

BOX 5: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR^{1,2}

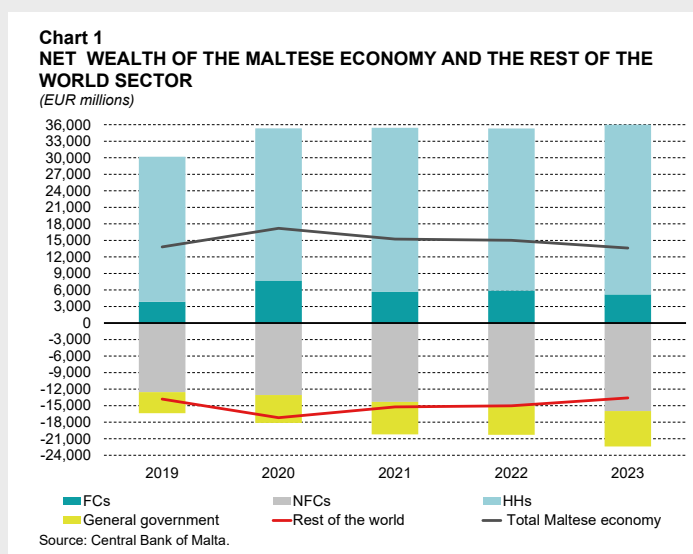
The Central Bank of Malta has been compiling Malta's financial accounts statistics since 2004. The latest available statistics in this regard refer to end-December 2023.³ Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified by institutional sector, namely households, non-financial companies (NFCs), credit and financial institutions, the general government, and the 'rest-of-the-world' sector.^{4,5}

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) framework, and the final section outlines the financial interlinkages among the resident sectors.⁶

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 December 2023 (see Chart 1).

The net financial wealth of the resident economy amounted to €13,608.6 million at end-December 2023, decreasing from €15,019.7 million in December 2022.⁷ The decrease was mainly driven by a drop in the net financial wealth of NFCs and the general government and, to a lesser extent, that of FCs which offset the improvement in the net financial wealth of households.⁸



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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 This box covers data for the period 2019-2023 as revisions to the rest of the world, households and non profit institutions and other financial institutions sectors were carried out from 2019 onwards. Further information regarding this revision can be found [here](#).

⁴ See also *Annual Report 2016*, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.

⁵ The 'rest of the world' sector comprises non-resident units engaging in transactions with resident institutions.

⁶ Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances sets out the MIP procedure.

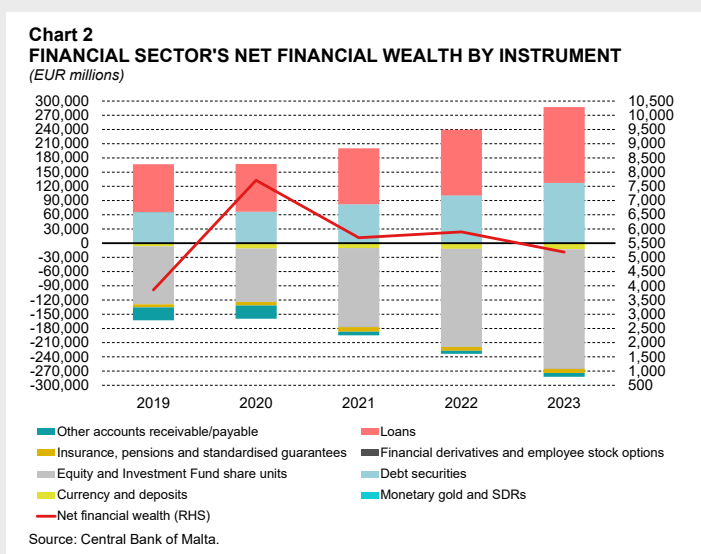
⁷ Net financial wealth is defined as the difference between financial assets and liabilities; it shows which sectors are net lenders and which are net borrowers.

⁸ 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.

Financial assets and liabilities of the FCs' sector

The aggregate net financial wealth of Malta's FCs amounted to €5,187.3 million in December 2023 (see Chart 2). The decrease since December 2022 was mainly due to higher net liabilities in the form of equity, other accounts payable, deposits, insurance technical reserves and financial derivatives. These offset increases in net

