



# Annual Report 2013

**Professor Josef Bonnici**

**Governor, Central Bank of Malta**

**8 April 2014**



**BANK ĊENTRALI TA' MALTA**  
EUROSISTEMA  
**CENTRAL BANK OF MALTA**



# Overview

- ▶ Macro-economic situation
- ▶ Structural issues
- ▶ Banking sector
- ▶ Operations



# Macro-economic situation

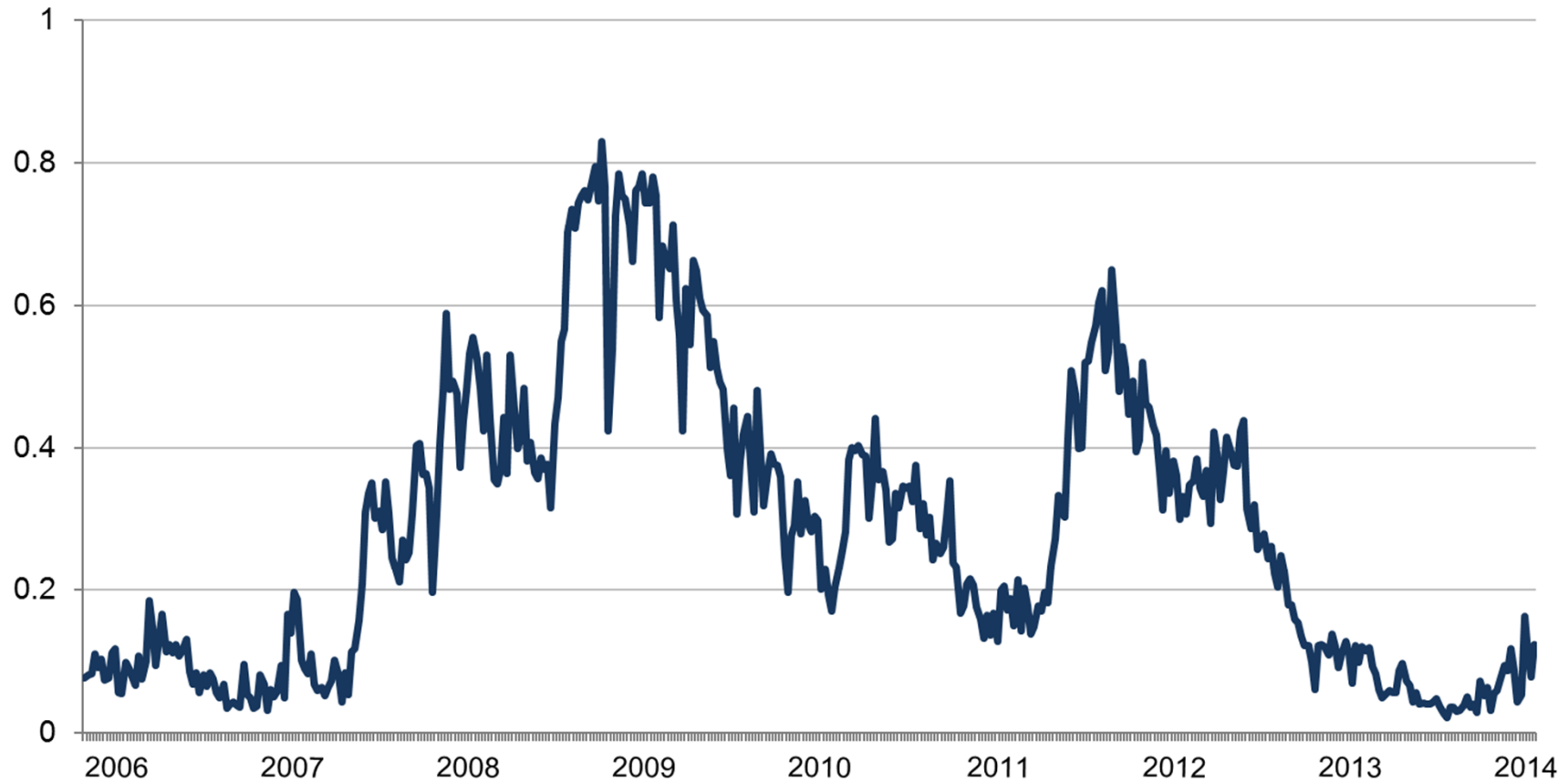


BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



## Systemic risk in the euro area goes down to pre-crisis levels

### COMPOSITE INDICATOR OF SYSTEMIC STRESS

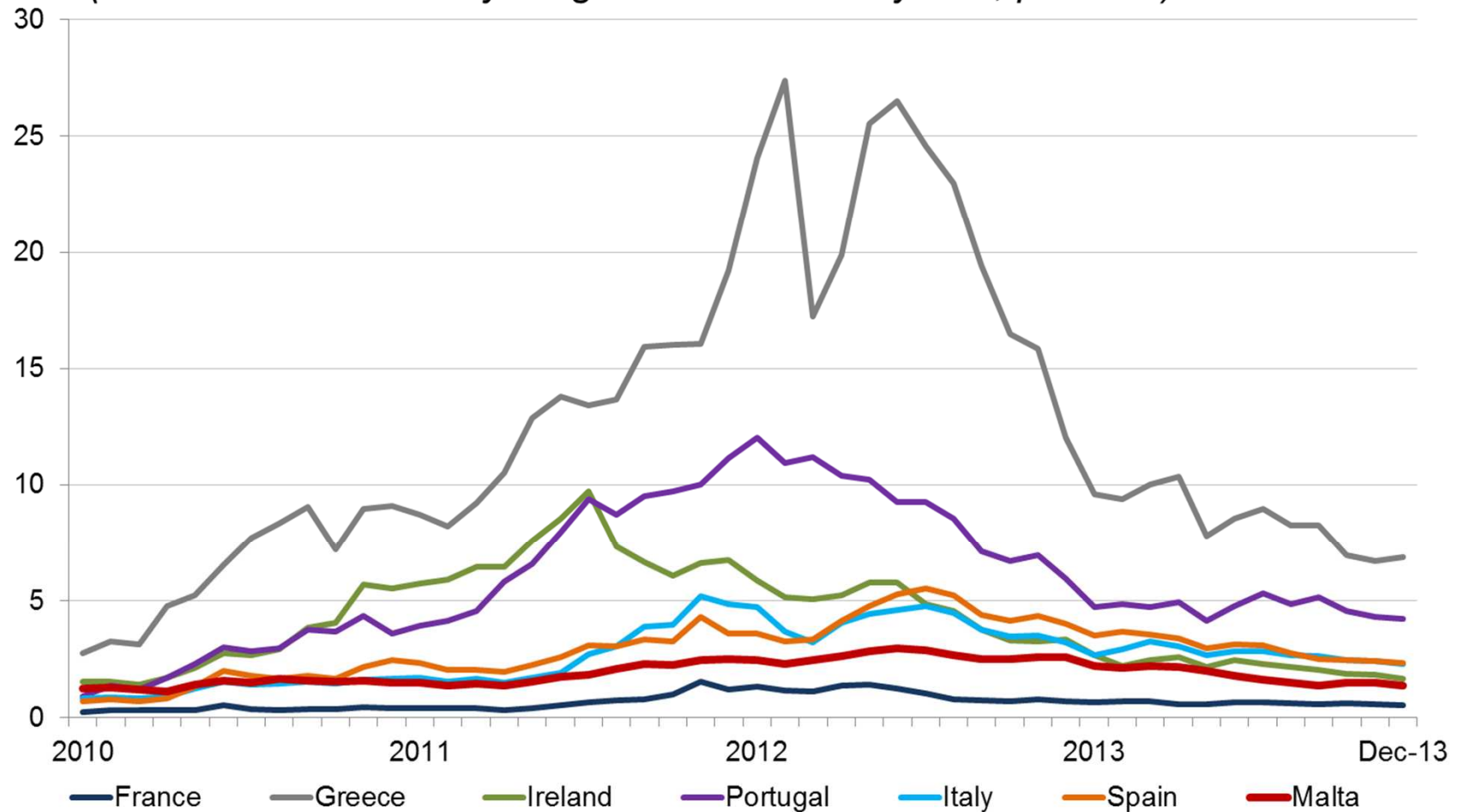


Source: Statistical Data Warehouse



## Lower yields indicate lower risk, more stability. Malta's spreads remain low and stable

### EURO AREA TEN-YEAR GOVERNMENT BOND YIELD SPREADS (vis-à-vis German ten-year government bond yields, per cent)

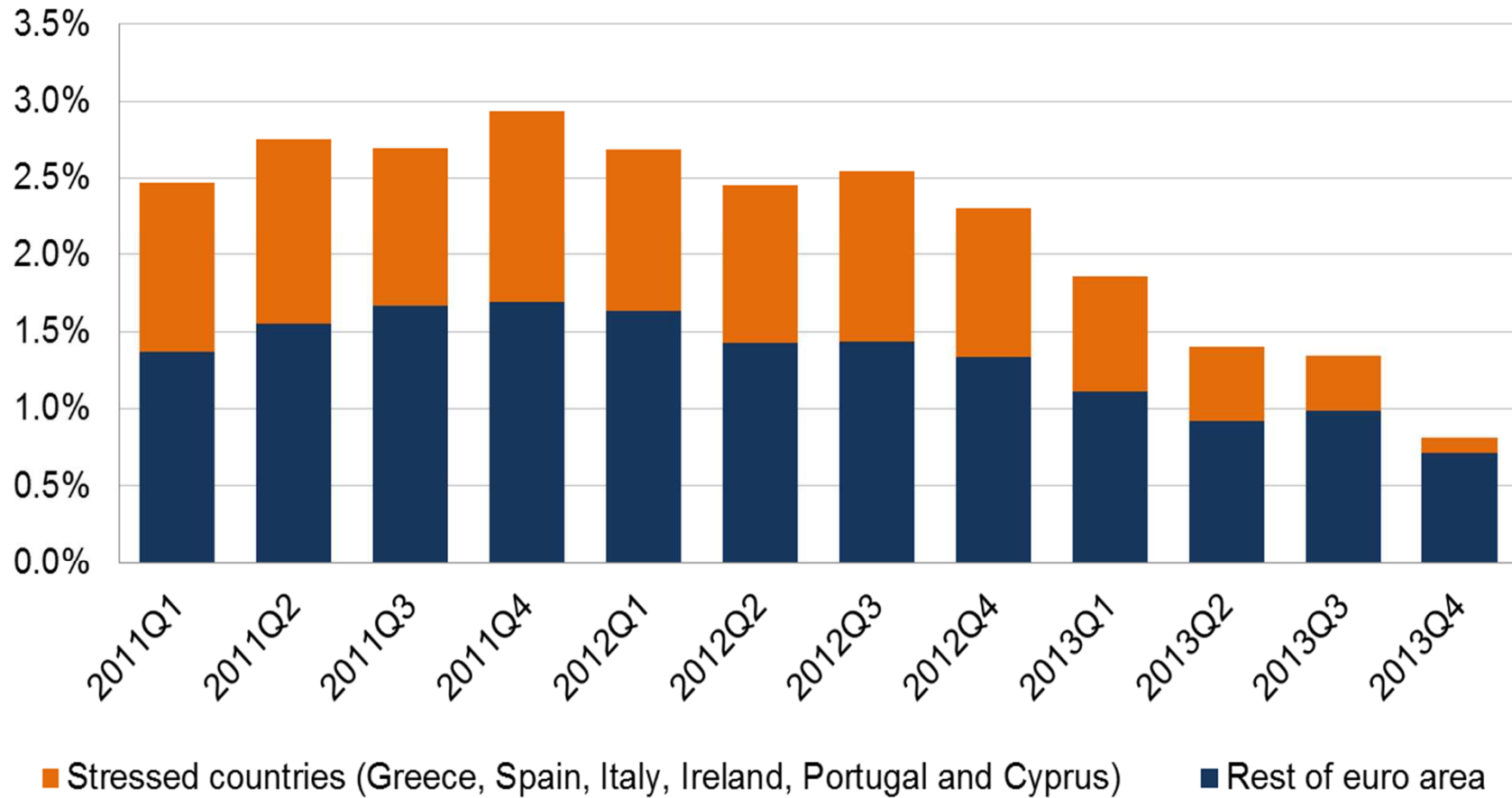


Source: Statistical Data Warehouse



**Low inflation in euro area emanating mainly from stressed economies, perhaps reflecting correction of past excesses. No signs of deflation.**

