

6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the third quarter of 2023, financing conditions were tight from a historical perspective, but the degree of tightness diminished when compared to the previous quarter.

In the year to September, Maltese residents' deposits with MFIs in Malta, declined for the first time in over a decade, reflecting lower balances belonging to financial intermediaries and NFCs. Meanwhile, deposits belonging to households increased.¹ Annual growth in credit to Maltese residents moderated compared to June. This reflected a larger decline in credit to general government, while credit to residents outside general government increased at a faster pace.

The weighted average interest rate on outstanding deposits stood above its year-ago level, while that on loans increased more significantly when compared with a year earlier. Thus, the spread between the two rates widened.

In September, the primary market yield on Treasury bills increased further from that prevailing three months earlier. Meanwhile, secondary market yields on five and ten-year MGS rose. As the increase in domestic ten-year yield was equivalent to that in the euro area benchmark yield, the spread between the two remained unchanged. Domestic share prices fell between June and September but were higher compared with a year earlier.

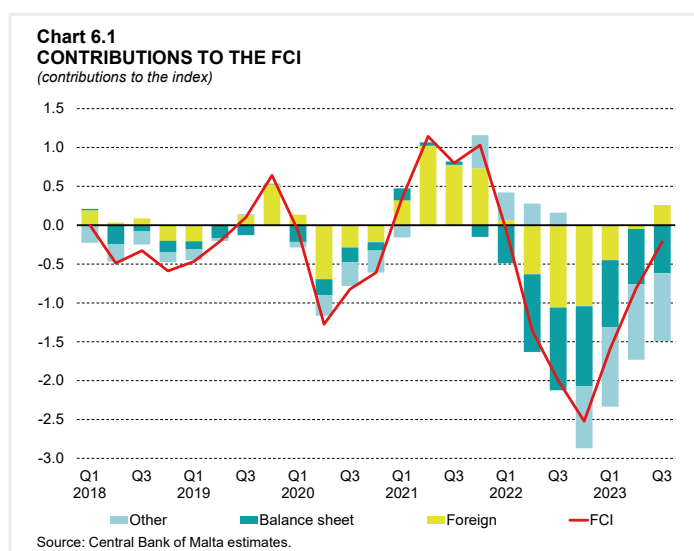
Monetary and financial conditions

Financial conditions remain tight²

According to the Bank's FCI, in the third quarter of 2023, financial conditions were tight from a historical perspective, but the extent of tightness decreased considerably compared to the second quarter (see Chart 6.1). This reflects a smaller tightening impact from domestic factors, and a loosening in foreign factors – in almost equal measure.

The loosening effect in foreign influences mainly reflected a sharp decline in uncertainty during the quarter, though a stronger year-on-year increase in euro area stock prices also contributed.

The smaller tightening effect of domestic factors reflected improvement across all sub-components. The 'other' component had a smaller tightening effect compared with the



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.

previous quarter, driven by a smaller negative contribution from equity prices and issues of NFC securities. At the same time, the tightening effect of the ‘balance sheet’ component also decreased, driven by the contribution from the volume of credit.

Meanwhile, the ‘interest and spreads’ component had a larger loosening effect, notably driven by a wider spread between MFI lending rates on outstanding amounts and the policy rate. While lending rates began to respond to the monetary tightening, the increase in the lending rate has been modest when compared to that recorded in the policy rate during the current monetary policy tightening phase.

Financial conditions were also less tight when compared to the third quarter of 2022. When measured on this basis, the lower tightening in financing conditions was largely driven by developments in foreign influences, reflecting a year-on-year increase in euro area stock prices, and significantly lower uncertainty.

Overall, domestic factors had a smaller tightening impact compared to the corresponding quarter of 2022. This was notably due to a steeper year-on-year decline in the spread between MFI lending rates on outstanding amounts and the policy rate, and a decrease in the sovereign spread (part of the ‘interest and spreads’ component). Movements in the volume of credit (part of the ‘balance sheet’ component) also contributed.

Maltese residents’ deposits decrease from their year-ago level

Total deposits held by Maltese residents with MFIs in Malta fell by 2.2% in the year to September, following a 0.5% increase in June (see Table 6.1). This marks the first year-on-year decline in deposits in over a decade, and reflects lower balances belonging to financial intermediaries and, to a lesser extent, those belonging to NFCs. By contrast, deposits belonging to households increased.

During the 12 months to September, overnight deposits – the most liquid component – fell by 3.6%, following a 1.1% increase recorded three months earlier. The latest contraction reflected a sharp decline in balances held by financial intermediaries and NFCs, although the latter showed a smaller decline in absolute terms. The share of overnight deposits in total deposits decreased to 85.7% in September, from 86.4% in June (see Chart 6.2).

Deposits with an agreed maturity of up to two years – the second largest component – registered a strong increase of 12.1% in the year to September, compared with 0.3% in June. As a result, their share in overall deposits reached 9.5%. This outcome possibly reflects the more attractive terms on