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

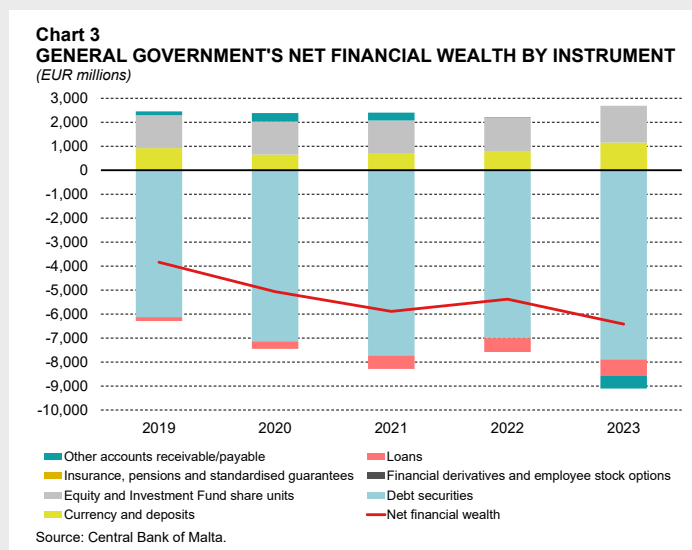


Financial assets and liabilities of the general government

The net financial wealth position of the general government has been persistently in negative territory over the period 2019 to 2023. In December 2023, the net financial position stood at -€6,417.7 million, decreasing by €1,039.5 million when compared to December 2022. The drop in the net financial wealth position as at end 2023 was driven mainly by an increase in debt securities outstanding, other accounts payable and loans. This offset the increase in deposits and equity held. As shown in Chart 3, the general government remained a net asset holder of currency and deposits as well as equity, but a net liability holder of other instruments, mainly of debt securities.

Financial assets and liabilities of NFCs

Chart 4 shows that NFCs had net financial liabilities of €15,979.6 million as at December 2023, a decrease of €1,076.1 million since December 2022. In December 2023, NFCs were net asset holders of currency and deposits and other accounts receivable. They were net liability



holders mainly of equity, loans, and debt securities. When compared with December 2022, the increase in the NFCs' net liability position was due to a rise in their financing through equity, followed by loans and debt securities. These offset an increase in holdings of currency and deposits, and other accounts receivable.

Financial assets and liabilities of households

In December 2023, households' net financial wealth reached €30,818.6 million, an increase of €1,412.2 million or 4.8%, when compared with December 2022. This was due to an increase in holdings of financial assets surpassing the increase in liabilities. 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 debt securities as well as insurance products. By contrast, this sector was a net liability holder of loans and other accounts payable. The increase in net financial wealth position since 2022 was mostly driven by an increase in equity and investment fund units, and debt securities which offset a decrease in holdings of insurance technical reserves and increase in loans and other accounts payable.

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

Chart 4
NFCs' NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)

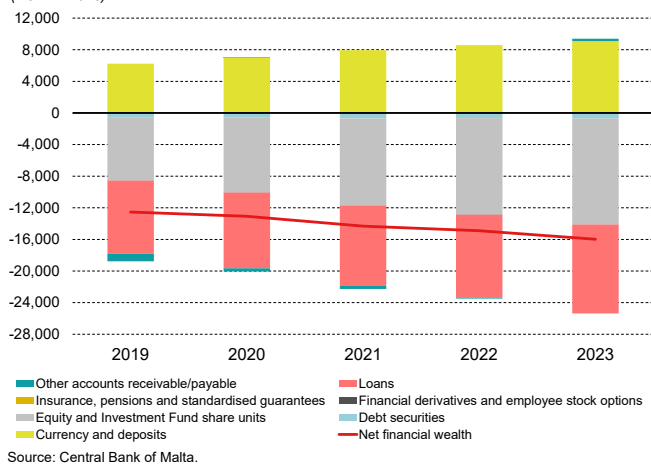
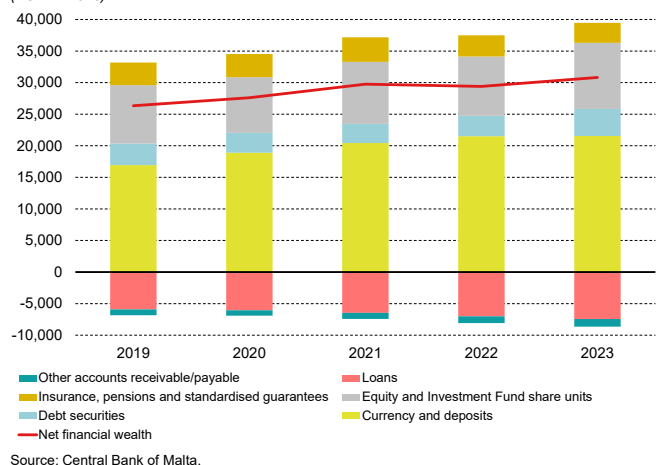


Chart 5
HOUSEHOLDS' NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)



