[2] This index is composed of various financial indicators, which are available at a high frequency. This section is based on quarterly averages for each indicator.

By contrast, the ‘balance sheet’ component had a smaller tightening effect, reflecting a smaller negative contribution from the return on equity and real credit when compared with the third quarter. Furthermore, the ‘interest and spreads’ component had a loosening effect, as only part of the increases in the ECB’s policy rate that began in July 2022 was reflected in domestic lending rates, causing the spread of the latter over the policy rate to narrow considerably in the last quarter of 2022.

Foreign factors were less tight in the quarter under review, mostly reflecting a smaller negative contribution from euro area stock prices.

Financial conditions also worsened considerably when compared to the fourth quarter of 2021. When measured on this basis, the tightening in financing conditions was mostly driven by foreign influences. This reflects both a fall in equity prices, and higher financial market uncertainty over the year to December 2022. Domestic factors also tightened over this period, largely reflecting a decline in the contribution of net issues of NFC securities (part of the ‘other’ component), and a larger negative contribution from real deposits (part of the ‘balance sheet’ component). This was amplified by a fall in equity prices (part of the ‘other’ component), and a widening in the sovereign spread against the German bund (part of the ‘interest rate’ component).

Maltese residents’ deposits expand at a slower pace

Total deposits held by Maltese residents with MFIs in Malta continued to expand, albeit at a more moderate pace. The annual rate of change stood at 3.0% in December, down from 6.9% in September (see Table 6.1).

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2022	2021	2022			
	Dec.	Dec.	Mar.	June	Sep.	Dec.
Overnight deposits	**20,428**	**12.3**	**13.3**	**13.4**	**12.7**	**8.1**
of which						
Households	14,020	12.8	14.2	13.4	14.8	12.4
NFCs	4,717	11.2	13.4	10.8	11.0	8.1
Deposits redeemable at notice of up to three months	**117**	**59.9**	**6.9**	**-11.9**	**-36.6**	**-38.7**
of which						
Households	42	14.7	10.7	6.2	3.5	5.4
NFCs	47	67.3	1.8	-27.4	-59.0	-59.5
Deposits with an agreed maturity of up to two years	**1,822**	**-4.3**	**-12.3**	**-16.7**	**-20.4**	**-24.7**
of which						
Households	1,354	-6.2	-13.7	-20.4	-26.7	-27.6
NFCs	191	-12.8	-28.1	3.0	18.0	-3.4
Deposits outside M3[(1)]	**1,001**	**-13.9**	**-13.6**	**-14.1**	**-17.1**	**-14.4**
of which						
Households	942	-12.7	-12.6	-11.3	-12.2	-9.6
NFCs	35	-1.1	13.9	-31.2	-43.7	-34.5
Total residents deposits[(2)]	**23,368**	**8.8**	**8.5**	**8.1**	**6.9**	**3.0**

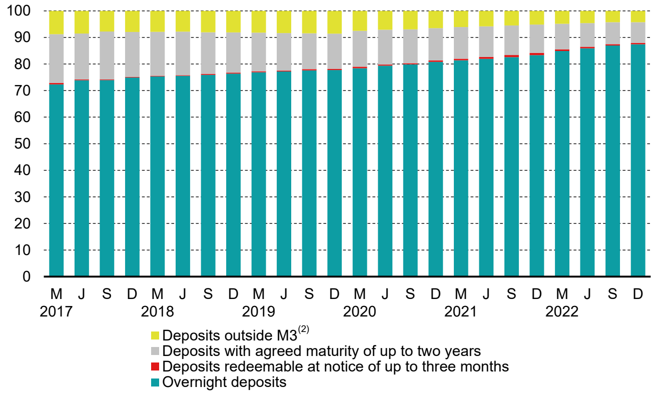
Source: Central Bank of Malta.

(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.

During the 12 months to December, deposit growth remained driven by overnight deposits, which is the most liquid component. Annual growth in this category of deposits stood at 8.1% in December, below the 12.7% recorded three months earlier. The increase in this component was mainly driven by an increase in households' balances. The share of overnight deposits in total deposits edged up to 87.4%, from 87.0% in September, thereby extending the established upward pattern observed in recent years (see Chart 6.2).