### **NATIONAL CONTRIBUTION TO EURO AREA INFLATION RATE**



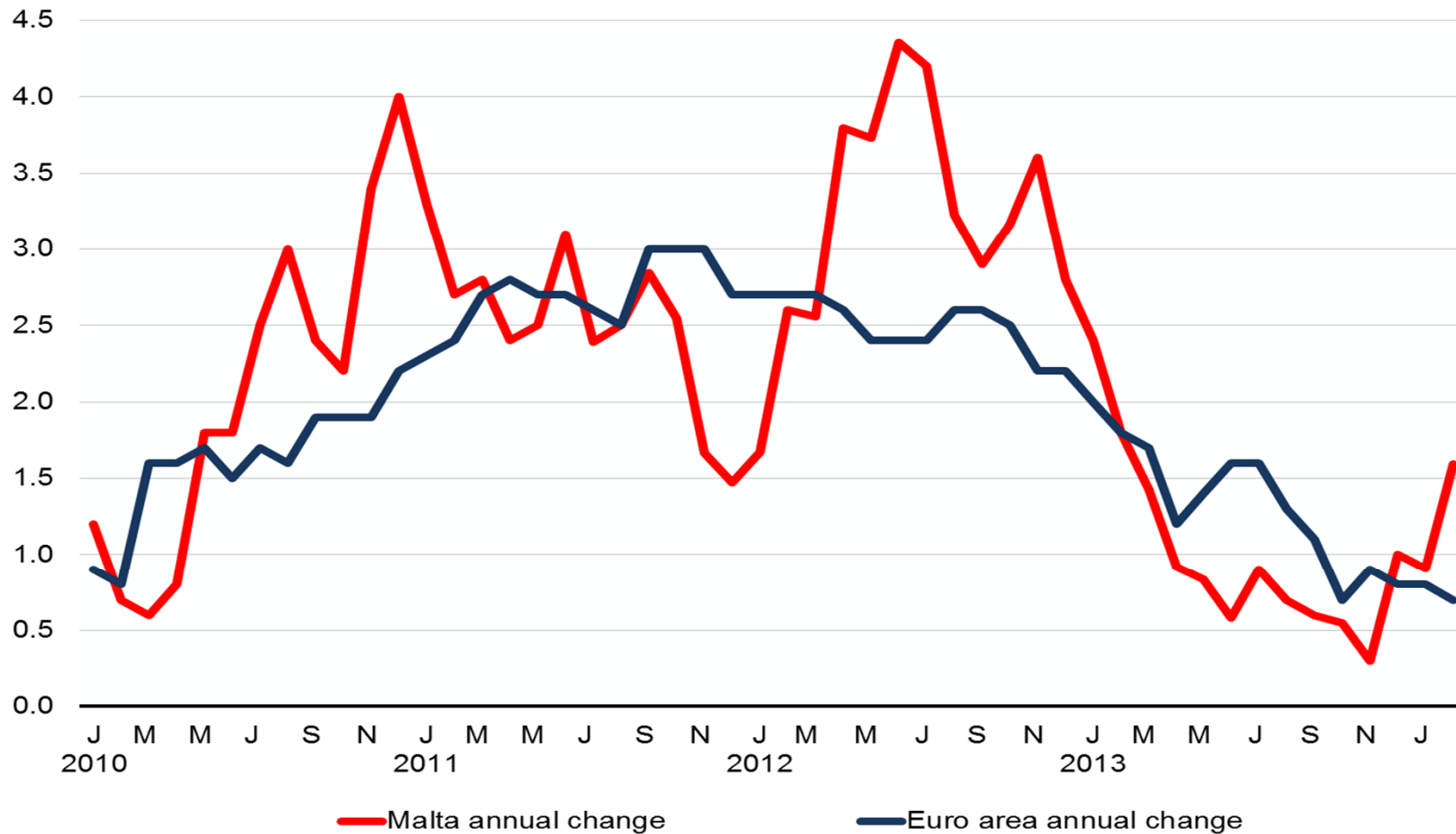
Source: Eurostat, Central Bank of Malta



# Inflation in Malta and the euro area (1)

## HICP INFLATION RATES IN MALTA AND EURO AREA

(annual percentage changes)

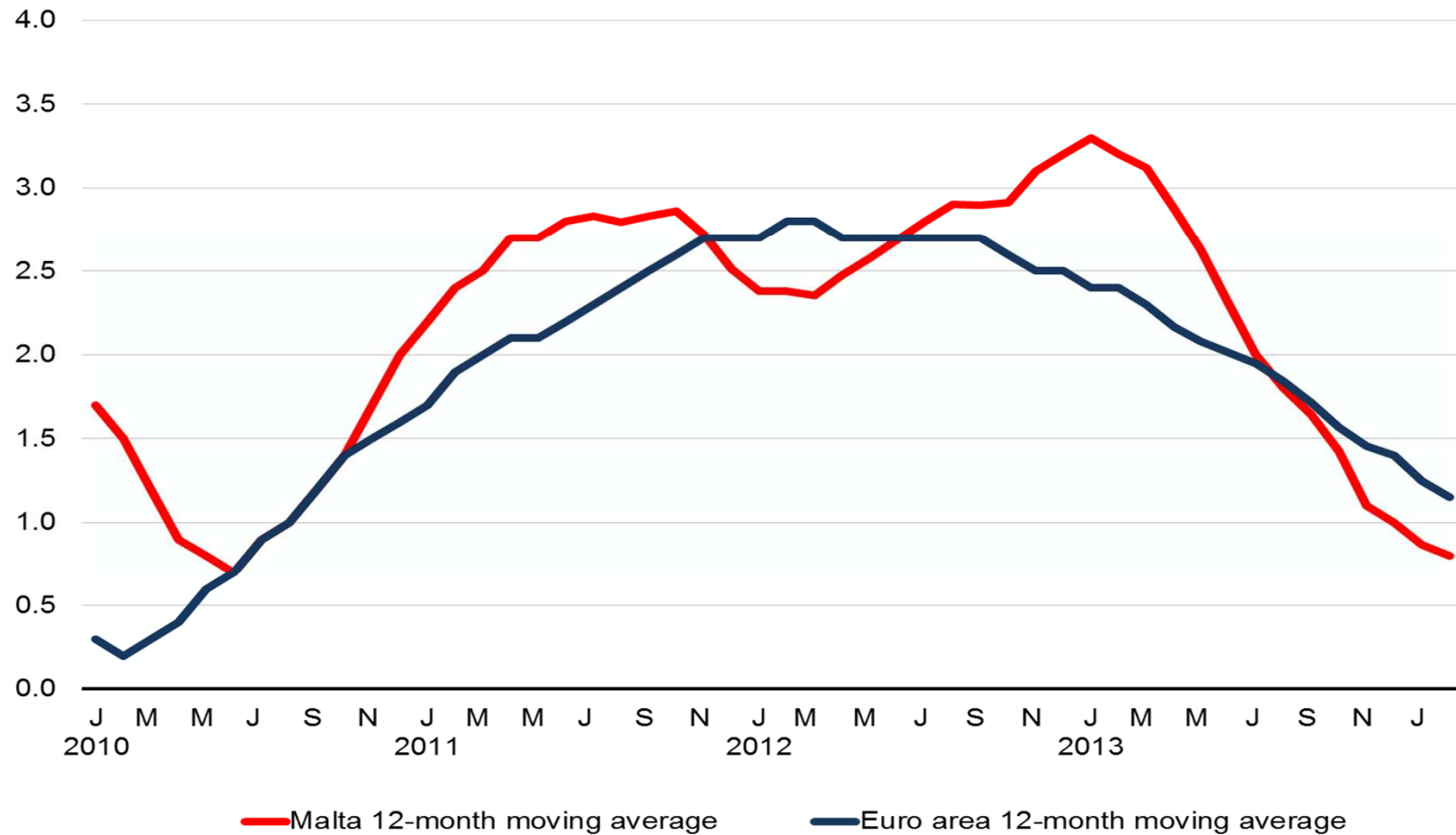


Sources: National Statistics Office; Eurostat



## Inflation in Malta and the euro area (2)

**HICP INFLATION RATES IN MALTA AND EURO AREA**  
(12-month moving average percentage changes)



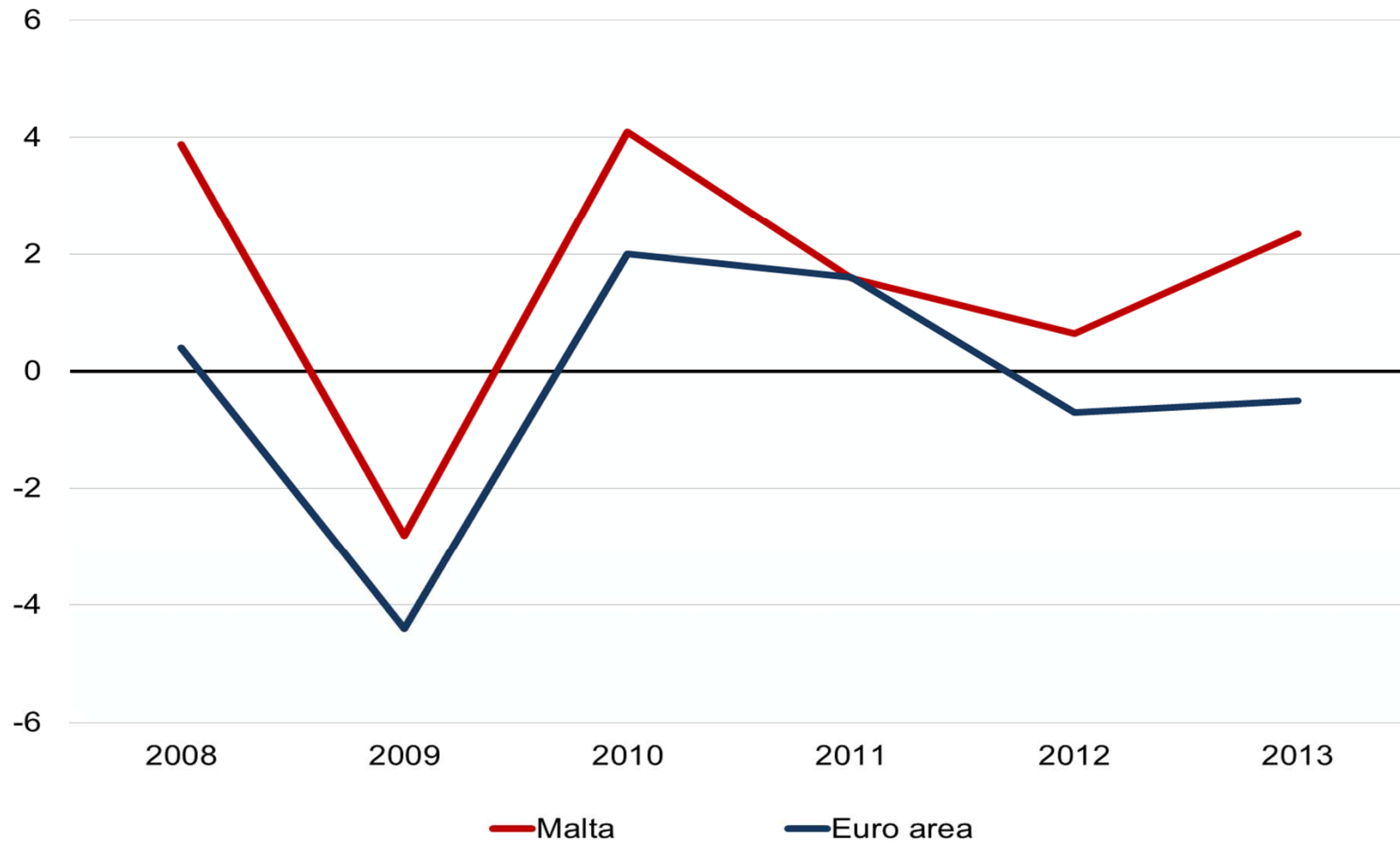
Sources: National Statistics Office; Eurostat