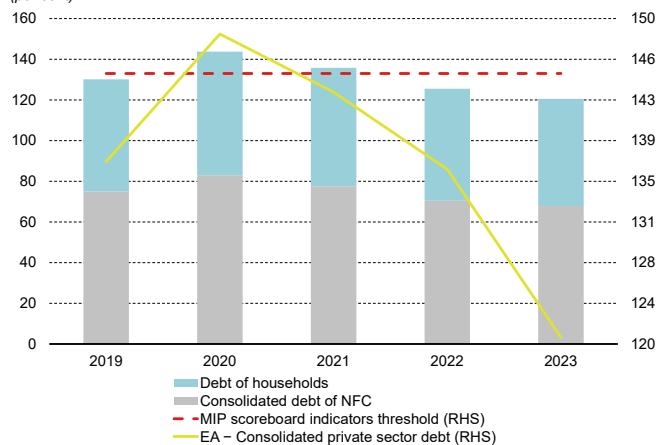
within the debt-to-GDP threshold of 133% set by the MIP.^{9,10}

As at December 2023, the indicator stood at 120.5%, registering a drop of 4.9% when compared to December 2022. 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 2019 to 2023 the indicator stood below the euro area average (see Chart 6).¹¹

Corporate debt since 2019 constitutes on average 57.0% of the consolidated private sector debt. Chart 7 shows the unconsolidated debt of NFCs in the form of debt securities and loans by creditor sectors, the latter constituting FCs, households, NFCs, general government, and the rest of the world sectors. From this perspective, the largest exposures stemmed from liabilities to the NFC sector itself, followed by liabilities to FCs.

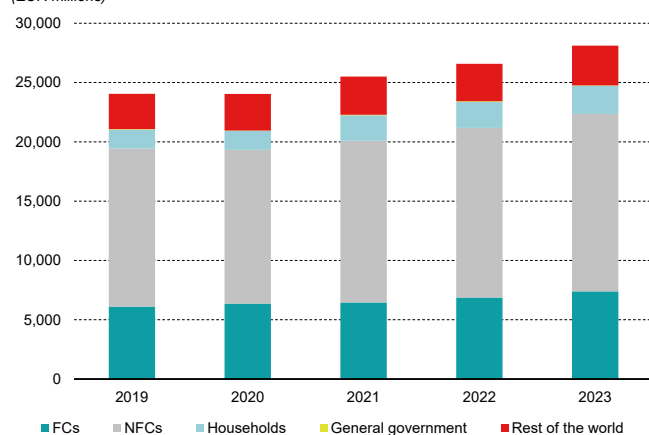
Firms in Malta rely significantly more on loans than on debt securities to finance their activities. Even though the issuance of debt securities increased over the years, this remained

Chart 6
PRIVATE SECTOR'S DEBT AS A SHARE 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.

⁹ 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.

¹⁰ 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.

¹¹ 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 2022, while ECB data were used for 2023 data.

relatively low, amounting to 3.2% of total NFCs' debt in the fourth quarter of 2023. 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.¹² In fact, as at December 2023, debt from other corporates amounted to €14,967.5 million, or 53.2% of total NFCs' unconsolidated debt. Debt from FCs, mainly bank loans, amounted to €7,387.6 million or 26.3% of total NFCs' debt. Another important source of finance for resident corporates was debt from abroad, which amounted to €3,358.4 million in December 2023, partly reflecting the number of foreign-owned subsidiaries operating in Malta. Meanwhile, debt from households (mainly loans from directors and shareholders) amounted to €2,363.3 million in December 2023. Nonetheless NFCs' leverage ratio has been decreasing since 2019; increasing marginally to 205.7% in December 2023 from 203.1% in December 2022 (see Chart 8).¹³

