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Contribution to euro area monetary aggregates and counterparts

The contribution of resident Monetary Financial Institutions (MFIs) to the euro area broad money stock (M3) expanded by EUR37.6 million, or 0.4%, in June, reaching EUR10.0 billion (see Table 1). Nonetheless, the annual growth rate moderated to 5.6% from 6.2% in May, given that M3 had risen more strongly between the same two months of 2011.

The month-on-month increase in the Maltese contribution to the euro area M3 came from a significant expansion in intermediate money (M2), which went up by EUR63.2 million, or 0.6%. This completely offset a decline in marketable instruments, which contracted by EUR25.7 million, or 10.9%, reflecting a fall in shares issued by money market funds (MMFs) resident in Malta.

Growth in the intermediate aggregate, M2, was driven mostly by the narrow money component (M1), which expanded by EUR35.9 million, or 0.6%. Narrow money growth was fuelled in turn by overnight deposits. The latter rose by EUR37.6 million, or 0.7%, driven by a rise in balances belonging to non-bank financial intermediaries and private non-financial corporations (NFCs). Conversely, currency issued fell slightly. Meanwhile, the annual growth rate of M1 accelerated to 12.3% in June from 11.4% in May.

During June, deposits with agreed maturity of up to two years, which also form part of M2, expanded by EUR18.9 million, or 0.5%. This increase stemmed entirely from a significant influx of funds from residents of other euro-area countries, notably households and NFCs, which offset a decline in deposits held by Maltese residents. Meanwhile, deposits redeemable at notice up to three months, the remaining component of M2, also increased, mostly due to a rise in corporate deposits. On a year-on-year basis, intermediate money grew by 5.7%, down from 6.1% in May.

Turning to the counterparts of M3, credit to euro area residents fell by EUR133.2 million, or 0.8%. Credit to general government decreased by EUR88.4 million, or 2.1%, mainly as a result of a decline in bank holdings of securities issued by the government sector in the other euro area countries. Credit to other sectors also decreased during the month, falling by EUR44.8 million. This drop was mainly fuelled by lower loans granted to NFCs resident outside Malta, coupled with a drop in MFI

holdings of securities issued by firms resident elsewhere in the euro area. Consequently, the annual growth rate of credit decelerated to 5.9%, from 7.0% one month earlier.

In contrast, the external counterpart of M3, which reflects transactions between Maltese MFIs and residents of countries outside the euro area, rose by EUR525.4 million, or 5.1%, in June. This stemmed from an increase in claims on non-euro area residents coupled with a fall in liabilities to them. The former was principally attributable to a rise in the amount of loans granted to credit institutions resident outside the euro area. Meanwhile, the fall in liabilities was brought about by decreased borrowing by resident banks from non-euro area credit institutions.

The 'other counterparts' of M3 rose by EUR354.7 million, or 2.2%, in June driven by an increase in longer-term financial liabilities of MFIs and a rise in their liabilities to the central government. While the former stemmed from an increase in MFI equity, the latter reflected an increase in deposit balances belonging to central government following the issue of Malta Government Stocks (MGSs) during the month. Other liabilities (net), which mainly reflect interbank transactions with other euro area residents, declined moderately during the month.

Developments in deposits and loans involving Maltese residents

Deposits belonging to residents of Malta and held with resident MFIs contracted by EUR39.7 million, or 0.5%, in June (see Table 2). A drop in deposits with agreed maturity of up to two years was accompanied by a smaller increase in overnight deposits and in deposits redeemable at up to three months' notice. These developments indicate a shift towards more liquid monetary assets, though the issue of MGSs may have also spurred investors towards higher-yielding assets outside M3. Overall, the annual growth rate of total deposits dipped to 6.2% from 6.8% in May.

Deposits with agreed maturity of up to two years contracted by EUR79.5 million, or 2.1%, in June. This reflected lower holdings by most sectors of the economy, particularly private NFCs and insurance companies. In contrast, deposits redeemable at notice of up to three months increased by EUR6.6 million, or 4.8%, mostly due to higher balances held by private NFCs. In addition, overnight deposits expanded by EUR33.1 million, or 0.7%, as a rise in balances held by non-bank financial intermediaries exceeded a drop in household deposits.

