



Annual Report 2015

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EUROSISTEMA
CENTRAL BANK OF MALTA



Overview

- Macroeconomic and financial market developments
- Banking sector
- Central Bank of Malta's operations



Macroeconomic and financial market developments



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Systemic risk in the euro area

Composite indicator of systemic stress

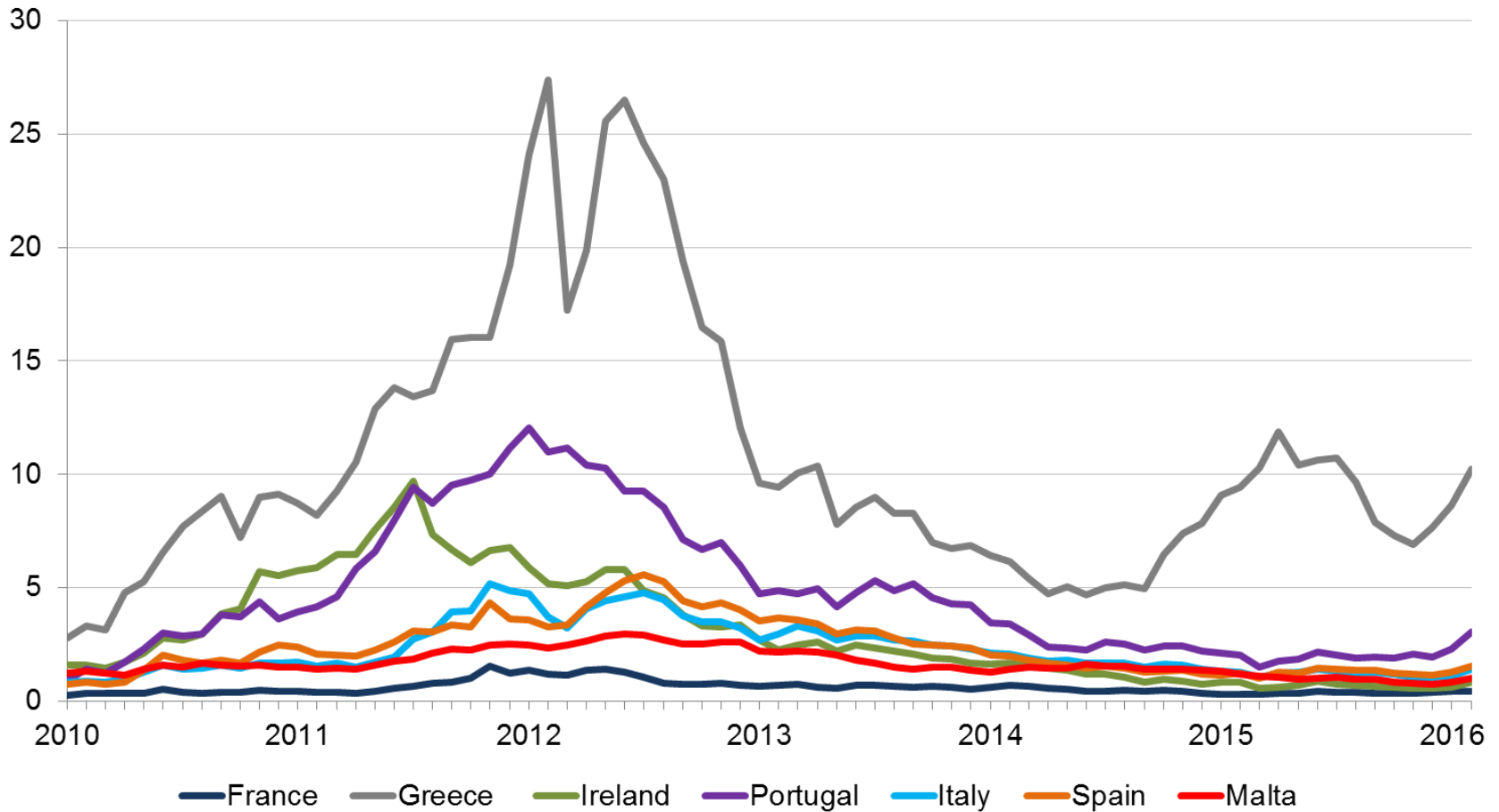


Source: Statistical Data Warehouse



10-year bond spreads

Euro area ten-year government bond yield spreads
(vis-à-vis German ten-year government bond yields, per cent)