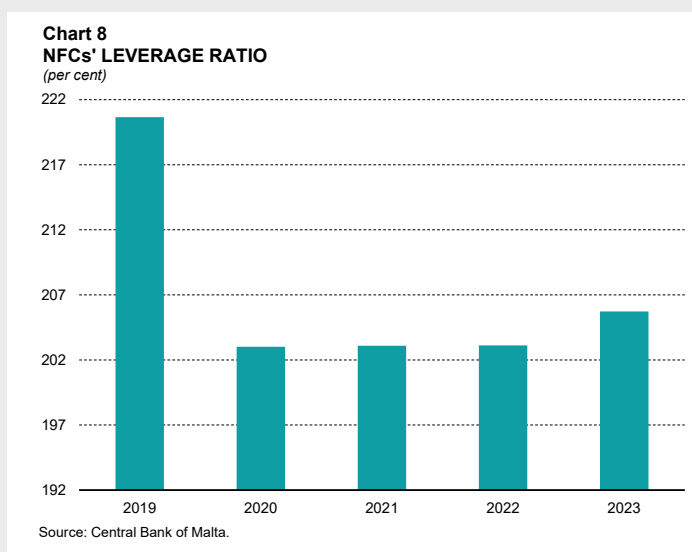
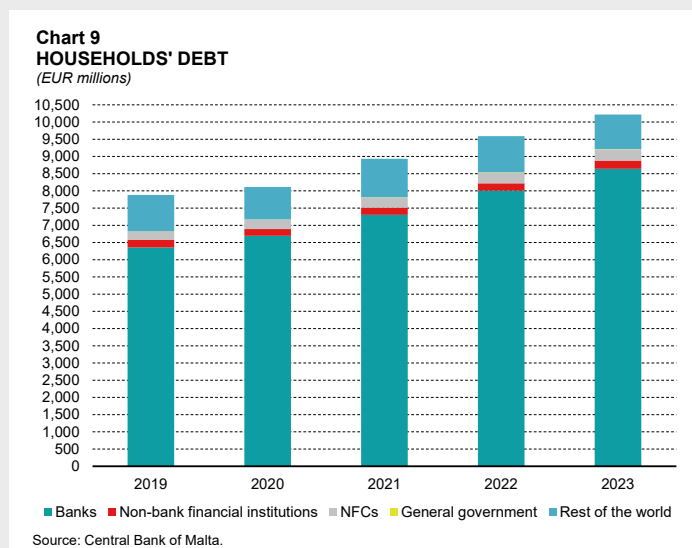


Chart 9 shows that households' debt as at end-December 2023 stood at €10,218.7 million, increasing by €629.5 million since end-December 2022 – primarily due to an increased take up of loans from credit institutions. Indeed, household debt mainly comprises loans from banks which amounted to 84.6% of the sector's total debt. The remaining debt mainly consisted of loans from



¹² See Box 2: Non-financial corporations' loans from other corporates – evidence from Malta's Financial Accounts Statistics, *Financial Stability Report 2017*.

¹³ Leverage ratio is defined as total unconsolidated debt divided by total equity. Total debt in Chart 8 includes debt securities, loans, other accounts payable and financial derivatives.

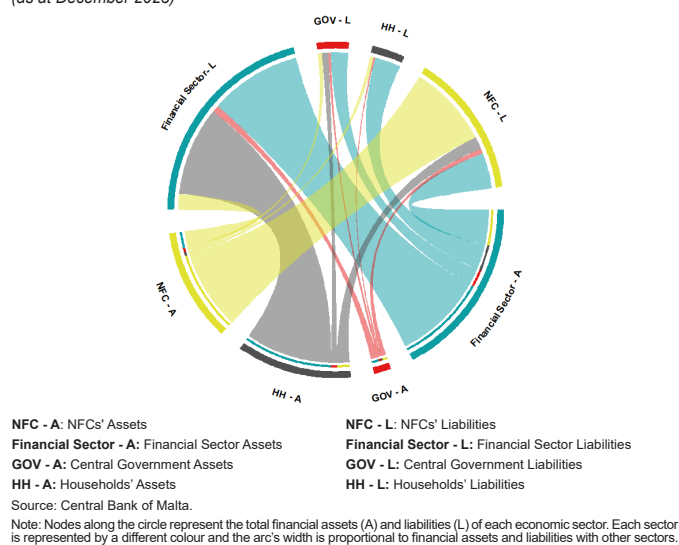
abroad, directors/shareholders' loans from NFCs and non-bank financial institutions, and dues to government.

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 December 2023.¹⁴ The largest asset position of the financial sector, including banks, reflects intra-sectoral holdings, that is, holdings with other credit and financial corporations, mainly in the form of equity and investments funds, and deposits. These amounted to 40.3% of their total domestic holdings in the fourth quarter of 2023, a decrease of 1.2% from 41.5% in December 2022. 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 44.7% of its total domestic financial assets with the financial sector, primarily in the form of deposits, increasing from 41.5% in December 2022. With regards to NFCs, most of their assets are held by other NFCs. These increased marginally to 77.2% of NFC's total domestic assets in December 2023, from 76.5% in December 2022. Finally, households' domestic asset holdings continued to be held mainly with the financial sector. Households' domestic financial asset holdings with the financial sector marginally decreased to 82.2% of their total assets in December 2023, from 83.6% in December 2022.

Further statistical information can be found on the [website](#) of the Central Bank of Malta.

Chart 10
FINANCIAL INTERLINKAGES BETWEEN RESIDENT SECTORS
(as at December 2023)



¹⁴ The interlinkages between resident sectors as at December 2022 is not being shown graphically since there were no major changes.