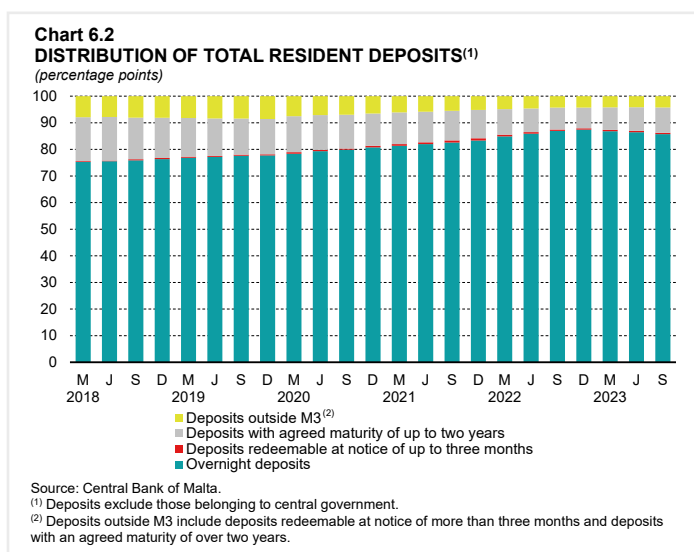


Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
		2022	2023			
	2023 Sep.	Sep.	Dec.	Mar.	June	Sep.
Overnight deposits	19,868	12.7	8.0	3.2	1.1	-3.6
<i>of which</i>						
Households	13,950	14.8	12.4	7.8	5.0	0.0
NFCs	4,604	11.0	8.0	3.9	0.7	-0.2
Deposits redeemable at notice of up to three months	123	-36.6	-38.7	-21.0	-10.5	9.4
<i>of which</i>						
Households	39	3.5	5.4	-1.4	-0.2	-5.5
NFCs	56	-59.0	-59.5	-35.9	-12.0	28.9
Deposits with an agreed maturity of up to two years	2,202	-20.4	-24.7	-11.4	0.3	12.1
<i>of which</i>						
Households	1,736	-26.7	-27.6	-15.4	3.9	22.9
NFCs	209	18.0	-3.4	19.0	10.6	-12.3
Deposits outside M3⁽¹⁾	984	-17.1	-14.4	-12.4	-9.2	-2.8
<i>of which</i>						
Households	920	-12.2	-9.6	-7.3	-5.4	-3.1
NFCs	33	-43.7	-34.5	-34.9	-20.3	-6.4
Total residents' deposits⁽²⁾	23,177	6.9	3.0	0.9	0.5	-2.2
<i>of which</i>						
Households	16,645	7.6	6.0	4.3	4.2	1.8
NFCs	4,901	9.0	5.4	3.4	0.7	-0.5

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.

fixed deposit accounts by certain credit institutions in response to the recent monetary policy tightening. The latest increase was driven by higher balances belonging to households, which offset decreases in the balances held by other sectors, including NFCs and other financial intermediaries.

Deposits with an agreed maturity of up to three months rose by 9.4% since September 2022, after contracting by 10.5% in the year to June, with the shift driven by NFCs. This marks the first year-on-year increase in this category of deposits since the first quarter of 2022. Nonetheless, their share in total deposits remained broadly unchanged for the fifth consecutive quarter, at 0.5%.

Overall, the shift away from overnight balances in favour of deposits with a higher maturity reflects behavioural changes, in response to the recent tightening of monetary policy.

Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with an agreed maturity of over two years – fell by 2.8%, following a year-on-year decrease of 9.2% in June. Their share in overall resident deposits remained unchanged at 4.2% in September.

Credit to residents grows at a slower pace

Credit to Maltese residents expanded by 3.4% in the year to September, below the 3.9% registered in June, as credit to general government fell at a faster pace, while annual growth in credit

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

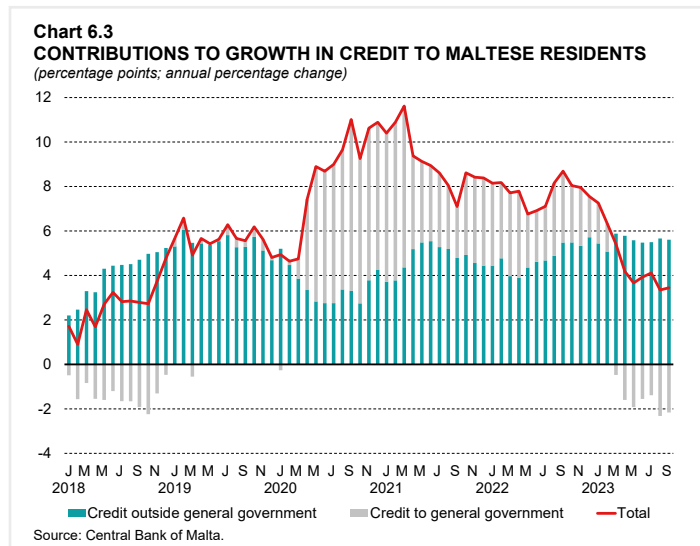
	EUR millions 2023 Sep.	Annual percentage changes				
		2022		2023		
		Sep.	Dec.	Mar.	June	Sep.
Credit to general government	4,492	12.4	7.0	-1.7	-5.8	-8.1
Credit to residents outside general government	14,393	7.4	7.8	8.1	7.5	7.7
Securities and equity	321	-0.3	-5.7	-2.2	-2.6	-3.3
Loans	14,072	7.6	8.1	8.4	7.7	7.9
<i>of which:</i>						
Loans to households	8,138	9.8	9.5	8.5	8.5	8.0
Mortgages	7,516	10.5	9.8	8.6	8.6	7.7
Consumer credit and other lending	622	1.1	4.9	7.4	7.0	11.3
Loans to NFCs ⁽¹⁾	4,969	5.4	7.8	10.1	7.1	8.3
Total credit to residents	18,885	8.7	7.5	5.4	3.9	3.4

Source: Central Bank of Malta.

⁽¹⁾ NFCs include sole proprietors and non-profit institutions serving households (NPISH).

to other residents edged up only marginally (see Table 6.2 and Chart 6.3).

Credit to general government fell by 8.1% in the year to September, following a contraction of 5.8% three months earlier. This was driven by a sharper decline in MFI holdings of Treasury bills over the 12 months to September. By contrast, growth in MFI holdings of Government stocks reached 12.1% in September, well above the 4.8% recorded in June, in line with the issuance profile of MGS.



The annual rate of change of credit to residents outside general government reached 7.7%, up from 7.5% in June, reflecting faster growth in loans. Meanwhile, MFI holdings of securities issued by the private sector decreased at a faster annual rate of 3.3%, following a decline of 2.6% in June.

Loans to the private sector overall increased by 7.9% in the year to September, same as in June, reflecting contrasting dynamics in lending to firms and households. Growth in loans to households moderated to 8.0% on an annual basis, from 8.5% three months earlier, driven by slower growth in mortgage lending. This component rose at an annual rate of 7.7% in September, down from 8.6% in June. Meanwhile, consumer credit and other lending grew at a faster rate of 11.3%, after increasing by 7.0% in June.

Loans to NFCs rose at a faster rate of 8.3%, following 7.1% three months earlier (see Chart 6.4). This was mainly driven by an increase in loans to private NFCs. Loans to public NFCs

also increased over this period, albeit to a lower extent in level terms.

Sectoral data show that growth in loans to NFCs in September was largely concentrated in the construction and real estate sectors, as well as the sector including transport, storage, information and communication (see Chart 6.5). Lending to the energy sector and the sector comprising accommodation and food service activities also rose, albeit to a lesser degree. By contrast, loans to the wholesale and retail trade sector, and to the manufacturing sector, declined.

