Lethridge, Therese; Farrugia, Emmanuel; Agius, Kimberley C.

Book

The Malta Government Stocks market : 2023 in review

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2023 in Review

Therese Lethridge

Emmanuel Farrugia

Kimberley C. Agius

All authors of this report are Senior Research Analysts within the Financial Markets Division at the Central Bank of Malta. The authors would like to thank Mr Alexander Demarco, Mr André Psaila, Ms. Josette Grech and Mr Alistair Borg for their guidance and support throughout the research and preparation of this paper. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Central Bank of Malta or the Eurosystem. Corresponding author's email address: lethridget@centralbankmlta.org.

Abstract

This report examines the primary and secondary markets for Malta Government Stocks throughout the year 2023. This year saw strong global economic activity on the back of tighter employment markets and further monetary policy measures aimed at taming high inflation. Major central banks, including the European Central Bank, maintained restrictive monetary policy, leading to increased yields and higher investor returns which set the local scene for issuing higher coupons across new Malta Government Stocks issuances during that year.

In the primary market, the Treasury offered a total of €1.59 billion, with total demand reaching €1.73 billion of which €1.46 billion were allotted (includes the 62+ Malta Government Savings Bonds). Retail and wholesale investor participation, issuance outcomes, and bid-to-cover ratios are detailed, showing robust demand for Maltese sovereign debt across all investor types. Participation in issuances is also analysed through five investor classifications, with financial institutions emerging as the largest participating group. Return requirements demanded by wholesale investors are examined given their prominent participation in the primary market, highlighting the higher yields when compared to those accepted by retail investors. Issuing strategies take on the task of balancing the cost of debt through the setting of coupons, whilst evenly spreading maturities to lower refinancing risk. This is seen through the selection of coupons and maturities issued.

The secondary market saw a slight uptick in Malta Government Stocks trading, with a total nominal turnover of €135.12 million, in which the Central Bank of Malta played a crucial role as a market maker, enhancing liquidity and trading activity. Investor confidence in the local government debt issues remained high, with financial institutions holding the largest share, followed by households and non-profit entities. Drawing insights from 2023's market performance could provide a foundation for future borrowing strategies.

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1.0 Introduction

Global economic activity continued to recover during 2023, with inflation remaining high, and employment readings tightening. Major central banks, including the European Central Bank (ECB), maintained restrictive monetary policy in attempt to tame inflation, inevitably increasing yields along the way. Such developments led investors to demand greater returns on invested capital across markets, for which the Maltese market was no exception. The interplay between these macroeconomic factors and local market dynamics provides a comprehensive backdrop for analysing Malta's borrowing strategies and investor responses during such year.

This report starts by looking into the primary market for Malta Government Stocks (MGS) throughout the year, detailing the volume of bonds offered, the demand from investors, and the respective allotted amounts and yield levels, illustrating the dynamics between retail and wholesale investor participation. The fiscal needs of the Government of Malta following the Covid-19 pandemic drove the Treasury Department to set a sizeable target at the start of the year to raise up to €1.60 billion. The amount was set to be funded through MGS issuances alone and did not include financing raised from the government's shorter-term issuances, Malta Treasury Bills (MTBs).

Particular focus is then given to participating patterns, showcasing the varying levels of demand across different investor categories. Wholesale investors' return appetite is further analysed through the Average Weighted Yield (AWY) of individual issues held during the year, revealing bidding strategies and yield requirements.

The choice of maturity terms and coupons are also explored, analysing the issuer selections reflective of different funding strategies. High inflation paired with higher interest rates meant a greater cost of funding as coupons associated with new MGS reflect yield levels at the time of issuance to secure a good uptake. Yet, cost of funding is also dependent on the AWY resulting from each issuance, especially in short-term securities.

An analysis of the secondary market activity follows, illustrating the stance of MGS within the local market with respect to other security types available for trading on the Malta Stock Exchange (MSE). Total turnover, the role of the Central Bank of Malta (CBM) as a market maker, and the movement of MGS holdings across different investor categories are all examined in the third section of the report. Through this section, the uptick experienced in MGS secondary market trading is highlighted, as it halted the downward trajectory seen in recent years.

Amidst a challenging global economic environment, local participation was relatively strong in both the primary and the secondary markets. Through its analysis, the report aims to provide a comprehensive understanding of the investment landscape for MGS in 2023, highlighting key trends and insights that shaped the market throughout this period.

2.0 The Primary Market

In its 2023 borrowing plan, the Treasury Department within the Ministry for Finance announced its intention to secure funding of up to €1.60 billion through MGS issuances. This amount represents one of the highest borrowing plans, surpassed only by that of 2020 which was revised up to a maximum of €2.00 billion following the onset of the Covid-19 pandemic. More recent borrowing requirements were of €1.20 billion in 2022 and €1.10 billion in 2021, indicating a trend of elevated funding requirements, partly to refinance past maturing debt. During 2023, four MGS and the 62+ Malta Government Savings Bonds (MGSB) were redeemed for a total of €445.40 million, slightly lower than maturities in 2022. Investment opportunities in domestic paper was offered across multiple maturity terms. In all, The Treasury offered a total of €1.59 billion to the market, receiving offers of €1.73 billion across all 2023 issuances, of which €1.46 billion were allotted.[1] Abstracting from redemptions during the year, gives a net issuance of €1.01 billion, closing the year with a nominal outstanding amount of €8.34 billion.

2.1 Investor Participation

All issues were open to both retail and institutional investors except for the October one, which was offered exclusively to the wholesale sector. It is normal procedure to allow retail investors a three-day application period, all of which are allotted at a predetermined price set by the Treasury. The minimum amount that retail investors can apply for is €100, with a maximum limit of €499,900.[2] The wholesale auction takes place on a single day, normally opening at 08:00hrs and closing at 12:00hrs with the minimum bid amount set at €500,000. The Treasury provides indicative pricing guidelines based on a spread over the mid-swap rate. Wholesale investors can submit bids at their desired yield, with the Treasury determining the allotment policy based on its funding requirements. All issuances held in 2023 are summarised in Table 2.1.1, below.

Table 2.1.1: List of 2023 Issuances

	February	June	July	September	October	
	3.50% MGS 2028 VI	62+ MSGB Issue 2023*	3.55% MGS 2026 V	4.00% MGS 2033 IV	3.85% MGS 2026 VI	
	4.00% MGS 2043 I		3.75% MGS 2033 III	4.30% MGS 2038 II	3.95% MGS 2028 VII	
			4.00% MGS 2038 I			Totals
	€	€	€	€	€	€
Total Amount on Offer	**350,000,000**	**85,971,100**	**400,000,000**	**400,000,000**	**350,000,000**	**1,585,971,100**
Original Issue	200,000,000	85,971,100	270,000,000	260,000,000	200,000,000	1,015,971,100
Overallotment Option	150,000,000		130,000,000	140,000,000	150,000,000	570,000,000
Total Applications	**415,679,500**	**70,092,200**	**569,049,000**	**327,115,400**	**351,900,000**	**1,733,836,100**
Retail	179,179,500	70,092,200	180,049,000	81,615,400	-	510,936,100
Wholesale	236,500,000	-	389,000,000	245,500,000	351,900,000	1,222,900,000
Total Amount Allotted**	**349,179,500**	**70,092,200**	**399,549,000**	**303,615,400**	**341,900,000**	**1,464,336,100**
Bid-to-cover Ratio***	**2.08**	**-**	**2.11**	**1.26**	**1.76**	**1.71**

*Eligible bondholders of this security were offered to rollover their maturing holdings in the new savings bond issue

**Total applications from Retail Investors were fully allotted

***Bid-to-cover ratio is applied on the original issue amount

Source: Malta Treasury Department

Estimated bid-to-cover ratios portrayed in Table 2.1.1 above give indication of how issuances have fared, with a ratio higher than one indicating that the issuance was able to fully allot its original issue size. All 2023

[1] The amount offered and allotted both include the overallotment option set by the Treasury at each issuance.

