6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the fourth quarter of 2023, financing conditions were loose from a historical perspective, following seven quarters of tight conditions.

In December, Maltese residents' deposits with MFIs in Malta, increased from their year-ago level, mainly reflecting higher balances belonging to households.[1] *Credit to Maltese residents grew at a faster pace compared to September. This reflected a smaller 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. Thus, the spread between the two rates widened.

In December, the primary market yield on Treasury bills increased from that prevailing three months earlier. Meanwhile, secondary market yields on five and ten-year MGS declined. As the decline in the domestic ten-year yield was more pronounced than that in the euro area benchmark, the spread between the two narrowed. Domestic share prices rose between September and December and were also higher compared with a year earlier.

Monetary and financial conditions

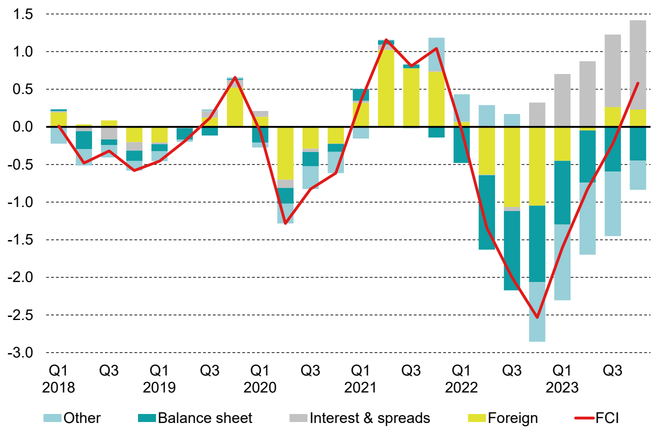
Financial conditions turn loose[2]

According to the Bank's FCI, in the fourth quarter of 2023, financial conditions turned loose from a historical perspective, following seven consecutive quarters of tight conditions (see Chart 6.1). This improvement was driven by a loosening effect from domestic factors, which contrasts with a tightening effect in the previous quarter. On the other hand, foreign influences recorded a marginally smaller loosening effect, driven by lower uncertainty.

The loosening in domestic factors compared to September was visible in all sub-components. The tightening effect of the 'other' component broadly halved, driven by a smaller negative contribution from issues of NFC securities. The 'balance sheet' component also recorded a smaller tightening effect, reflecting a smaller negative contribution from real deposits.

Meanwhile, the 'interest and spreads' component had a larger loosening effect, notably

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.

driven by a decrease in the sovereign spread. Additionally, domestic lending rates do not fully reflect recent increases in the ECB's policy rates, with the spread between deposit and lending rates turning more negative compared to September.

Financial conditions were also loose compared to the fourth quarter of 2022. The loosening in annual terms is even more significant compared to that in quarterly terms and was broad-based across components. Nevertheless, it was mostly driven by movements in the foreign component.

The loosening effect in domestic factors was notably due to movements in the spread between MFI lending rate and the policy rate, and in the sovereign spread (part of the 'interest and spreads' component). Both spreads stood negative in December 2023, whereas they had been positive a year earlier. This was followed by an increase in the contribution of issues of NFC securities (part of the 'other' component), and a higher return on equity (part of the 'balance sheet' component).

Maltese residents' deposits increase from their year-ago level

Total deposits held by Maltese residents with MFIs in Malta grew by 1.7% in the year to December, following a contraction of 2.2% in September (see Table 6.1). The latest increase mainly reflects higher balances belonging to households.

During the 12 months to December, deposits remained largely composed of overnight deposits, which is the most liquid component. The share of overnight deposits in total deposits reached

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2023	2022	2023			
	Dec.	Dec.	Mar.	June	Sep.	Dec.
Overnight deposits	**20,373**	**8.0**	**3.2**	**1.1**	**-3.6**	**-0.2**
of which						
Households	14,268	12.4	7.8	5.0	0.0	1.8
NFCs	3,430	3.0	-3.0	-5.2	-6.2	-5.2
Deposits redeemable at notice of up to three months	**86**	**-38.7**	**-21.0**	**-10.5**	**9.4**	**-26.0**
of which						
Households	1	5.4	-1.4	-0.2	-5.5	-98.6
NFCs	61	-59.5	-35.9	-12.0	28.9	30.4
Deposits with an agreed maturity of up to two years	**2,290**	**-24.7**	**-11.4**	**0.3**	**12.1**	**25.7**
of which						
Households	1,814	-27.6	-15.4	3.9	22.9	34.0
NFCs	235	-3.4	19.0	10.6	-12.3	23.1
Deposits outside M3(1)	**1,009**	**-14.4**	**-12.4**	**-9.2**	**-2.8**	**0.8**
of which						
Households	900	-9.6	-7.3	-5.4	-3.1	-4.5
NFCs	34	-34.5	-34.9	-20.3	-6.4	-2.8
Total residents deposits(2)	**23,758**	**3.0**	**0.9**	**0.5**	**-2.2**	**1.7**
of which						
Households	16,982	6.0	4.3	4.2	1.8	3.8
NFCs	3,760	0.3	-3.1	-4.6	-6.2	-3.4