Financial accounts data show that the share of bank lending in total NFC debt was above that recorded in June, and also exceeded the share recorded a year earlier (see Chart 6.6). By September 2023, the share of bank loans in total NFC debt had reached 17.2%, up from 16.5% in the third quarter of 2022. Bank lending has been on an upward trend ever since, after reaching a low of 15.3% at the end of 2019.

The share of intra-sectoral lending in total NFC debt eased to 52.9% in September, from 53.1% three months earlier, and was broadly in line with the share registered a year earlier. This component continued to account for the bulk of NFCs' external financing.

The share of loans from non-residents was broadly in line with that recorded three months

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

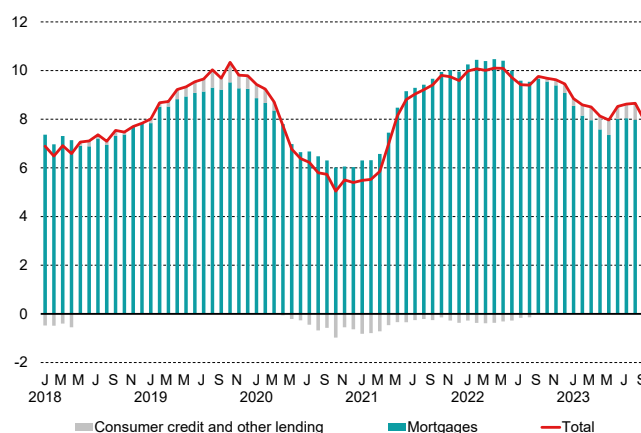


Chart 6.5
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)

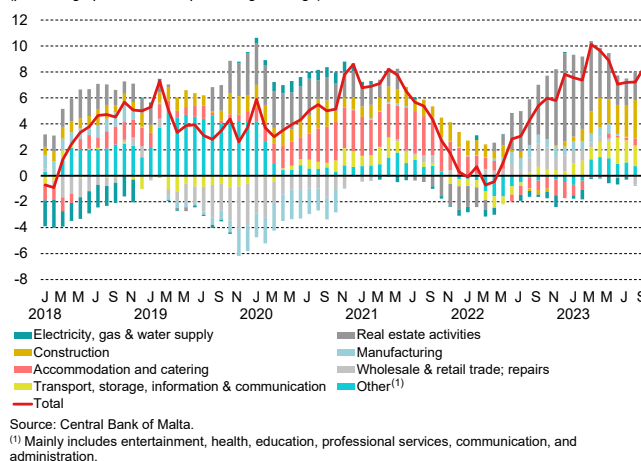
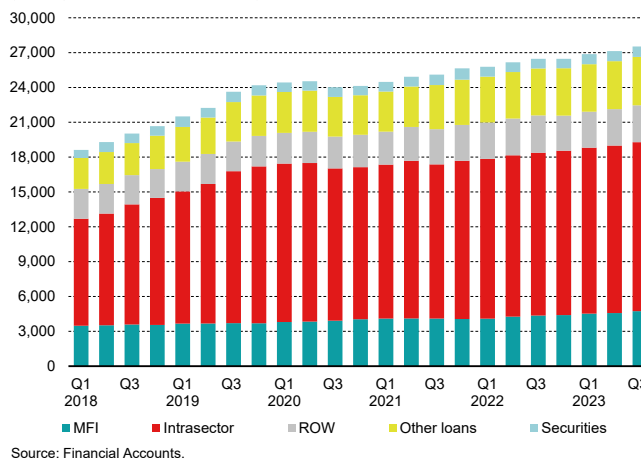


Chart 6.6
NFC DEBT BY SOURCE
(end-of-period stocks in EUR millions)



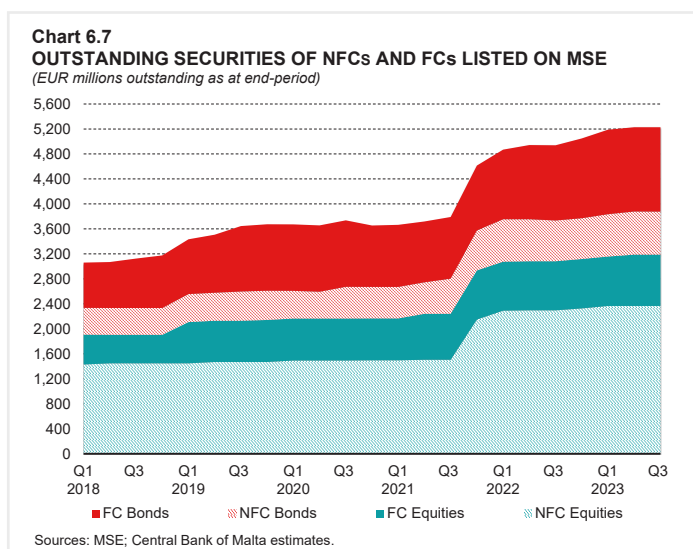
earlier, standing at 11.5% in September, but below the 12.1% registered a year earlier. Meanwhile, the share of ‘other loans’ was broadly unchanged for the third consecutive quarter, standing at 15.2% in September. It also stood in line with the share recorded in the third quarter of 2022. This component largely reflects loans from households and other financial institutions.

Furthermore, the share of securities remained unchanged at 3.2% in September, unchanged since the beginning of 2023, and marginally above that recorded a year earlier.

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

MSE data show that by September 2023, around €2,039.1 million in outstanding corporate debt securities were listed on the Exchange, 9.8% higher than the amount listed a year earlier (see Chart 6.7).³ Around two-thirds of this amount was issued by financial entities other than credit institutions. These also accounted for most of the increase since September 2022. The rest was issued by NFCs.