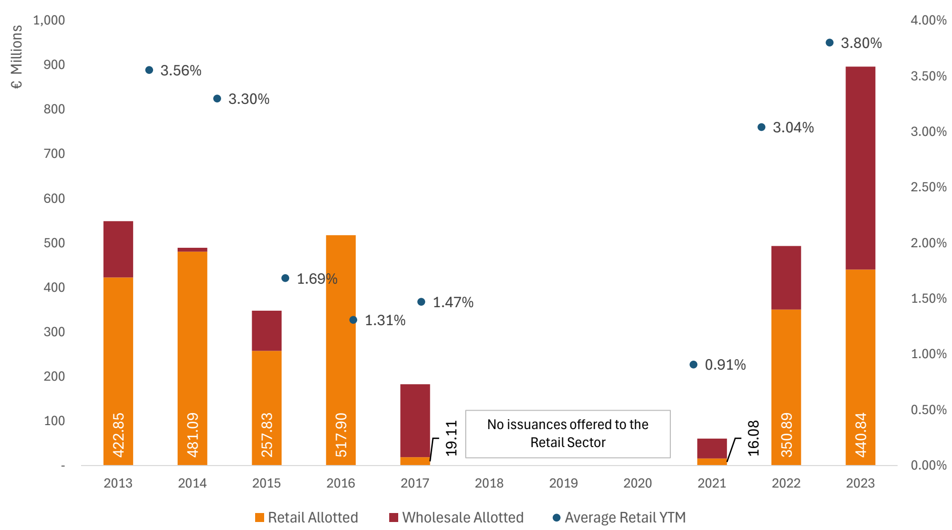
[2] Terms "applications" and "allotment" will be used interchangeably throughout the report when referring to retail investors.

issuances satisfied their original allotment, with three out of four almost fully taking up their overallotment option.

Demand peaked in the July issue, with an overall bid of €569.05 million against an original issuance of €270.00 million across three MGS. The Treasury allotted €399.55 million, only €0.45 million below the total issuance size including the over-allotment option. This resulted in the year's highest bid-to-cover ratio of 2.11 times. Wholesale investors applied for €389.00 million, while retail applications peaked at €180.05 million. In fact, when excluding the 62+ MGSB, 40.80% of the retail investor allocations were executed in the July issue alone. By contrast, overall demand was mostly subdued in the September issue, receiving a total of €327.12 million across two securities, of which €245.50 million were from the wholesale investor and the remaining €81.62 million from the retail. The ratio of 1.26 classifies the said issuance as the least popular for the year having the lowest portion of its overallotment option by approximately 31%.

Focusing more on investor types, wholesale applications reached €1.22 billion, equivalent to 70.5% of total demand, of which the Treasury allotted €0.95 billion. The remaining €0.51 billion bid by retail investors (29.5%) were fully allotted. This includes €70.09 million rolled over into new 62+ MGSB for another five-year term, at an annual rate of 3.60%. Retail participation might appear subdued when viewed through this indicator. However, a deeper analysis of retail demand over the past decade reveals a different narrative.

Chart 2.1.1: Retail Participation in Combined MGS Issuances



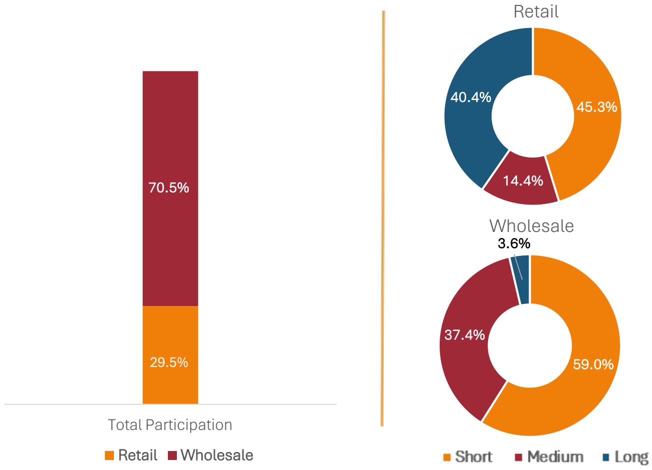
Source: Malta Treasury Department

Chart 2.1.1 aggregates only issuances offered to the retail sector on a yearly basis, thus omitting issuances offered exclusively to wholesale investors. The wholesale allotment is shown to depict the magnitude of the retail vis-a-vis the wholesale participation. The 62+ MGSB rolled over in 2023 is not included for comparability reasons.

As illustrated in Chart 2.1.1, retail applications for 2023 were consistent with levels observed at the start of the 10-year period shown. A gradual resurgence in retail investing could be noted following a three-year pause in offerings for this investor group due to ultra-low yields. Nevertheless, retail participation remained below the highs seen in 2014 and 2016, despite the fact that the yield to maturity (YTM) offered to retail investors was relatively lower during those years. The seemingly low participation rate of 29.5% in 2023 can be largely attributed to a significant increase in the Treasury's debt supply, with the volume of debt offered to the retail sector reaching its highest level since 2013.

Supporting their usual investment patterns, wholesale investors engaged substantially in the shorter-term[3] bonds, placing 59% of their cumulative amount. The medium-term paper took second preference accounting for 37.4% of their take up. Long-term investing in domestic government paper seems not to have been part of the investment strategies of the wholesale investor for 2023, partaking only 3.6%. The individual performance of the bonds grouped by term can be observed through Chart 2.1.2.

Chart 2.1.2: Retail and Wholesale Participation by maturity



Source: Malta Treasury Department

Retail investing in Maltese sovereign bonds showed an almost equal preference between short and long-term maturities, with the former being the most in demand at 45.3%. Bonds with medium-term maturity were the least popular in this segment, accounting for only 14.4% of bids.

2.2 Investor Participation by Category

Participating investors are classified in five broad categories as compiled by the Treasury Department. By examining the aggregated participation amounts from all retail and wholesale issuances held in 2023, it is evident that three major investing segments showed the most interest in these fixed-term securities.