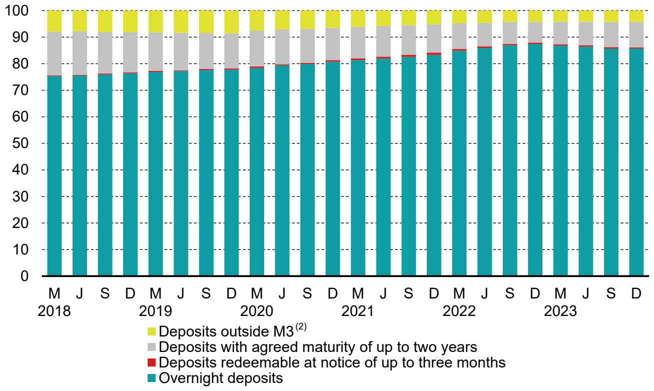
Source: Central Bank of Malta.

(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.

85.8% in December, from 85.7% three months earlier (see Chart 6.2). These deposits, however, fell by 0.2% in December, following a 3.6% decrease recorded three months earlier. The latest contraction reflected a sharp decline in balances held by financial intermediaries, and NFCs partially offset by increases in deposits belonging to households.

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 two years – the second largest component – registered a strong increase of 25.7% in the year to December, compared with 12.1% in September. As a result, their share in overall deposits rose marginally to 9.6%. This outcome possibly reflects the more attractive terms on 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 and NFCs.

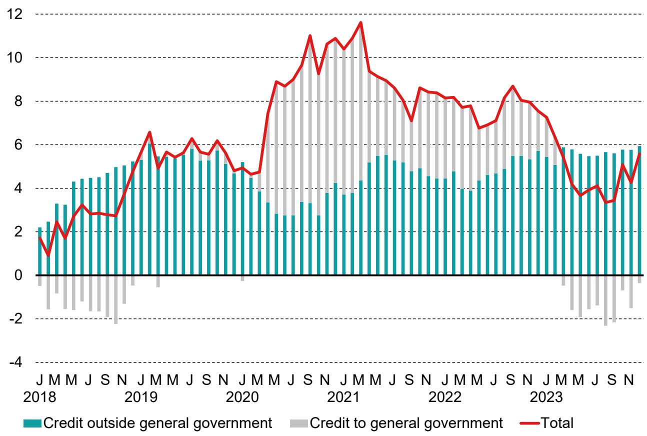
Deposits redeemable at notice of up to three months declined by 26.0% year-on-year, following an increase of 9.4% in the year to September. Following this decline, their share in total deposits decreased to 0.4%, from 0.5% recorded in September.

Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with an agreed maturity of over two years – increased by 0.8% during the year to December, following a year-on-year decrease of 2.8% in September. Their share in overall resident deposits remained unchanged from September, standing at 4.2%.

Credit to residents grows at a faster pace

Credit to Maltese residents expanded by 5.6% in the year to December, above the 3.4% registered in September, as growth in credit to general government decreased at a slower pace, while credit to other residents expanded at a slightly faster pace (see Table 6.2 and Chart 6.3).

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



Source: Central Bank of Malta.

Credit to general government fell by 1.4% in the year to December, following a contraction of

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

	EUR millions 2023 Dec.	2023 Dec.	Mar.	June	Sep.	Dec.
Credit to general government	**4,736**	**7.0**	**-1.7**	**-5.8**	**-8.1**	**-1.4**
Credit to residents outside general government	**14,661**	**7.8**	**8.1**	**7.5**	**7.7**	**8.0**
Securities and equity	309	-5.7	-2.2	-2.6	-3.3	-4.6
Loans	14,352	8.1	8.4	7.7	7.9	8.4
of which:						
Loans to households	8,353	10.1	9.2	7.8	7.3	8.2
Mortgages	7,697	10.4	9.1	7.9	7.2	7.8
Consumer credit and other lending	656	7.2	9.4	7.2	8.5	13.3
Loans to NFCs[(1)]	4,986	6.7	9.0	8.2	9.2	8.8
Total credit to residents	**19,396**	**7.5**	**5.4**	**3.9**	**3.4**	**5.6**