Meanwhile, the outstanding amount of equity listed on the MSE increased by 3.5% in annual terms, to reach €3,188.3 million. Around three-fourths of this volume was issued by NFCs, with FCs playing a secondary role. The increase over the year to September was mostly driven by NFCs that operate within the real estate and construction sectors. The total amount of outstanding listed equity as at September 2023 exceeded that of bonds by over 56.4%.⁴



Spread between deposit and lending rate widens

During the year to September, the weighted average deposit rate offered on outstanding balances held by households and NFCs in Malta increased by 11 basis points, to 0.27% (see Table 6.3).⁵ This was largely driven by a further increase in the rates paid on households’ and NFCs’ outstanding fixed deposits with a maturity of up to two years. These increased by 103 and 99 basis points, respectively. The rate on NFCs’ savings deposits redeemable at notice also increased compared with 12 months earlier, rising by 40 basis points. By contrast, the corresponding rates paid to households eased by 2 basis points. The rates paid on households’ time deposits with a maturity of over two years remained unchanged in the year to September, while balances held by NFCs decreased by 22 basis points.

³ 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 financial corporations other than MFIs.

⁴ Apart from the official MSE platform, small and medium-sized enterprises can also obtain finance through the specifically-g geared platform – Prospects.

⁵ 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

	2020 Sep.	2021 Sep.	2022 Sep.	2022 Dec.	2023 Mar.	2023 June	2023 Sep.
Total deposits⁽¹⁾	0.23	0.18	0.16	0.15	0.19	0.24	0.27
<i>of which</i>							
Overnight deposits							
Households	0.02	0.02	0.04	0.02	0.03	0.04	0.05
NFCs	0.02	0.02	0.06	0.03	0.07	0.07	0.07
Savings deposits redeemable at notice							
Households	0.52	0.41	0.17	0.16	0.16	0.15	0.15
NFCs	0.22	0.08	0.05	0.12	0.06	0.72	0.45
Time deposits (less than two years)							
Households	0.59	0.53	0.54	0.72	0.95	1.32	1.58
NFCs	0.71	0.48	0.59	0.74	0.95	1.15	1.58
Time deposits (more than two years)							
Households	1.89	1.77	1.77	1.73	1.73	1.76	1.77
NFCs	1.59	1.05	1.60	1.60	1.49	1.26	1.38
Total loans⁽¹⁾	3.39	3.25	3.25	3.32	3.41	3.59	3.61
<i>of which</i>							
Households and NPISH	3.25	3.05	2.94	2.87	2.84	2.91	2.87
NFCs	3.62	3.60	3.82	4.16	4.45	4.87	4.98
Spread⁽²⁾	3.16	3.07	3.09	3.16	3.22	3.35	3.34
ECB MROs rate	0.00	0.00	1.25	2.50	3.50	4.00	4.50

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.

Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs increased by 36 basis points, to 3.61%, over the year to September 2023. This increase was driven by rates paid by NFCs, in contrast with rates on households' outstanding balances, which declined slightly. The former remained above those charged to households, reflecting different assessments of credit risk in the two institutional sectors.

The spread between the weighted average lending rate and the deposit rate closed the quarter under review at 334 basis points, above the 309 basis points recorded 12 months earlier.

During the year to September, the weighted average deposit rate offered on new balances held by households and NFCs in Malta increased by 120 basis points, to 2.17%. Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs fell by 14 basis points, to 2.59%, over the year to September 2023. As a result, the spread between the weighted average lending rate and the deposit rate closed the quarter under review at 42 basis points, well below the 176 basis points recorded 12 months earlier.

Liquidity support measures

By the end of September 2023, 622 facilities were approved and still outstanding under the Malta Development Bank's (MDB) COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million, unchanged from the amount of sanctioned lending in June (see Table

Table 6.4
MDB CGS – AS AT SEPTEMBER 2023

	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	40	45.4
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 activities	17	7.3
Other ⁽³⁾	85	115.8
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 of 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.

6.4).⁶ By end-September, the outstanding value of disbursed loans stood at €253.6 million, down from €281.4 million at end-June 2023. Most of these loans will mature in the next four years.

The sector comprising wholesale and retail activities had the largest outstanding number of facilities benefitting from the scheme. By end-September 2023, 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 Loan Scheme (SLS). By end-September 2023, three SLS facilities were approved, covering total sanctioned lending of €14.2 million.⁷ The outstanding level of disbursements from this scheme stood at €5.1 million. These facilities are expected to be fully repaid in 2024. In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS).⁸ By the end of September 2023, a total of €24.5 million was approved under the LSGS, and the full amount was disbursed.

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

According to the October BLS, in the third quarter of 2023, all participating banks reported unchanged credit standards and terms and conditions for lending to NFCs and households in

⁶ The MDB CGS provided guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. The scheme received applications until 30 June 2022. For further details see [MDB CGS](#).

⁷ The 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. The total portfolio allocated for this scheme is €30.0 million.

⁸ The LSGS 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.

Malta. Banks also expected credit standards and terms and conditions on such loans to remain unchanged in the fourth quarter.

As regards the demand for credit by NFCs, most of the respondent banks claimed that it had remained unchanged during the quarter under review. Moreover, the majority of surveyed banks did not anticipate changes in demand in the fourth quarter.

Demand for loans for house purchases, consumer credit and other lending was assessed to have remained unchanged by the majority of surveyed banks. For the fourth quarter, most banks were expecting stable demand for mortgage loans. In the case of consumer credit and other lending, all banks expected no change in demand.

The October 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 isolated tightening effect was reported in terms of access to retail deposit funding. This assessment was also reflected in expectations for the coming quarter.

Respondent banks were also asked whether the ECB's monetary asset portfolio led to a change in their assets, or affected their bank's cost of funds and balance sheet constraints. All surveyed banks reported no changes and this scenario was expected to prevail also in the six months ahead. With regards to the effects on profitability, half of the banks reported no changes, while the other half experienced an improvement in the form of higher net interest income. These banks expected a further improvement in the six months ahead. Moreover, the majority of banks reported no changes in their capital position, and expected no changes in the coming six months.

Participating banks reported no changes in credit standards and terms and conditions, as a result of the ECB's monetary policy portfolio. The majority also assessed that there was no impact on their lending volumes. For the following six months, banks expected no impact.

Respondent banks were asked to gauge the impact of the Eurosystems's third series of TLTROs. All respondents reported no impact on their bank's financial situation, lending policy and lending volumes. This also applies for the six months ahead.

Finally, participating banks were asked whether the ECB key interest rates decisions (both those already taken and those expected) led to a change in their profitability. In this regard, the majority of banks reported an increase in their overall profitability owing to higher interest income, while no impact was reported in terms of non-interest income. Half of the banks also felt that the ECB's decisions regarding interest rates will lead to an increase in net interest income in the coming six months, while the results were mixed for the other half.