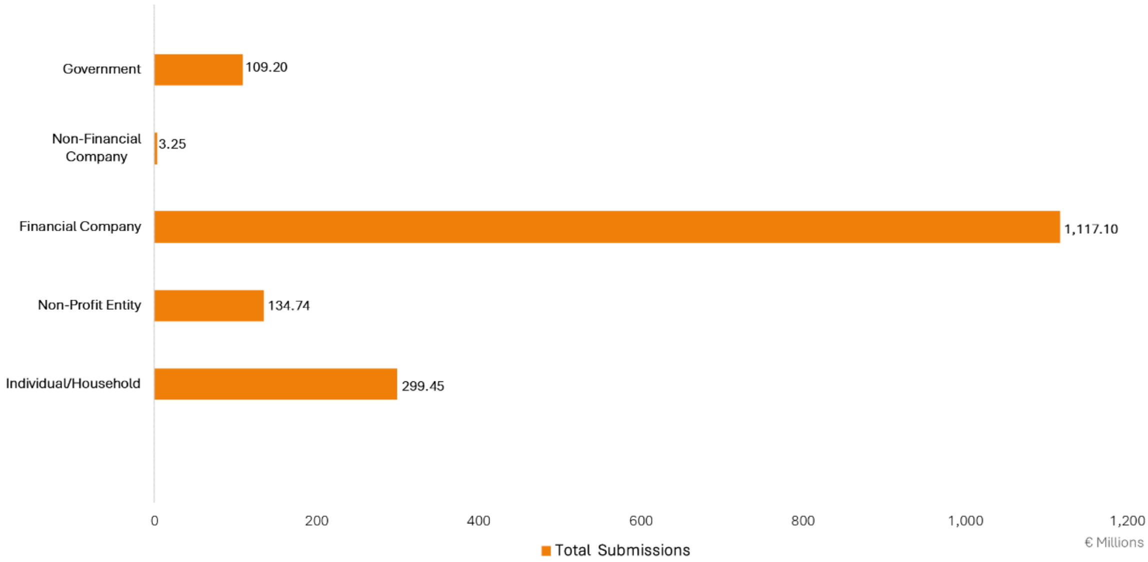
As presented in Chart 2.2.1 below, the financial companies category clearly topped the list, placing €1,117.10 million or 67.1% of total interest. Although to a lesser extent, the individual and household sector also showed significant demand, placing €299.45 million, accounting for almost 20% of total applications. The non-profit entity[4] category submitted €134.74 million, followed by the government[5], and the non-financial company sectors, which collectively represented 14.9% of total bids.

[3] Maturity terms between one and six years are categorised as short-term bonds, including both years. Those of seven till 14 years are medium-term tenors, whilst those of 15 years and higher are considered long-term issues.

[4] The largest portion of the non-profit entity classification is made up of resident nominees who are not necessarily non-profit. These investors do not hold a direct account with the MSE and place their applications through a broker.

[5] The government category refers mainly to government agencies and public sector entities.

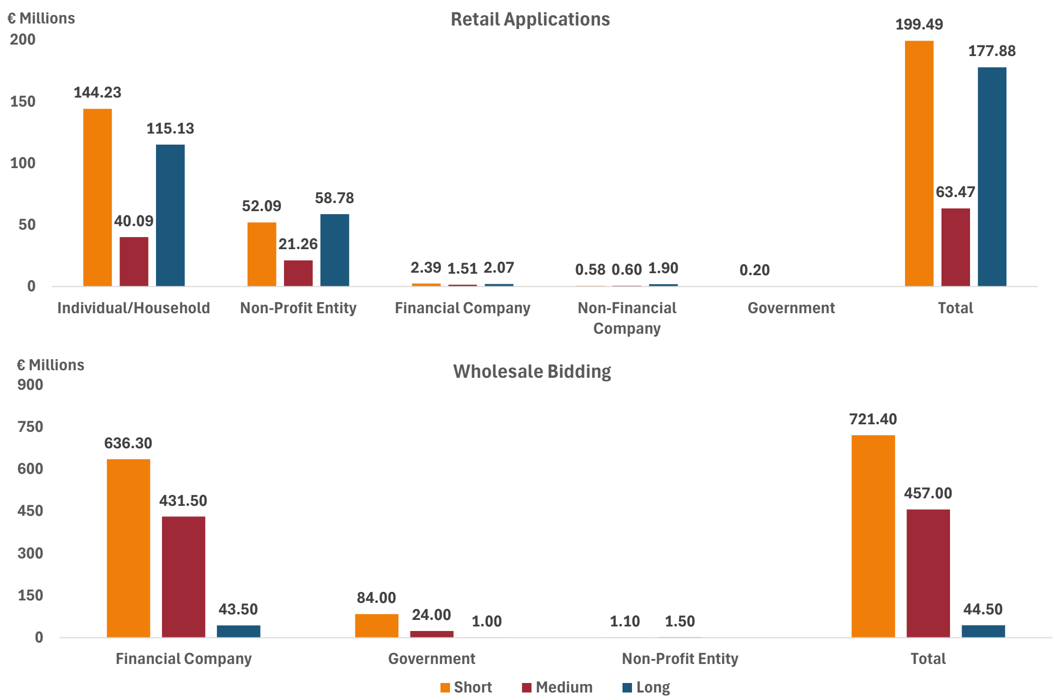
Chart 2.2.1: Participation by Category



Source: Malta Treasury Department

Chart 2.2.2 below illustrates the participation by the retail and wholesale investor, split by each category and per maturity bracket, further highlighting the main preferences by each investing category, as indicated in the previous section.

Chart 2.2.2: Retail and Wholesale Applications split by Category and Maturity



Source: Malta Treasury Department

2.3 Wholesale Bidding – an Average Weighted Yield Analysis

Given the strong presence of the wholesale investor, as shown in Section 2.1, analysing the AWY derived from primary competitive auctions provides insight into the yield requirements demanded by the main primary market participant. The AWY of the successful bids received in 2023 is compared to the YTM offered to retail investors (where available), highlighting the higher returns sought by wholesale investors.

In all four issuances held in 2023, the AWY of the bids accepted exceeded those indicated by the Treasury for the retail placement. Table 2.3.1 below displays the yield offered to retail investors and the successful AWY derived from the wholesale issuance through competitive bidding. The additional premium requested by the wholesale investor, above that offered to the retail investor, is seen through the final column in basis points (bps). The most significant divergence is seen in the 4.00% MGS 2043 I offered in February, with an additional 41 bps in AWY over that locked in by retail investors. This was equivalent to a significantly discounted price of €94.45. The 3.50% MGS 2028 VI, also offered in February, resulted in an AWY which was 35 bps higher than that offered to retail investors. The closest that the AWY got to the retail yield was in the 3.55% MGS 2026 V offered in the July issuance with just 4 bps difference, resulting in a discrepancy of only €0.10 between the retail price and the average weighted price (AWP). The 4.30% MGS 2038 II was the only offering for 2023 which had an AWP above par, that of €100.69. Nevertheless, this price was still significantly lower than the €102.00 offered to the retail sector.

The two MGS offered in the October issuance and the 3.75% MGS 2033 III offered in July were the only issues that were open exclusively to wholesale bidders. The AWY of these three instruments were all above their respective coupon, with the most prominent difference being of 21bps, pertaining to the 3.95% MGS 2028 VII.