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

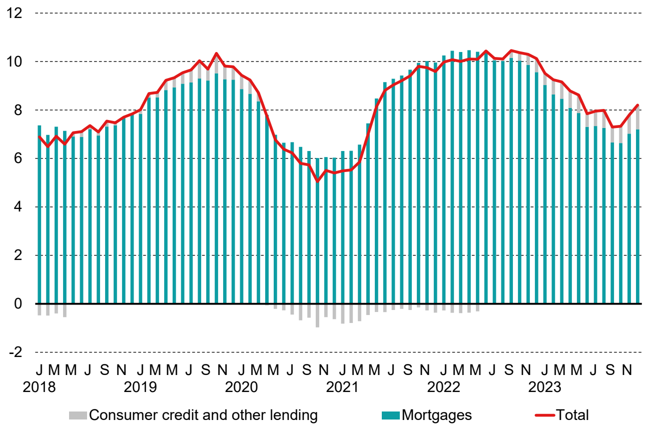
8.1% three months earlier, reflecting a smaller decline in MFI holdings of Treasury bills. By contrast, growth in MFI holdings of Government stocks grew at a marginally faster pace compared to September, with their annual growth standing at 12.2%, from 12.1% recorded in September. In part, this reflects the strong issuance of MGS during the last quarter of the year.

The annual growth of credit to residents outside general government reached 8.0%, up from 7.7% three months prior, reflecting faster growth in loans. Meanwhile, MFI holdings of securities issued by the private sector decreased at a faster annual rate of 4.6%, following a decline of 3.3% in the year to September.

Growth in loans to households increased to 8.2% on an annual basis compared with 7.3% in the year to September. This increase was driven by faster growth in mortgage lending. This component rose at an annual rate of 7.8% in December, up from 7.2% in September. Meanwhile, consumer credit and other lending grew at a faster rate of 13.3%, after increasing by 8.5% in September.

By contrast, loans to NFCs rose at a slower annual rate of 8.8%, following a 9.2% increase, three months earlier (see Chart 6.4). The increase in loans to NFCs over the year to December was mainly driven by a strong increase in lending to private NFCs. Loans to public NFCs also increased albeit to a smaller extent in absolute terms.

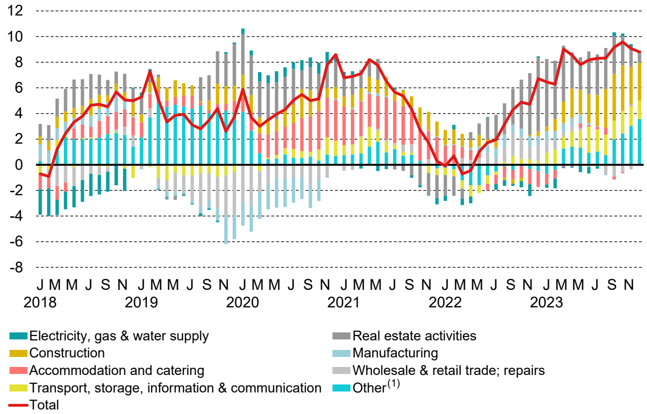
Chart 6.4
CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Sectoral data show that growth in loans to NFCs in December was largely driven by a strong increase in the loans to the construction sector (see Chart 6.5). This was followed by loans to the professional, scientific, and technical activities sector, classified under the 'other' component.

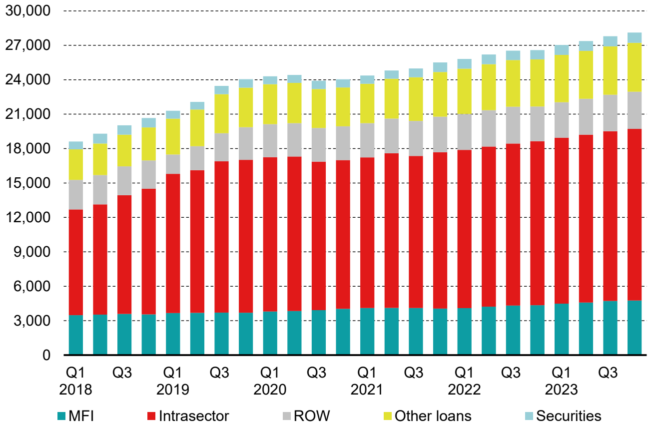
Chart 6.5
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)



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

Banks also expanded their loans to the sector comprising transport, storage, information and communication activities, as well as the real estate sector. Smaller increases were recorded in lending to the energy sector as well as the trades and repairs sector. Loans to the manufacturing sector and the accommodation and food services sector decreased.

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 remained broadly unchanged compared to September, and exceeded the share recorded a year earlier (see Chart 6.6). By December 2023, the share of bank loans in total NFC debt had reached 16.9%, up from 16.4% in the fourth quarter of 2023.

The share of intra-sectoral lending in total NFC debt remained unchanged from September, at 53.2%. This share was 0.5 percentage point lower than that prevailing a year earlier. Nonetheless, this component continued to account for the bulk of NFCs' external financing.

