# 6. MONETARY AND FINANCIAL DEVELOPMENTS

*According to the Bank's FCI, in the third quarter of 2024, financing conditions remained loose from a historical perspective, albeit less loose compared to the previous quarter.*

*In September, Maltese residents' deposits with MFIs in Malta increased from their year-ago level, mostly reflecting higher balances belonging to households.[1] The annual rate of change exceeded that recorded in the second quarter of 2024. Credit to Maltese residents grew at a more moderate pace compared to the previous quarter, driven by slower growth in credit to residents outside the general government sector.*

*The weighted average interest rate on outstanding deposits stood above its year-ago level, while the rate on outstanding loans decreased over this period. Thus, the spread between the two rates narrowed over this period.*

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

## Monetary and financial conditions

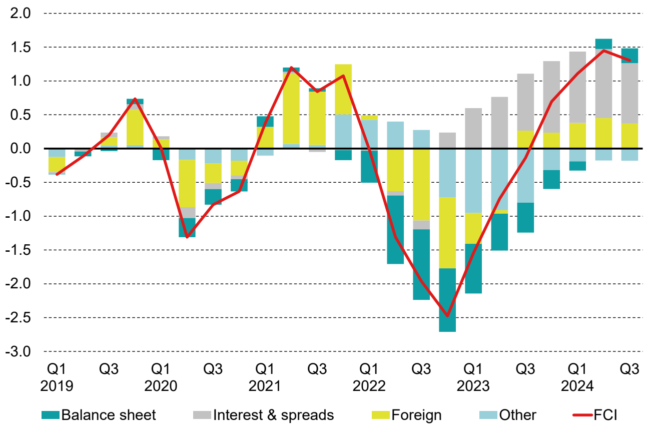
### *Financial conditions remain loose[2]*

In the third quarter of 2024, the Bank's FCI continued to signal loose financial conditions from a historical perspective. However, compared with the previous quarter, conditions were marginally less favourable (see Chart 6.1).

The less favourable financial conditions reflected changes in both foreign and domestic factors. Foreign factors were affected by a small quarter-on-quarter increase in uncertainty between June and September.

The smaller loosening effect of domestic factors in turn mainly reflects a lower positive contribution from the 'interest & spreads' component, as the negative spread between the MFI lending rate and the MRO

**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.

rate narrowed.[3] Meanwhile, the 'other' component recorded a slightly larger negative contribution compared to the previous quarter, as equity prices were on average lower.

Compared with the third quarter of 2023, financial conditions remained significantly looser, with the difference reflecting almost entirely developments in domestic factors. The stronger loosening effect of domestic factors mostly reflected an increase in the issues of NFC securities (part of the 'other' component) and lower negative contributions from real credit and real deposits (part of the 'balance sheet' component).

### *Maltese residents' deposits continue to increase*

Total deposits held by Maltese residents with MFIs in Malta increased by 5.2% in the year to September, a faster rate of increase than the 2.2% growth observed in the year to June (see Table 6.1). Increases were broad-based across institutional sectors but predominantly driven by households.

**Table 6.1**
**DEPOSITS OF MALTESE RESIDENTS**

| | EUR millions | Annual percentage changes | | | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | | 2024 | | |
| | Sep. | Sep. | Dec. | Mar. | June | Sep. |
| **Overnight deposits** | **20,313** | **-3.6** | **-0.2** | **-0.7** | **-0.5** | **2.2** |
| *of which* | | | | | | |
| Households | 14,482 | 0.0 | 1.8 | 1.2 | 2.3 | 3.8 |
| NFCs | 3,577 | -6.2 | -5.2 | -1.7 | -2.6 | 4.0 |
| **Deposits redeemable at notice of up to three months** | **70** | **9.4** | **-26.0** | **-23.5** | **-33.4** | **-43.2** |
| *of which* | | | | | | |
| Households | 1 | -5.5 | -98.6 | -99.0 | -99.3 | -98.0 |
| NFCs | 51 | 28.9 | 30.4 | 43.2 | 23.0 | -7.5 |
| **Deposits with an agreed maturity of up to two years** | **2,981** | **12.1** | **25.7** | **28.9** | **30.7** | **35.4** |
| *of which* | | | | | | |
| Households | 2,347 | 22.9 | 34.0 | 36.9 | 30.7 | 35.2 |
| NFCs | 318 | -12.3 | 23.1 | 39.3 | 45.1 | 52.1 |
| **Deposits outside M3**[(1)] | **1,023** | **-2.8** | **0.8** | **0.8** | **2.9** | **3.9** |
| *of which* | | | | | | |
| Households | 905 | -3.1 | -4.5 | -5.5 | -3.1 | -1.6 |
| NFCs | 43 | -6.4 | -2.8 | 3.8 | 5.7 | 31.3 |
| **Total residents deposits**[(2)] | **24,386** | **-2.2** | **1.7** | **1.7** | **2.2** | **5.2** |
| *of which* | | | | | | |
| Households | 17,735 | 1.8 | 3.8 | 3.7 | 4.5 | 6.5 |
| NFCs | 3,989 | -6.2 | -3.4 | 1.3 | 0.6 | 6.8 |

