

BOX 5: DEVELOPMENTS IN THE CENTRAL BANK OF MALTA'S STATISTICS

The inclusion of Money Market Fund statistics

The European System of Central Banks (ESCB), as part of its remit, compiles the consolidated balance sheet of the monetary financial institutions (MFI) sector, which comprises the central bank, credit institutions and other MFIs. The latter primarily include money market funds (MMFs).

According to the European Central Bank's Regulation ECB/2008/32, MMFs are defined as:

Collective investment undertakings (CIUs), the shares/units of which are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates on money market instruments.

The criteria applied to identify MMFs are derived primarily from the public prospectus of the respective CIU. MMFs issue shares/units regarded as close substitutes for bank deposits and generally invest in money market instruments, such as bank deposits and short-term securities.

In the past, considering that the local MMF sector was small, with its statistics largely estimated, the Central Bank of Malta did not consolidate MMF statistics with other MFI data when compiling monetary and banking statistics. Over the last two years, however, resident MMFs have grown, though their market share remains considerably smaller than that of the MFI sector as a whole. In view of this, and given that the relevant statistics are now collected regularly, the Bank has decided to start including MMF statistics with those of the other MFIs. Following this, the resultant impact on M3 was moderate. For example, in June 2010 the inclusion of MMF deposit liabilities in M3 raised this monetary measure by 2.9%. Concurrently, MMFs raised the aggregated OMFI balance sheet by just 0.5%.

As from this issue of the Bank's *Quarterly Review*, monetary and banking statistics will include MMF statistics, with past MFI data revised back to December 2008. Data published on the Bank's website have been similarly revised. MMF statistics will not be shown separately to safeguard the confidentiality of individual reporting institutions but will be included with those of other monetary financial institutions. For consistency's sake, MMF statistics will simultaneously be included in other datasets, such as Malta's balance of payments and international investment position statistics.

NACE¹ Rev. 2 classification of OMFI loans to residents

NACE provides the framework for the presentation of statistics by economic activity. As it is subject to an EU Regulation, statistics produced on the basis of NACE are comparable in all Member States.² An economic activity takes place when resources such as capital goods, labour, manufacturing techniques or intermediary products are combined to produce specific goods or services.

¹ NACE is the acronym for Nomenclature statistique des activités économiques dans la Communauté européenne.

² Council regulation (EEC) No 3037/90 of 9 October 1990 on the statistical classification of economic activities in the European Community as amended by Commission Regulation (EEC) No 761/93 of 24 March 1993.

Structural changes in the economy, as well as technological developments, give rise to new activities and products, which may supersede existing ones. Such changes require a reordering of statistical classifications. NACE Rev. 2, a revision to NACE Rev. 1.1, is the outcome of a long consultation process which included the major international statistical agencies. The Regulation establishing NACE Rev. 2 was adopted in December 2006, though it is being implemented over a transition period across various statistical domains.

Therefore, for the purposes of Table 1.11, as from June 2010, the Central Bank of Malta will be using NACE Rev. 2 instead of NACE Rev. 1.1 in classifying OMFI loans to residents by economic activity. The most prominent changes introduced in NACE Rev. 2 include (a) the amalgamation of 'old' economic activities, (b) the introduction of new ones, and (c) the shifting of divisions from one section to another so as to represent more accurately important new industries or old industries that have increased their economic or social relevance. For example, in Table 1.11, lending related to the development and selling of real estate, previously shown under "real estate, renting and business activities", has been relocated to "construction", while lending to holding companies has been shifted from "real estate, renting and business activities" to the financial and insurance activities section under the "other" category.

Revisions to classifications, particularly if they include structural changes, lead to breaks in the time series. Thus, certain time series in Table 1.11 may not be comparable with data prior to June 2010.

Aggregated statement of assets and liabilities - insurance corporations

As from this issue of the *Quarterly Review*, a statistical table entitled "Aggregated statement of assets and liabilities – insurance corporations" is being introduced. The statistical information is restricted to resident insurance corporations in Malta, and excludes those dealing predominantly with non-residents. According to the European System of Accounts 1995 (ESA 1995), the insurance corporations sector comprises non-monetary financial institutions principally engaged in financial intermediation as the consequence of the pooling of risk. The principal function of insurance corporations is the provision of life, accident, health, fire and/or other forms of insurance.

The aggregated statement of assets and liabilities is based on balance sheets submitted by the resident insurance corporations on a quarterly basis to the Central Bank of Malta. Reporting is based on statistical standards as specified in ESA 1995, while accounting rules, for the purpose of reporting in these returns, are those laid down in the relevant national law implementing the European Council Directive 91/674/EEC on the annual accounts and the consolidated accounts of insurance undertakings. All financial assets and liabilities are reported on a gross basis and are generally valued at market or fair value.

Assets and liabilities are classified by financial instrument. On the assets side, "currency and deposits" mainly include those funds or other balances normally lodged with a bank. "Holdings of securities other than shares" comprise securities normally traded in financial markets, which give holders the unconditional right to fixed money incomes, or to contractually determined variable money incomes, or to receive stated fixed sums on a specified date (e.g. Treasury bills, government and corporate bonds). "Holdings of shares and other equity" are securities representing property rights, which generally entitle holders to a share in company profits and to a share in their net assets in the event of liquidation. Holdings of shares/units in investment funds are shown separately in this category. "External assets" include all claims on non-resident counterparties,

while “fixed and other assets” mainly comprise financial derivatives with resident counterparties, non-financial assets (including fixed assets), other assets and accruals.

There are five main instrument categories on the liabilities side of the table. “Loans” are created when creditors lend funds to insurance corporations. “Shares and other equity” comprise instruments that generally entitle holders to a share in profits. “Insurance technical reserves” consist of technical provisions for investment-linked life assurance policies, prepayments of premiums, reserves for outstanding claims and other insurance technical reserves. “External liabilities” are claims by non-residents and “other liabilities” mainly include financial derivatives with resident counterparties, other liabilities and accruals.