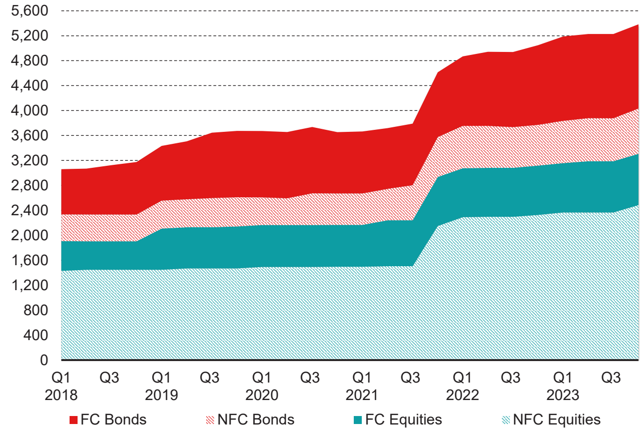
The share of loans from non-residents was broadly stable in both quarterly and annual terms, standing at around 11.5% in December. Meanwhile, the share of 'other loans' remained unchanged for the third consecutive quarter, standing at 15.2% in December. It stood slightly below the 15.4% share recorded in the fourth quarter of 2022. This component largely reflects loans from other financial institutions and households.

Furthermore, the share of securities remained moderate, at 3.2% in December. It has remained unchanged since the beginning of 2023, and marginally above the 3.0% recorded a year earlier.

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

MSE data show that by December 2023, around €2,076.5 million in outstanding corporate debt securities were listed on the Exchange, 7.6% higher than the amount listed a year earlier (see Chart 6.7).[3] 65.0% of this amount was issued by financial entities other than credit institutions.

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 6.1% in annual terms, to reach €3,306.6 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 sectors. The total outstanding amount of listed equity as of December 2023 exceeded that of bonds by over 59.2%.[4]

Spread between deposit and lending rate widens in annual terms

Interest rates on resident's deposits with MFI increased in December, with the average deposit rate to households and NFCs on outstanding balances increasing by 15 basis points, to stand at 0.31% (see Table 6.3). This was largely driven by higher rates on time deposits belonging to NFCs, although remuneration of households' balances also increased.

At the same time, the weighted average lending rate paid by households and NFCs on outstanding loans increased by 27 basis points, reaching 3.58%. This increase was driven by higher rates paid by NFCs. By contrast, rates charged to households remained broadly stable at 2.85%. Mortgage rates edged up by one basis point to 2.69%, while rates on consumer credit and other lending decreased by 28 basis points to 4.26%.

The spread between the weighted average lending rate and the deposit rate closed the quarter under review at 328 basis points, above the 316 basis points recorded 12 months earlier.

During the year to December, the weighted average deposit rate offered on new balances held by households and NFCs in Malta increased by 111 basis points, to 2.41%. By contrast, the weighted average lending rate paid by households and NFCs to resident MFIs fell by 54 basis points, to 3.02%, over the year to December 2023. Lending rates on consumer credit recorded the steepest decline. As a result, the spread between the weighted average lending rate and the deposit rate

[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 FCs other than MFIs.

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

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	2021	2022	2023			
	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec.
Total deposits(1)	**0.21**	**0.16**	**0.15**	**0.19**	**0.24**	**0.27**	**0.31**
of which							
Overnight deposits							
Households	0.02	0.02	0.02	0.03	0.04	0.05	0.04
NFCs	0.01	0.01	0.03	0.07	0.07	0.07	0.10
Savings deposits redeemable at notice							
Households	0.49	0.40	0.16	0.16	0.15	0.15	0.31
NFCs	0.17	0.04	0.12	0.06	0.72	0.45	1.13
Time deposits (less than two years)							
Households	0.57	0.51	0.72	0.95	1.32	1.58	1.79
NFCs	0.62	0.49	0.74	0.95	1.15	1.58	1.85
Time deposits (more than two years)							
Households	1.87	1.78	1.73	1.73	1.76	1.77	1.79
NFCs	1.39	1.12	1.60	1.49	1.26	1.38	3.06
Total loans(1)	**3.36**	**3.23**	**3.32**	**3.41**	**3.59**	**3.61**	**3.58**
of which							
Households and NPISH	3.21	3.01	2.87	2.84	2.91	2.87	2.85
NFCs	3.61	3.63	4.16	4.45	4.87	4.98	4.95
Spread(2)	**3.15**	**3.06**	**3.16**	**3.22**	**3.35**	**3.34**	**3.28**
ECB MROs rate	0.00	0.00	2.50	3.50	4.00	4.50	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.

closed the quarter under review at 61 basis points, well below the 226 basis points recorded 12 months earlier.

Liquidity support measures

By the end of December 2023, 542 facilities were approved and still outstanding under the Malta Development Bank's (MDB) COVID-19 Guarantee Scheme (CGS) (see Table 6.4). These covered total sanctioned lending of €410.2 million, down from €421.9million, covered by 561 facilities in September.[5] By end-December, the outstanding value of disbursed loans stood at €228.8 million, down from €253.6 million at end-September 2023. Almost all these loans will mature in the next four years.