Table 2.3.1 – Average Weighted Yield Analysis

		Retail Issuances		Wholesale Issuances		Wholesale AWY vs. Retail Yield (bps)	Total Amount Bid (€)
		Price (€)	Yield to Maturity (%)	Successful AWP (€)	Successful AWY (%)		
Feb-23	3.50% MGS 2028 VI	101.25	3.2434%	99.54	3.5946%	35	288,427,200
	4.00% MGS 2043 I	100.00	3.9996%	94.45	4.4111%	41	127,252,300
Jul-23	3.55% MGS 2026 V	100.00	3.5497%	99.90	3.5856%	4	280,564,200
	3.75% MGS 2033 III**	-	-	99.07	3.8622%	-	220,000,000
	4.00% MGS 2038 I*	100.00	3.9997%	-	-	-	68,484,800
Sep-23	4.00% MGS 2033 IV	100.75	3.9098%	99.00	4.1204%	21	300,469,500
	4.30% MGS 2038 II	102.00	4.1210%	100.69	4.2379%	12	26,645,900
Oct-23	3.85% MGS 2026 VI**	-	-	99.47	4.0508%	-	177,500,000
	3.95% MGS 2028 VII**	-	-	99.10	4.1578%	-	174,400,000

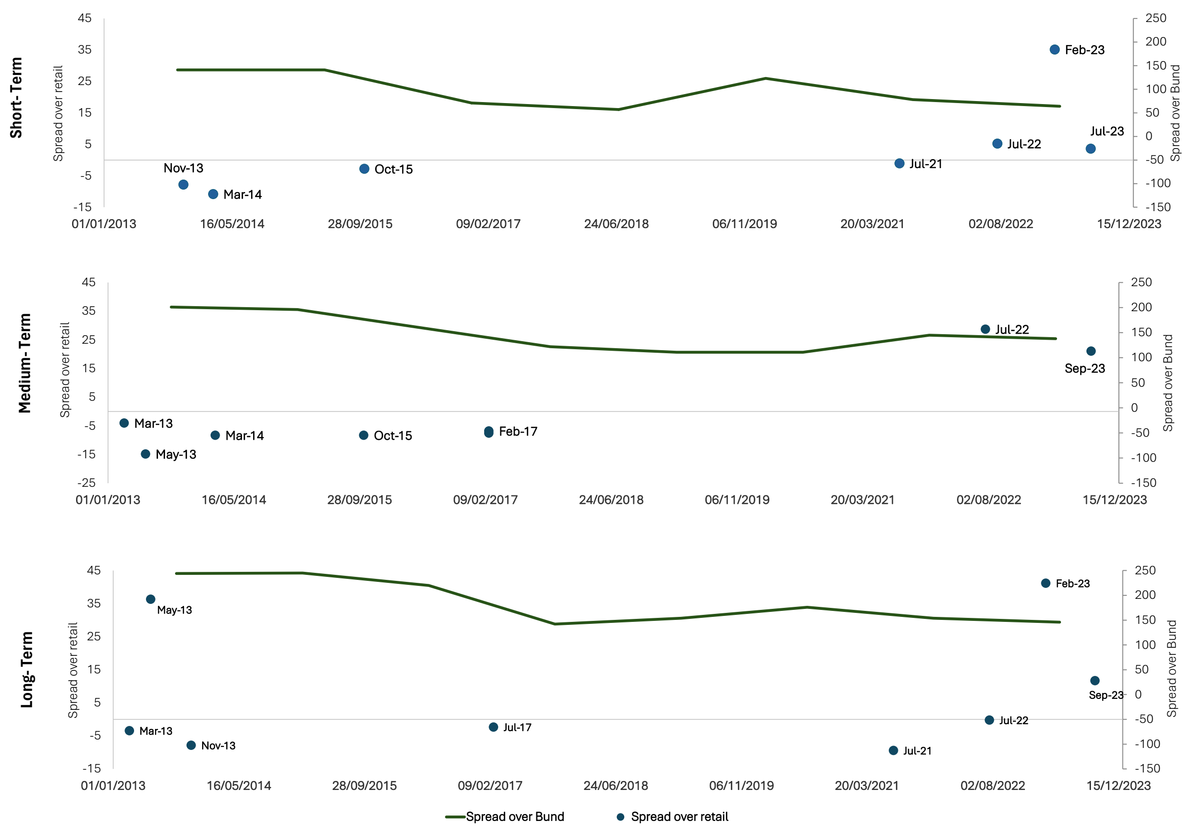
Offered only to retail investors

***Offered only to wholesale investors*

Source: Malta Treasury Department

It is noteworthy that due to the time gap between the publication of retail offering prices and the wholesale auction, yields likely fluctuated, potentially contributing to the higher AWY. However, this factor alone may not fully account for these deviations as the income goals of wholesale investors also come into play. When examining the spread between the successful AWY and the published bid yield for Retail investors over the past decade, shown in Chart 2.3.1, a shift in wholesale investors' bidding patterns becomes evident. Across all three maturity brackets, the deviation was consistently negative between 2013 and 2017, with only one exception in the long-term bracket.

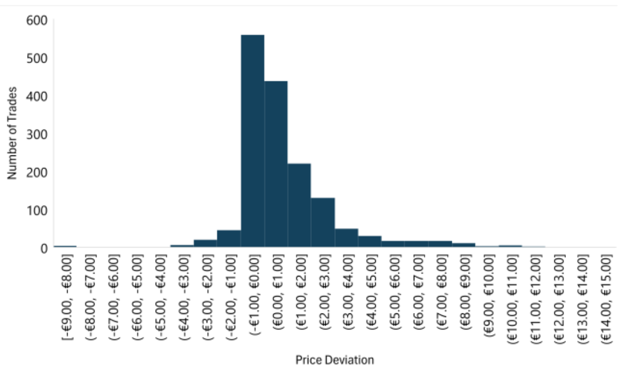
Chart 2.3.1: Deviation of Successful AWY from retail YTM



Source: Malta Treasury Department/Central Bank of Malta
Only issuances which were open to both Wholesale and Retail investors are shown

However, after 2020, deviations turned positive across all three tenors, even though the Maltese risk premium over the German bund[6], considered as the euro area benchmark, declined by 77 bps, 63 bps, and 98 bps in the short-, medium- and long-term, respectively, in line with euro area sovereigns that share similar economic fundamentals. This may signal that wholesale investors require a higher return

Chart 2.3.2: Deviation between inter-broker prices and CBM indicative Prices



Source: Malta Stock Exchange

[6] Based on Indicative Secondary Market prices published by the CBM.

premium over the bund than that indicated through secondary market pricing. Nevertheless, as illustrated through Chart 2.3.2, confidence in the latter does not seem to be waning as these prices were utilised by brokers in MGS secondary market trading in 2023, with most of the trades having only slight deviations.

One reason that may explain the higher AWY required by wholesale investors could be the significant increase in the Government's borrowing needs from 2020 onwards due to COVID-related measures, as already highlighted. With more debt instruments to be absorbed, investors may have been presented with the opportunity of requesting a higher return, constraining the Treasury to entertain such bids.

2.4 Trends in Issued Coupons and Maturities

All issuances in 2023 introduced new bonds in the central government's portfolio, having different maturities spanning from three to 21 years paired with coupons that ranged from 3.50% to 4.30%. This information together with the amount allotted in each issuance are listed in Table 2.4.1 below.

Table 2.4.1: Issues launched in 2023

			Total Participation		Total Amount Allotted
		Term to Maturity	Retail Applications	Wholesale bids	
		years	€	€	€
Feb	3.50% MGS 2028 VI	5	87,927,200	200,500,000	243,427,200
	4.00% MGS 2043 I	21	91,252,300	36,000,000	105,752,300
Jul	3.55% MGS 2026 V	3	111,564,200	169,000,000	175,564,200
	3.75% MGS 2033 III	10		220,000,000	155,500,000
	4.00% MGS 2038 I	15	68,484,800		68,484,800
Sep	4.00% MGS 2033 IV	10	63,469,500	237,000,000	280,469,500
	4.30% MGS 2038 II	15	18,145,900	8,500,000	23,145,900
Oct	3.85% MGS 2026 VI	3		177,500,000	177,500,000
	3.95% MGS 2028 VII	5		174,400,000	164,400,000
			440,843,900	1,222,900,000	1,394,243,900

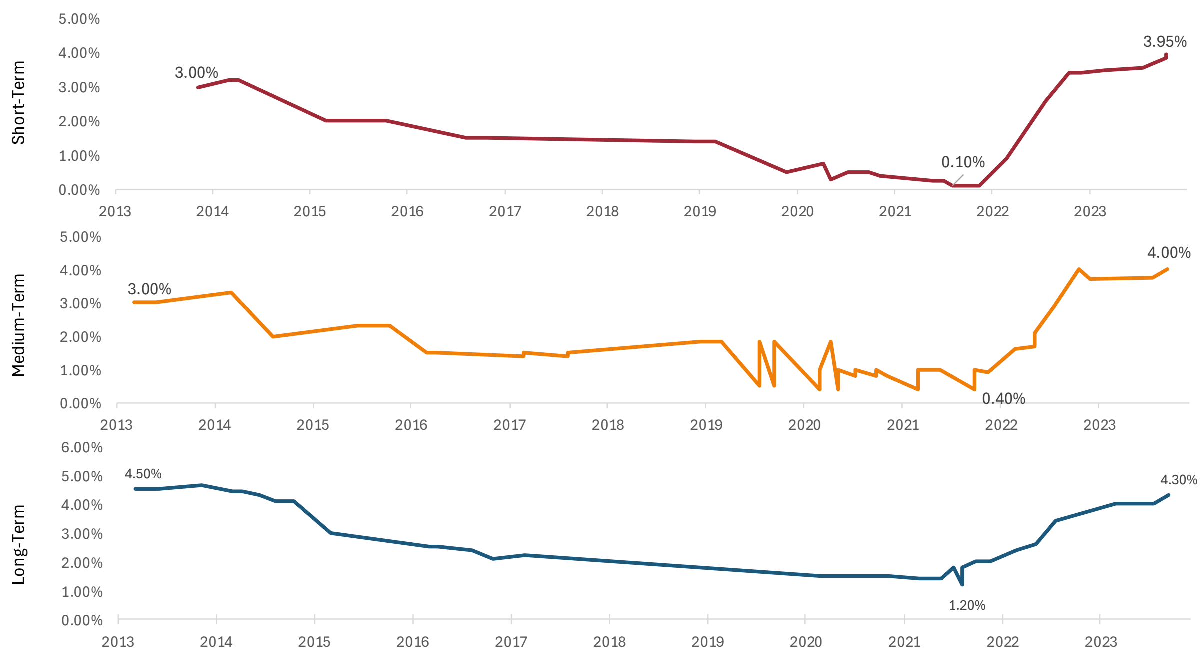
Source: Malta Treasury Department

In 2023, global yields surged, reflecting the surge inflation to very high rates in 2022. Central banks implemented restrictive monetary policy to tame inflation, leading to a higher interest rate environment. Consequently, financial markets respond according to the prevailing economic conditions. In a low-interest-rate environment, issuers seek lower coupons to reduce borrowing costs. By contrast, when interest rates are high, higher coupon rates would be necessary to attract investors, especially the retail segment. The Government's cost of borrowing is ultimately reflecting the locked AWY for each issue. Given the preference of retail investors towards medium to long-term issuances, usually the locked-in AWY yield for the respective issue would be very close to the coupon.

MGS coupons across all tenors in 2023 approached or exceeded those seen a decade ago. Taking the year's first long-term issue set at 4.00%, compared to the final issue at 4.30% as an example, shows an increase of 30 bps over a seven-month period. It can be noted that the 15-year bond issued in September had a higher coupon than the 21-year bond offered in February.

As illustrated in Chart 2.4.1, historically, MGS coupons were relatively high in 2013, declined gradually, and rose again over the last two years. The downward trend in coupon rates after 2013 was influenced by several factors, mostly by the ECB's monetary policy decisions, including negative interest rates starting in mid-2014 and the Quantitative Easing Programme introduced in March 2015 amid a period of disinflation. Coupon rates continued to decline, reaching their lowest point in 2021 during the COVID-19 pandemic, as negative interest rates were maintained to counter the sharp economic contraction. Since the end of 2021 yields started to increase, reaching high levels in 2023. Notably, long-term coupons experienced a more gradual increase compared to other terms.

Chart 2.4.1: Coupons across 10-year period

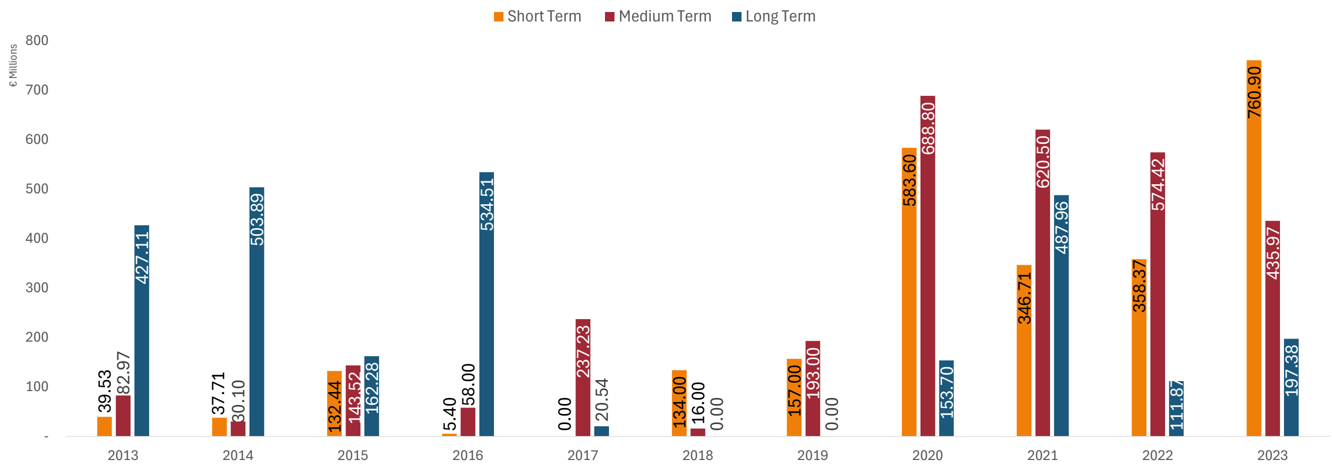


Source: Malta Treasury Department

The choice of maturity terms for new issues reflects issuers' strategic objectives and financial planning. Issuing longer-dated debt when yields are low allows for the collection of funds locked at lower borrowing costs. Given the high yields in 2023, the Treasury only allotted €197.38 million over three long-term bonds as shown in Chart 2.4.2. The issuance of long-term debt was preferred until 2016, possibly due to lower interest rates, which is also noted in 2021 when issuances in the medium maturity bracket reached €620.50 million. Short-term bonds, however, gained prominence in the primary market from 2020, with the largest amount allotted in 2023. Given the general expectation of a drop in short-term interest rates, issuing short-term debt during 2023 may have been strategic to reissue at lower rates in the near future.

Debt sustainability also takes a role, whereby considerations towards maintaining low debt servicing costs whilst ensuring long-term feasibility, are taken. Additionally, an issuer must evenly distribute debt across years to avoid large redemptions within a short timeframe, and therefore curbing what is known as refinancing risk. The chart displays that generally issuances always included different maturity terms, irrespective of the yield environment. The variable in each case, however, was the amount to be allotted.

Chart 2.4.2: Tenors issued across a 10-year period



Source: Malta Treasury Department

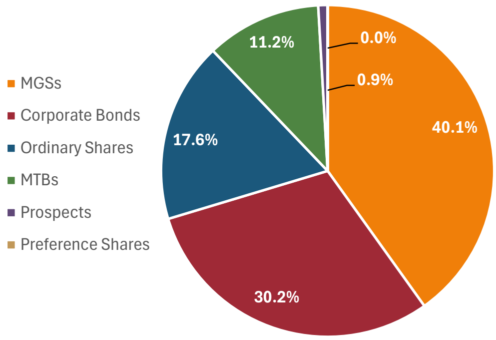
In essence, issuers must also consider investor demand by offering a mix of maturities, coupons and instruments, such as inflation-linked bonds, to cater for varying needs of different investor categories. Ultimately, allocations are heavily influenced by investor preference revealed through the issuance stage. Taking examples from Table 2.4.1 above, the 4.30% MGS 2038 II offered in September, received only €26.65 million, making it the least demanded stock offered during 2023, despite having the highest coupon over a 15-year term. In contrast, a longer-term tenor, offered in February, with a lower coupon (4.00% MGS 2043 I), fared better, with the total applied for amounting to €127.25 million. This highlights further that although an issuer might have a clear strategy in mind, take up will ultimately depend on the investment requirements of the bidders and their expectations of future interest rate movements.

3.0 The Secondary Market

3.1 Secondary Market Turnover

Total nominal turnover in prominent asset classes amounted to €338.51 million, with a market capitalisation value of €329.75 million.[7]

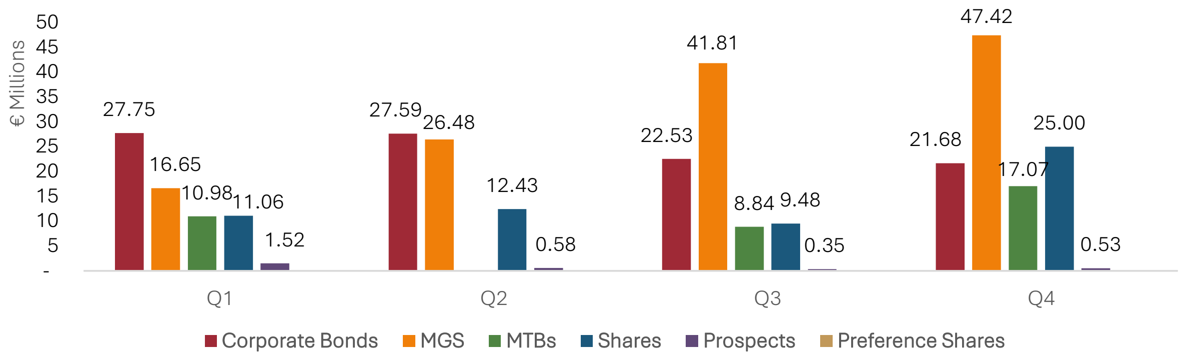
Chart 3.1.1: Classification of traded securities by Market Capitalisation



Source: Malta Stock Exchange

A total €169.26 million was traded in local sovereign debt securities, equivalent to 51.3% of total on-exchange turnover in all securities. The larger part of this figure was attributable to MGS turnover alone. Chart 3.1.1 further details this distribution, showing that 40.1% (€132.36 million) was exchanged in MGS with an additional 11.2% (€36.90 million) dealt in MTBs. Corporate bonds were the second most traded security type overall, representing 30.29% (€99.55 million) of the year's total market capitalisation. Ordinary Shares followed with 17.6% (€57.95 million). Prospects and Preference Shares together accounted for less than 1% of the total market value traded (€2.99 million).

Chart 3.1.2: Value traded over Quarters



Source: Malta Stock Exchange

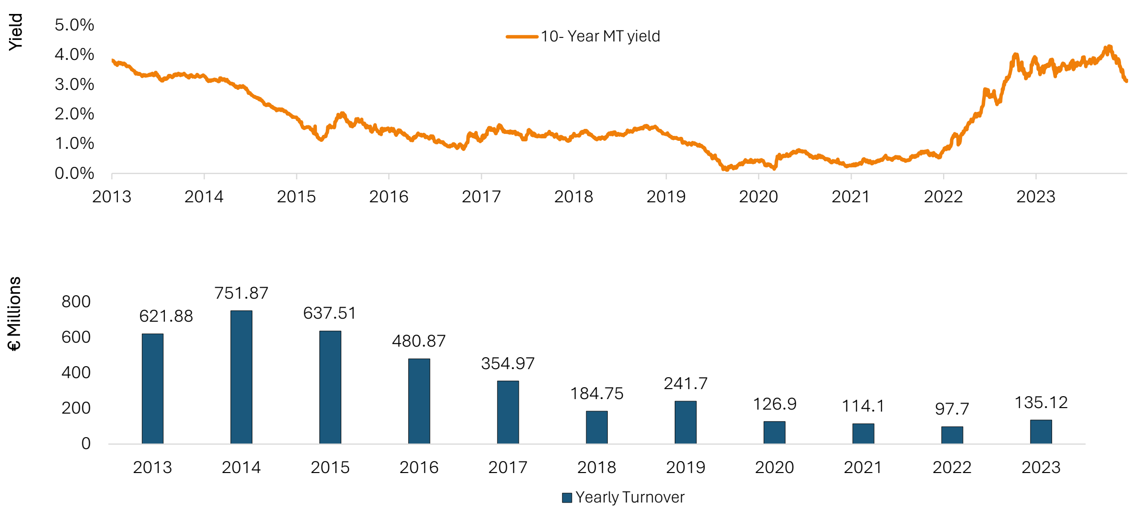
Trading activity for the entire year is summarized at quarterly frequency in Chart 3.1.2. In the first half of 2023, trading in corporate bonds surpassed MGSs by €11.10 million. Activity in MGS trading exhibited an upward trend across quarters with a noticeable surge in the third and fourth quarters, surpassing corporate bond transactions by a considerable margin. MGS turnover peaked in the final quarter of the year with an amount of €47.42 million.

[7] For this section, market capitalisation will be used to refer to values traded in different asset classes.

3.2 Secondary Market Turnover of Malta Government Stocks

A downward trend in MGS trading has been distinctly noticeable throughout the last decade. Total MGS turnover between 2013 and 2017 averaged €570.00 million yearly in nominal terms. Secondary market trading during this period peaked in 2014, after which turnover gradually lost momentum. Several factors could have contributed to this turnover pattern. As explained, the expansionary monetary policy implemented during the early years of the observed period, resulted in a low yield environment, which might have created opportunities for profit-taking given higher prices. Chart 3.2.1, through the Maltese (MT) 10-year yield, exhibits the substantial decline in yields between 2013 and 2016, with sharp drops evidently occurring during 2014. Additionally, the introduction of the Public Sector Purchase Programme by the ECB in 2015, further pushed yields lower, boosting demand for MGS. However, yields reached their lowest values, for the presented period, between 2019 and 2020. In fact, the Treasury refrained from offering any MGS to the retail sector between 2018 and 2020 due to unattractive returns, possibly explaining the low turnover volumes. Furthermore, total secondary market turnover plummeted to below €130.00 million from 2020 onwards, recovering in 2023 and slightly exceeding this threshold with a recorded exchange of €135.12 million. Rising yields fuelled by high inflation prints experienced between 2021 and 2022 pushed prices lower, potentially supressing turnover.

Chart 3.2.1 – 10-Year MT Yield and MGS Turnover



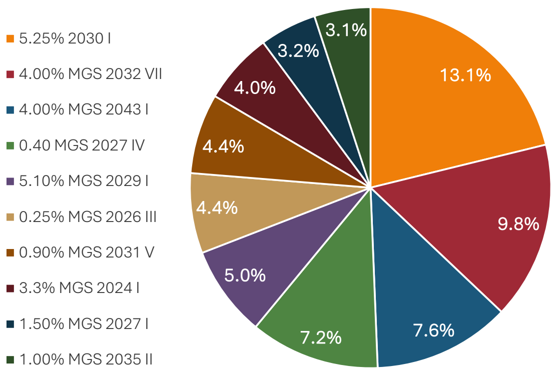
Source: Malta Stock Exchange/ Central Bank of Malta

A total of 48[8] different MGS were traded in 2023, of which the 10 with the highest traded volume are presented in Chart 3.2.2, below. Trading in the 5.25% MGS 2030 I accounted for 13.1% of total turnover, emerging as the most popular exchanged stock. The 4.00% MGS 2032 VII followed with a percentage of 9.9%. It is

[8] ISINs that were merged are being considered as one ISIN.

interesting to note that by end of 2023, individual household investors held 85.6% and 76.7% of the 4.00% MGS 2032 VII and the 4.00% MGS 2043 I, respectively. In the 5.25% MGS 2030 I, this investor type held 20.4%.

Chart 3.2.2 – Contributors to Total Turnover

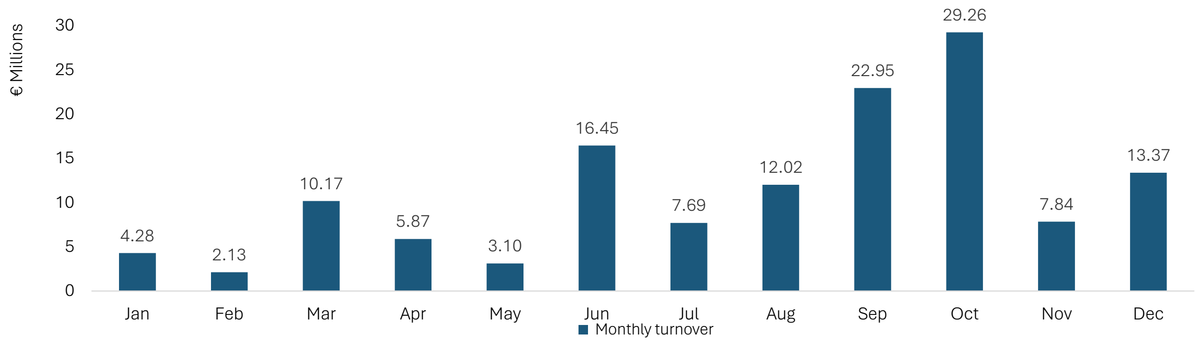


Source: Malta Stock Exchange

The nine newly issued MGSs in 2023 did not create much momentum in secondary market trading. Only one new MGS, namely the 4.00% MGS 2043 I, made it within the top 10 most traded MGS, with 7.6% of total turnover in 2023. The remaining eight MGS accounted for 7.5% of total turnover collectively, bringing total turnover in the new issues to 15.1%.

When aggregating total turnover by month, it can be noted that October had the largest turnover in MGSs, accounting for 21.7% of total trades, closely followed by September with 17.0% and June with 12.2%. Turnover in these three months alone summed up to 50.8%, with the remaining 49.2% being split across the other months. This may seem to suggest that there might have been some specific market moving events which resulted in increased turnover in these specific months. However, a deeper analysis reveals that these peaks in trading were only the result of one-off transactions. Monthly turnover figures are visualised for ease of reference through Chart 3.2.3.

Chart 3.2.3 – Monthly Turnover



Source: Malta Stock Exchange

Moreover, there is not enough evidence of any trend in trading in the periods preceding and following the four MGS primary issues held in 2023.