Chart 6.2
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.

Deposits with an agreed maturity of up to three months fell by 38.7% since December 2021, after contracting by 36.6% in the year to September. Following this decline, their share in total deposits remained broadly unchanged from September's, at 0.5%.

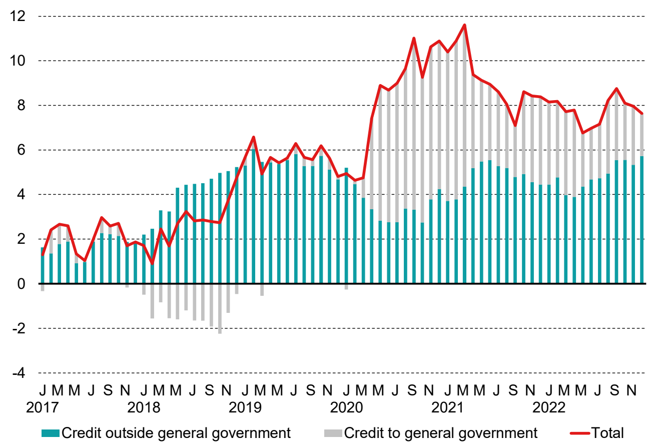
Similarly, deposits with an agreed maturity of up to two years declined by almost a fourth in December, after contracting by 20.4% three months earlier. Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with an agreed maturity of over two years – fell by 14.4%, following a year-on-year decrease of 17.1% in September. As a result, the share of these two categories of deposits edged down compared to September, closing the fourth quarter of the year at 7.8% and 4.3%, respectively.

Credit to residents grows at a slower pace

Credit to Maltese residents expanded by 7.6% in the year to December, below the 8.8% registered in September, reflecting slower growth in credit to general government. This contrasts with a faster increase in credit to residents outside general government (see Table 6.2 and Chart 6.3).

Credit to general government rose by 7.3% in the year to December, following an increase of 12.4% three months earlier. This was largely driven by a smaller increase in MFI

Chart 6.3
CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2022	2021	2022			
	Dec.	Dec.	Mar.	June	Sep.	Dec.
Credit to general government	**4,815**	**16.1**	**14.6**	**8.7**	**12.4**	**7.3**
Credit to residents outside general government	**13,570**	**5.9**	**5.3**	**6.3**	**7.5**	**7.8**
Securities and equity	324	11.2	-0.2	0.0	-0.3	-5.8
Loans	13,246	5.7	5.5	6.5	7.7	8.1
of which:						
Loans to households	7,673	9.6	10.0	9.7	9.8	9.4
Mortgages	7,107	10.9	11.4	10.9	10.5	9.8
Consumer credit and other lending	566	-4.2	-4.5	-3.3	1.1	4.8
Loans to NFCs[1]	4,631	0.3	-0.7	2.8	5.4	7.8
Total credit to residents	**18,385**	**8.4**	**7.7**	**7.0**	**8.8**	**7.6**

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

holdings of Government stocks, in line with the issuance profile of MGS. At the same time, MFI holdings of Treasury bills also rose at a slower pace compared to September.

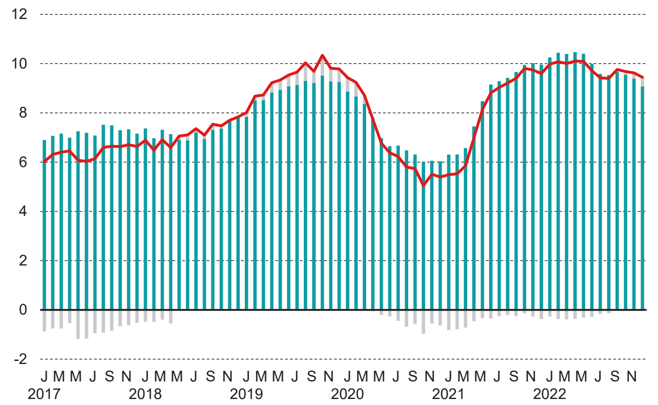
The annual rate of change of credit to residents outside general government reached 7.8%, up from 7.5% three months earlier, reflecting faster growth in loans to the private sector. By contrast, in December, MFI holdings of securities issued by the private sector stood almost 6% below their year-ago level, following a marginal fall in September.