The money market

During the third quarter of 2023, the Government issued €256.5 million in Treasury bills (before redemptions), €470.3 million less than the amount issued in the second quarter of 2023.

In the domestic primary market, the yield on three-month Treasury bills rose further to 3.57% by the end of September, from 3.42% at end-June.

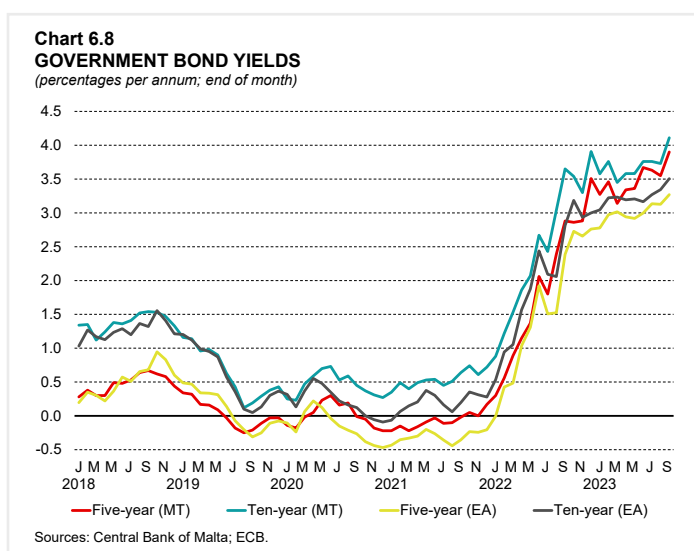
The capital market

During the third quarter of 2023, the Government issued five new MGS with a total value of €703.2 million. Four private sector institutions launched new bond issues on the MSE. Juel Group plc and JD Capital plc issued secured bonds worth €32.0 million and €11.0 million, respectively. Meanwhile, Mediterranean Investments Holding plc issued €20.0 million in unsecured bonds, while ClearFlowPlus plc issued €25.0 million in unsecured bonds. The latter is Malta's first-ever issue of Green Bonds.

By the end of September, 20 firms had bonds that were listed on the MSE through Prospects, an unchanged number compared with end-June.⁹

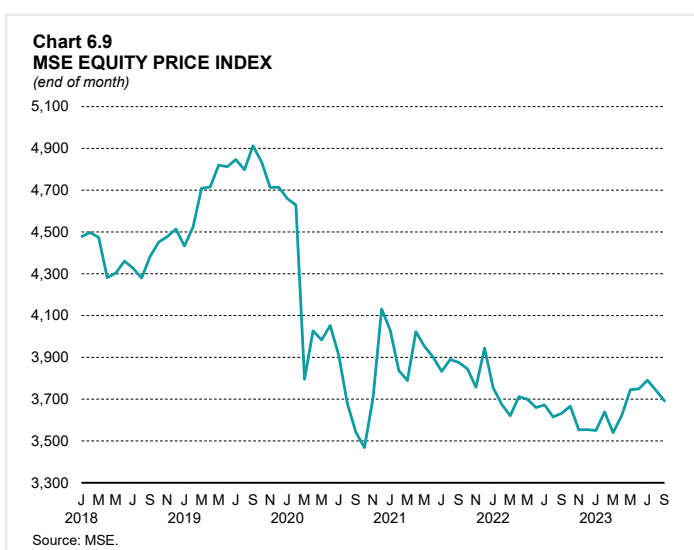
In the secondary market, turnover in government bonds increased to €41.8 million, from €26.5 million in the second quarter of 2023. Meanwhile, turnover in corporate bonds declined to €22.5 million from €27.6 million, previously.

The yield on five-year Government bonds rose further to 3.90% at the end of September, from 3.67% three months earlier (see Chart 6.8). The yield on ten-year bonds also increased, reaching 4.11% from 3.76% in June. Likewise, in the euro area, benchmark yield on five-year bonds rose to 3.27% from 3.00%, while the benchmark yield on ten-year bonds increased to 3.51% from 3.16%. As the increase in the domestic ten-year yield was equal to that in the euro area benchmark, the spread between the two remained unchanged at 60 basis points.



MSE Share Index declines during the quarter

During the third quarter of 2023, share prices in Malta fell. The MSE Equity Price Index ended the quarter 1.5% below its level at end-June but was 1.6% higher than 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, was 0.7% lower than its level at end-June.



⁹ Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.

BOX 3: TRANSACTIONS AT POINT OF SALE IN MALTA BETWEEN 2018 AND 2022¹

Introduction

This review updates previous analysis carried out by the Central Bank of Malta on transactions at Point of Sale (POS) terminals in Malta.² The Bank collects data on a semi-annual basis on card-based payments from local credit, payment, and e-money institutions to analyze closely the payments landscape and trends at a national level. This study investigates the number and type of payment cards issued in Malta, together with all payment transactions effected with such cards, particularly at POS terminals located in Malta which are provided by local acquirers.

The analysis is based on reporting from both acquirers and issuers. Acquiring data are reported by payment service providers (PSPs) offering the physical POS terminal to local merchants for transactions effected with resident and non-resident cards, while the issuer data are reported by locally registered institutions which issue the payment cards to customers.

Data for the period 2018-2021 are reported pursuant to CBM Directive No. 5 on Statistics Reporting Requirements, and in line with ECB Regulation on Payment Statistics ECB/2013/43. On the other hand, data for 2022 falls under the new ECB Regulation ECB/2020/59 on Payment Statistics. While the new Regulation requires the collection of similar payments data, it mandates more granular reporting.³

It should be noted that data on POS terminals with the contactless functionality are collected under the umbrella of the ECB Regulation on Payment Statistics ECB/2020/59, with these data available as from reference year 2022. This analysis also depicts the volume and value of payment transactions initiated online with domestic cards, directed to local and foreign based merchants.