## Malta's GDP growth continues to outpace that of the euro area

**REAL GDP GROWTH**  
(annual percentage change)



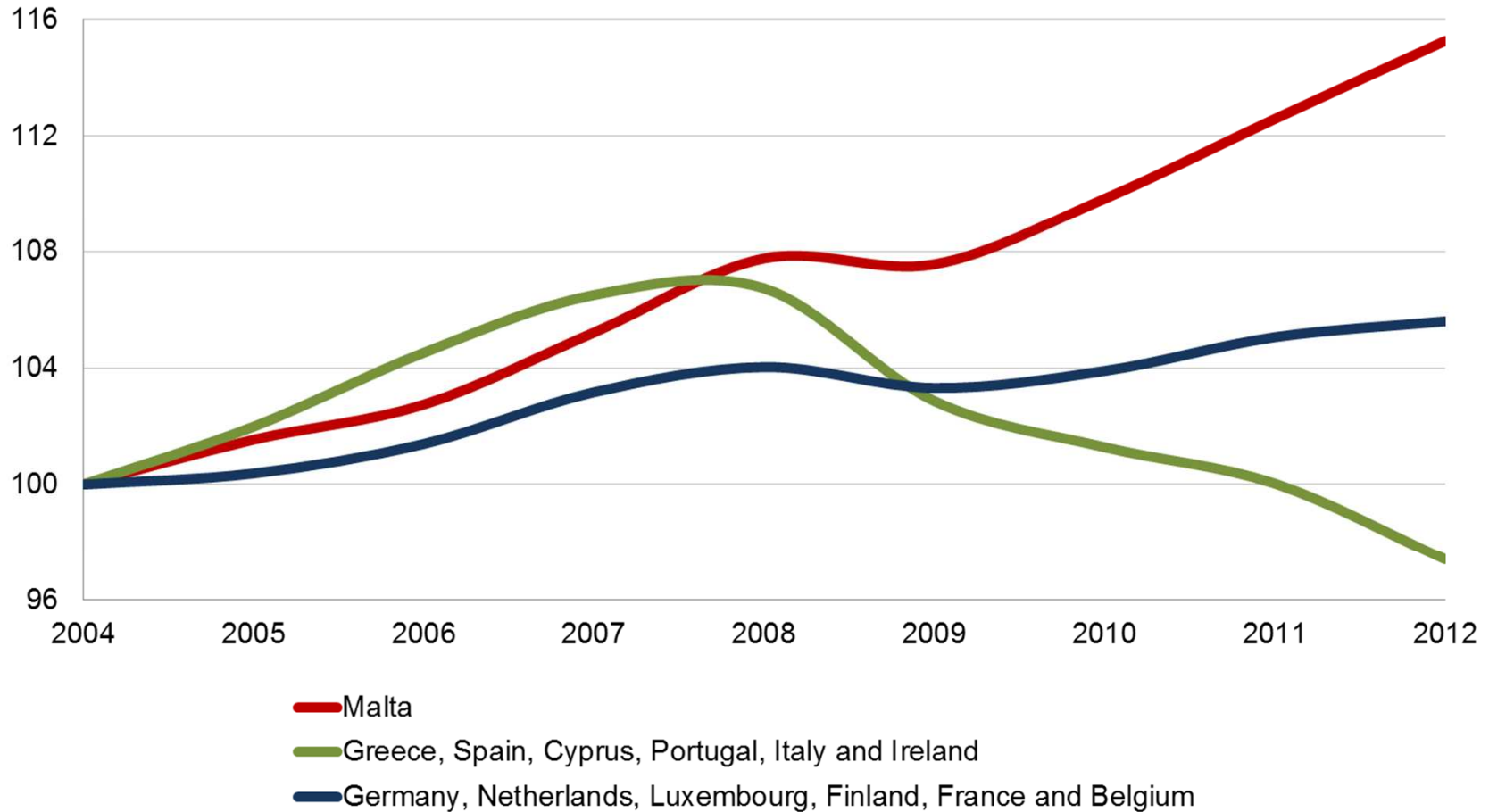
Source: National Statistics Office



## ... as well as employment growth ...

### EMPLOYMENT

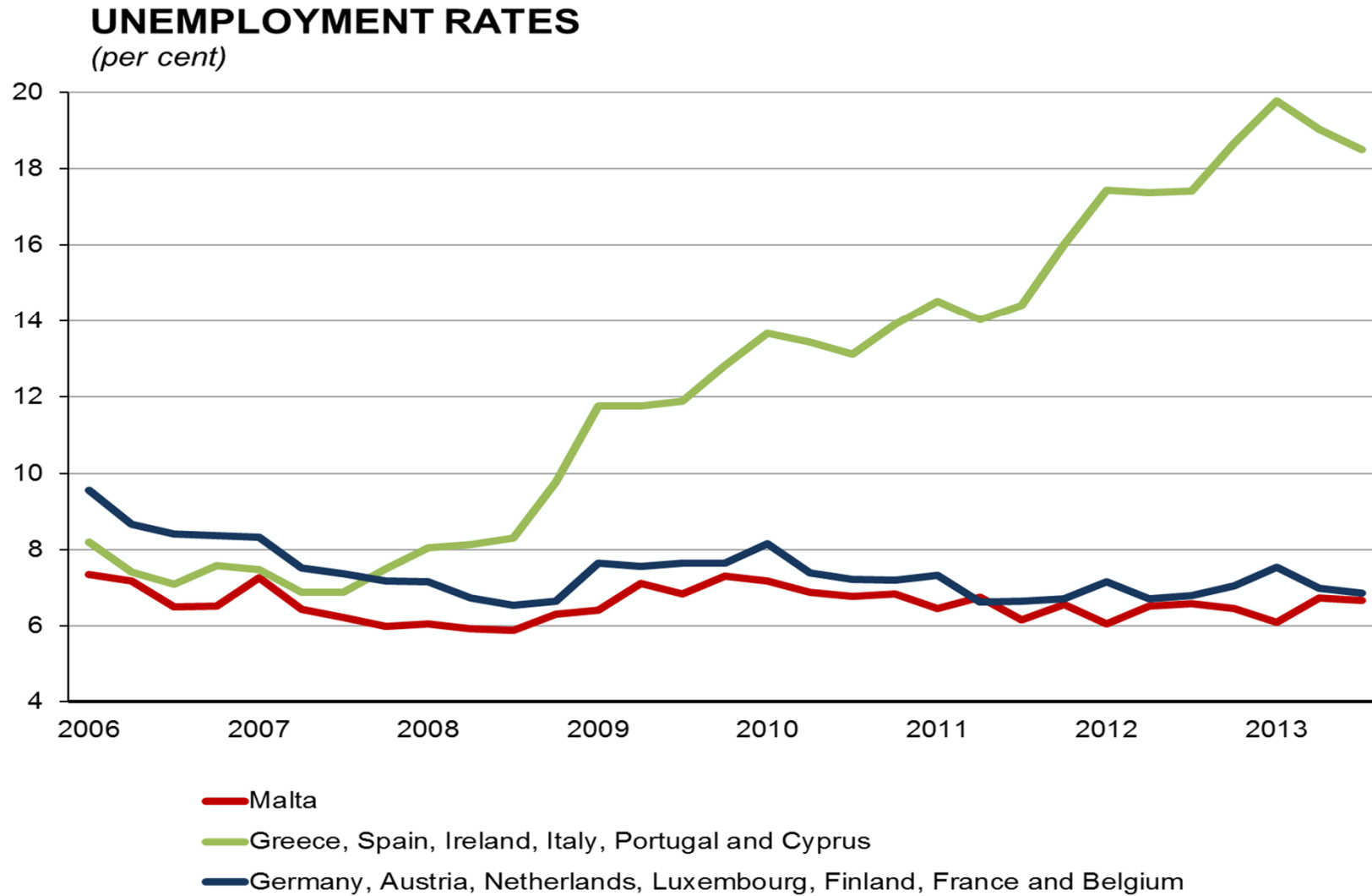
(Indexed 2004 = 100)



Source: Eurostat



... resulting in a lower unemployment rate.



Source: Statistical Data Warehouse



# Structural issues



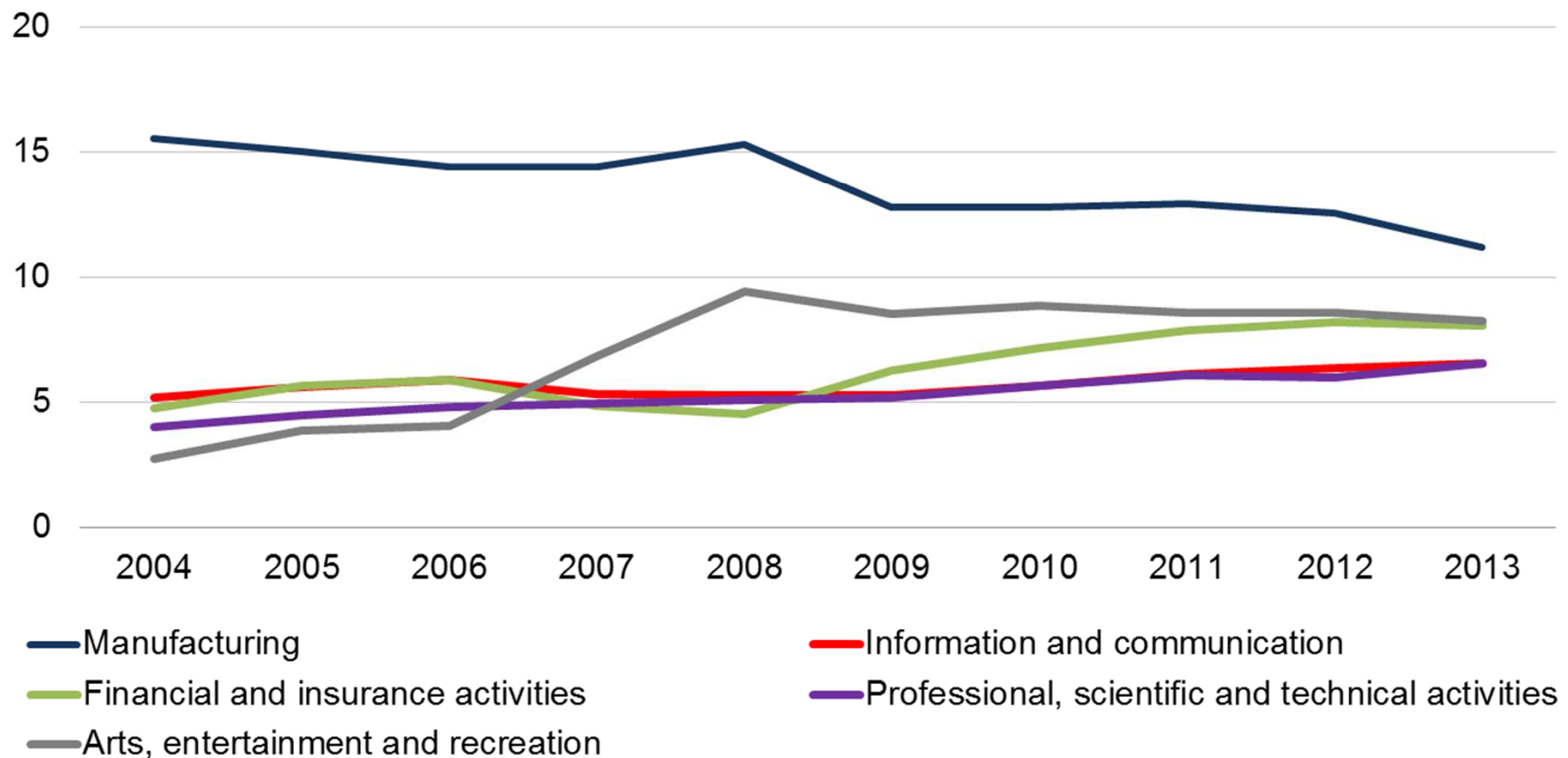
BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