Growth in loans to households eased to 9.4% on an annual basis, from 9.8% recorded in the previous three-month period. Annual growth in mortgage lending moderated to 9.8% in December, from 10.5% in September. By contrast, consumer credit and other lending grew at a faster rate of 4.8%, after increasing by 1.1% in September. Meanwhile, loans to NFCs rose at an annual rate of 7.8%, above the 5.4% recorded three months earlier (see Chart 6.4).

The increase in loans to NFCs over the year to December reflected an increase in loans to private NFCs, as loans to public NFCs contracted over this period.

Sectoral data show that improved dynamics in loans were largely driven by a faster increase in loans to the real estate sector, and to a smaller extent, a recovery in lending to the construction and energy sectors (see Chart 6.5). By contrast, loans to the wholesale and retail trade sector, as well

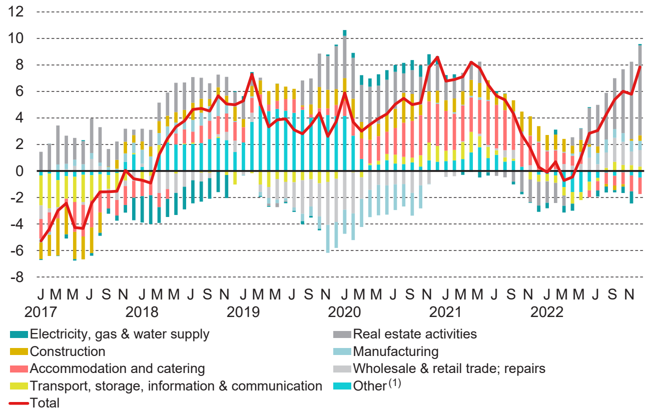
Chart 6.4
CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

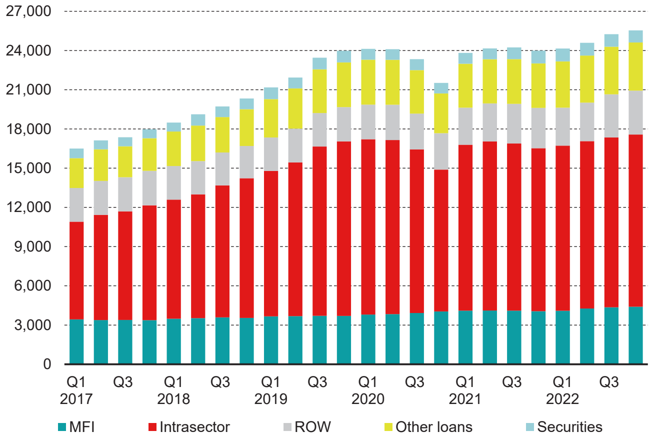
as the sector comprising transport, storage, information and communication, increased at a slower pace compared to September. Meanwhile, loans to the accommodation and catering sector decreased at a faster pace.

Chart 6.5
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.

Chart 6.6
NFC DEBT BY SOURCE
(end-of-period stocks in EUR millions)



Source: Financial Accounts.

Financial accounts data show that the share of bank lending in total NFC debt was broadly in line with that recorded in September but stood slightly above the share recorded a year earlier (see Chart 6.6). NFCs had been consistently reducing their reliance on bank loans in recent years in favour of alternative sources, mainly intra-sectoral lending, with the share of bank loans in total NFC debt reaching a low of 15.4% at the end of 2019.[3] This ratio increased in the following years, as a result of firms' recourse to loan moratoria and guaranteed loans during the pandemic. By December 2022, the share of bank loans in total NFC debt had reached 17.2%, slighlty up from 16.9% at the end of 2021.

The share of intra-sectoral lending in total NFC debt edged up to 51.6% in December, from 51.4% in September. However, it stood below the 52.0% registered a year earlier. The share of loans from non-residents edged up to 13.2% in December, from 13.1% in September and also stood above the 12.9% recorded a year earlier. Meanwhile, the share of securities remained small and eased slightly from that in September, to 3.6%. This compares with 4.1% a year earlier.

