



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR

## BOX 2: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR<sup>1,2</sup>

The Central Bank of Malta has been compiling Malta's financial accounts statistics since 2004. The latest available statistics in this regard refer to September 2020. Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified by institutional sector, namely households, NFCs, credit and financial institutions, the general government, and the 'rest-of-the-world' sector.<sup>3,4</sup>

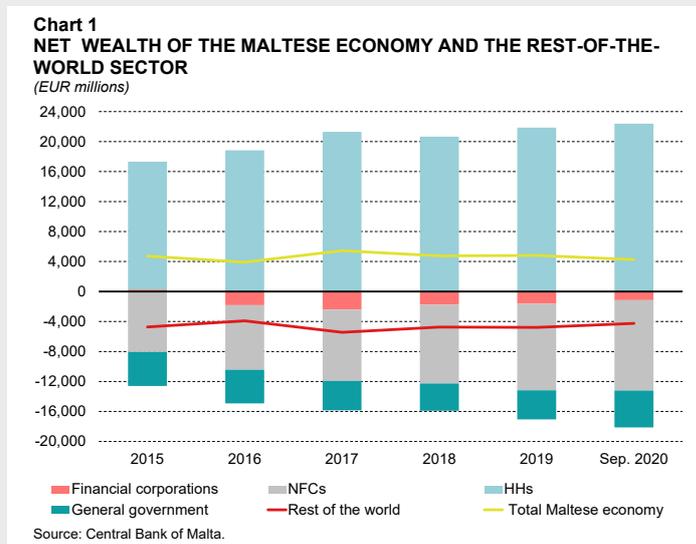
This Box includes three sections: the first section contains an analysis of the net financial wealth of each sector of the economy; the second provides an analysis of private sector debt as stipulated in the European Commission's Macroeconomic Imbalance Procedure (MIP);<sup>5</sup> and the final section outlines the financial interlinkages among the resident sectors.

### 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 September 2020 (see Chart 1). The net financial wealth of the total resident economy amounted to €4,263.2 million, a decline from the €4,807.2 million in December 2019.<sup>6</sup> The decrease was mainly driven by a drop in the net financial wealth of the general government and, to a lesser extent, that of NFCs which offset improvements in the net financial wealth of both households and financial corporations.<sup>7</sup>

### Financial assets and liabilities of the financial corporations sector

The aggregate net financial wealth of Malta's financial corporations, including the credit institutions, improved in September 2020 when compared to December 2019. This stood at -€1,144.8 million in September 2020, up from -€1,629.6 million at the end of 2019 (see Chart 2). The increase since December 2019 was mainly due to lower net liabilities in the form of equity and higher net assets in the form of



<sup>1</sup> Prepared by Kimberly Mamo, Economist Statistician, and Janica Borg, 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.

<sup>2</sup> For the purpose of this Box, the term 'Maltese economy' is used interchangeably with the term 'resident sectors/economy'.

<sup>3</sup> *Annual Report 2016*, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.

<sup>4</sup> The 'rest of the world' sector comprises non-resident units engaging in transactions with domestic institution units.

<sup>5</sup> Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances sets out the MIP procedure.

<sup>6</sup> 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.

<sup>7</sup> In line with ESA 2010, financial corporations 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.

loans. These offset smaller increases in net liabilities arising from accounts payable and deposits and a decrease in net holdings of debt securities.

### Financial assets and liabilities of the general government

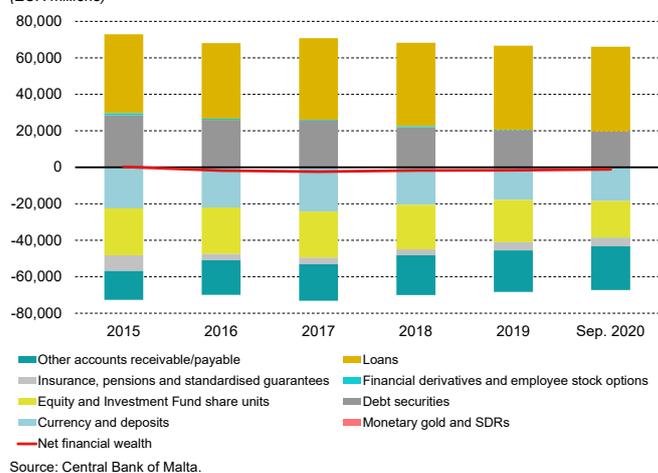
The net financial wealth position of the general government has been persistently in negative territory. Although this negative position narrowed over the period 2016 to 2019, reflecting the improvement in the Government's fiscal position, it widened in 2020 as a result of COVID-19 fiscal support measures. In September 2020, the net financial position of general government deteriorated sharply. It stood at -€4,915.3 million, decreasing by €1,039.5 million or 26.8%, when compared with December 2019. The increase in the net liability position since end of 2019 was driven mainly by an increase in debt securities outstanding and a decrease in net receivables, which offset a small increase in net assets in the form of

deposits. The decline in the general government's net financial position reflects higher issuance of debt securities. In turn, the latter was driven by a deterioration in the Government's fiscal position due to higher spending on COVID-19 government support and health measures intended to mitigate the impact of the COVID-19 pandemic on Maltese businesses and households. This was also combined with lower revenue due to the decline in economic activity. Chart 3 shows that the general government remained a net asset holder of currency and deposits and a net liability holder of other instruments, mainly of debt securities.