The sector comprising wholesale and retail activities had the largest number of outstanding facilities benefitting from the scheme. By end-December 2023, 146 facilities were approved and still outstanding in this sector, with a sanctioned value of €73.5 million. This was followed by accommodation and food services activities, with 124 facilities, although this sector retained the highest sanctioned amount of €95.0 million.

[5] 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. See COVID-19 Guarantee Scheme for further details.

Table 6.4
MDB CGS – AS AT DECEMBER 2023
Number of facilities; EUR millions

	Total number of facilities(1)	Sanctioned amount(2)
Manufacturing	52	18.1
Construction	27	34.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	146	73.5
Transportation and storage and information and communication	35	40.6
Accommodation and food service activities	124	95.0
Professional, scientific and technical activities	33	20.0
Administrative and support service activities	34	12.1
Real estate activities	11	4.8
Other(3)	80	111.3
Total	**542**	**410.2**

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 and water supply sector.

In 2022, the MDB launched additional support measures in response to the war in Ukraine and high inflation. These schemes closed in December 2023. By end-year, three facilities had been approved under the Subsidised Loans Scheme (SLS), for a total value of €14.2 million.[6] The outstanding level of disbursements in terms of this scheme stood at €2.9 million. These facilities are expected to be fully repaid by the first half of 2024. Moreover, a total of €24.5 million was approved and disbursed under the Liquidity Support Guarantee Scheme (LSGS).[7]

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

According to the January BLS, in the fourth quarter of 2023, all participating banks reported unchanged credit standards, and terms and conditions for lending to NFCs and households in Malta. Banks also expected credit standards on such loans to remain unchanged in the first quarter of 2024.

As regards the demand for credit by NFCs, half of the respondent banks claimed that it had remained unchanged during the quarter under review, while results were mixed for the other half. The majority of surveyed banks did not anticipate changes in demand in the first quarter of 2024.

Demand for loans for house purchases, consumer credit, and other lending was assessed to have remained unchanged by all surveyed banks. For the first quarter of 2024, all banks were also expecting stable demand for these types of credit.

[6] The SLS provided 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.

[7] This LSGS consisted of two measures: LSGS-A provided bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B was specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans were 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.

The January BLS also posed ad hoc questions on changes in banks' access to wholesale and retail funding, and in their risk transfer capacity 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, and the ability to transfer risks off balance sheet in the preceding three months. 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.

Banks were also asked to gauge the impact of new regulatory or supervisory action on their assets, risk-weighted assets, capital, and funding conditions, as well as on their lending standards and margins. For the preceding twelve-month period, none of the banks reported changes in their funding conditions as a result of new regulatory or supervisory action. The majority of surveyed banks reported no changes in their total assets and risk weighted assets. Meanwhile, half of the surveyed banks saw an increase in their capital position. Moreover, all banks said that there were no changes relating to credit standards as a result of the regulatory or supervisory requirements. Credit margins were mostly unaffected.

When asked whether the change in banks' excess liquidity held with the Eurosystem had led to a change in their bank's lending conditions and loan volumes, all banks reported no changes. For the next six months, the situation was expected to remain largely the same, compared with the previous six-month period.

Participating banks claimed that their non-performing loan (NPL) ratio had not affected their lending policies in the preceding six-month period and expect no effects in the six months ahead.

Respondent banks were also asked to state how credit standards, terms and conditions on new loans, and the demand for loans had changed across different economic sectors. The majority of respondent banks reported no change in credit standards and the terms and conditions in the past six months and were foreseeing no changes in the next six months. With regards to demand for loans, half of the surveyed banks experienced no changes over the past six months and foresaw no changes in the upcoming six-month period. The other half witnessed somewhat lower demand from firms active in energy-intensive manufacturing, wholesale & retail trade, construction and commercial real estate. Their assessment for the first quarter of 2024 was generally of unchanged demand compared with the preceding quarter, although those who have already experience weaker demand in selected sectors, expected demand to weaken further in the following six months.

The money market

During the fourth quarter of 2023, the Government issued €569.5 million in Treasury bills (before redemptions), €313.0 million more than the amount issued in the third quarter of 2023.

In the domestic primary market, the yield on three-month Treasury bills rose marginally to 3.58% by the end of December, from 3.57% at end-September.