Credit issued by resident MFIs to residents of Malta rose by EUR35.4 million, or 0.3%, in June reflecting an increase in credit flows to both government and other residents. Consequently, annual credit growth edged up to 5.9%, from 5.8% in May.

Credit to general government expanded by EUR17.3 million, or 0.7%, as banks increased their MGS portfolios. The corresponding annual growth rate gained momentum, reaching 10.6% from 9.4% in May.

Similarly, credit to Maltese residents other than general government increased by EUR18.2 million, or 0.2%, partly on account of higher volume of loans granted to households – mostly to finance house purchases – and to private NFCs, particularly in the information & communication sector and manufacturing. As a result, the annual growth rate of credit to other residents edged down from 4.8% in May to 4.7%.

Net foreign assets of Maltese MFIs

Net foreign assets held by resident MFIs increased by EUR355.6 million, or 3.1%, in June (see Table 2).¹ Foreign liabilities fell considerably because of a decrease in the value of foreign loans taken up by resident banks. This outweighed a smaller fall in foreign assets that stemmed predominantly from lower holdings of securities issued by non-residents. Net foreign assets expanded by 6.8% on a year earlier, up from 3.6% in May.

Bank lending and deposit rates²

In June, the weighted average interest rate paid by MFIs on all deposits belonging to households and non-financial companies resident in Malta remained constant at 1.41% when compared with the previous month. The weighted average interest rate charged by MFIs on outstanding loans to resident households and non-financial companies declined marginally by one basis point to 4.35%. When compared to a year earlier, the weighted average deposit rate increased by three basis points while that charged on loans fell by five basis points.

Further economic and monetary information can be obtained from the website of the Central Bank of Malta www.centralbankmalta.org

¹ Net foreign assets are composed of claims held by MFIs residing in Malta on residents of the rest of the world, less liabilities to them. Residents of the rest of the world include non-euro area residents and residents of euro area countries other than Malta.

² Data on interest rates on outstanding amounts cover MFI euro-denominated deposits belonging to households and non-financial corporations resident in Malta and loans extended to them. The household sector also includes Non-Profit Institutions Serving Households (NPISH). Non-financial corporations include all enterprises except banks, insurance companies and other financial institutions. Hence, these statistics do not cover all economic sectors.

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**TABLE 1: THE CONTRIBUTION OF RESIDENT MFIs TO
THE EURO AREA MONETARY AGGREGATES AND SELECTED COUNTERPARTS⁽¹⁾⁽²⁾**

€ millions

	Jun-12	May-12	Monthly Change	Monthly Percentage Change	Jun-11	Annual Change	Annual Percentage Change
MONETARY AGGREGATES⁽³⁾							
NARROW MONEY (M1)	5,778.4	5,742.5	35.9	0.6	5,146.4	632.0	12.3
Currency issued ⁽⁴⁾	717.4	719.1	-1.7	-0.2	681.1	36.3	5.3
Overnight deposits ⁽⁵⁾	5,061.1	5,023.5	37.6	0.7	4,465.3	595.7	13.3
INTERMEDIATE MONEY (M2)	9,804.4	9,741.2	63.2	0.6	9,278.3	526.1	5.7
Narrow money (M1)	5,778.4	5,742.5	35.9	0.6	5,146.4	632.0	12.3
Deposits redeemable at notice up to 3 months ⁽⁵⁾	146.3	137.9	8.5	6.1	130.0	16.3	12.6
Deposits with agreed maturity up to 2 years ⁽⁵⁾	3,879.6	3,860.8	18.9	0.5	4,001.9	-122.3	-3.1
BROAD MONEY (M3)	10,014.0	9,976.4	37.6	0.4	9,484.9	529.1	5.6
Intermediate money (M2)	9,804.4	9,741.2	63.2	0.6	9,278.3	526.1	5.7
Marketable instruments ⁽⁶⁾	209.6	235.3	-25.7	-10.9	206.6	3.0	1.5
SELECTED COUNTERPARTS OF M3							
CREDIT COUNTERPART	15,604.6	15,737.8	-133.2	-0.8	14,734.6	870.0	5.9
Credit to general government	4,177.0	4,265.3	-88.4	-2.1	4,232.7	-55.7	-1.3
Credit to other sectors	11,427.6	11,472.4	-44.8	-0.4	10,501.9	925.7	8.8
EXTERNAL COUNTERPART	10,819.2	10,293.8	525.4	5.1	8,824.4	1,994.9	22.6
Claims on non-residents of the euro area	33,711.7	33,606.9	104.8	0.3	29,555.2	4,156.5	14.1
Liabilities to non-residents of the euro area (-)	22,892.4	23,313.1	-420.6	-1.8	20,730.9	2,161.6	10.4
OTHER COUNTERPARTS (-)	16,409.8	16,055.2	354.7	2.2	14,074.1	2,335.8	16.6
Liabilities to the central government	791.2	606.8	184.4	30.4	750.3	40.8	5.4
Longer term financial liabilities	12,162.4	11,950.5	211.9	1.8	11,489.7	672.7	5.9
Other liabilities (net)	3,456.3	3,497.9	-41.6	-1.2	1,834.0	1,622.3	88.5

