

Changes to the monetary aggregates and counterparts to broad money (M3) post euro area entry

Entry into the euro area has important implications for the presentation of Maltese monetary statistics. Prior to euro adoption, the money stock in Malta (or broad money - M3) comprised Maltese lira currency in circulation, excluding holdings by the other monetary financial institutions (OMFI), holdings by residents of certain types of deposits with monetary financial institutions (MFIs)¹ in Malta, and – though these were of negligible importance – their holdings of certain liquid marketable claims on MFIs in Malta. Counterparts to broad money were, in effect, other items in resident MFI balance sheets rearranged such as to explain, in the statistical sense, changes in broad money in an analytically useful way. The Central Bank of Malta (CBM) published these statistics on a monthly basis and reproduced them in its website in the table entitled ‘Monetary aggregates and their counterparts’ and in Tables 1.3 and 1.4 of the Central Bank’s Quarterly Review.

For the euro area as a whole, broad money (M3) consists of euro banknotes and coins in circulation outside the euro area banking system, deposits held by euro area residents (other than MFIs and central governments) with MFIs anywhere in the euro area, and their holdings of certain liquid marketable securities issued by MFIs anywhere in the euro area, including shares/units issued by money market funds. Monetary aggregates² and counterparts for the euro area as a whole are compiled by the ECB mainly from MFI balance sheet data contributed by national central banks. Currency issued as recorded in the balance sheets of the national central banks does not however represent the amount which they actually issue; far less is it a measure of the amount in domestic circulation. Rather it is a notional amount attributed to each national central bank (NCB) in the euro area according to what is called the banknote allocation key, based on the NCB’s share in

¹ Most MFIs (a term used throughout the EU) are credit institutions. Some Member States have numerous money market funds (MMFs), which they classify as MFIs. Central banks are also MFIs. A complete definition can be found in the *General Notes and Abbreviations List* section.

² Like the Maltese monetary aggregates, euro area aggregates (except in respect of banknotes and coins) include monetary instruments denominated in foreign currency - in this context, meaning in currencies other than the euro.

the paid-up capital of the ECB adjusted for the 8% of the currency issue notionally attributed to the ECB itself. Thus for three reasons – the lack of information on holdings by residents outside the MFI sector of euro banknotes and coins; the inclusion in the euro area aggregates of cross-border deposits; and (in the case of M3) the lack of information on residents' holdings of marketable monetary instruments which may have been issued by MFIs in any of the other euro area Member States – it is not possible for a national central bank (or indeed for the ECB) to calculate how much of the various measures of money is held by residents of an individual Member State.

Instead of showing monetary aggregates for Malta, therefore, as from data for January 2008 the Central Bank of Malta will show the 'Contribution of resident MFIs to the euro area monetary aggregates'. This contribution comprises the issue of euro currency attributed to the Bank according to the banknote allocation key, and the issue of coins (where the Central Bank acts as agent of the Treasury), *less* holdings of euro banknotes and coins reported by MFIs in Malta; deposits held by Maltese residents and by residents of other euro area countries with MFIs in Malta, excluding any holdings of central governments (since central government holdings of deposits are excluded from the ECB's monetary aggregates) and any inter-MFI deposits; and any marketable instruments of the kind included in euro area M3 issued by MFIs in Malta³, *less* holdings by resident MFIs of such instruments issued by MFIs resident anywhere in the euro area. Because resident MFIs may hold more of these instruments than they issue, this part of the contribution to euro area M3 may be negative.

The 'credit counterpart' to euro area M3 contributed by resident MFIs will comprise their lending (including lending through the acquisition of securities in any form) to residents of Malta and all other euro area residents (other than MFIs). The so-called 'external counterpart' will be limited to their net claims on non-residents of the euro area⁴. 'Other

³ Marketable monetary instruments broadly consist of certificates of deposit, other debt securities with an initial maturity of up to two years, and money market fund shares/units.

⁴ This is resident MFIs' (including the Central Bank's) claims on non-residents of the euro area, minus their liabilities outside the euro area, in all forms and in foreign currency as well as in euro.

counterparts (net)' comprise other items in the balance sheets of resident MFIs (including the Central Bank of Malta).

These Maltese contributions to the euro area monetary aggregates and counterparts are thus fundamentally different from the monetary statistics for Malta published by the Central Bank of Malta for data up to and including December 2007, though – to the extent that in practice cross-border banking business and business in marketable monetary instruments remain limited – some of the actual numbers may for a time not look so different.

The Bank will cease to publish monetary base (M0). As explained above, the meaning of the national measure of currency issued has fundamentally changed; and the idea that balances with the Central Bank of Malta are a unique source of Maltese lira liquidity to the Maltese banking system as a whole does not readily translate to the circumstances of participation in a monetary union, where resident MFIs may hold euro balances, and may readily borrow, anywhere in the integrated money market.