## As Malta managed to diversify its economy ...

### SECTOR SHARE OF GROSS VALUE ADDED

(percentage of GVA)

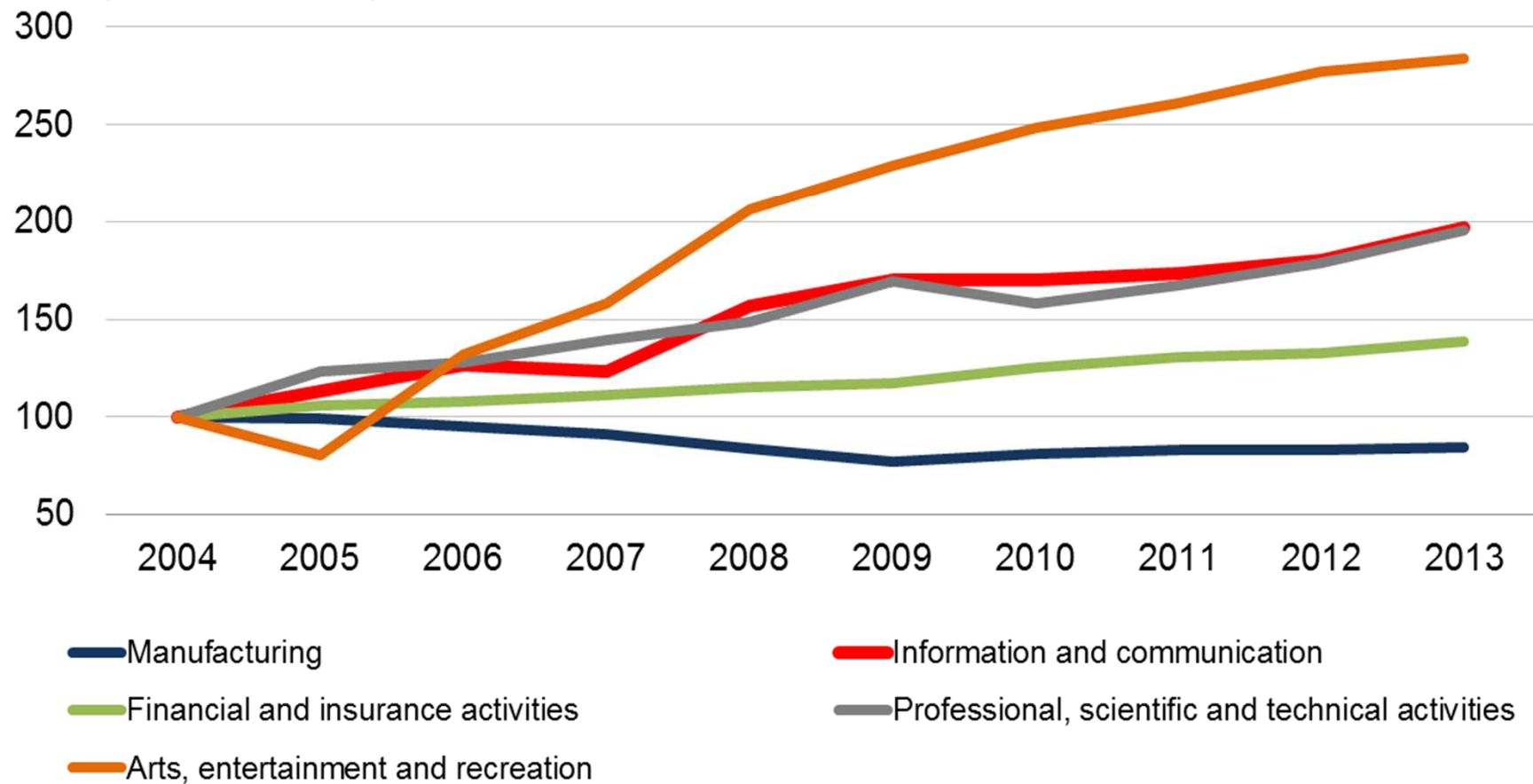


Source: National Statistics Office, Central Bank of Malta



... new employment opportunities  
have also been created.

## EMPLOYMENT (2004 = 100)



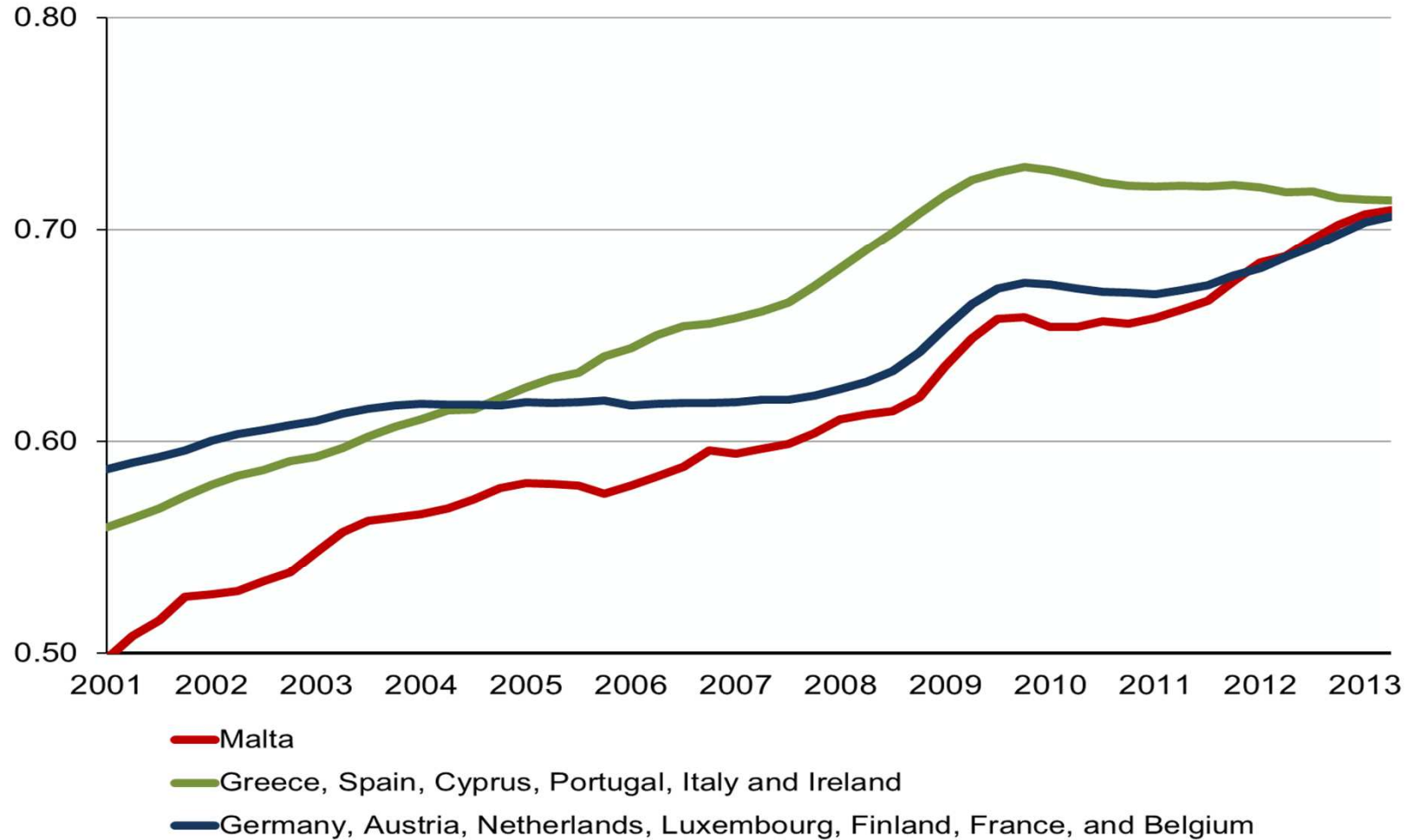
Source: National Statistics Office, Central Bank of Malta



# Converging ULCs due to internal devaluation in stressed countries. Alignment of wages with productivity is crucial

## UNIT LABOUR COSTS

(four-quarter moving average, € per unit of output)