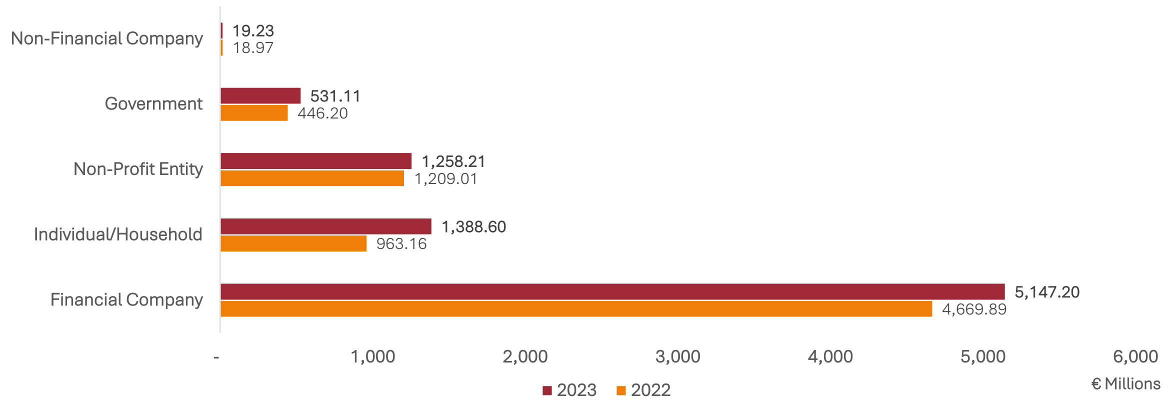
In the secondary market, the CBM facilitates trading in MGS and MTBs by acting as a market maker, enhancing liquidity for domestically issued sovereign debt securities. The Bank operates in the local secondary market, guided by its indicative prices, which it publishes daily on its official website.

For MGS, the CBM accounted for 41.2% (€55.70 million) of total on-exchange transactions during the year and acted on behalf of public entities for another 18.3% (€24.78 million). The CBM was relatively even more active in MTBs trading, being involved in most of the security's total turnover at 83.8% (€30.95 million). Only one other broker purchased the remaining 16.2% (€6.00 million) of MTBs exchanges. These figures highlight the critical role of the CBM as a market maker in a relatively tight exchange market, underscoring its importance in facilitating trading activity and boosting liquidity.

3.3 Movements in Malta Government Stocks Holdings By Category

Total outstanding government debt in MGSs as at end 2023 reached €8.34 billion due to the net issuance as explained in Section 2.0. As a result, all five main category groupings grew in volume, as shown in Chart 3.3.1.

Chart 3.3.1: Total Malta Government Securities Holdings by Category



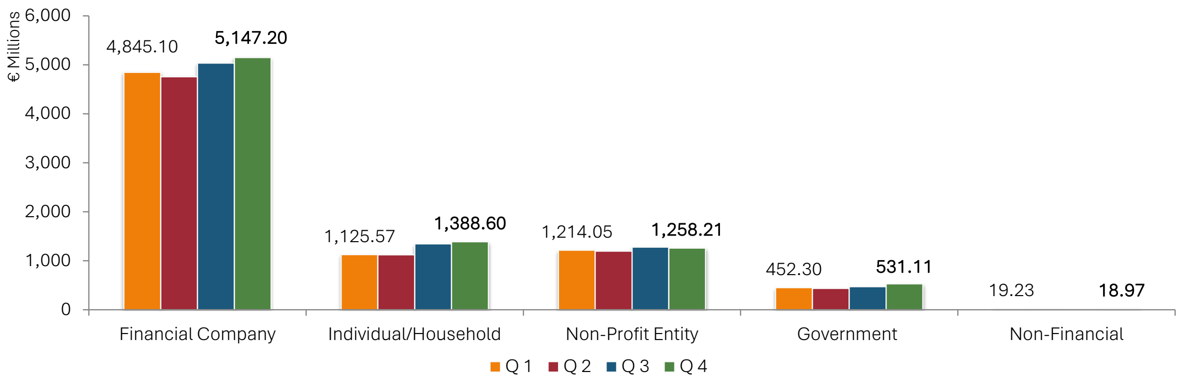
Source: Malta Stock Exchange

At the end of 2023 the financial company classification maintained its place as the main holder of domestic sovereign paper with 61.7% of total debt. Holdings in this category surged by €477.32 million when compared to the end of 2022, mostly related to instruments bought on the primary market. The individual and household category follows, absorbing 16.6% of total debt outstanding, rising substantially from the amount of holdings held in 2022, with an added €425.44 million. Non-profit entities[9] followed with the third largest holdings of 15.1%, increasing by €49.20 million from the previous year. The Government grouping exhibited a moderate increase in holdings, expanding by €84.91 million whilst the non-financial classification registering the smallest increase, adding only €0.26 million. Thus, the share of Government and the non-financial categories stood at 6.4% and 0.2% of the total amount outstanding, respectively.

The movements in holdings split by quarter are analysed through Chart 3.3.2. All categories increased in volume, particularly during the last two quarters of the year, driven by the timing of MGS issuances.

[9] In the secondary market, this category also includes movements in both resident and non-resident nominees.

Chart 3.3.2: Quarterly MGS Movements by Sector



Source: Malta Stock Exchange

4.0 Conclusions

During 2023, developments in inflation in major economies coupled with the monetary policy response continued to put upward pressure on yields, pushing investors' request for greater returns on their investments. This is also reflected in the Treasury's selection of the new MGS issues during the year. Maintaining flexibility in maturity offerings and adapting to global interest rate movements were crucial to entice investor engagement and achieving funding objectives. The Treasury, on the other hand, faced the challenge to carefully plan its cost of borrowing across a well-balanced maturity ladder while sustaining the positive and dynamic momentum observed in the MGS market.

The Treasury's plan to issue up to €1.60 billion in MGS was received with robust demand. Higher coupons were necessary to attract substantial interest from both wholesale and retail investors, fulfilling the original allotment in every issuance. Overall, the highest bid-to-cover ratio of 2.11 was recorded in the July issuance. Financial Companies dominated applications throughout the year in those issues opened to wholesale bidders. Individuals and Households also demonstrated strong participation, indicating a particular interest in short-term MGS, closely followed by long-term bonds. The analysis of AWY revealed the premium required by wholesale investors to hold domestic sovereign debt. Among allotted bids during 2023, the highest requested premium reached 41 bps above the yield offered to the retail investor, indicating a rise in cost of borrowing for the Government in recent years, mainly reflecting the increased financing requirements of government following the significant surge in government debt during the pandemic period.

The secondary market experienced notable turnover throughout the year, in comparison to 2022, with MGS ranking as the most traded security on the market. Despite a long-term downward trend in MGS trading volumes, 2023 saw a modest recovery, with increased activity in the latter half of the year. Large transactions in a few key fixed-income securities mostly influenced overall turnover. The resurgence in retail participation did not seem to impact turnover, although with an outlook of looser monetary policy, and thus lower yields, this might change in the coming years as profit opportunities may arise. The CBM's involvement as a market maker was crucial, accounting for a substantial portion of the total on-exchange transactions, underscoring its importance in the local financial market.

Data on the distribution of MGS holdings across various investor categories showed financial companies as the dominant holder category of MGSs. Individual and household and non-profit entities investors followed, also with significant holdings. Throughout the year, all major investor categories increased their MGS holdings, particularly in the last two quarters, indicating continuous confidence in Maltese sovereign debt.

The strategic issuance of MGSs paired with the market-making role of the CBM will be essential in maintaining investor interest and at the same time, meeting future funding requirements. The insights gained from the 2023 market performance coupled with considerations of the prevailing market conditions may provide a solid foundation for future borrowing strategies, ensuring that Malta can effectively manage its public debt while fostering a robust investment environment. Further monitoring of such trends and patterns could provide valuable insights that contributes towards maintaining the local sovereign debt security's stability and attractiveness among a wide investor base.