### Financial assets and liabilities of NFCs

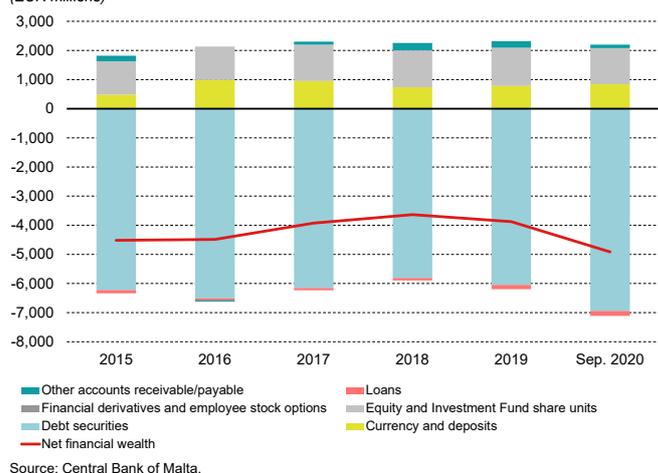
Chart 4 shows that NFCs had net financial liabilities of €12,065.2 million as at September 2020, an increase of €518.7 million or 4.5% since December 2019 due to the increase in liabilities outstripping the increase in financial assets. In September 2020, NFCs continued to be net asset holders of

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



Source: Central Bank of Malta.

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



Source: Central Bank of Malta.

currency and deposits, and net liability holders mainly of loans, equity and other accounts payable. When compared with December 2019, the increase in NFCs' net liability position is due to the increase in their financing through loans, equity and, to a lesser extent, accounts payable. These increases offset a rise in holdings of currency and deposits.

### Financial assets and liabilities of households

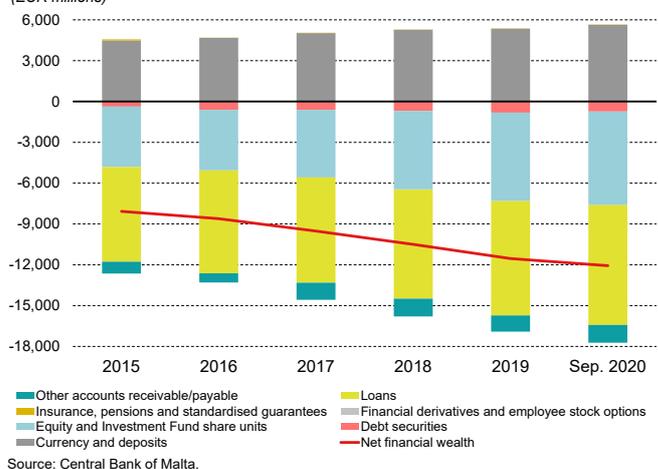
In September 2020, households' net financial wealth reached €22,388.5 million, increasing by 2.4% or €529.5 million, when compared with December 2019. This was due to an increase in holdings of financial assets, which surpassed the increase in liabilities. Chart 5 shows that households maintained large net assets in the form of currency and deposits, and equity, 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 improved net financial wealth position since 2019 was driven by an increase in currency and deposits, which offset an increase in loans. In part, the improvement in the net financial wealth position of households reflects an increase in household savings. The latter was a result of containment measures imposed by the Government to contain the spread of the COVID-19 pandemic. Moreover, government support measures, such as the wage supplement scheme, mitigated losses to household income.

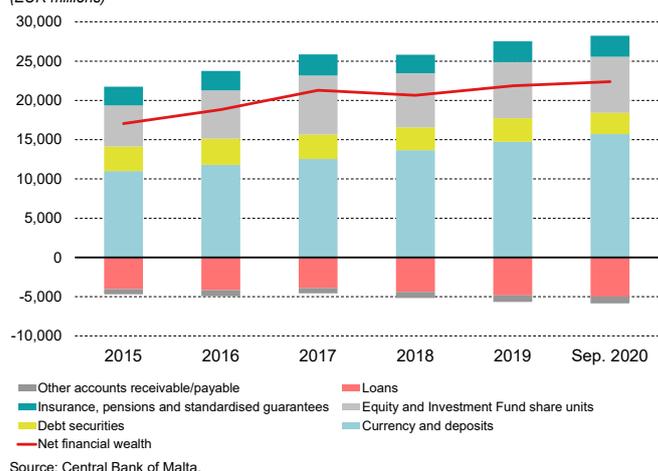
### Malta's private sector debt

Financial accounts statistics also shed light on Malta's private sector debt. In line with the methodology prescribed by the EU's MIP – which inter alia prescribes such indicators on an annual basis – Chart 6 shows Malta's consolidated private sector debt by sector and compares it to the consolidated private sector debt of the euro area. In recent years, this ratio has been on average within