The capital market

During the fourth quarter of 2023, the Government issued two new MGS with a total value of €341.9 million. Four private sector institutions launched new bond issues on the MSE. AX Group plc and International Hotel Investments issued unsecured bonds worth €40.0 million and

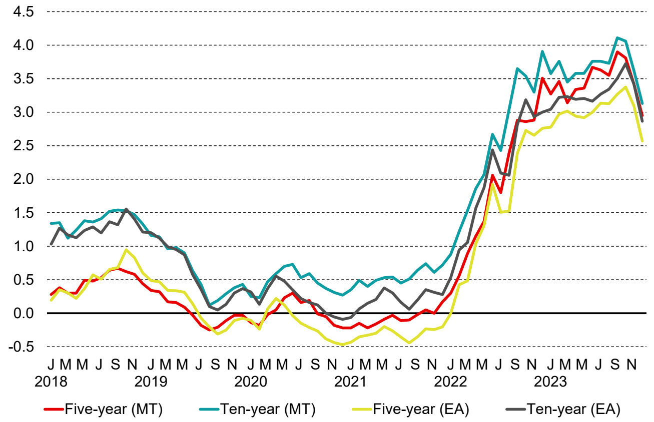
€60.0 million, respectively. Meanwhile, APS Bank plc issued €50.0 million in unsecured subordinated bonds, while Plan Group plc issued €12.0 million in secured bonds.

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

In the secondary market, turnover in government bonds increased to €47.4 million, from €41.8 million in the third quarter of 2023. Meanwhile, turnover in corporate bonds declined to €21.7 million from €22.5 million, previously.

The yield on five-year Government bonds fell to 2.95% at the end of December, from 3.90% three months earlier (see Chart 6.8). The yield on ten-year bonds also declined, reaching 3.13% from 4.11% in September. Meanwhile, the euro area benchmark yield on five-year bonds fell to 2.57% from 3.27%, while that on ten-year bonds decreased to 2.87% from 3.51%. As the decline in the domestic ten-year yield was more pronounced than that in the euro area benchmark, the spread between the two narrowed to 26 basis points from 60 basis points in September.

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



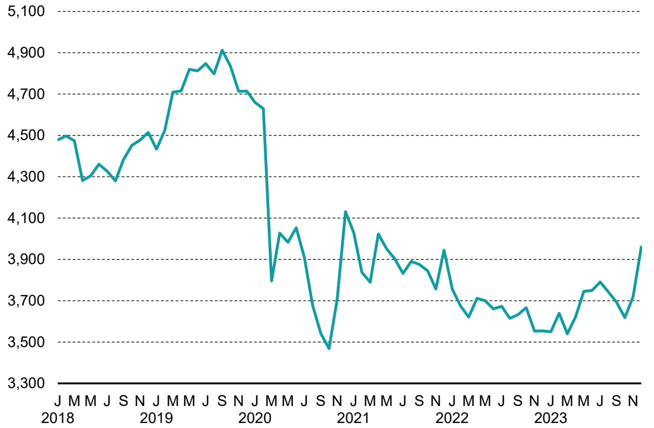
Sources: Central Bank of Malta; ECB.

MSE Share Index increases during the quarter

After declining in the preceding quarter, share prices in Malta rose, during the final quarter of 2023. The MSE Equity Price Index ended the quarter 7.2% above its level at end-September and was also 11.4% higher than a year earlier (see Chart 6.9). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 7.8% higher than its level at end-September.

Equity turnover rose to €25.0 million during the fourth quarter of 2023, from €9.5 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.

BOX 5: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR[1,2]

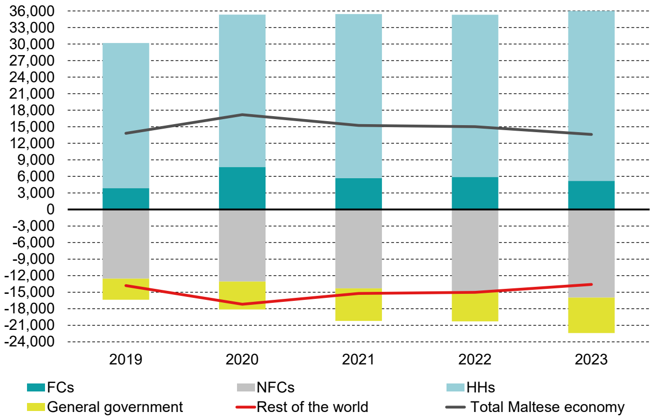
The Central Bank of Malta has been compiling Malta's financial accounts statistics since 2004. The latest available statistics in this regard refer to end-December 2023.[3] Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified 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]

Chart 1
NET WEALTH OF THE MALTESE ECONOMY AND THE REST OF THE WORLD SECTOR
(EUR millions)



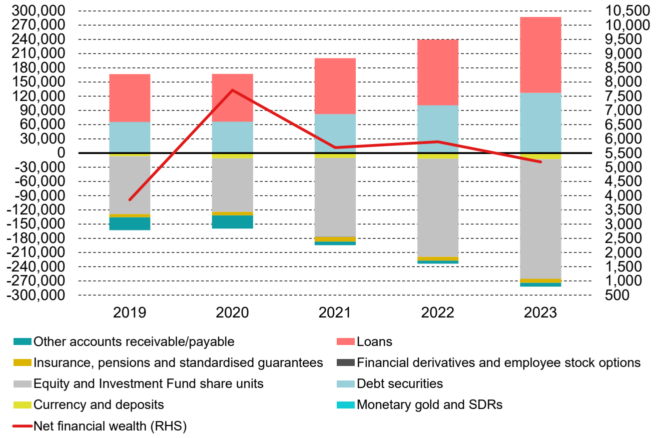
Source: Central Bank of Malta.