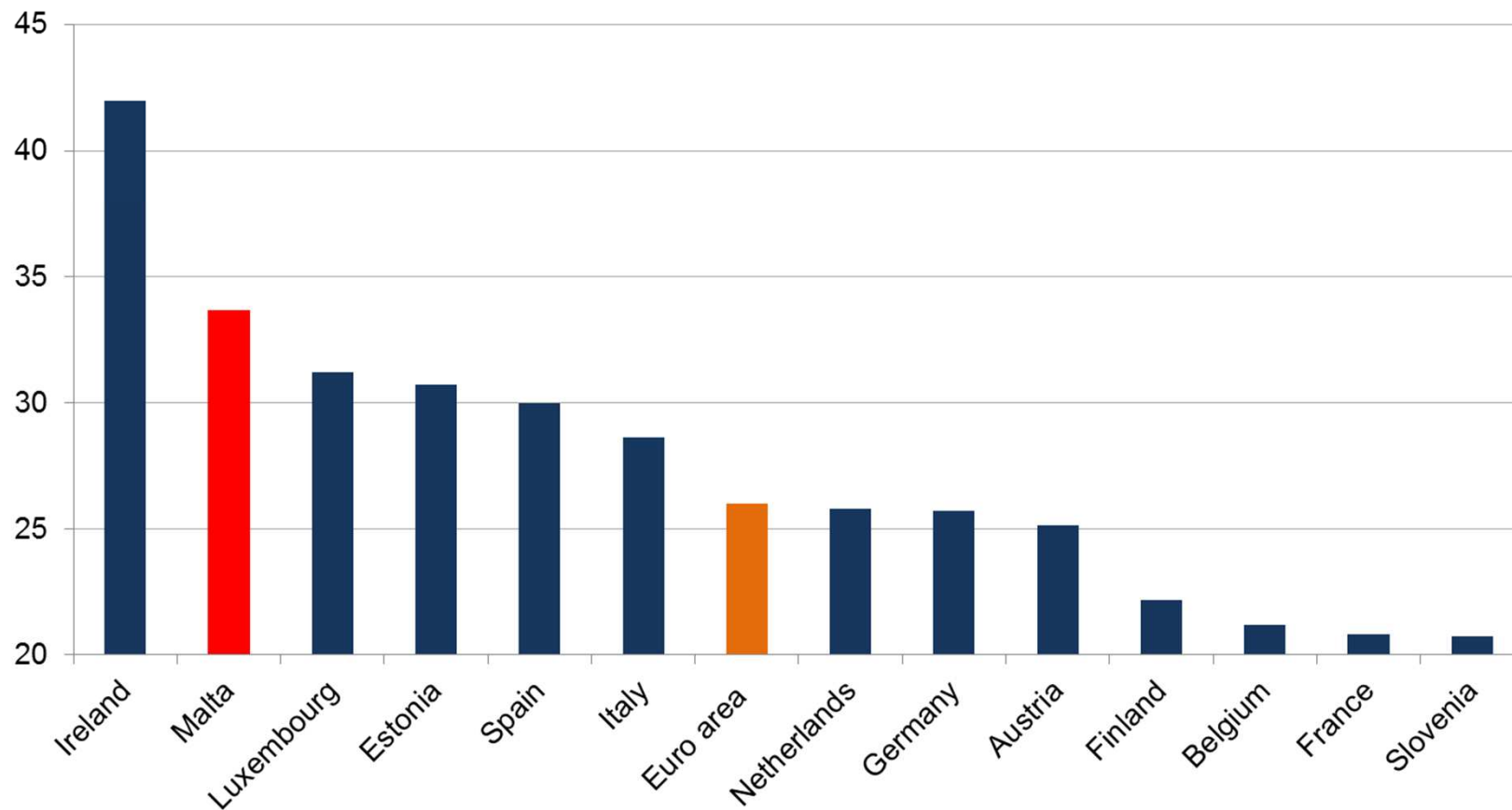


Source: Eurostat



## Investing in Malta is profitable

### ALLOCATION OF INCOME: OPERATING SURPLUSES AS PER CENT OF GROSS VALUE ADDED



Source: Eurostat

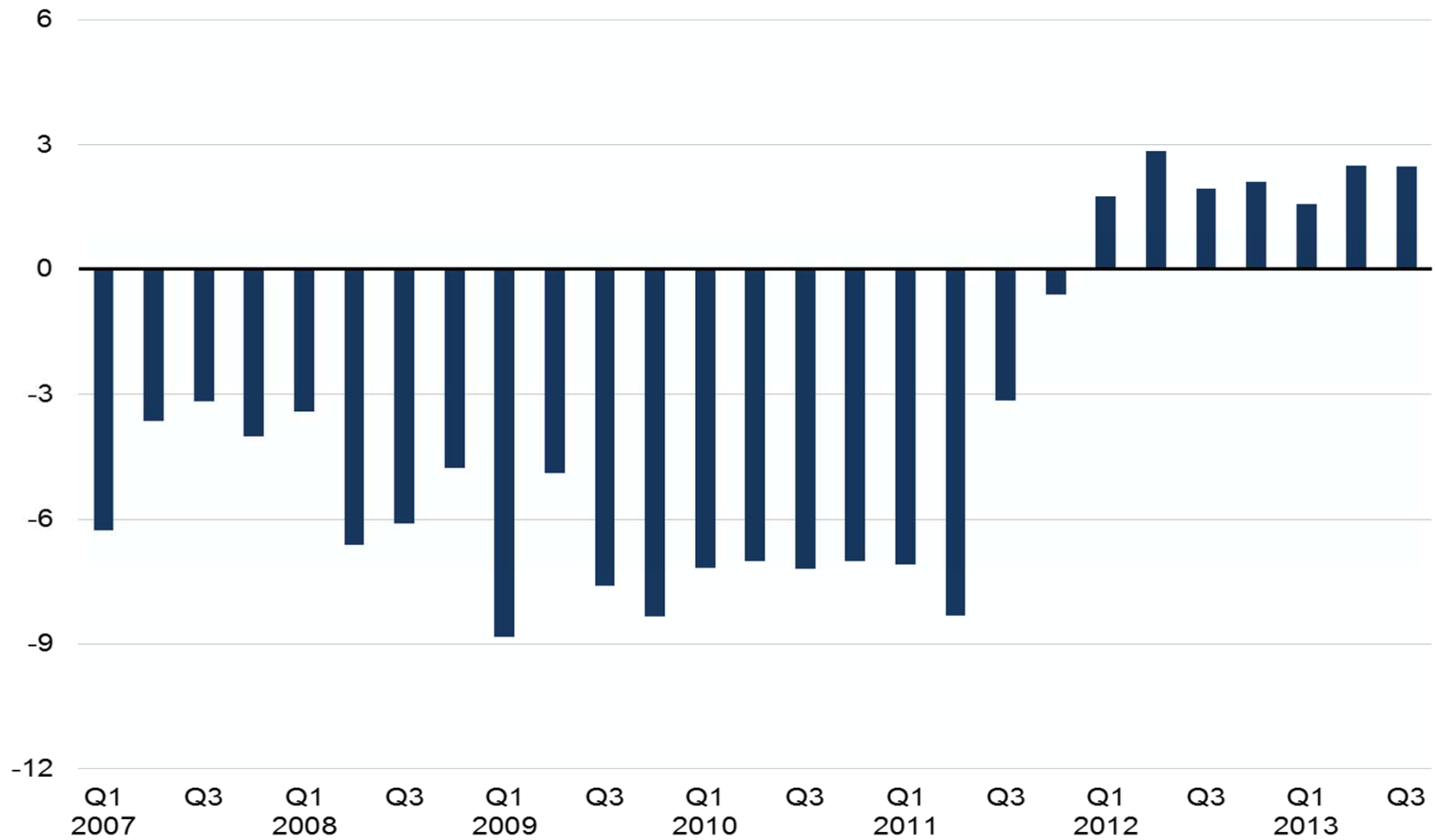




## Current account surplus, also due to lower imports and investment

### CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

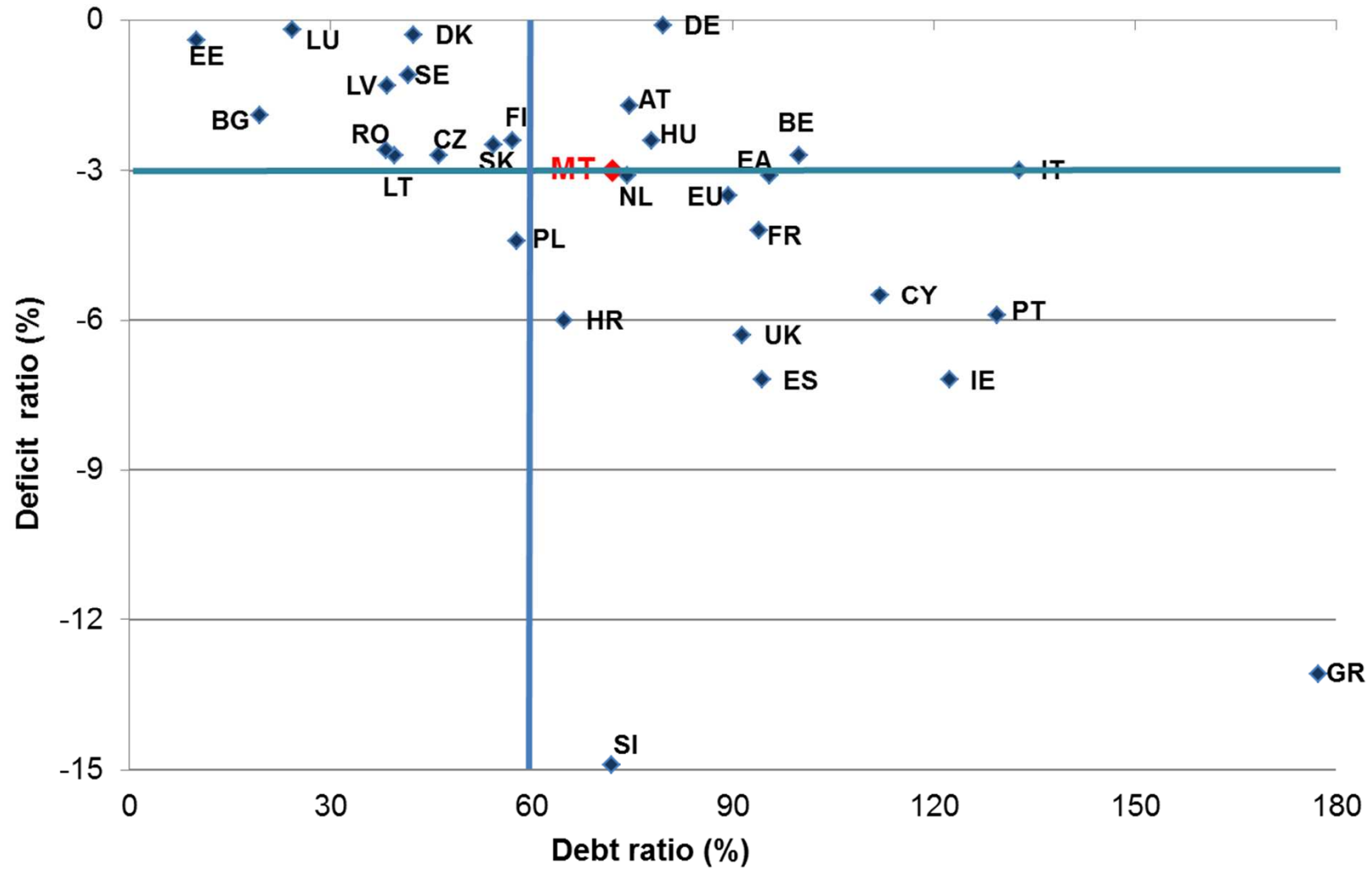
(four-quarter moving sums as a percentage of GDP)



Source: National Statistics Office



# Malta's budgetary position compared to EU countries (2013)



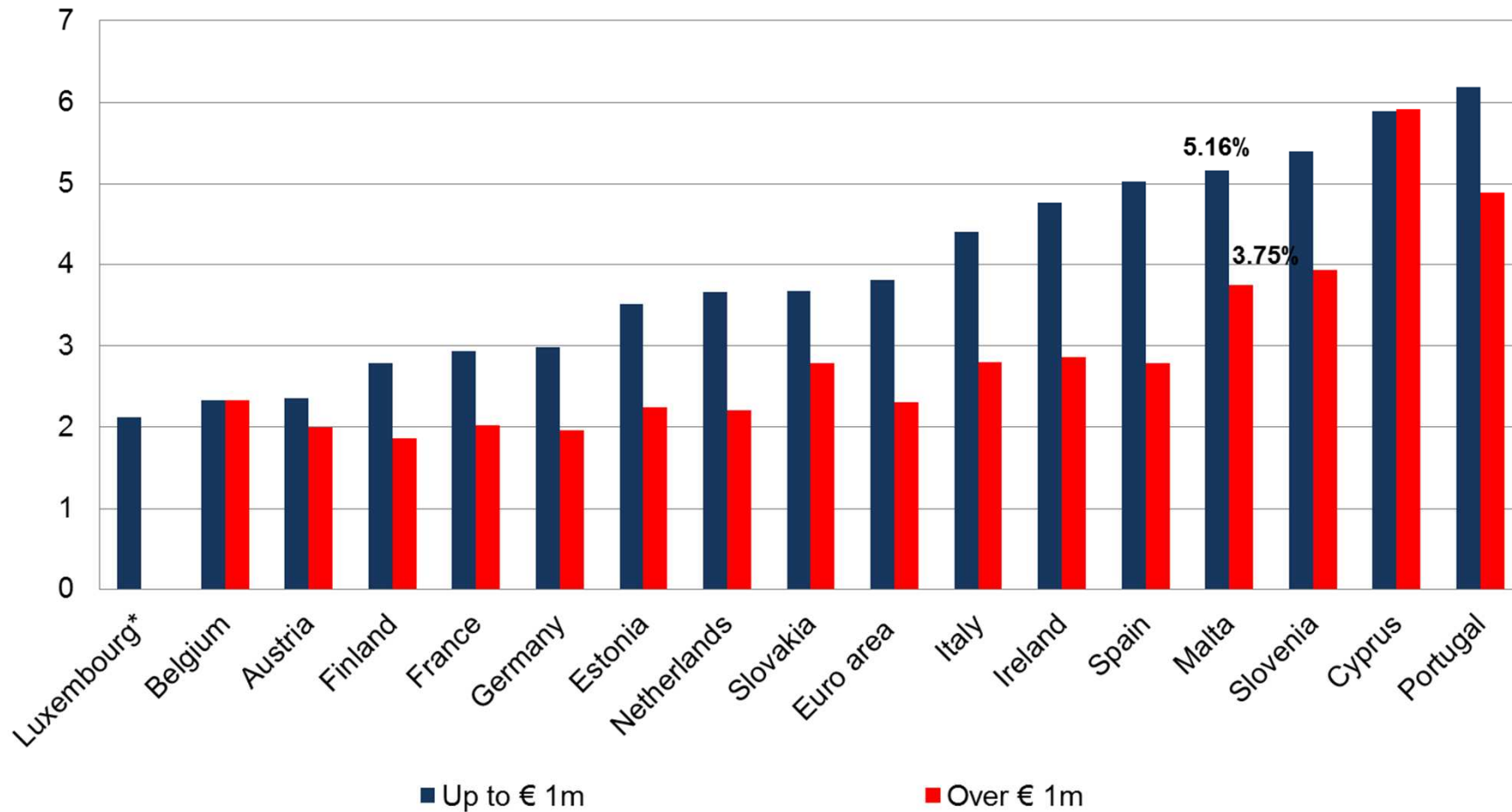
Source: European Commission Forecasts, Winter 2014