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



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



the debt-to-GDP threshold of 133% set by the MIP.<sup>8,9</sup>

As at September 2020, the indicator stood at 135.4%, exceeding the threshold by 2.4% and its end-2019 level of 123.0%. Notwithstanding this increase, the indicator stood 10.3 percentage points lower than the euro area average (see Chart 6).<sup>10</sup>

The latest increase was brought about by a 4.4% increase in NFCs' debt, a 3.6% rise in households' debt, and a decrease of 5.4% in GDP – reflecting the impact of COVID-19 on economic activity.

Corporate debt constitutes on average 60.7% 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 the financial corporations, households, NFCs, general government, and the rest of the world sector. From this perspective, the largest exposures stemmed from liabilities to financial corporations and the NFC sector itself.

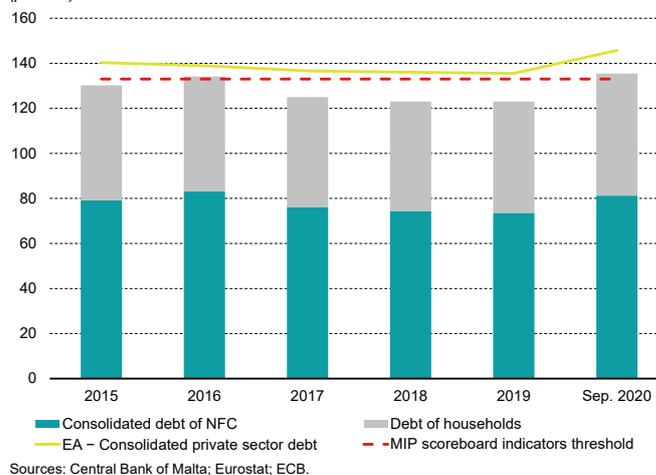
Firms in Malta rely significantly more on loans than on debt securities. Even though the issuance of debt securities increased over the years, this still remained relatively low, amounting to 4.4% of total NFCs' debt in the third quarter of 2020. Over the years, bank credit has been one of the main sources 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

<sup>8</sup> The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs and Households and NPISH. Transactions within sectors are eliminated (i.e. statistics are thus consolidated). 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.

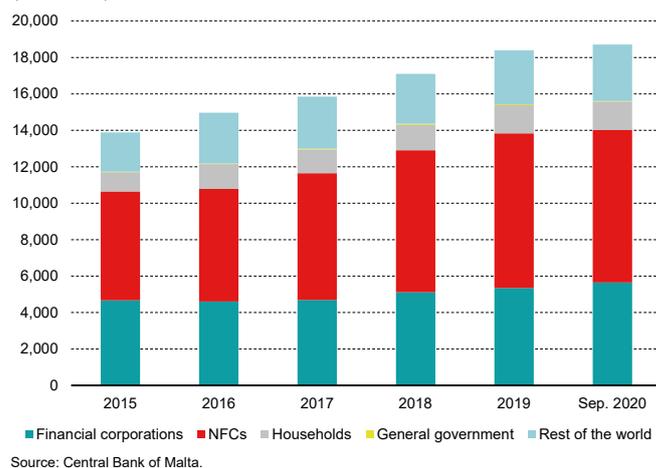
<sup>9</sup> In terms of EU Regulation No. 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances.

<sup>10</sup> Eurostat statistics for the euro area are only available annually. On the other hand, the ECB statistical data warehouse contains quarterly data. There are discrepancies between the two sources due to different vintages. For this analysis, Eurostat data are used until 2019, while ECB data were utilised to obtain the September 2020 data.