[1] Prepared by Kimberly Vatter, Senior Economist Statistician, and Janica Borg, Senior Expert at the External, Payments and Securities Statistics Office within the Statistics Department. The views expressed are those of the authors and do not necessarily reflect those of the Central Bank of Malta.
[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.

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

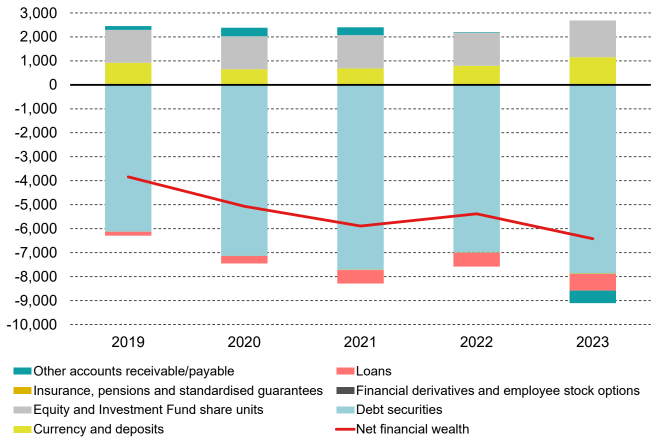


Source: Central Bank of Malta.

Financial assets and liabilities of the general government

The net financial wealth position of the general government has been persistently in negative territory 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.

Chart 3
GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)

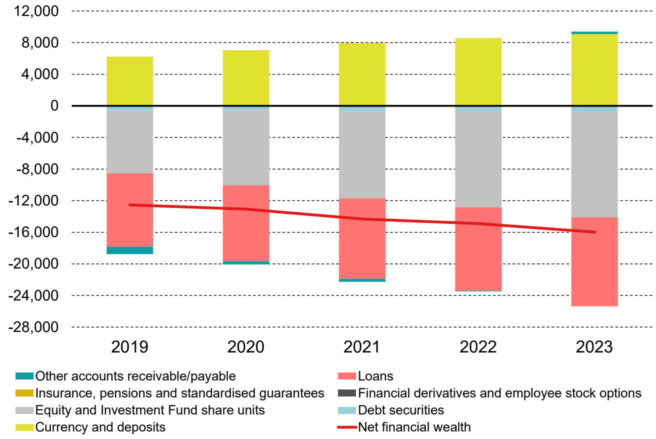


Source: Central Bank of Malta.

Financial assets and liabilities of NFCs

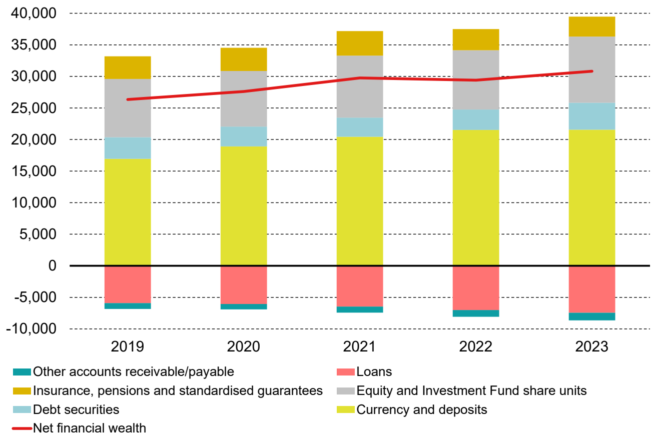
Chart 4 shows that NFCs had net financial liabilities of €15,979.6 million as at December 2023, a decrease of €1,076.1 million since December 2022. In December 2023, NFCs were net asset holders of currency and deposits and other accounts receivable. They were net liability holders mainly of equity, loans,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

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.

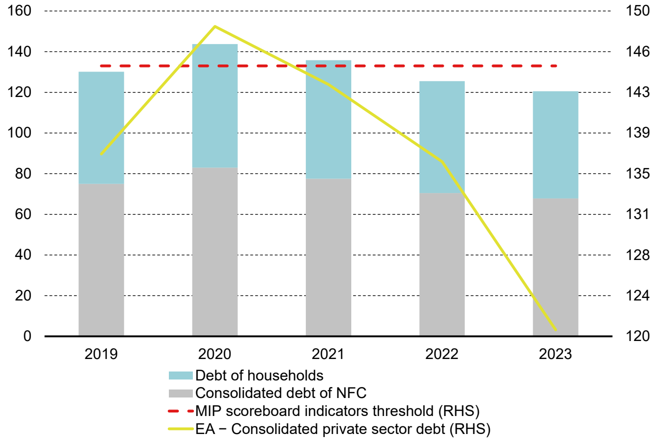
Financial assets and liabilities of households

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 within the debt-to-GDP threshold of 133% set by the MIP.[9,10]

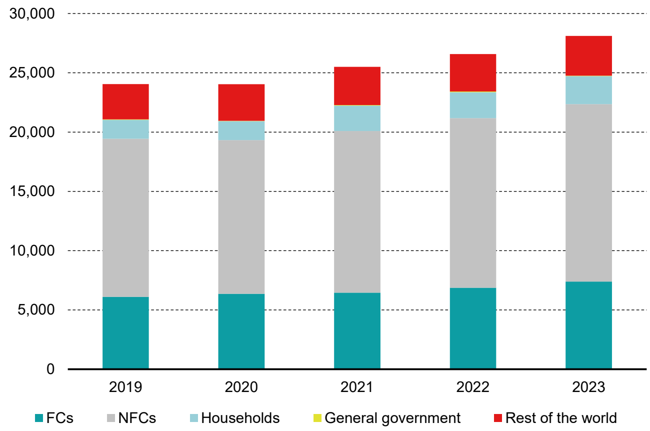
Chart 6
PRIVATE SECTOR'S DEBT AS A SHARE OF GDP (CONSOLIDATED)
(per cent)



Sources: Central Bank of Malta; Eurostat; ECB.

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]

Chart 7
NFC DEBT BY CREDITOR SECTOR
(EUR millions)



Source: Central Bank of Malta.

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

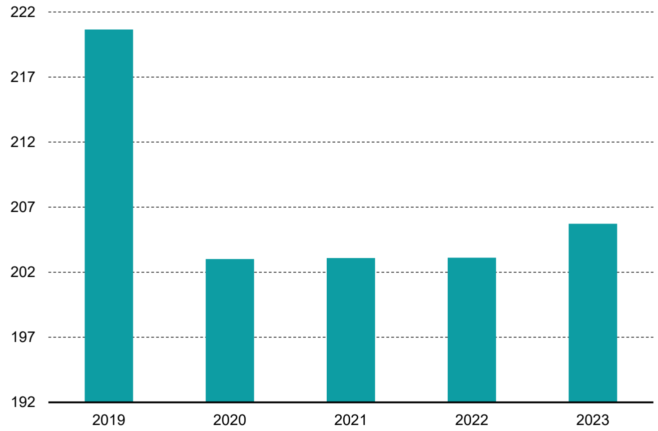
9 The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs, Households, and NPISH. Transactions within sectors are eliminated (i.e., statistics are thus on a consolidated basis). The threshold of 133% of GDP is derived from the upper quartile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

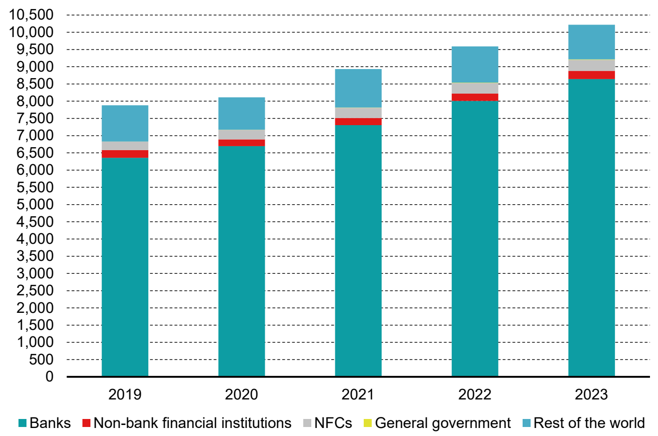
Chart 8
NFCs' LEVERAGE RATIO
(per cent)



Source: Central Bank of Malta.

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

Chart 9
HOUSEHOLDS' DEBT
(EUR millions)



Source: Central Bank of Malta.

[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.

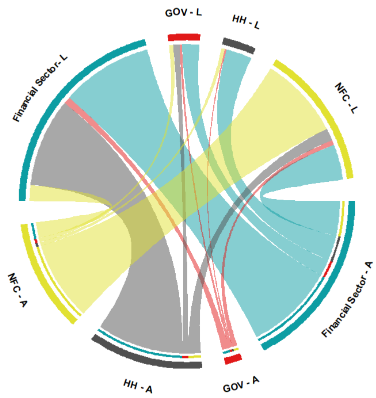
abroad, directors/shareholders' loans from NFCs and non-bank financial institutions, and dues to government.

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)



NFC - A: NFCs' Assets
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.

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