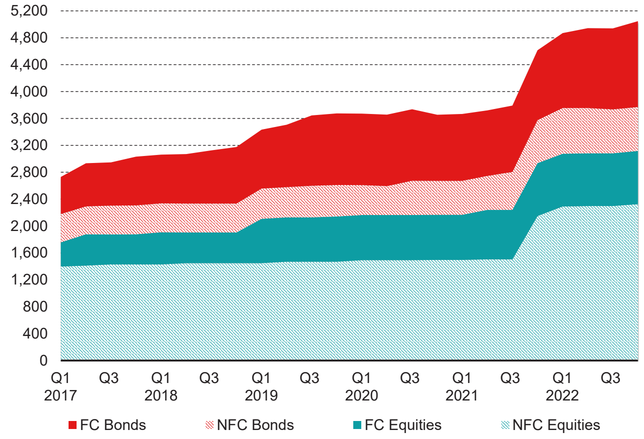
Stock of securities of NFCs and financial corporations (FC) listed on Malta Stock Exchange (MSE) increases

MSE data show that by December 2022, around €1,930.1 million in outstanding corporate debt securities were listed on the Exchange, 14.9% higher than the amount listed a year earlier (see

[3] See Darmanin, J. (2017), "The financing of companies in Malta", *Policy Note* July 2017, Central Bank of Malta.

Chart 6.7).[4] Around two-thirds of this amount was issued by financial entities other than credit institutions. These also accounted for most of the increase since December 2021. The rest was issued by NFCs.

Chart 6.7
OUTSTANDING SECURITIES OF NFCs AND FCs LISTED ON MSE
(EUR millions outstanding as at end-period)



Sources: MSE; Central Bank of Malta estimates.

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 FCs playing a secondary role. The increase over the year to December was mostly driven by NFCs that operate within the real estate and construction. The total amount of outstanding listed equity as at December 2022 exceeded that of bonds by over 61%.[5]

Spread between deposit and lending rate widens

During the year to December, the weighted average deposit rate offered on outstanding balances held by households and NFCs in Malta eased by 1 basis point, to 0.15% (see Table 6.3).[6] This was largely driven by a further decrease in rates paid on households' saving deposits redeemable at notice, with a maturity of over three months. The rates paid on households' time deposits with a maturity of over two years also edged down compared with 12 months earlier, falling by 4 basis points. By contrast, the rate on households' outstanding fixed deposits with a maturity of up to two years, increased by around 20 basis points, and was accompanied by a broad-based increased in rates on deposits belonging to NFCs.

Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs increased by 9 basis points, to 3.32%. This increase was driven by rates paid by NFCs, which also remained above those charged to households, reflecting different assessments of credit risk in the two institutional sectors. This contrasts with a decline in rates on households' outstanding balances.

The spread between the weighted average lending rate and the deposit rate closed the quarter under review at 316 basis points, above the 306 basis points recorded 12 months earlier.

Liquidity support measures

To alleviate liquidity challenges because of the pandemic, the Government launched the MDB's CGS. This scheme provides guarantees to commercial banks with the aim of enhancing access

[4] MSE data may differ from financial accounts data due to differences in valuation methodology and coverage. In particular, financial accounts data are at market value and include both listed and privately-placed securities. MSE data on corporates presented in Chart 6.7 are based on the official MSE list and thus exclude securities listed through Prospects. Chart 6.7 includes data on NFCs and FCs other than MFIs.

[5] Apart from the official MSE platform, small and medium-sized enterprises can also obtain finance through the specifically-geared platform – Prospects.

[6] Basis points are rounded to the nearest whole number and hence may not exactly match the figures given in Table 6.3.

Table 6.3
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
Savings deposits redeemable at notice							
Households	0.90	0.49	0.40	0.38	0.38	0.17	0.16
NFCs	0.32	0.17	0.04	0.08	0.08	0.05	0.12
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
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**
ECB MROs rate	0.00	0.00	0.00	0.00	0.00	1.25	2.50

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.