**Chart 6**  
**PRIVATE SECTOR'S DEBT AS % OF GDP (CONSOLIDATED)**  
(per cent)



**Chart 7**  
**NFC DEBT by creditor sector**  
(EUR millions)

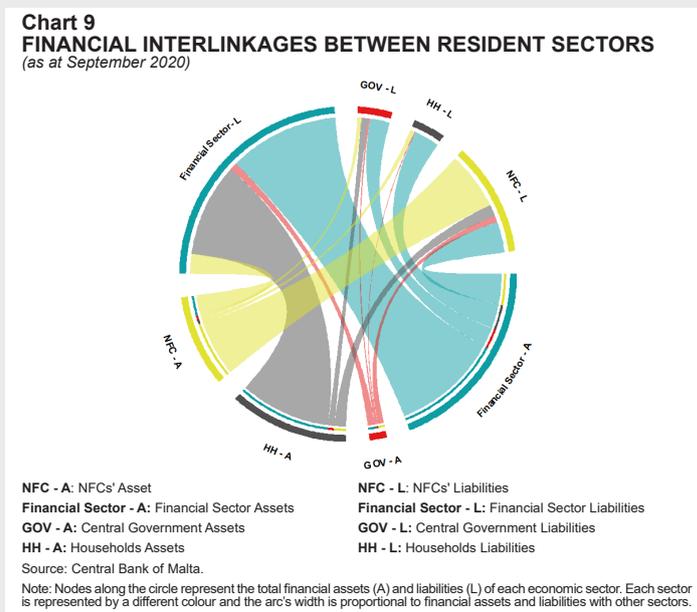
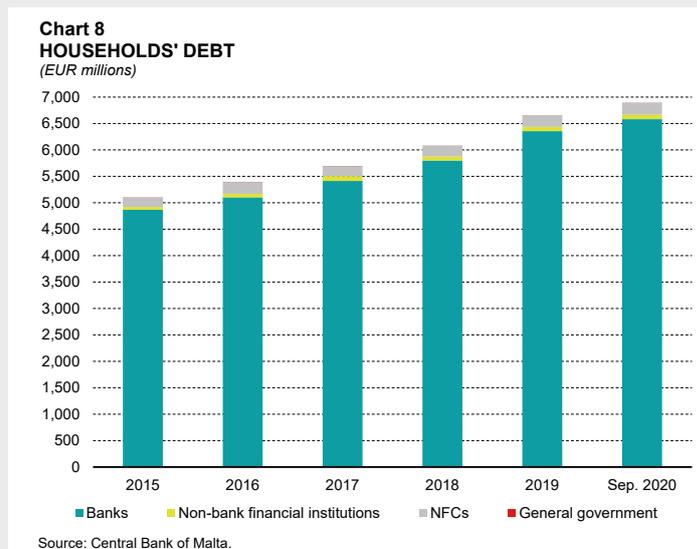


or lending from related parties.<sup>11</sup> In fact, as at September 2020, debt from other corporates (mainly loans) amounted to €8,369.8 million, or 44.7% of total NFCs' debt – the majority of this debt is in the form of intragroup loans. Loans from financial corporations, mainly bank loans, amounted to €3,921.6 million or 21.0% of total NFCs' debt. Another important source of finance for resident corporates were loans from abroad which amounted to €2,848.2 million in September 2020, partly reflecting the number of foreign-owned subsidiaries operating in Malta. Meanwhile, loans from households (mainly from directors and shareholders) amounted to €1,155.7 million in September 2020.

Chart 8 shows that households' debt as at end-September 2020 stood at €6,895.2 million, increasing by €239.7 million since end-December 2019 – primarily due to an increased take up of loans from credit institutions. Household debt is in fact composed mainly of loans from credit institutions, which amounted to 95.5% of the sector's total debt. The remaining debt mainly consisted of directors/shareholders' loans, which amounted to around €307.0 million. Nonetheless, household debt as a ratio of their total assets increased marginally from 22.5% in December 2019 to 22.6% in September 2020.

### 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 9 shows the interlinkages between the resident sectors as at September 2020.<sup>12</sup> The largest asset position of the



<sup>11</sup> Box 2: Non-Financial Corporations' loans from other corporates – evidence from Malta's Financial Accounts Statistics, *Financial Stability Report 2017*.

<sup>12</sup> The comparison with interlinkages between resident sectors as at December 2019 are not being shown graphically since there were no major changes.

financial sector, including the credit institutions, 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 59.1% of their total domestic holdings in the third quarter of 2020, a marginal decrease from 61.6% in December 2019. Chart 9 also shows that the financial sector has significant interlinkages with households and NFCs mainly through banks' funding. Moreover, the general government holds around 45.3% of its total domestic financial assets with the financial sector, primarily in the form of deposits. This share decreased from 48.4% in December 2019. With regards to NFCs, most of their assets are held by other NFCs. They decreased marginally to 66.8% of their total domestic assets from 67.7% over the period December 2019 to September 2020. Finally, households' domestic asset holdings continued to be held mainly with the financial sector. Households' domestic financial asset holdings increased to 81.4% in September 2020, from 80.9% in December 2019.

Further statistical information can be found on the website of the Central Bank of Malta at: [www.centralbankmalta.org/financial-accounts](http://www.centralbankmalta.org/financial-accounts).