General overview

During 2022, there was a considerable increase in payments at local POS terminals, with both locally-issued and foreign-issued cards. There could be several factors that led to this increase. During 2022, economic activity rebounded strongly as restrictions on high contact services sectors were lifted. The recovery in economic activity accompanied by strong employment growth, and hence more card users, has led to a strong rise in domestic consumption. The efficiency, reliability and security associated with card payments, especially when compared to traditional paper-based payment instruments, is making such payment instrument more popular and changing payment habits. Additionally, enhanced marketing

¹ This box was prepared by Ms Victoria Briffa, Officer II Regulation and Oversight Office, with the assistance of Ms Silviene Cassar, Officer II within the same Office and Mr Kirsten Ellul, Manager Regulation and Oversight Office. This box was reviewed by Ms Sylvana Gatt, Head Payments and Banking Department and Mr Benoit Waelkens, Chief Officer Banking Division. The views expressed in this box represent those of the authors and should not be interpreted to reflect those of the Bank. Any remaining errors are the authors' own.

² See Briffa, V. (2022), "Transactions at Point of Sale (POS) Terminals in Malta in Recent Years", *Quarterly Review* 2022(4), pp. 73-78, Central Bank of Malta.

³ Data for 2022 are provisional and subject to change and revision.

campaigns by the reporting agents to further promote the use of electronic payments could have also contributed to this increase.

During the five years under review, transactions at POS terminals with resident cards increased in both volume and value terms. However, data with non-resident cards depict a substantial drop in values during 2020 due to travel restrictions as a result of the COVID-19 pandemic. As expected, data for 2021 presents a steady recovery following the lifting of several pandemic-related restrictions, and a sharp rebound in private consumer expenditure at physical POS terminals. A stronger increase is presented during 2022, with both the volumes and values of transactions carried out at physical POS terminals with foreign cards doubling when compared with the previous year, and exceeding pre-pandemic levels as remaining restrictions were removed.

Card issuers

Table 1 shows the number of payment cards issued with a debit, credit, and e-money functionality in Malta during recent years.⁴

In terms of debit card issuance over a five-year period, a marginal drop of 0.3% was registered over the period 2018-2020. However, issuance of debit cards recovered in subsequent years, recording an annual increase of 11.0% in 2021 and a further annual jump of 53.8% during 2022, reaching a total number of 1.2 million debit cards issued by year end. The reason for this substantial increase is mainly attributed to new products and marketing efforts from several reporting institutions, a shift in payment habits towards electronic means of payment and an increase in employment.

Similarly, cards with a credit function decreased over the first four years under review, from 179,359 in 2018 to 170,455 in 2021, resulting in a decrease of 5.0%, reflecting the effects of the pandemic. During 2022, an annual increase of 9.5% in credit card issuance is recorded, ending 2022 with a total of 186,612 cards.

Table 1
TOTAL NUMBER OF PAYMENT CARDS ISSUED IN MALTA

(number of cards)

	2018	2019	2020	2021	2022
Cards with a credit or debit function	860,833	809,819	846,850	924,264	1,345,679
<i>of which:</i>					
Cards with a debit function	681,474	632,101	679,281	753,809	1,159,067
Cards with a credit function	179,359	177,718	167,569	170,455	186,612
Cards with an e-money function ⁽¹⁾	55,636	32,939	33,388	105,883	164,598
Total	916,469	842,758	880,238	1,030,147	1,510,277

Source: Central Bank of Malta.

⁽¹⁾ Excludes closed loop cards.

⁴ E-money cards are considered as pre-paid cards which can be re-loadable (from an e-money account).

Cards with an e-money function initially declined from a total number of 55,636 cards in 2018 down to 32,939 cards the following year, remaining close to that level in 2020. However, after 2020, these picked up strongly, more than trebling to 105,883 in 2021, rising further to 164,598 cards in 2022, almost trebling the number compared to that of 2018.

When analysing the total number of debit and credit cards issued in Malta during 2022, a considerable increase of 45.6% was registered when compared to the previous year. A more significant increase of 56.3% is recorded when comparing data to that registered in 2018, mainly coming from debit card issuance.

Overall, the total number of issued cards stands 64.8% higher than its 2018 level. The strongest year-on-year increase registered along the five years under review, is that of 2022 with a 46.6% gain over the previous year. Table 1 clearly shows that this is the result of the increase in e-money card issuance followed by debit cards issued during that year, reflecting increased interest of consumers in owning a card.

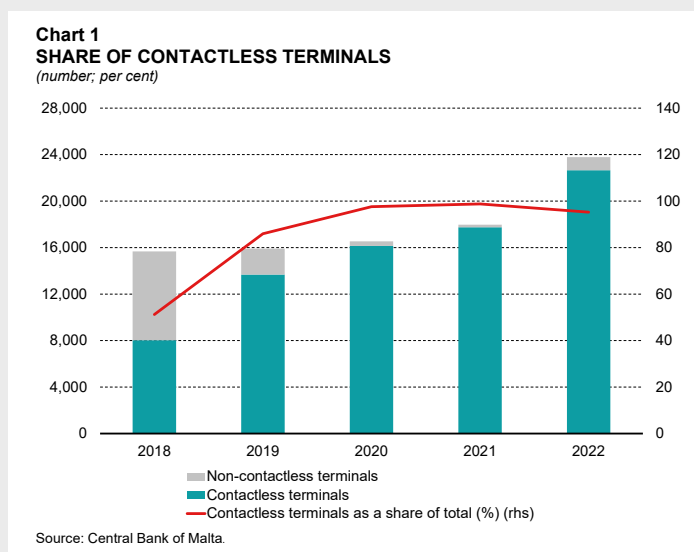
Card acquirers

This section reports data from acquirers, which provide the physical POS terminals to merchants.

During 2018, only three institutions offered such terminals. However, by 2022 the total increased to seven acquiring institutions which eventually facilitated the increase in the number of physical POS terminals by local merchants. It should be noted that transactions effected on POS terminals provided by foreign acquirers to local merchants are not included in this analysis since these report traffic in the countries where they are licensed. Thus, the true number of POS terminals in Malta, as well as card payment transactions made at POS terminals in Malta, are higher, and is therefore a limitation of this report.

The number of POS terminals located in Malta increased from 15,672 in 2018 to 23,786 terminals in 2022, resulting in a 51.8% cumulative increase over a period of five years. The year 2022 also registered the strongest annual increase of 32.4%, or 5,818 physical terminals (see Chart 1).

The substantial increase during 2022 mainly emanates from a single acquirer, tripling the



number of physical POS terminals offered to Maltese merchants when compared to the previous year.