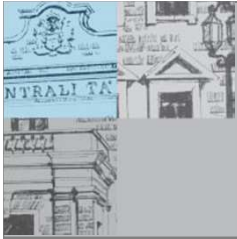
# Lending rates to small business remain relatively high; rates charged to larger business declined, but still high

## Lending rates to NFCs

(new business, over and under € 1m, as at January 2014)



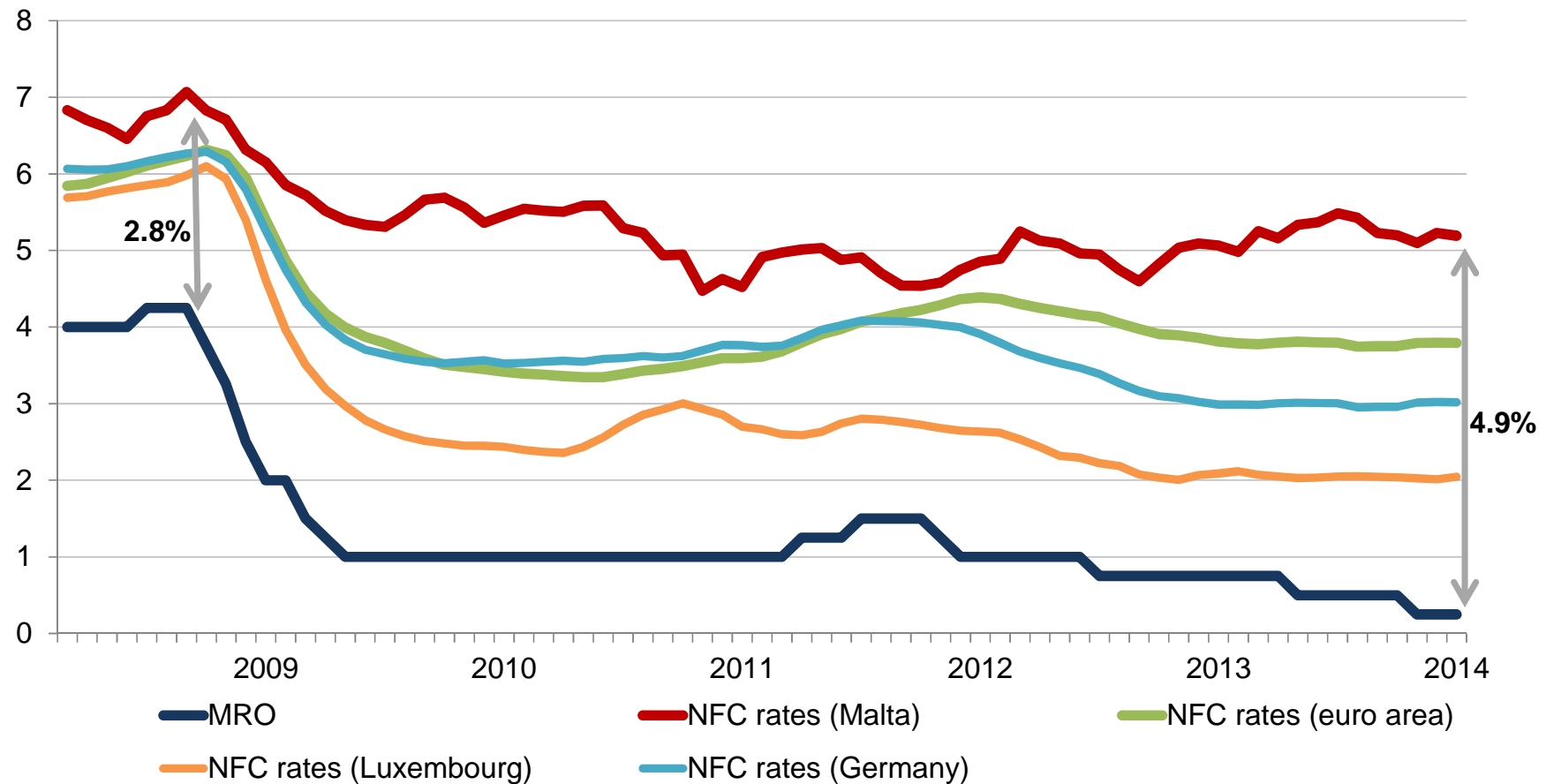
\*N/A



# SME lending rates in Malta not in synch with MRO. Rates are higher than the euro area average, even if the latter is biased upwards due to stressed countries

## MRO and NFC lending rates

(3-month moving average, up to €1m, per cent)



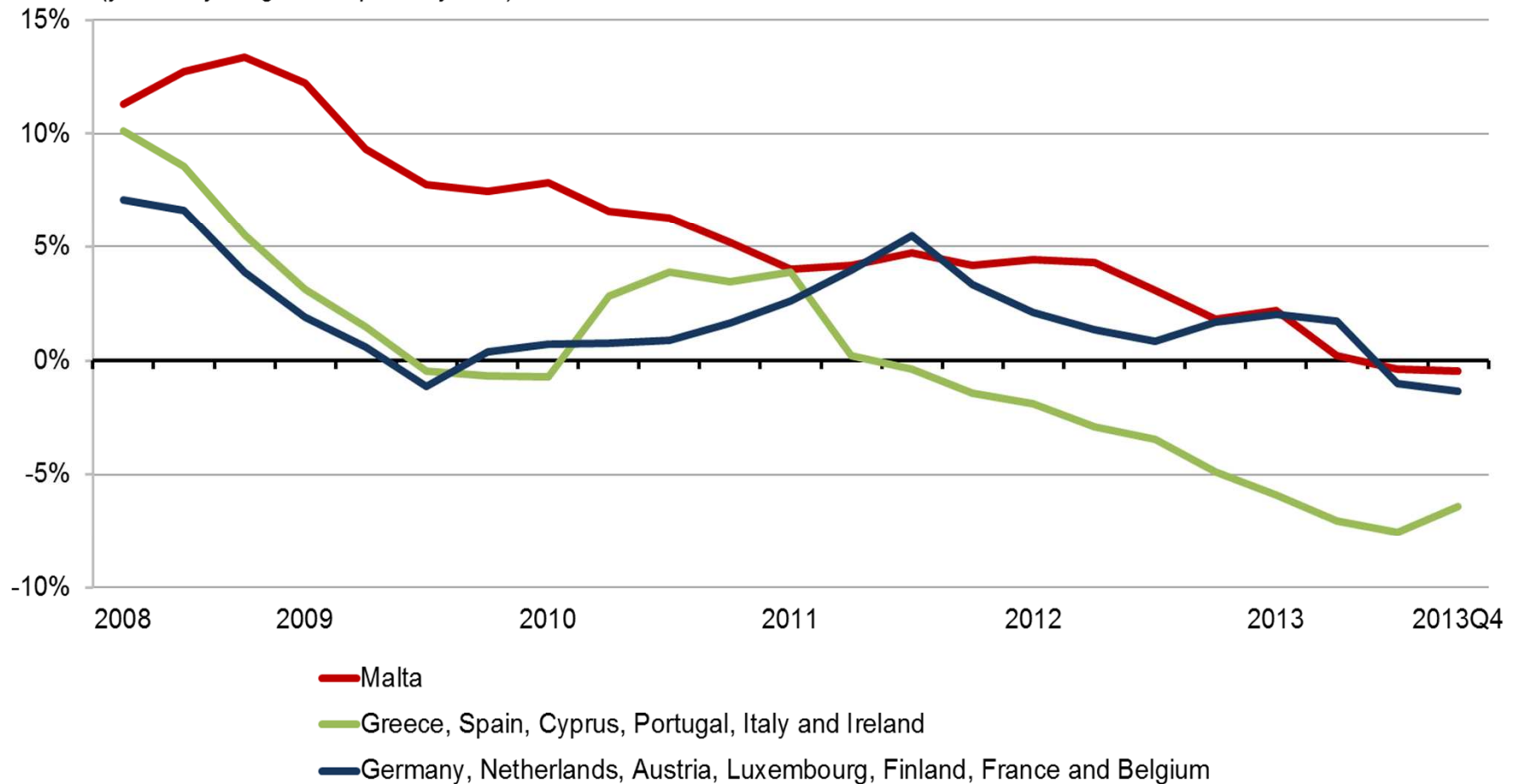
Source: Statistical Data Warehouse; Central Bank of Malta



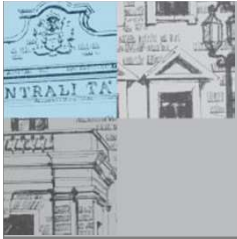
## Credit growth in Malta and the 'better performing' countries has recently turned negative, but remains above that of stressed countries

### GROWTH IN BANK LENDING TO THE PRIVATE SECTOR

(year-on-year growth, quarterly data)



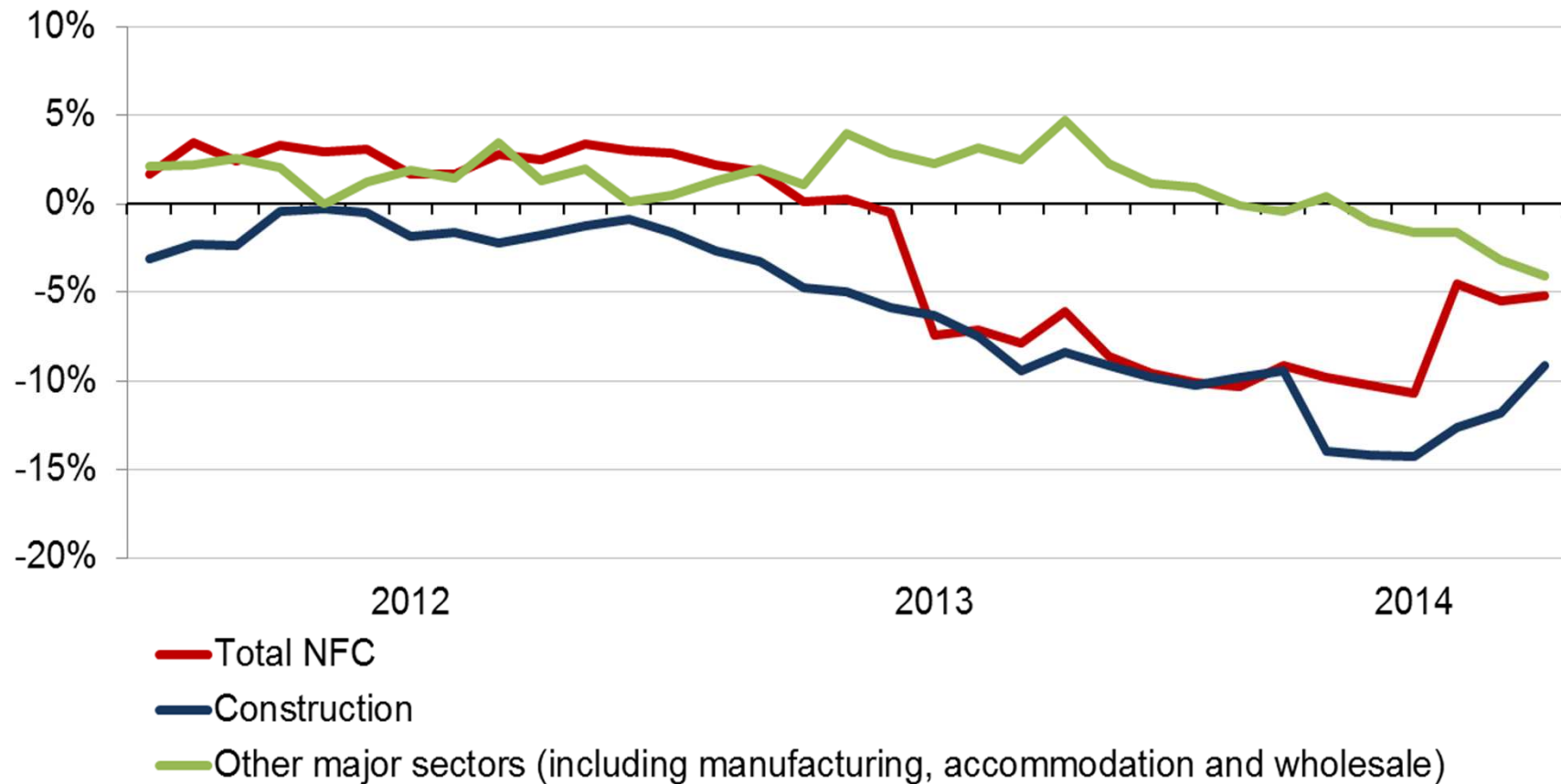
Sources: Statistical Data Warehouse, Central Bank of Malta calculations



## Slowdown more pronounced in the construction sector, although credit to other corporate sectors has also turned negative

### CREDIT GROWTH TO CONSTRUCTION AND OTHER SECTORS

(year-on-year growth, monthly data)



Source: Central Bank of Malta



# The banking sector in Malta



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



## The Maltese banking sector is diversified...

**Core domestic banks** are systemically important, operate along traditional lines, have an extensive branch network, attract deposit funds domestically, lend locally and hold securities issued in Malta. Their provision of loan and deposit facilities is crucial to the economy.