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 for up to a total portfolio volume of €777.8 million.[7]

By the end of December 2022, 622 facilities were approved and still outstanding under the CGS, covering total sanctioned lending of €482.6 million, unchanged from the total amount of sanctioned lending in September (see Table 6.4). As the scheme provides guarantees on loans for working capital and loan repayment purposes, the amount actually disbursed may fall short of that sanctioned. In fact, €470.2 million were disbursed by the end of December. Hence, by then, 62.0% of the scheme's target size was sanctioned, while 60.5% was disbursed.

In terms of the number of facilities, the sector comprising wholesale and retail activities had the largest outstanding number of facilities benefitting from the scheme. By end-December 2022, 170 facilities were approved and still outstanding in this sector, with a sanctioned value of €89.8 million. This was followed by accommodation and food services activities, with 146 facilities and a sanctioned amount of €119.0 million.

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 (SLS) 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

7 The MDB CGS was approved by the European Commission on 2 April 2020. See MDB CGS for further details.

Table 6.4

MDB COVID-19 GUARANTEE SCHEME – AS AT DECEMBER 2022

Number of facilities approved and still outstanding; EUR millions

	As at September 2022		As at December 2022	
	Total number of facilities[1]	Sanctioned amount[2]	Total number of facilities[1]	Sanctioned amount[2]
Manufacturing	55	24.5	55	24.5
Construction	34	46.8	34	46.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	170	89.8	170	89.8
Transportation and storage and information and communication	39	45.2	39	45.2
Accommodation and food service activities	146	119.0	146	119.0
Professional, scientific and technical activities	37	20.4	37	20.4
Administrative and support service activities	38	13.7	38	13.7
Real estate activities	17	7.3	17	7.3
Other[3]	86	115.9	86	115.9
Total	**622**	**482.6**	**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, other services activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

facilities were approved, covering total sanctioned lending of €14.2 million. The outstanding level of disbursements from this scheme stood at €11.8 million.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of 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.

Bank Lending Survey (BLS) generally indicates broadly unchanged credit standards, terms and conditions

According to the January 2023 BLS, in the fourth quarter of 2022, participating banks reported unchanged credit standards and terms and conditions for NFCs in Malta. Banks also expected credit standards on such loans to remain unchanged in the first quarter of 2023. As regards the demand for credit by NFCs, half of the respondent banks assessed demand to have remained unchanged in the fourth quarter, with the remaining half saying that it had somewhat increased. No changes in demand were expected for the first quarter of 2023.

Credit standards on loans for house purchases, consumer credit and other lending were assessed to have remained unchanged by all surveyed banks in the fourth quarter of 2022, and the majority of banks also reported no changes on terms and conditions. All participating banks expected credit standards for consumer credit and other lending to remain unchanged in the first quarter of 2023. In the case of loans for house purchases, credit standards were also generally expected to remain unchanged. Demand for loans for house purchases, consumer credit and other lending was assessed to have remained unchanged by most of the participating banks in the fourth quarter, and all banks were expecting stable demand in the following quarter.

The January BLS also posed ad hoc questions on changes in banks' access to wholesale and retail funding, as a result of the prevailing situation in financial markets. No impacts were reported as regards access to interbank unsecured money markets, debt securities, securitisation, or the ability to transfer risks off balance sheet. However, some effect was reported in terms of access to retail deposits. In particular, half of the participating banks reported unchanged market access to retail funding, with the remaining half reporting more mixed results. This assessment was also reflected in expectations for the first quarter of 2023.

Participating banks claimed that their non-performing loan ratio had not affected their lending policies in the preceding six-month period. They also expect no effects in the six months ahead. 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. The majority of surveyed banks had the same expectations for the year ahead.

Respondent banks were also asked to state how their credit standards, terms and conditions on new loans, and demand for loans have changed across the main sectors of economic activity – namely manufacturing, construction, services, wholesale and retail trade, and real estate. Credit standards and terms and conditions remained unchanged in the past six months and were expected to remain unchanged in the next six months. In general, banks' responses point to unchanged demand conditions. However, in some cases, somewhat lower demand was reported for energy intensive manufacturing sectors, commercial real estate, and wholesale and retail trade. On balance, demand was expected to be stable in the following six months.

The money market

During the fourth quarter of 2022, the Government issued €566.7 million in Treasury bills (before redemptions), €137.3 million less than the amount issued in the third quarter.

In the domestic primary market, the yield on three-month Treasury bills rose further to 2.23% by the end of December, from 0.95% at end-September.

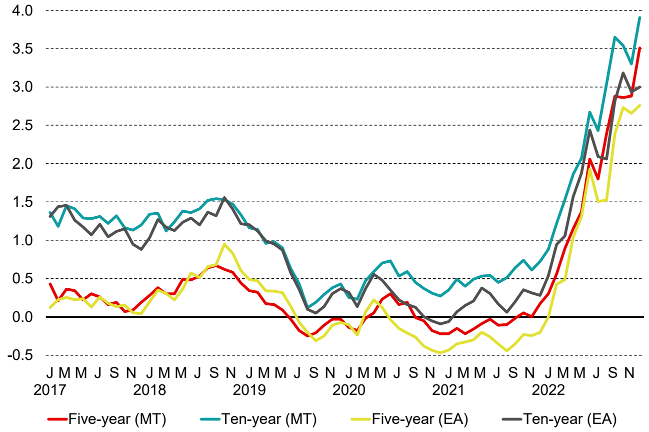
The capital market

During the fourth quarter, the Government issued four new MGS with a total value of €508.5 million. Five private sector institutions also launched new bond issues on the MSE. MedservRegis plc, JD Capital plc and Best Deal Properties Holding plc issued secured bonds worth €13.0 million, €14.0 million and €15.0 million, respectively. Meanwhile, Gap Group plc issued €23.0 million in secured bonds while Von der Heyden Group issued €35.0 million in unsecured bonds.

By the end of December, 21 firms had bonds that were listed on the MSE through Prospects, one less compared with end-September.[8]

In the secondary market, turnover in government bonds nearly doubled to reach €33.8 million, from €17.1 million in the third quarter. Meanwhile, turnover in corporate bonds fell to €15.2 million, from €28.3 million previously.

Chart 6.8
GOVERNMENT BOND YIELDS
(percentages per annum; end of month)



Sources: Central Bank of Malta; ECB.

The yield on five-year bonds rose further to 3.51% at the end of December, from 2.88% three months earlier (see Chart 6.8). The yield on ten-year bonds also increased, reaching 3.91% from 3.65% in September. Meanwhile, the euro area benchmark yield on five-year bonds rose to 2.76% from 2.39%, while the benchmark yield on ten-year bonds increased to 3.00% from 2.81%.

Maltese sovereign yields have been trending upwards, in line with other euro area yields. This reflected the recent increases in ECB policy rates which have transmitted smoothly to sovereign yields.

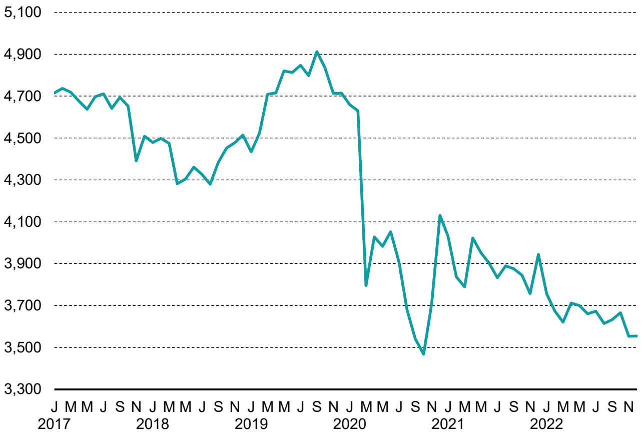
As the increase in the domestic ten-year yield was larger than that in the euro area benchmark yield, the spread against the latter widened to 91 basis points, from 84 basis points in September.

MSE Share Index declines further

During the fourth quarter of 2022, share prices in Malta fell. The MSE Equity Price Index ended the quarter 2.2% lower than its level at end-September and was 9.9% below its reading a year earlier (see Chart 6.9). Meanwhile, the MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, declined by 3.7% between end-September and end-December.

Equity turnover fell to €6.3 million during the fourth quarter of 2022, from €7.5 million in the previous quarter.

Chart 6.9
MSE EQUITY PRICE INDEX
(end of month)



Source: MSE.

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