Chart 1 also outlines that POS terminals with contactless functionality has increased steadily, with such terminals providing a quicker and more convenient way for consumers to effect payments. During 2018 only 51.2% of all POS terminals located in Malta were contactless. This went up to 98.8% during 2021, resulting in nearly all the terminals having the contactless functionality. However, by the end of 2022, the number of contactless terminals as a share of total terminals decreased marginally to 95.3%. This decrease is mainly emanating from two institutions, with one new institution providing all the terminals with the non-contactless functionality during the year. Moreover, another institution increased the share of non-contactless terminals from 2.3% in 2021 to 6.9% in 2022. The increase in contactless POS terminals can be attributed to the fact that the amount for contactless payments made with a payment card without the user inputting the PIN has increased from €20/€25 to €50 in 2020. Additionally, mobile payments through the Near Field Communication (NFC) technology, which allow payments to be made via smartphones and wearables connected to the customer's payment card, were recently introduced and have gained in popularity. This technology offers added convenience, ease of use, enhanced security and improved efficiency to the users.

Payment transactions effected at local POS terminals with cards issued by local institutions

This section outlines some information on the volume and value of payment transactions effected at POS terminals provided by domestic institutions with locally issued debit and credit cards.

As outlined in Table 2, the volume and value of such card payment transactions have been increasing consistently, registering an increase of 149.1% in volume terms, from the 18.5 million transactions in 2018 to 46.1 million in 2022. The value of transactions also surged in this period, broadly doubling from €1.0 billion in 2018 to €2.0 billion in 2022. However, the average value per POS transaction decreased from €55 in 2018 to €44 per transaction in 2022. This implies that, on average, consumers are increasingly utilising their payment card to settle lower value payments at physical POS terminals.

The volume of payment transactions per POS terminal depicts an increasing trend, rising from 1,181 transactions in 2018 to 1,938 transactions during 2022. The corresponding values follow

Table 2
TRANSACTIONS AT TERMINALS WITH CARDS ISSUED BY RESIDENT PSPs (INVOLVING NON-MFIs)⁽¹⁾

	2018	2019	2020	2021	2022
Volume	18,511,316	20,090,198	22,399,033	29,433,832	46,108,160
Value (€)	1,025,829,382	1,055,401,856	1,090,082,357	1,333,348,693	2,028,631,942
Average value per transaction (€)	55	53	49	45	44
Number of POS terminals	15,672	15,911	16,538	17,968	23,786
Volume per terminal	1,181	1,263	1,354	1,638	1,938
Value per terminal (€)	65,456	66,332	65,914	74,207	85,287

Sources: Central Bank of Malta; authors' estimates.

⁽¹⁾ Except e-money transactions.

a similar trend, registering an average of €65,456 per terminal in 2018 to €85,287 per terminal in 2022 resulting in a 30.3% increase in five years.

The Central Bank of Malta also collects data on transactions initiated online which are known as e-commerce transactions.⁵ Data reported between 2018 and 2022 show that online payment transactions are on the increase, with a growth of

127.0% in volume terms (12.7 million transactions in 2018 to 28.8 million transactions in 2022). Likewise, the corresponding values rose significantly by 288.0%, from €818.9 million in 2018 to €3,177.5 million in 2022. Particularly in 2022, the volume and value of online payment transactions registered an annual increase of 16.5% and 95.0%, respectively. This means that during 2022, customers effected online transactions of a higher value when compared to the previous year. In fact, the average value per online transaction in 2022 was €110 compared to €66 registered during 2021. This increase may partly reflect the change in spending patterns, where customers are increasingly shifting their preference towards the convenience of online shopping rather than the more traditional in-store shopping.

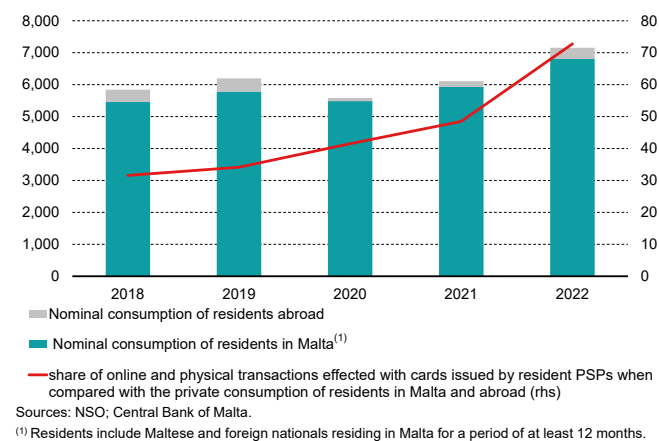
The share of physical and online transactions with cards issued by local PSPs in total consumption of Maltese residents more than doubled since 2018, rising from 31.6% to 72.8% (see Chart 2).⁶

From this analysis it can be concluded that both payments at physical POS terminals and online transactions have experienced a steady upward trend.

Payment transactions effected at local terminals with cards issued by non-resident institutions

The Central Bank of Malta also collects data on payment cards issued by non-resident PSPs and used at local POS terminals.⁷ Such payments are effected by tourists and foreign nationals residing in Malta, as well as Maltese holders of foreign cards.

Chart 2
PRIVATE CONSUMPTION OF RESIDENTS AND ONLINE TRANSACTIONS INITIATED WITH CARDS ISSUED BY RESIDENT PSPs
(EUR millions; % of private consumption of residents)



⁵ Data for transactions initiated online are reported from the issuing perspective.

⁶ For clarity's sake, the nominal consumption of residents abroad represents Maltese residents who temporarily travel outside Malta.

⁷ For more clarity, this section includes card payment data effected with cards issued by foreign licenced institutions (including cards offered to Maltese residents) on POS terminals provided by locally licenced institutions.

As shown in Table 3, the volume and value of POS payments with foreign issued cards increased steadily during the five years under review, with the number of transactions surging from 9.4 million in 2018 to 33.8 million in 2022. Likewise, the corresponding values increased, from €591.1 million in 2018 to €1,094.2 million in 2022, resulting in an increase of €503.1 million.