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.

[3] Although the DFR is the rate through which the Governing Council steers the monetary policy stance, in the Bank's FCI model the policy spread has historically been computed as the difference between the lending rate and the MRO rate, reflecting the significant importance of MROs in the past and different liquidity conditions that prevailed at the time. This approach is maintained to avoid breaks in the FCI series over time and facilitate the interpretation of the index over long horizons. As the MRO and DFR rate normally track each other closely, adjusting the calculation of the lending rate to policy rate spread to reflect the DFR instead of the MRO should not significantly affect the short-term dynamics of the FCI.

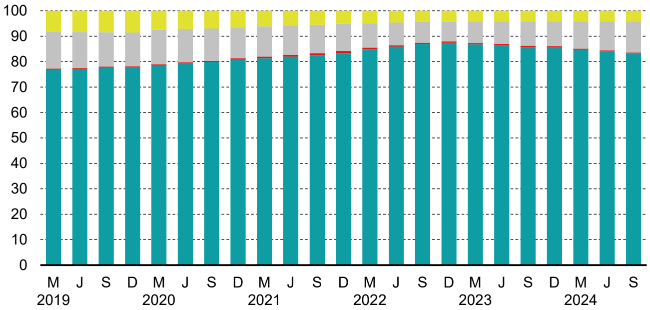
During the 12 months to September, Maltese residents' overnight deposits, which are the most liquid component, grew by 2.2%, following a 0.5% year-on-year decline recorded in June. The increase was driven by balances held by households and NFCs. The share of overnight deposits in total deposits decreased to 83.3% in September, compared to 84.1% three months earlier, as deposits with an agreed maturity of up to two years recorded a larger increase (see Chart 6.2).

The latter registered robust growth of 35.4% in the year to September, compared with 30.7% in June. Their share in overall deposits continued to increase, reaching 12.2% from 11.3% three months prior. The latest increase was driven by higher balances belonging to households, although balances held by NFCs also went up. This reflects more attractive terms on fixed deposit accounts being offered by certain credit institutions, in response to the current monetary policy stance.

Deposits with an agreed maturity of up to three months (the smallest component) continued to decline, while retaining a small share of total deposits, at 0.3%.

Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with agreed maturity of over two years – recorded an annual growth rate of 3.9% in September, compared to 2.9% three months earlier. Their share in total resident deposits remained unchanged at 4.2%.

**Chart 6.2**
**DISTRIBUTION OF TOTAL RESIDENT DEPOSITS**[1]
*(percentage points)*

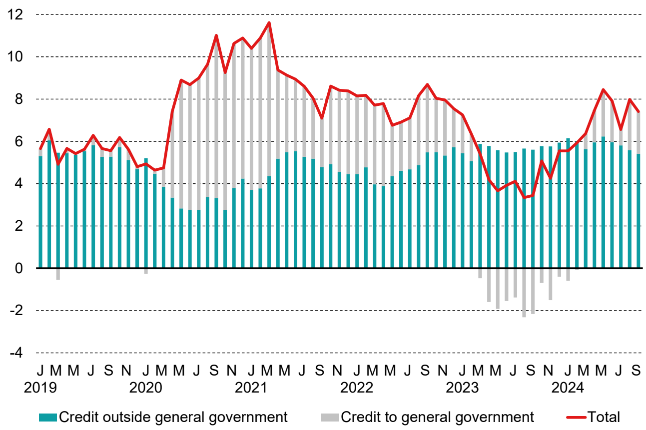



Source: Central Bank of Malta.
[1] Deposits exclude those belonging to central government.
[2] Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

### *Credit to residents grows at a slower pace*

The annual rate of change of credit to Maltese residents moderated to 7.4% in September, from 7.9% in June. This moderation was driven by slower growth in credit to residents outside the general government sector. By contrast, credit to general government recorded faster growth compared to June (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.

**Table 6.2**
**MFI CREDIT TO MALTESE RESIDENTS**

| | EUR millions | Annual percentage changes | | | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | | 2024 | | |
| | Sep. | Sep. | Dec. | Mar. | June | Sep. |
| **Credit to general government** | **4,870** | **-8.1** | **-1.5** | **2.9** | **8.0** | **8.4** |
| **Credit to residents outside general government** | **15,415** | **7.7** | **8.0** | **7.6** | **7.9** | **7.1** |
| Securities and equity | 296 | -3.3 | -4.6 | -4.3 | -4.7 | -7.7 |
| Loans | 15,119 | 7.9 | 8.4 | 7.8 | 8.2 | 7.4 |
| *of which:* | | | | | | |
| Loans to households | 8,930 | 7.3 | 8.2 | 9.0 | 9.1 | 9.5 |
| Mortgages | 8,241 | 7.2 | 7.9 | 8.7 | 8.8 | 9.4 |
| Consumer credit and other lending | 689 | 8.5 | 12.2 | 12.4 | 13.4 | 10.8 |
| Loans to NFCs[1] | 5,081 | 9.1 | 8.8 | 5.4 | 6.3 | 3.0 |
| **Total credit to residents** | **20,285** | **3.4** | **5.5** | **6.4** | **7.9** | **7.4** |

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

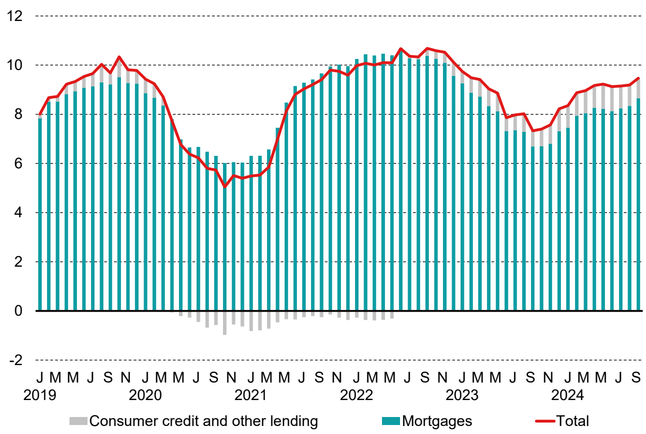
The latter grew by 8.4% in the year to September, following an increase of 8.0% over the year to June. The latest increase was driven by an increase in MFI holdings of Government stocks, which grew by 9.9%. By contrast, during the same quarter, MFI holdings of Treasury bills declined.

The annual growth of credit to residents outside general government decreased to 7.1% in September, from 7.9% three months prior. In part, this reflects a larger contraction in MFI holdings of securities issued by the private sector, which decreased by an annual 7.7%, following a decline of 4.7% in June.

Loans to private sector, though, also rose at a slower pace, although developments were mixed across different segments.

Annual growth in loans to households reached 9.5%, compared to 9.1% three months earlier, driven by faster growth in mortgage lending (see Chart 6.4). This grew by an annual 9.4% in September, from 8.8% in June. By contrast, growth in consumer credit moderated to 10.8% year-on-year, following a 13.4% increase in the year to June.

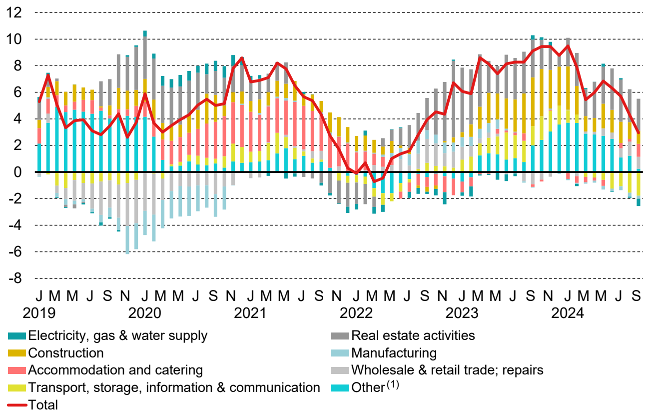
**Chart 6.4**
**CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS**
*(percentage points; annual percentage change)*




Source: Central Bank of Malta.

Meanwhile, loans to NFCs rose at an annual rate of 3.0%, after 6.3% three months earlier (see Chart 6.5). Slower growth was recorded in lending to private NFCs.

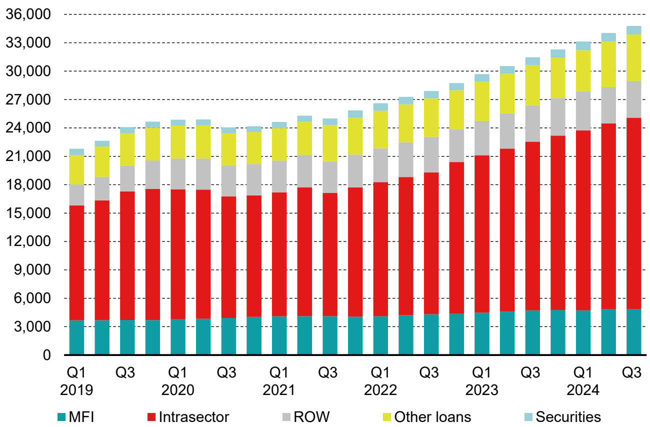
**Chart 6.5**
**LOANS TO NFCs BY SECTOR**
*(percentage points; annual percentage change)*




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

Sectoral data show that the expansion in loans to NFCs in the year to September was largely driven by increased lending to the real estate sector, the construction sector and the sector comprising accommodation and food services. Loans to the trade and repair sector also increased. On the other hands, loans to the manufacturing sector, the energy sector and, in particular, the sector comprising information, communication, transport and storage 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 in September 2024, decreased to 14.0%, compared to 14.3% in June, and from 15.0% recorded a year earlier (see Chart 6.6).

The share of intra-sectoral lending in total NFC debt reached a new high of 58.1%, from 57.7% recorded in June. This component continued to account for most of NFCs external financing.

The share of NFC debt from non-residents decreased marginally to 11.2%, from 11.3% in June, and from 12.2% recorded last year. Meanwhile, the share of 'other loans' increased marginally compared to June, at 14.1%. This component largely reflects loans from financial institutions other than MFIs, and households.

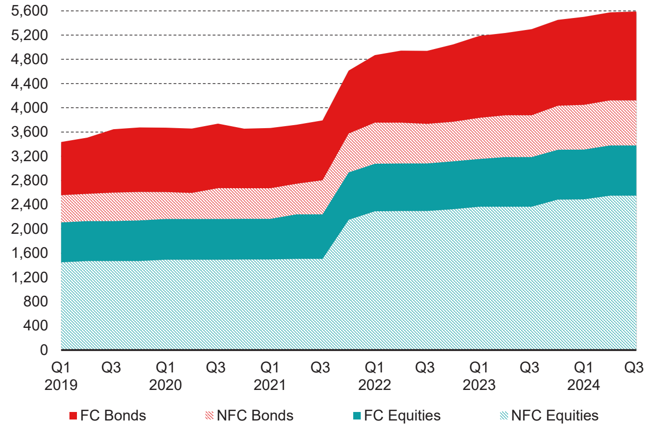
The share of securities decreased marginally to 2.6%, from 2.7% recorded a year earlier.

## *Stock of listed securities of NFCs and financial corporations increases*

By September 2024, around €2,210.5 million in outstanding corporate debt securities were listed on the MSE by NFCs and financial corporations, 4.7% higher than the amount listed a year earlier (see

Chart 6.7).[4] 66.3% 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 by the aforementioned institutions on the MSE increased by 6.0% in annual terms, to reach €3,378.7 million. Over 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 sector. The total amount of outstanding listed equity as of September 2024, exceeded that of bonds by 52.8%.[5]

### *Spread between deposit and lending rate narrows in annual terms*

The weighted average deposit rate on outstanding balances belonging to households and NFCs increased by 13 basis points since September 2023, to reach 0.40% (see Table 6.3). This was largely driven by higher rates on time deposits belonging to NFCs and households, especially deposits with agreed maturity of up to two years. Rates on households' deposits redeemable at notice of up to three months also registered higher rates.

At the same time, the weighted average lending rate paid by households and NFCs on outstanding loans decreased by 20 basis points, to 3.41%. This decrease reflected lower rates charged to both households and NFCs, although the decrease in the NFC lending rate was more significant, amounting to 29 basis points. Meanwhile, rates charged to households decreased by 12 basis points, with rates on mortgage lending and consumer credit down, by 9 and 35 basis points, respectively.

The spread between the weighted average lending rate and the deposit rate on outstanding balances closed September at 301 basis points. This was lower than the spread recorded in the previous quarter and below the spread of 334 basis points recorded a year earlier.

During the year to September, both the deposit rate offered on new balances held by households and NFCs in Malta, and the lending rate to these sectors increased. By September, the weighted average deposit rate for households and NFCs increased to 2.64% while the lending rate to these two sectors increased to 3.22%.

Compared to the second quarter of 2024, interest rates on outstanding deposits with MFIs increased by 3 basis points, while rates on outstanding loans decreased by 10 basis points. As a result, the spread between the two rates narrowed slightly. By contrast the spread on new transactions widened compared to June, as the lending rate was stable while the deposit rate decreased.

---

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

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

**Table 6.3**
**INTEREST RATES ON DEPOSITS AND LOANS**
*Percentages per annum to residents of Malta; weighted average rates as at end of period*

| | 2021 | 2022 | 2023 | 2023 | | 2024 | |
|---|---|---|---|---|---|---|---|
| | Sep. | Sep. | Sep. | Dec. | Mar. | June | Sep. |
| **Total deposits(1)** | **0.18** | **0.16** | **0.27** | **0.30** | **0.35** | **0.37** | **0.40** |
| *of which* | | | | | | | |
| **Overnight deposits** | | | | | | | |
| Households | 0.02 | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| NFCs | 0.02 | 0.06 | 0.07 | 0.10 | 0.10 | 0.12 | 0.10 |
| **Savings deposits redeemable at notice** | | | | | | | |
| Households | 0.41 | 0.17 | 0.15 | 0.31 | 0.31 | 0.30 | 0.28 |
| NFCs | 0.08 | 0.05 | 0.45 | 0.47 | 0.74 | 0.60 | 0.57 |
| **Time deposits (less than two years)** | | | | | | | |
| Households | 0.53 | 0.54 | 1.58 | 1.79 | 2.05 | 2.07 | 2.15 |
| NFCs | 0.48 | 0.59 | 1.58 | 1.85 | 2.28 | 1.80 | 2.26 |
| **Time deposits (more than two years)** | | | | | | | |
| Households | 1.77 | 1.77 | 1.77 | 1.79 | 1.82 | 1.89 | 1.98 |
| NFCs | 1.05 | 1.60 | 1.38 | 1.74 | 1.83 | 1.38 | 1.92 |
| **Total loans(1)** | **3.25** | **3.25** | **3.61** | **3.58** | **3.52** | **3.51** | **3.41** |
| *of which* | | | | | | | |
| Households and NPISH | 3.05 | 2.94 | 2.87 | 2.85 | 2.82 | 2.81 | 2.75 |
| NFCs | 3.60 | 3.82 | 4.98 | 4.95 | 4.83 | 4.81 | 4.69 |
| **Spread(2)** | **3.07** | **3.09** | **3.34** | **3.28** | **3.17** | **3.14** | **3.01** |
| ECB MROs rate | 0.00 | 1.25 | 4.50 | 4.50 | 4.50 | 4.25 | 3.65 |

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.

## Liquidity support measures

By the end of September 2024, 424 facilities were still outstanding under the Malta Development Bank's (MDB) COVID-19 Guarantee Scheme (CGS) down from 468 facilities in June.[6] By end-September, the outstanding value of disbursed loans stood at €146.0 million, down from €169.8 million at end-June 2024. Almost all these loans will mature within the next three years.

The sector comprising wholesale and retail activities had the largest number of outstanding facilities benefitting from the scheme. This was followed by the sector comprising accommodation and food service activities, which also had the highest value of sanctioned loans in value terms.

A total of €24.5 million was disbursed under the Liquidity Support Guarantee Scheme (LSGS) in relation to the Temporary Crisis Framework.[7] Repayments for this loan have started. At the end of December 2023, this scheme was officially closed for new borrowers.

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. See MDB COVID-19 Guarantee Scheme for further details.

7 This LSGS consisted 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 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.

### *Bank Lending Survey (BLS) indicates unchanged credit standards, terms and conditions in third quarter*

According to the September BLS, in the third quarter of 2024, all participating banks reported unchanged credit standards and terms and conditions for lending to NFCs, mortgage lending as well as consumer credit and other lending. For the fourth quarter, the majority of banks foresaw no changes for all types of credit.

As regards demand, surveyed banks generally did not report changes for the third quarter, except for some decrease in demand for credit by NFCs. Meanwhile, all banks anticipated demand to remain unchanged in the final quarter of 2024.

The October 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 retail funding, interbank unsecured money markets, debt securities and securitisation. Participating banks also said that the situation in financial markets had not affected their ability to transfer risks off balance sheet. This was expected to remain the case in the fourth quarter.

Respondent banks were also asked whether the ECB's monetary asset portfolio led to a change in their assets, or affected their cost of funds, balance sheet and capital position, and profitability. The majority of responding banks reported no changes and this scenario was expected to prevail also in the six months ahead. Nevertheless, half of the surveyed banks reported some increase in holdings of euro area sovereign bonds that was also expected to persist into the fourth quarter.

Participating banks were also asked to indicate if the ECB's monetary policy portfolio had led to changes in credit standards and terms and conditions, and lending volumes. None of these were affected. Moreoever, for the following six months, banks also expected no impact.

Respondent banks were asked to gauge the impact of the Eurosystems's third series of targeted longer-term refinancing operations. 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 via interest and non-interest income. In this regard, the majority assessed non-interest income to have been unaffected, but reported a decline in net interest income. This assessment was expected to prevail also in the six months ahead.

## The money market

During the third quarter of 2024, the Government issued €277.2 million in Treasury bills, €184.0 million less than the amount issued in the second quarter of 2024.

In the domestic primary market, the yield on three-month Treasury bills declined to 2.64% by the end of September, from 3.56% at end-June.

## The capital market

During the third quarter of 2024, the Government issued two new MGS with a total value of €388.4 million.

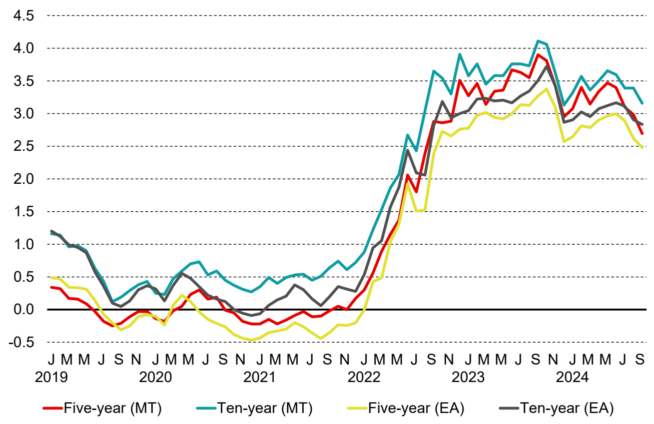
Three private sector institutions launched new bond issues on the MSE. Hili Finance Company plc issued €80.0 million in unsecured bonds, while Hal Mann Vella Group plc and Mercury Projects Finance plc issued secured bonds worth €23.0 million and €20.0 million, respectively.

By the end of September, 19 firms had bonds that were listed on the MSE through Prospects, an unchanged number compared with three months earlier.[8] There was also one company which had shares issued through Prospects.

In the secondary market, turnover in government bonds increased to €54.8 million, from €37.0 million in the second quarter of 2024. On the contrary, turnover in corporate bonds decreased to €30.9 million from €36.5 million, previously.

The yield on five-year Government bonds fell to 2.70% at the end of September, from 3.40% three months earlier (see Chart 6.8). The yield on ten-year bonds also declined, to reach 3.16% from 3.60% in June. Meanwhile, the euro area benchmark yield on five-year bonds fell to 2.48% from 3.00%, and that on ten-year bonds decreased to 2.83% from 3.17%. As the decline in the domestic ten-year yield was larger than that in the euro area benchmark, the spread between the two narrowed to 32 basis points from 43 basis points in June.

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




Sources: Central Bank of Malta; ECB.

## *MSE Share Index rises during the quarter*

Share prices in Malta rose during the third quarter of 2024. The MSE Equity Price Index ended the quarter 1.6% above its level at end-June and was also 2.7% higher than its reading a year earlier (see Chart 6.9). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 2.6% higher than its level at end-June.

Equity turnover rose to €19.8 million during the third quarter of 2024, from €10.1 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.