**Non-core domestic banks** play a more limited role in the domestic economy, as the volume of operations and the banking services they offer to residents is limited.

**International banks** have virtually no links with the domestic economy. Their activities and transactions are almost entirely outside Malta.





## ... and sound.

Indicator	Maltese Banks				EU banks
	Core domestic banks	Non-core domestic banks	International banks	Total banks	Total banks <sup>1</sup>
<b>Total assets as a % to GDP*</b>	<b>210.2</b>	<b>73.4</b>	<b>413.7</b>	<b>697.3</b>	<b>approx. 340<sup>2</sup></b>
<b>Customer loans-to-deposits ratio</b>	<b>66.5</b>	<b>113.2</b>	<b>71.6</b>	<b>71.5</b>	<b>105.9<sup>3</sup></b>
<b>Solvency</b>					
<i>Tier 1 ratio</i>	11.1	23.3	118.4	43.9	13.1
<i>Capital Adequacy Ratio</i>	14.9	24.6	118.4	46.2	16.0
<b>Profitability</b>					
<i>Return on assets</i>	1.4	1.0	0.8	1.0	0.3
<i>Return on equity</i>	19.9	5.9	2.6	5.0	5.8
<b>Liquidity</b>					
<i>Liquid assets to short term liabilities</i>	48.9	94.9	205.9	59.5	n/a
<i>Liquid assets to total assets</i>	29.4	16.5	28.2	26.8	10 <sup>4</sup>

Source: Central Bank of Malta, European Central Bank

<sup>1</sup>Data refer to H1 2013 unless otherwise indicated

<sup>2</sup>Euro area 2012. ECB Banking Structures Report

<sup>3</sup> December 2013

<sup>4</sup> EU Domestic Banks

The modest downsizing of the banking sector (mainly the international sector) is largely driven by banks' anticipation of new regulatory requirements, consolidation efforts from parent companies and preparation for the AQR.

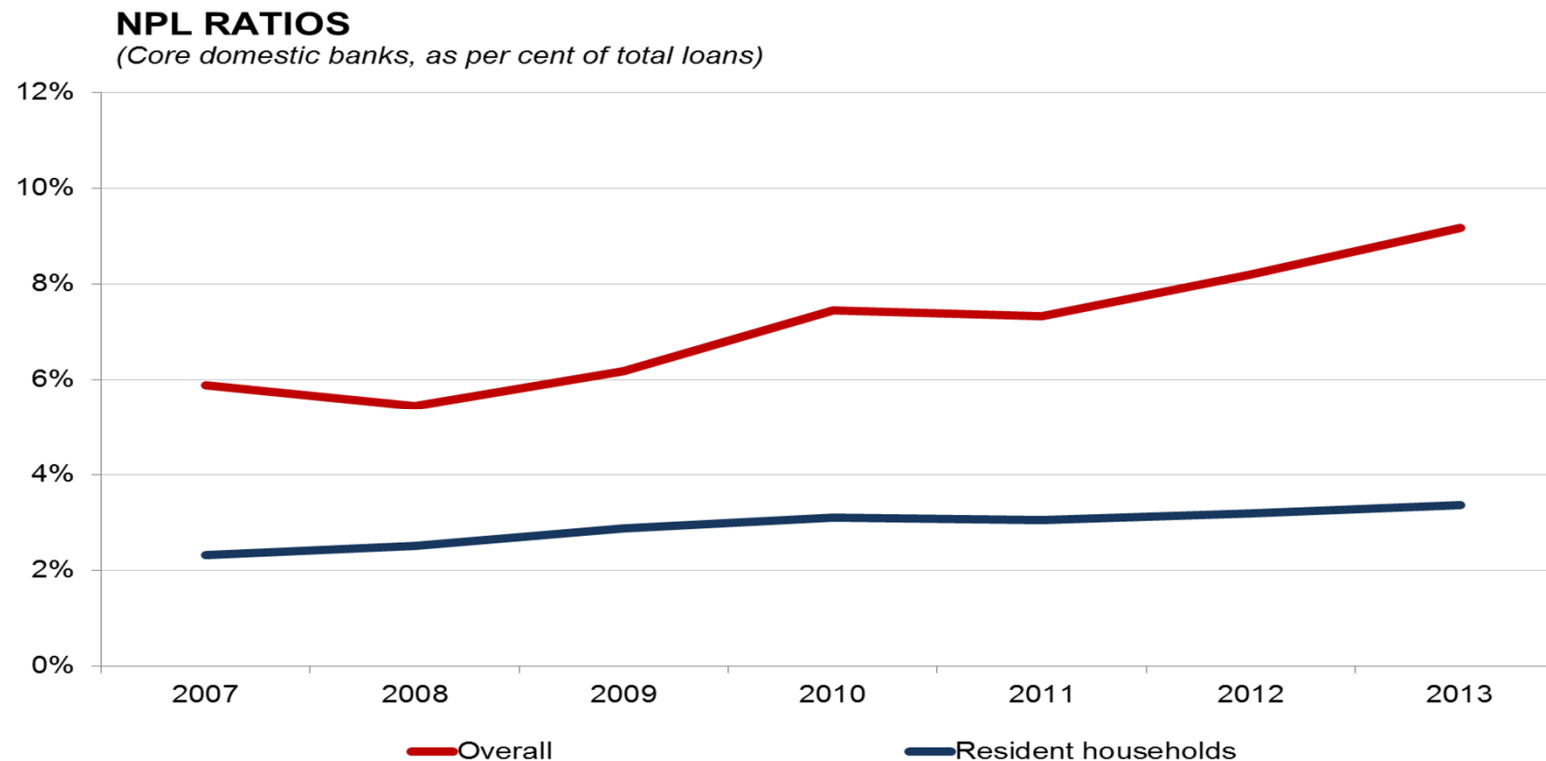
Core banks remain profitable and well-capitalised. The banking sector is sound.



# Overhaul of BR09 (1)

## Motivation:

- EU CSR 5: Take measures to further strengthen provisions for loan-impairment losses in the banking sector, to mitigate potential risks from exposure to the real estate market
- NPLs on an upward trend



Source: Central Bank of Malta



## Overhaul of BR09 (2)

### **Amendments:**

- allocate an amount of capital from distributable profits to a reserve equal to 2.5% of NPLs less impairments and interest in suspense, as defined in IFRS. For certain overdue NPLs, the requirement rises to 5% and can be raised further by MFSA
- align the definition of NPLs and forbearance with the newly established EBA draft Technical Standard on Supervisory Reporting on Forbearance and Non-Performing Exposures
- recognize incurred losses as early as possible within the context of the IFRS
- set up appropriate governance structures, a robust credit risk management framework and reporting systems

### **Outcome:**

- improve the banks' overall coverage ratio and strengthen provisioning practices
- strengthen further bank capital to mitigate potential risks from lending portfolios



# Central Bank of Malta's operations



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



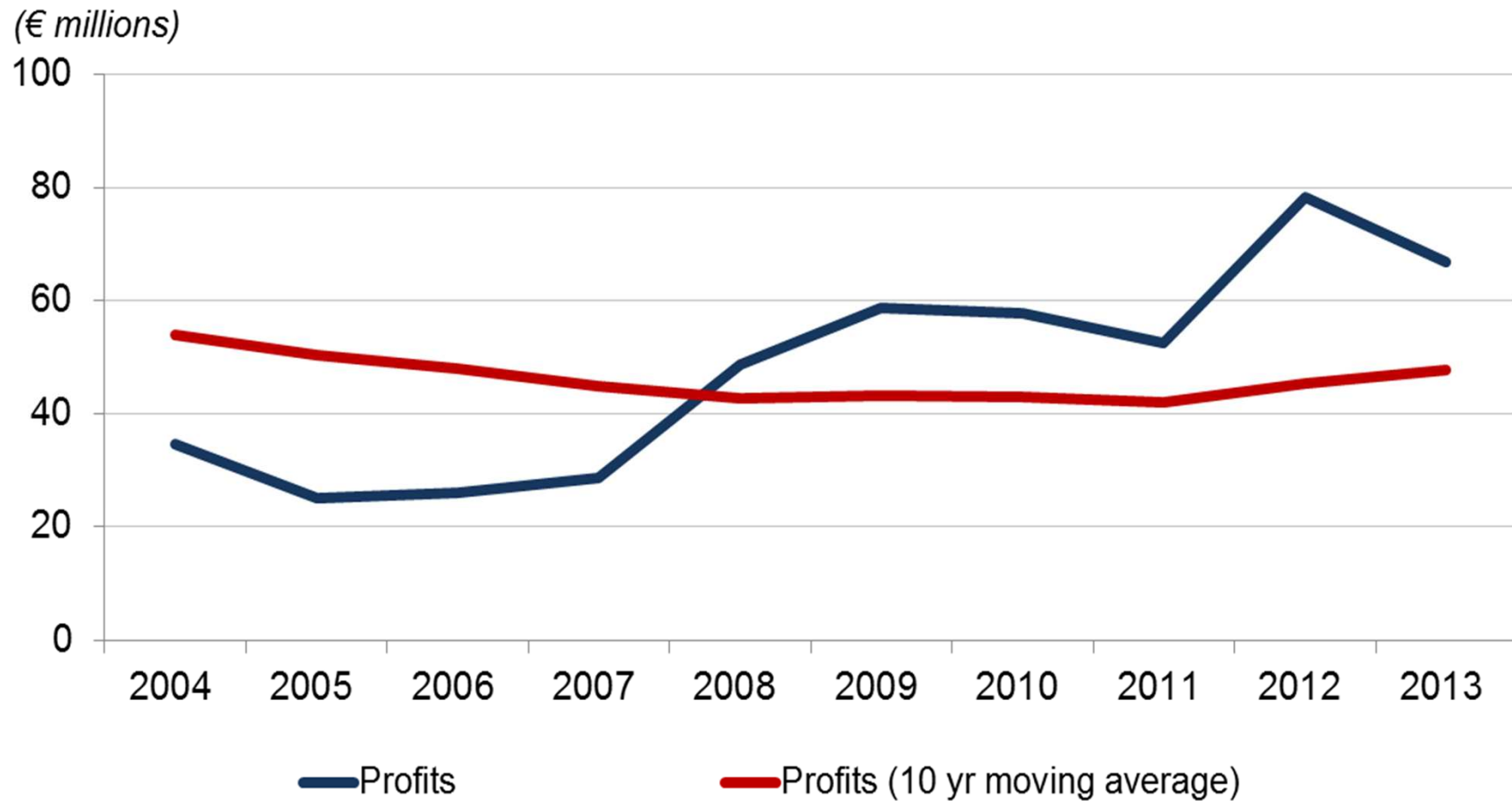
## The Bank's strategic priorities

- Contribute to the formulation and implementation of Eurosystem monetary policy
- Provide independent advice on economic and financial policy
- Formulate and implement macro-prudential policy to ensure financial stability:
  - *Amendments to the Central Bank of Malta Act: new Deputy Governor and statutory set-up of the JFSB in association with MFSA*
- Ensure the robustness and smooth functioning of the financial market and of the payment system, and effectively manage currency issuance
- Manage its resources in an economic, effective and efficient way, thus ensuring a sustainable financial position