As expected, this upward trend was interrupted in 2020 due to the COVID-19 pandemic, where a decrease of 31.9% (€210.3 million) in value terms was registered, even while volumes rose somewhat. The decrease in transaction values partly reflects the drop in tourist arrivals as a result of the restrictions imposed during the pandemic, as well as lockdowns on the local population, which contributed to reduced consumption. By contrast, the rise in volumes in 2020 reflects the inclusion of data for transactions through the use of cards of a foreign institution with a high degree of presence in Malta, included with the foreign cards data. This foreign institution's data resulted in a 73.5% share of the volume but a lesser share of 55.4% in the corresponding value when compared to foreign cards, indicating that the average value of transactions for this foreign provider is somewhat lower.

In 2021, volumes went up to 18.2 million for a total value of €597.3 million, resulting in an annual increase of 34.9% and 33.3%, respectively. This reflects the gradual unwinding of pandemic-related restrictions, and the start of the recovery in tourism activity.

Furthermore, data for 2022 depict a considerable increase of 86.0% (15.6 million) in volume and 83.2% (€496.9 million) in value reflecting the fact that restrictions were completely lifted in the course of that year and activity in the tourism industry rebounded significantly.

Table 3 also shows that the average value per transaction with non-resident cards declined considerably, from €63 in 2018 down to €32 in 2022, indicating that payment cards issued by non-resident PSPs are increasingly being used to settle lower value payments. This is probably due to the wider use of contactless card payments following the increased penetration of a foreign institution in the domestic market since 2020.

Along the five years under review, the volume per terminal experienced an increasing trend, while the value aspect registered a sharp decline during 2020, resulting from the COVID-19

Table 3
TRANSACTIONS AT DOMESTIC POS TERMINALS WITH DEBIT AND CREDIT CARDS ISSUED BY NON-RESIDENT PSPs (INVOLVING NON-MFIs)⁽¹⁾

	2018	2019	2020	2021	2022
Volume	9,366,329	12,766,781	13,496,012	18,199,534	33,846,311
Value (€)	591,075,991	658,443,587	448,109,444	597,267,809	1,094,198,035
Average value per transaction (€)	63	52	33	33	32
Number of POS terminals	15,672	15,911	16,538	17,968	23,786
Volume per terminal	598	802	816	1,013	1,423
Value per terminal (€)	37,715	41,383	27,096	33,241	46,002

Sources: Central Bank of Malta; authors' estimates.

⁽¹⁾ Except e-money transactions.

Note: As from 2020 data includes transactions by one foreign institution with a strong presence in Malta.

travelling restrictions and temporary closure of shops. Usage recovered during the following two years, where both volumes and values per terminal in 2022 registered an increase of 74.4% and 69.8%, respectively, when compared with 2020 data.

In 2022, the share of transactions effected on physical POS terminals and online with cards issued by resident and non-resident PSPs when compared with the overall consumption of all residents and non-residents, stood at 72.5%. This is above the share of 52.6% for 2021 and 32.9% registered in 2018 (see Chart 3).

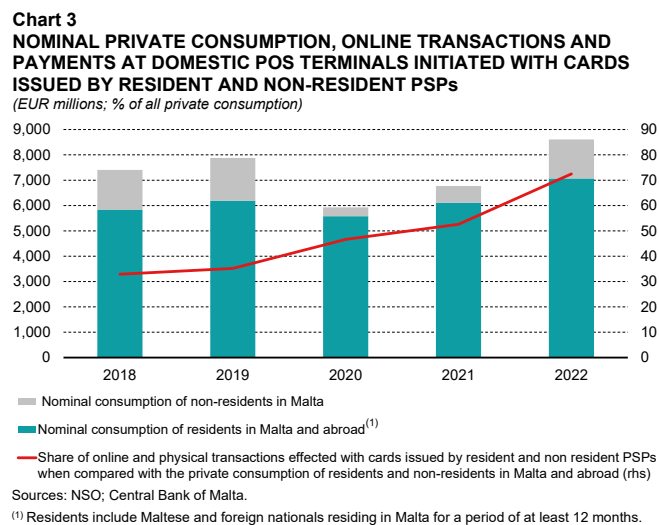
This was mostly due to the increased use of online transactions since the pandemic and, to a lesser extent, the increased use of cards issued by resident PSPs at POS terminals. Similarly, physical transactions carried out with cards issued by non-resident PSPs also exceeded pre-pandemic levels.⁸

Conclusion

The data and information presented in this study show that the number of physical POS terminals in Malta increased during 2022, with 95.3% of these terminals now being equipped with the contactless functionality. In recent years, foreign acquirers have also been passporting their services in Malta. However, transactions effected on their POS terminals are not included in the analysis since these acquirers are obliged to report traffic on their POSs in the countries where these are licensed.

The increase in POS terminals and the improved contactless functionality of debit and credit cards have resulted in increased use of these payment methods among Maltese consumers as reflected in the constant surge in the volume of transactions per terminal with cards issued locally along the five years under review. An annual increase of 18.3% in the volume of transactions per terminal, and an annual increase of 14.9% in the value of transactions per terminal can be observed when comparing 2022 to 2021. Data also reflects that such payment instrument is being used to settle payments for lower value transactions.

Likewise, transactions effected on local POS terminals with non-resident cards also increased in terms of volumes of transactions. While their corresponding values decreased



⁸ These figures are indicative. They exclude online transactions initiated with cards issued by non-resident PSPs. On the other hand, they may include business to business POS card payments and business to business online transactions.

significantly during 2020, due to the pandemic restrictions, impacting international travel and various elements of domestic consumption, by 2022 these registered the highest data recorded during the five-year analysis, recording a total volume of 33.8 million transactions with a corresponding value of €1,094.2 million, nearly doubling data for 2020, reflecting the recovery of the tourism sector.

There are various factors contributing to the results presented above. These include: more card issuers in the market, from seven in 2018 to nine in 2022, more card acquirers, from three in 2018 to seven in 2022, growth in the gainfully occupied population, the rolling out of contactless cards and terminals, the introduction of Apple Pay and Google Pay by a number of card issuers, changing payment habits, as well as the presence of a large foreign card issuer which has succeeded in penetrating the market for payment cards and accounts in Malta.

Future analysis will seek to compare such results with data on instant payments when such payment services are rolled out by PSPs, should the legislative proposal of the European Commission, which mandates PSPs to offer instant credit transfers to its customers, be adopted.