⁽¹⁾ Figures may not add up due to rounding.

⁽²⁾ Figures show the contribution of Maltese monetary financial institutions (MFIs) to the euro area totals.

⁽³⁾ Data on monetary aggregates include deposit liabilities to both residents of Malta and other euro area residents.

⁽⁴⁾ This is not a measure of currency in circulation in Malta. It comprises the Central Bank of Malta's share of euro banknotes issued by the Eurosystem, based on the banknote allocation key (in turn reflecting its share in the paid-up capital of the ECB), plus coins issued by the Bank on behalf of the Treasury, less holdings of issued euro banknotes and coins held by the MFI sector. For 2008, remaining outstanding Maltese lira banknotes and coins are included. This represents the residual amount after deducting holdings of euro banknotes and coins (and, temporarily, of Maltese lira currency) reported by MFIs in Malta from the currency issued figure.

⁽⁵⁾ Deposits with MFIs exclude interbank deposits and deposits held by central government.

⁽⁶⁾ Marketable instruments include debt securities up to 2 years' maturity issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the euro area. This row shows net amounts (issues less holdings by MFIs in Malta) and may be negative. Figures also include Money Market Funds (MMF) shares/units and repurchase agreements that are not conducted through central counterparties.

Source: Central Bank of Malta.

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TABLE 2: RESIDENTS OF MALTA - DEVELOPMENTS IN DEPOSITS AND SELECTED COUNTERPARTS⁽¹⁾

€ millions

	Jun-12	May-12	Monthly Change	Monthly Percentage Change	Jun-11	Annual Change	Annual Percentage Change
DEPOSITS							
TOTAL RESIDENTS' DEPOSITS⁽²⁾	8,661.9	8,701.6	-39.7	-0.5	8,152.8	509.0	6.2
Overnight deposits	4,885.0	4,851.9	33.1	0.7	4,346.9	538.2	12.4
Deposits redeemable at notice up to 3 months	144.2	137.6	6.6	4.8	128.5	15.7	12.2
Deposits with agreed maturity up to 2 years	3,632.6	3,712.1	-79.5	-2.1	3,677.4	-44.8	-1.2
SELECTED COUNTERPARTS							
TOTAL CREDIT TO RESIDENTS	11,097.3	11,061.9	35.4	0.3	10,477.3	620.1	5.9
Credit to general government	2,450.4	2,433.1	17.3	0.7	2,215.2	235.3	10.6
Credit to other sectors	8,646.9	8,628.7	18.2	0.2	8,262.1	384.8	4.7
NET FOREIGN ASSETS	11,755.7	11,400.1	355.6	3.1	11,010.9	744.8	6.8
Claims on non-residents of Malta	43,483.4	43,587.8	-104.4	-0.2	41,179.0	2,304.4	5.6
Liabilities to non-residents of Malta (-)	31,727.7	32,187.7	-460.0	-1.4	30,168.1	1,559.6	5.2

⁽¹⁾ Figures may not add up due to rounding.

⁽²⁾ Deposits with MFIs exclude interbank deposits and deposits held by central government.

Source: Central Bank of Malta.