## CBM's financial performance: Profits are well above average...

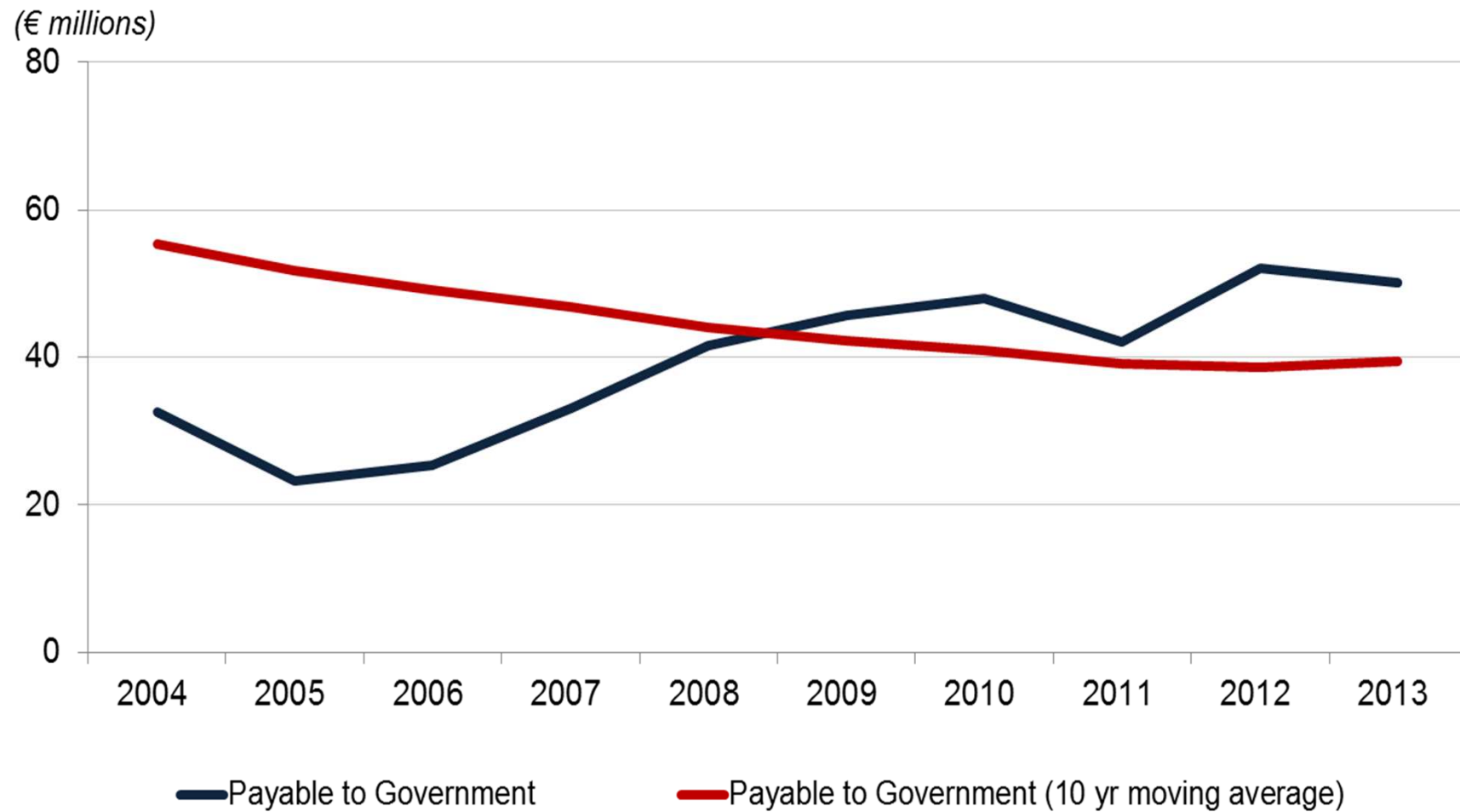
### ANNUAL PROFIT COMPARED TO 10-YEAR MOVING AVERAGE





## CBM's financial performance: ...as are the amounts transferred to government

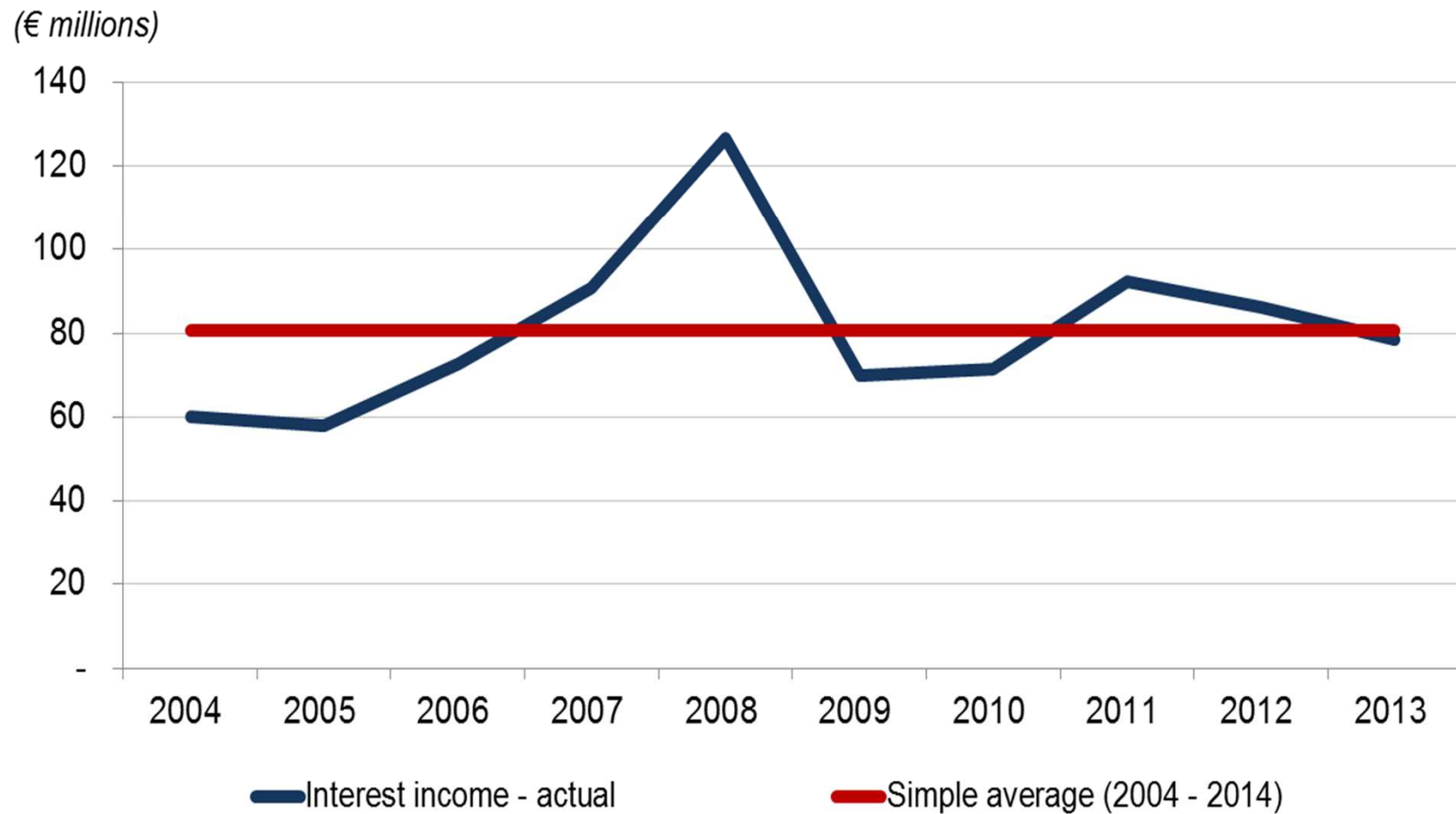
### PAYABLE TO GOVERNMENT COMPARED TO 10-YEAR MOVING AVERAGE





## CBM's financial performance: ...in spite of low interest rates

### INTEREST INCOME COMPARED TO SIMPLE AVERAGE (2004 - 2014)

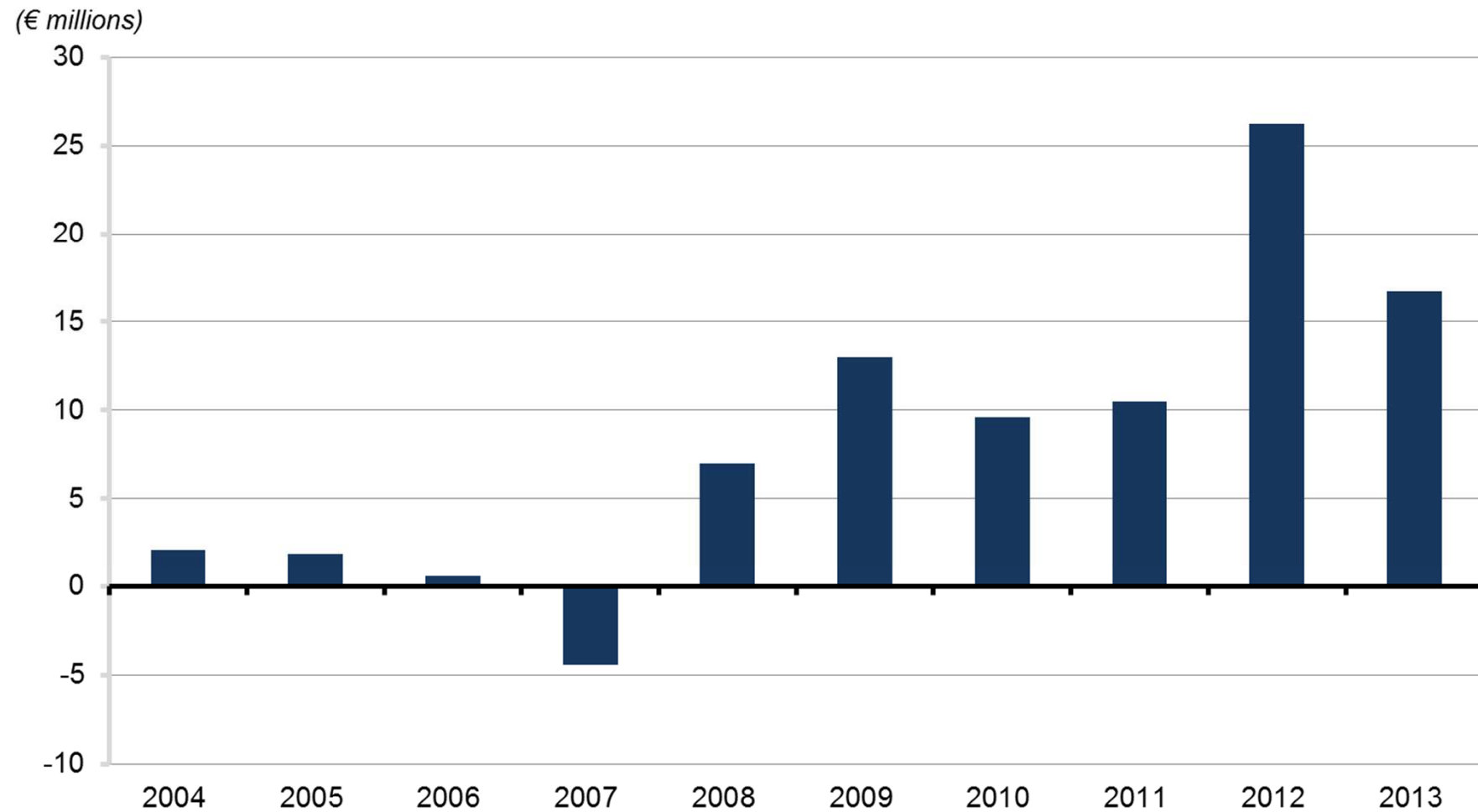






## CBM's additions to reserves and provisions to strengthen the balance sheet and mitigate risk

### RESERVES AND PROVISIONS



Source: Central Bank of Malta



Thank you



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA