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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^{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-September 2021. 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.^{3,4}

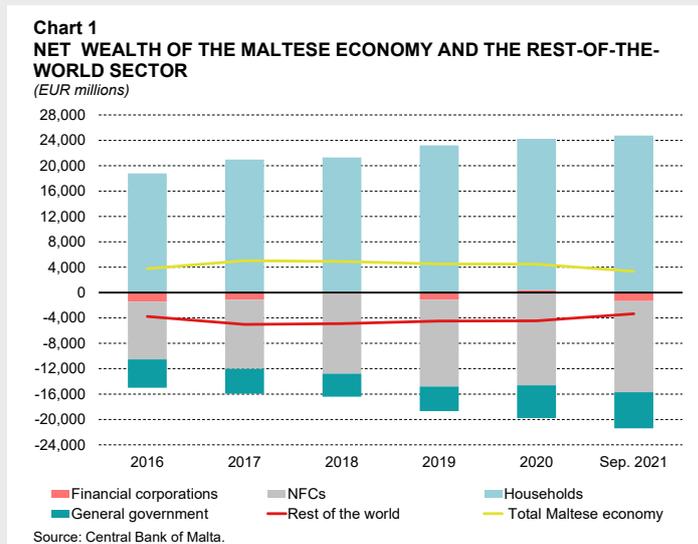
This Box includes three sections: The first section contains an analysis of the net financial wealth of each sector of the economy, the second provides an analysis of private sector debt on the basis of the European Commission's macroeconomic imbalance procedure (MIP) and the final section outlines the financial interlinkages among the resident sectors.⁵

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 2021 (see Chart 1). The net financial wealth of the total resident economy amounted to €3,347.4 million, a decline from €4,469.0 million in December 2020.⁶ The decrease was mainly driven by a drop in the net financial wealth of financial corporations and, to a lesser extent, that of the general government which offset improvements in the net financial wealth of households and NFCs.⁷

Financial assets and liabilities of the financial corporations sector

The aggregate net financial wealth of Malta's financial corporations declined from €404.0 million at the end of 2020 to -€1,339.3 million in September 2021 (see Chart 2). The decrease since December 2020 was mainly due to lower net assets in the form of loans as well as higher net liabilities in the form of insurance technical reserves, accounts payable and



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

³ See also *Annual Report 2016*, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.

⁴ The 'rest of the world' sector comprises non-resident units engaging in transactions with resident institutions.

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

⁶ 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.

⁷ 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.

equity. These offset decreases in net liabilities arising from deposits and an increase 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 and 2021 mainly as a result of increased financing needs following the introduction of COVID-19 fiscal support measures. In September 2021, the net financial position of general government deteriorated further compared with end-2020. It stood at -€5,695.1 million, decreasing by €540.5 million or 10.5% when compared with December 2020. The increase in the net liability position since the end of 2020 was driven mainly by an increase in net payables.

An increase in debt securities outstanding and in loans – partly related to borrowing from the EU's instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) – also contributed. These offset an increase in net assets in the form of deposits, which in 2020 had declined in line with higher financing needs caused by the pandemic. As Chart 3 shows, the general government remained a net asset holder of currency and deposits as well as equity, but a net liability holder of other instruments, mainly of debt securities.

Financial assets and liabilities of non-financial corporations

Chart 4 shows that NFCs had net financial liabilities of €14,370.8 million as at September 2021, a decrease of €245.8 million or 1.7% since December 2020. In September 2021, NFCs continued to be net asset holders of currency and deposits, and net liability holders mainly of loans, equity and other accounts payable. When compared with December 2020, the marginal decrease in the NFCs' net liability position was due to a rise in holdings of currency and deposits and a decline in net accounts payables (the latter due to an increase in receivables) which offset the increase in their financing through

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

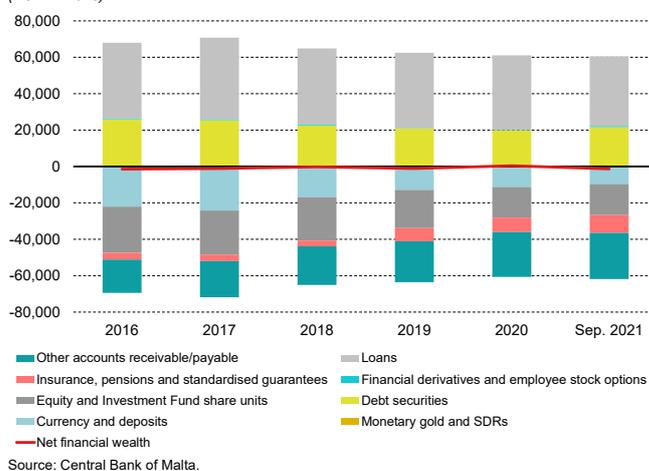
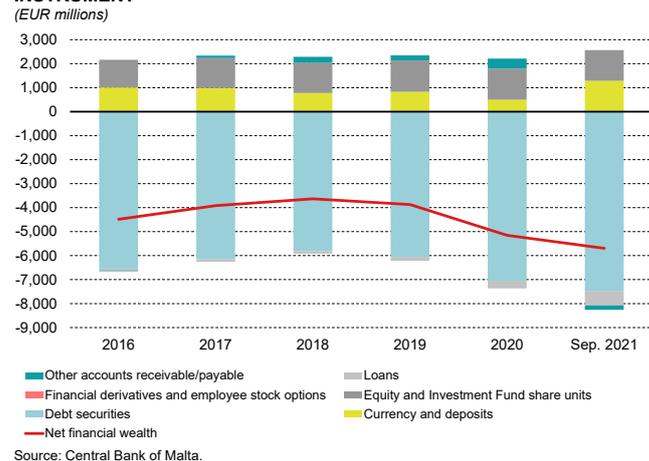


Chart 3
GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT
(EUR millions)



loans, equity and, to a lesser extent, debt securities.

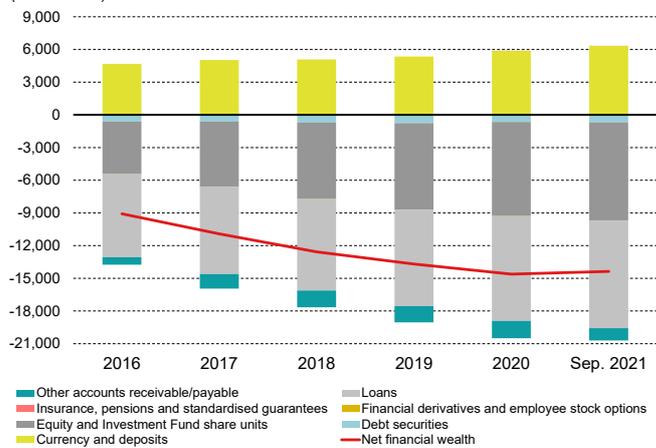
Financial assets and liabilities of households

In September 2021, households' net financial wealth reached €24,752.6 million, increasing by 3.8% or €916.5 million, when compared with December 2020. 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, but also held smaller net asset positions related to insurance products as well as debt securities. By contrast, this sector was a net liability holder of loans and other accounts payable. The improved net financial wealth position since 2020 was mostly 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 reflected an increase in households' savings, which remained high in the context of still elevated uncertainty related to the pandemic.

Malta's private sector debt

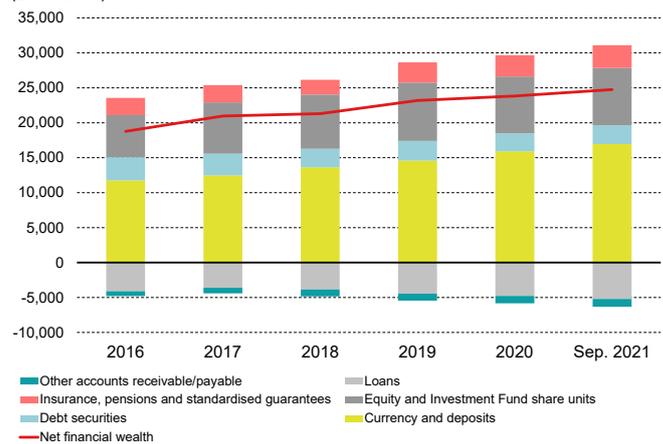
Financial accounts statistics also shed light on Malta's private sector debt. In line with the methodology of the EU's MIP – which, inter alia, prescribes such indicators on an annual basis – Chart 6 shows Malta's consolidated private sector debt as a percentage of GDP by sector and compares it to the consolidated private sector debt as a percentage of GDP of the euro area. In recent years, this ratio has been on average within the debt-to-GDP threshold of 133% set by the MIP.^{8,9}

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.

⁸ 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 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.

⁹ 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.

As at September 2021, the indicator stood at 134.8 %, exceeding the threshold by 1.8% yet less than its end-2020 level of 139.0%. Notwithstanding the indicator, it exceeded the threshold, it stood 5.6 percentage points lower than the euro area average (see Chart 6).¹⁰

Although NFC's debt and household debt rose in level terms, this was offset by a stronger level increase in GDP.

Corporate debt since 2016 constitutes on average 61.3% 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 the NFC sector itself, followed by liabilities to financial corporations.

Firms in Malta rely significantly more on loans than on debt securities. Even though the issuance of debt securities increased over the years, this remained relatively low, amounting to 3.7% of total NFCs' debt in the third quarter of 2021. 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.¹¹ In fact, as at September 2021, debt from other corporates (mainly loans) amounted to €12,310.7 million, or 51.7% of total NFCs' debt with most of this debt being in the form of intragroup loans. Debt from financial corporations, mainly bank loans, amounted to €6,497.0 million or 27.3% of total NFCs' debt. Another important source of finance for resident corporates was debt from abroad, which amounted to €3,314.1 million in September 2021, partly reflecting the number of foreign-owned

Chart 6
PRIVATE SECTOR'S DEBT AS PER CENT OF GDP (CONSOLIDATED)
(per cent)

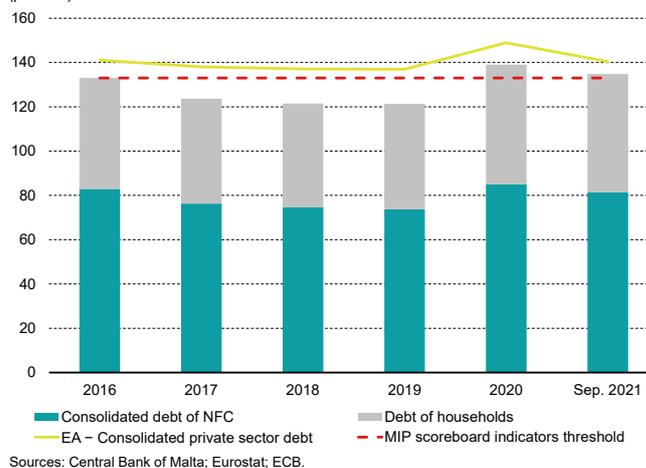
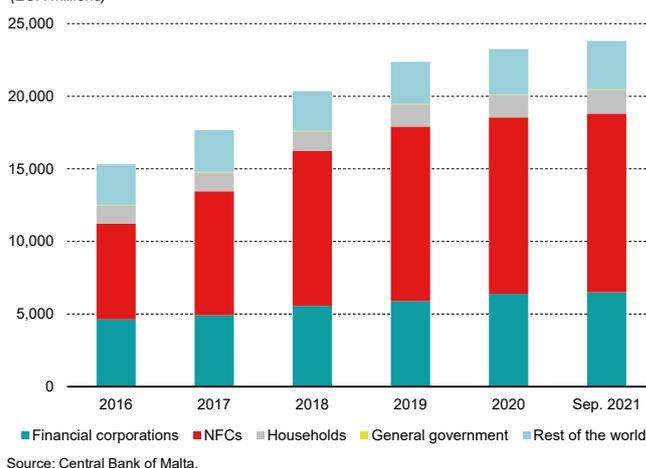


Chart 7
NFC DEBT BY CREDITOR SECTOR
(EUR millions)



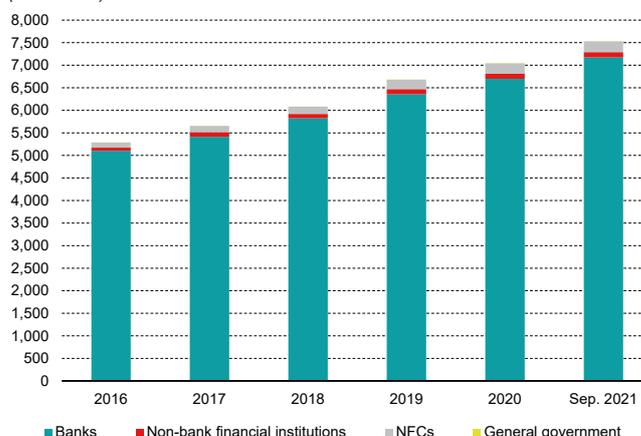
¹⁰ Eurostat statistics for the euro area are only available annually. On the other hand, the ECB's Statistical Data Warehouse contains quarterly data. There are discrepancies between the two sources due to different vintages. For this analysis, Eurostat's data were used until 2019, while ECB data were utilised to obtain the September 2021 data.

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

subsidiaries operating in Malta. Meanwhile, debt from households (mainly loans from directors and shareholders) amounted to €1,638.2 million in September 2021.

Chart 8 shows that households' debt as at end-September 2021 stood at €7,533.6 million, increasing by €486.5 million since end-December 2020 – primarily due to an increased take up of loans from credit institutions. Indeed, household debt mainly comprises loans from credit institutions, which amounted to 95.2% of the sector's total debt. The remaining debt mainly consisted of directors/shareholders' loans, amounting to around €355.6 million. Nonetheless, household debt as a ratio of their total assets increased marginally from 21.9% in December 2020 to 22.3% in September 2021.

Chart 8
HOUSEHOLDS' DEBT
(EUR millions)

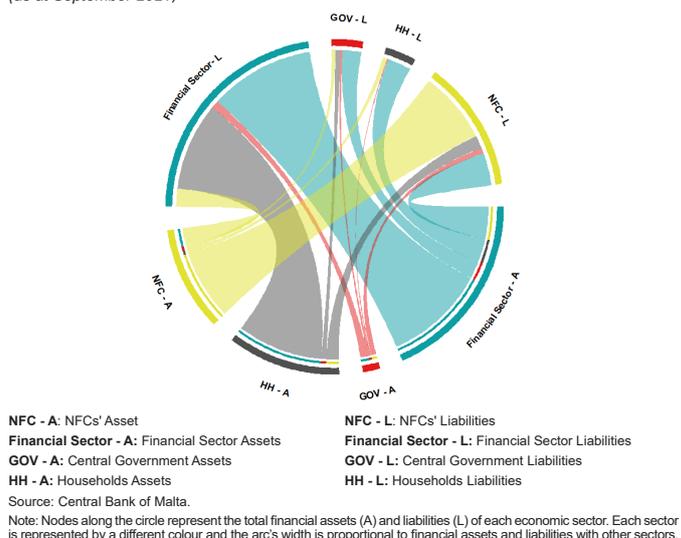


Source: Central Bank of Malta.

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 2021.¹² The largest asset position of the 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 58.3% of their total domestic holdings in the third quarter of 2021, a marginal decrease from 58.5% in December 2020. 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 47.5% of its total domestic financial assets with the financial sector, primarily in

Chart 9
FINANCIAL INTERLINKAGES BETWEEN RESIDENT SECTORS
(as at September 2021)



¹² The interlinkages between resident sectors as at December 2020 is not being shown graphically since there were no major changes.

the form of deposits. This share increased from 40.9% in December 2020. With regards to NFCs, most of their assets are held by other NFCs. These decreased marginally to 73.2% of NFC's total domestic assets in September 2021, from 74.2% in December 2020. Finally, households' domestic asset holdings continued to be held mainly with the financial sector. Households' domestic financial asset holdings increased to 83.1% of their total assets in September 2021, from 82.4% in December 2020.

Further statistical information can be found on the website of the Central Bank of Malta at: <https://www.centralbankmalta.org/financial-accounts>.