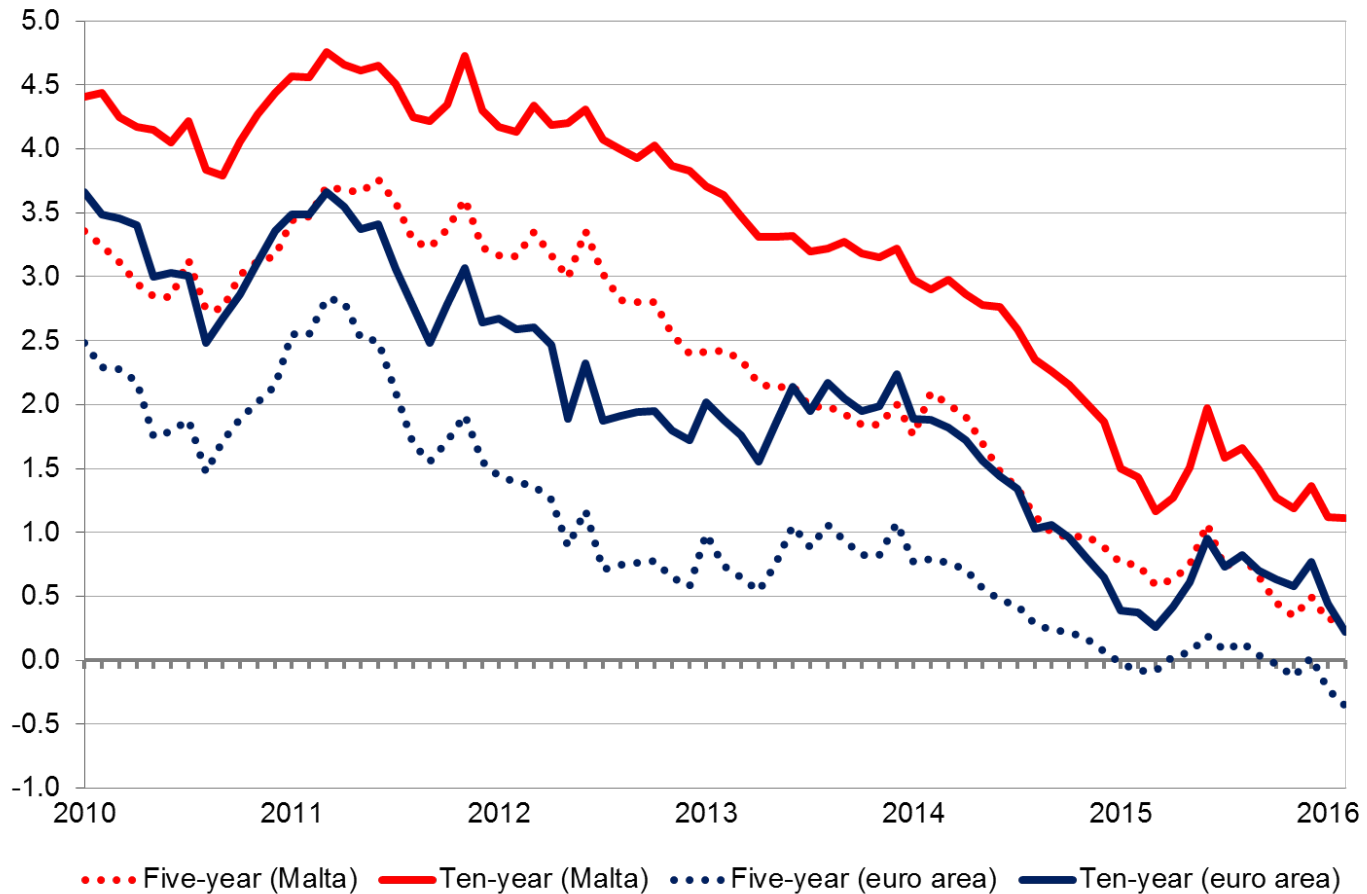


Source: Statistical Data Warehouse



Yields down to new lows

Government bond yields Malta and the euro area
(annual percentage change, end of month)

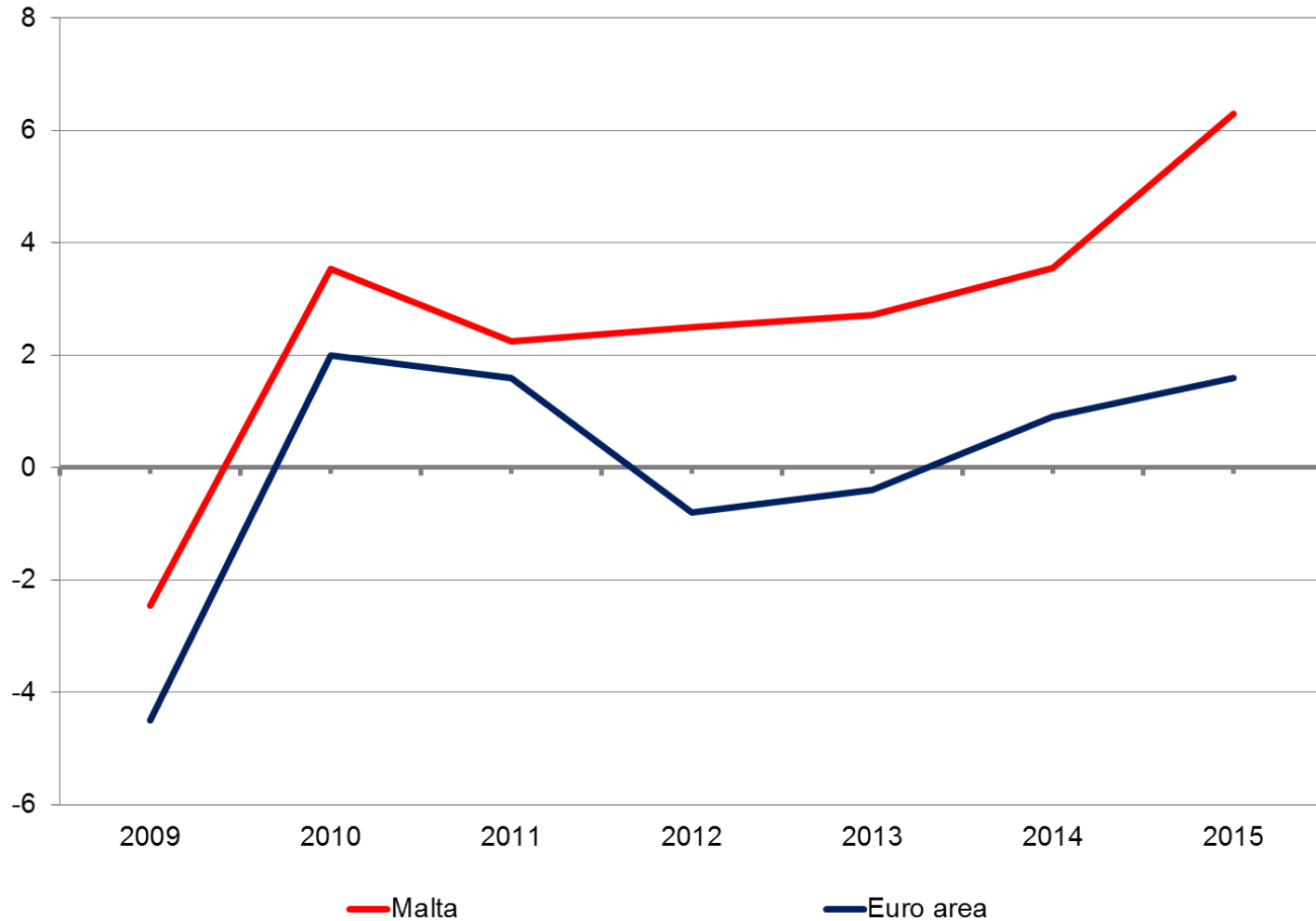


Sources: Central Bank of Malta, Statistical Data Warehouse



Malta's GDP growth is robust and continues to outpace that of the euro area

Real GDP growth
(annual percentage change)



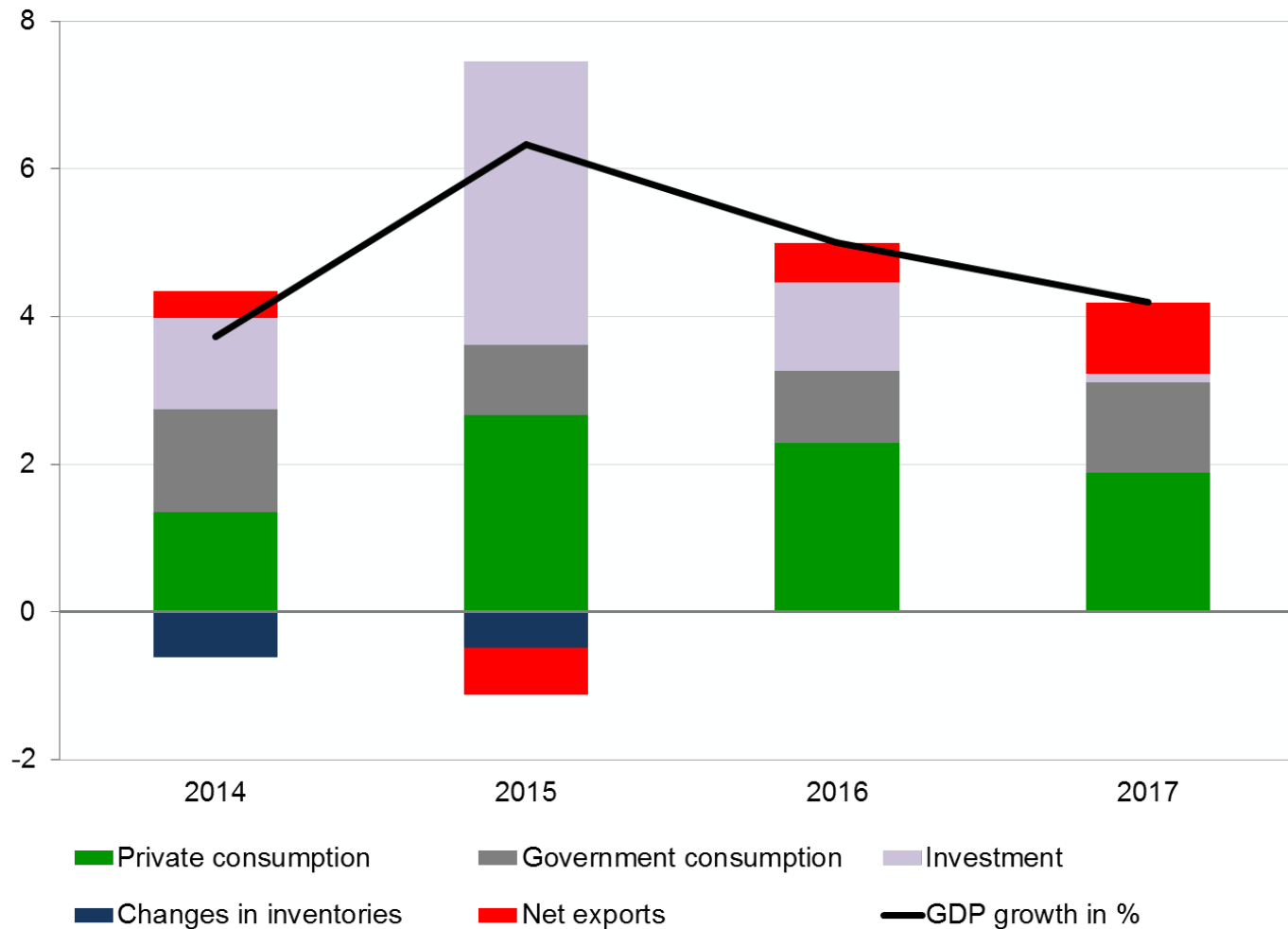
Sources: National Statistics Office, Eurostat



GDP growth contributions – actual and projected

GDP growth over the forecast horizon

(percentage point contributions; annual percentage change)

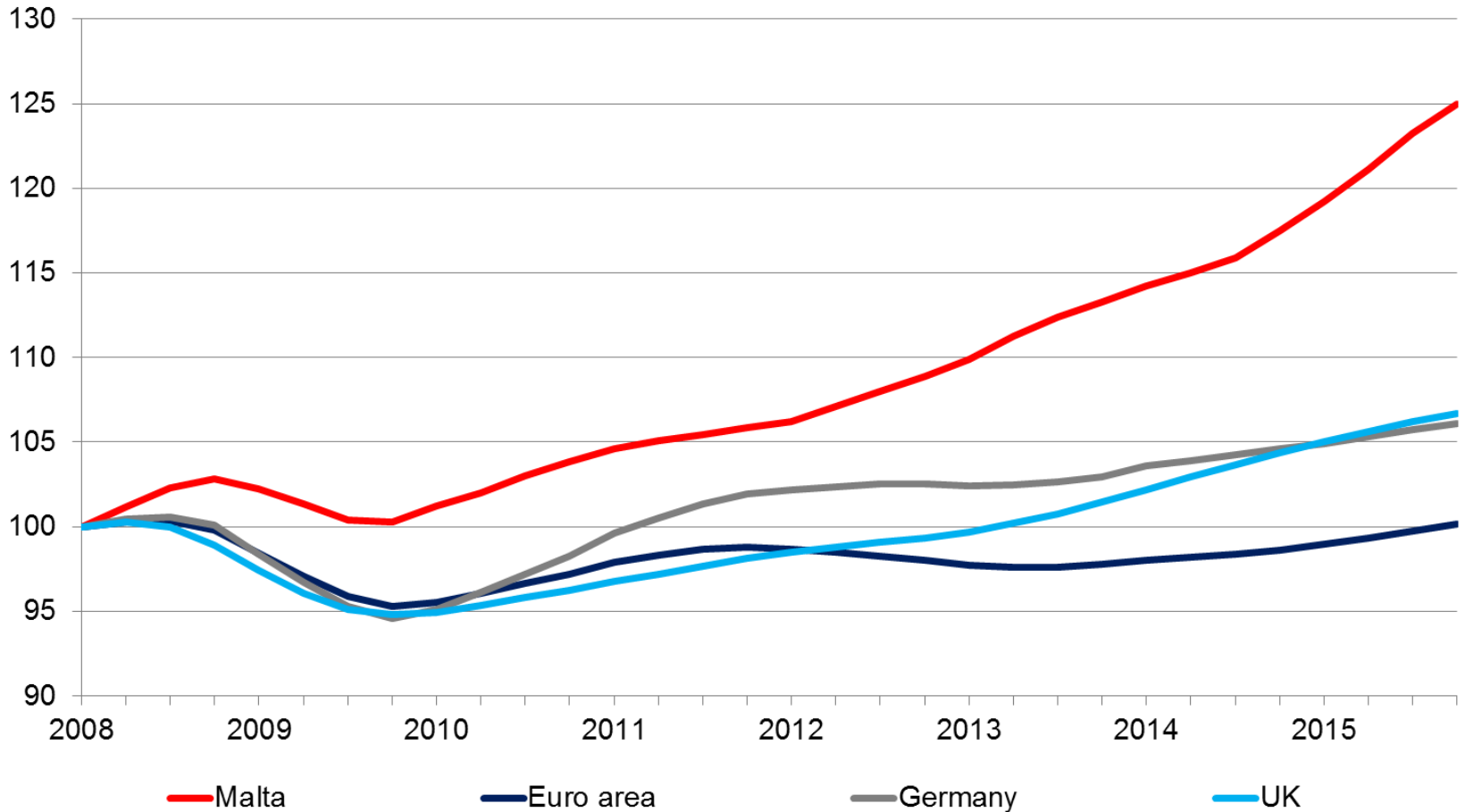




The rate of economic growth has persistently exceeded the euro area as a whole

Real GDP

(Index 2008Q1=100, four quarter moving sum, chain-linked volumes)



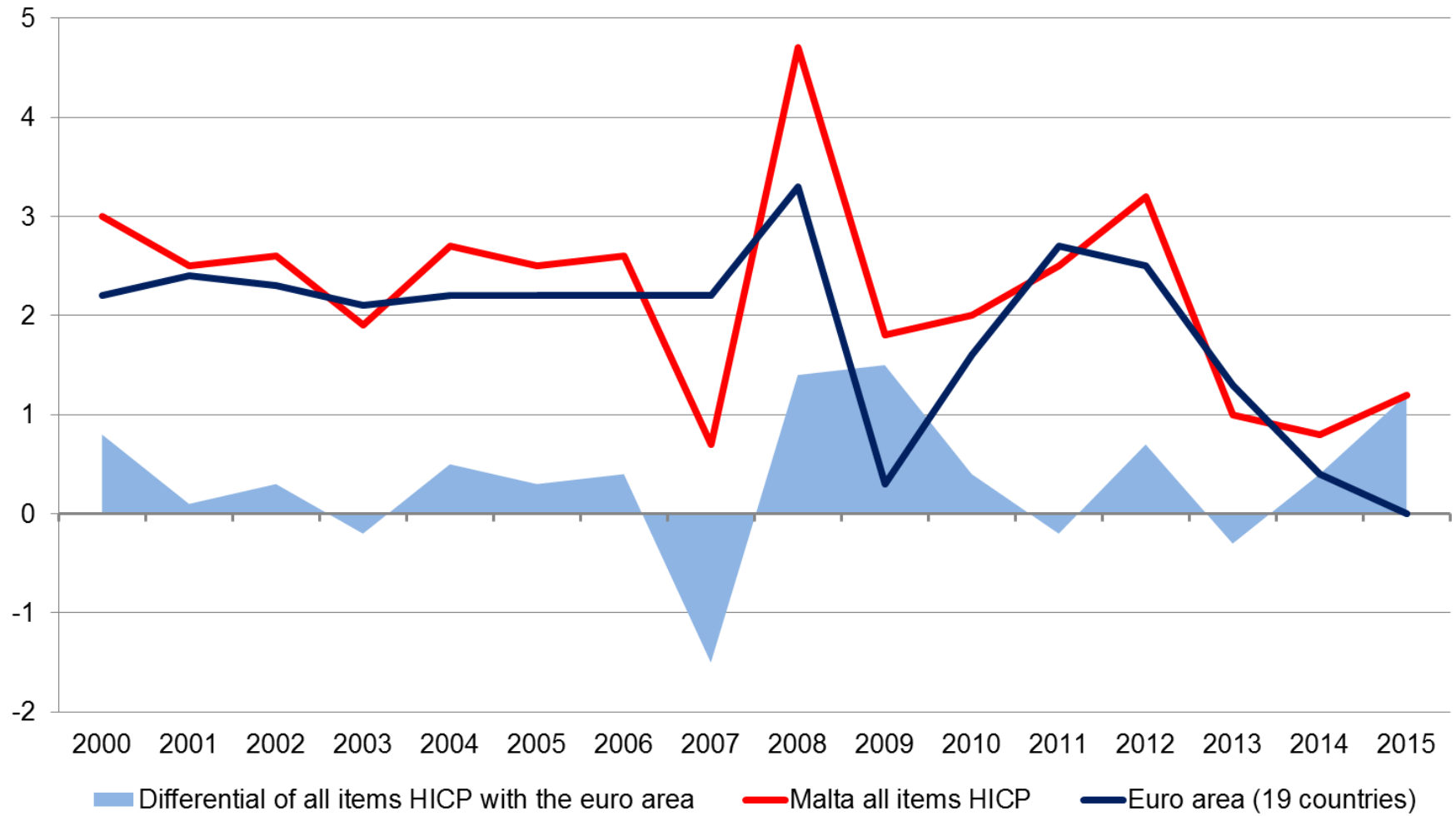
Source: Eurostat



Inflation in Malta and the euro area

Price inflation in Malta

(annual average rate of change)

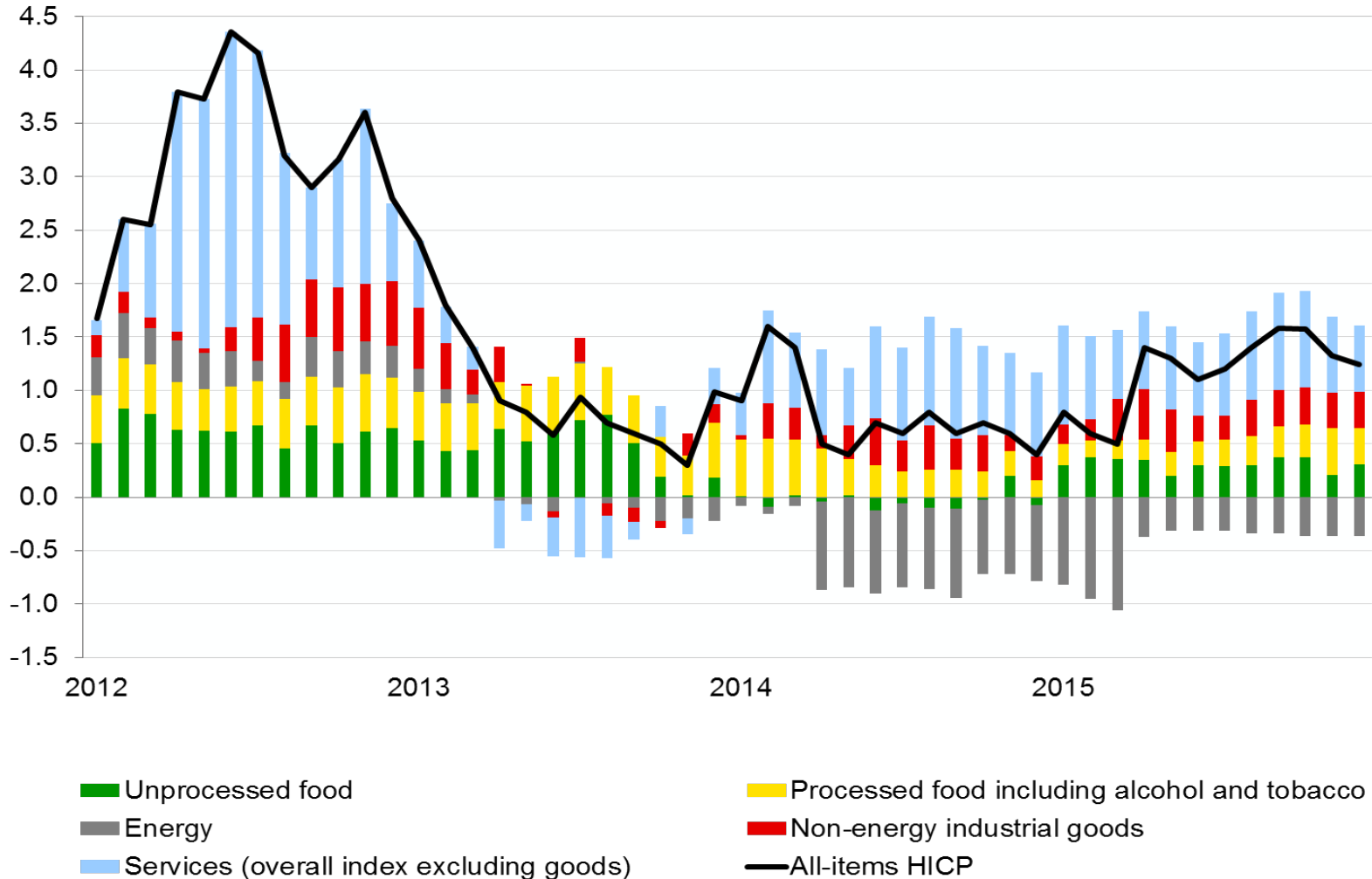


Source: Eurostat



Downward pressure on inflation mainly due to falling energy prices: inflation in Malta closer to the ECB target

Contributions to year-on-year HICP inflation
(percentage points; annual percentage change)

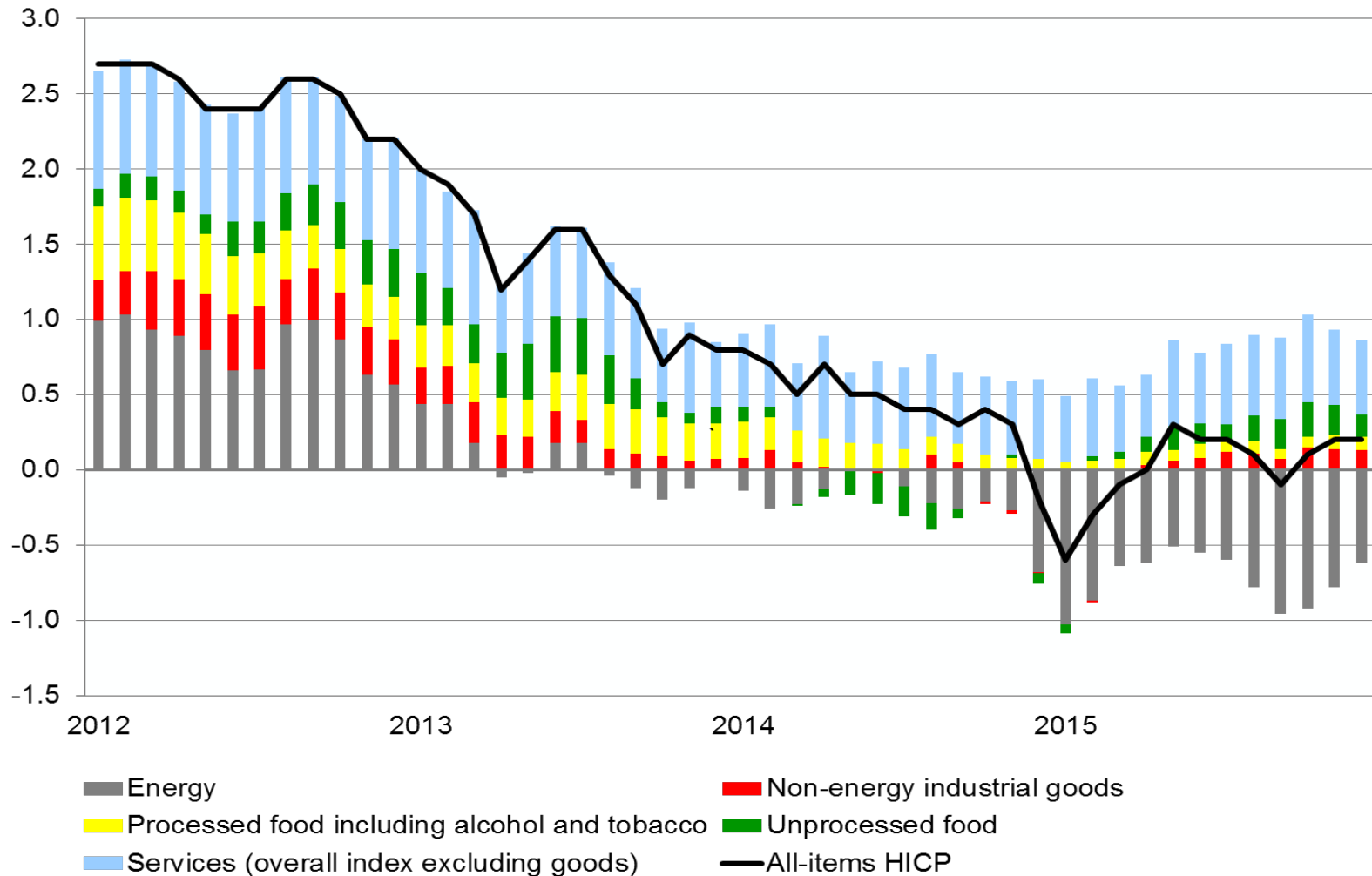


Source: Eurostat



Inflation in the euro area close to zero, dipping into negative territory in some instances

Contributions to year-on-year HICP inflation in the euro area
(percentage points; annual percentage change)

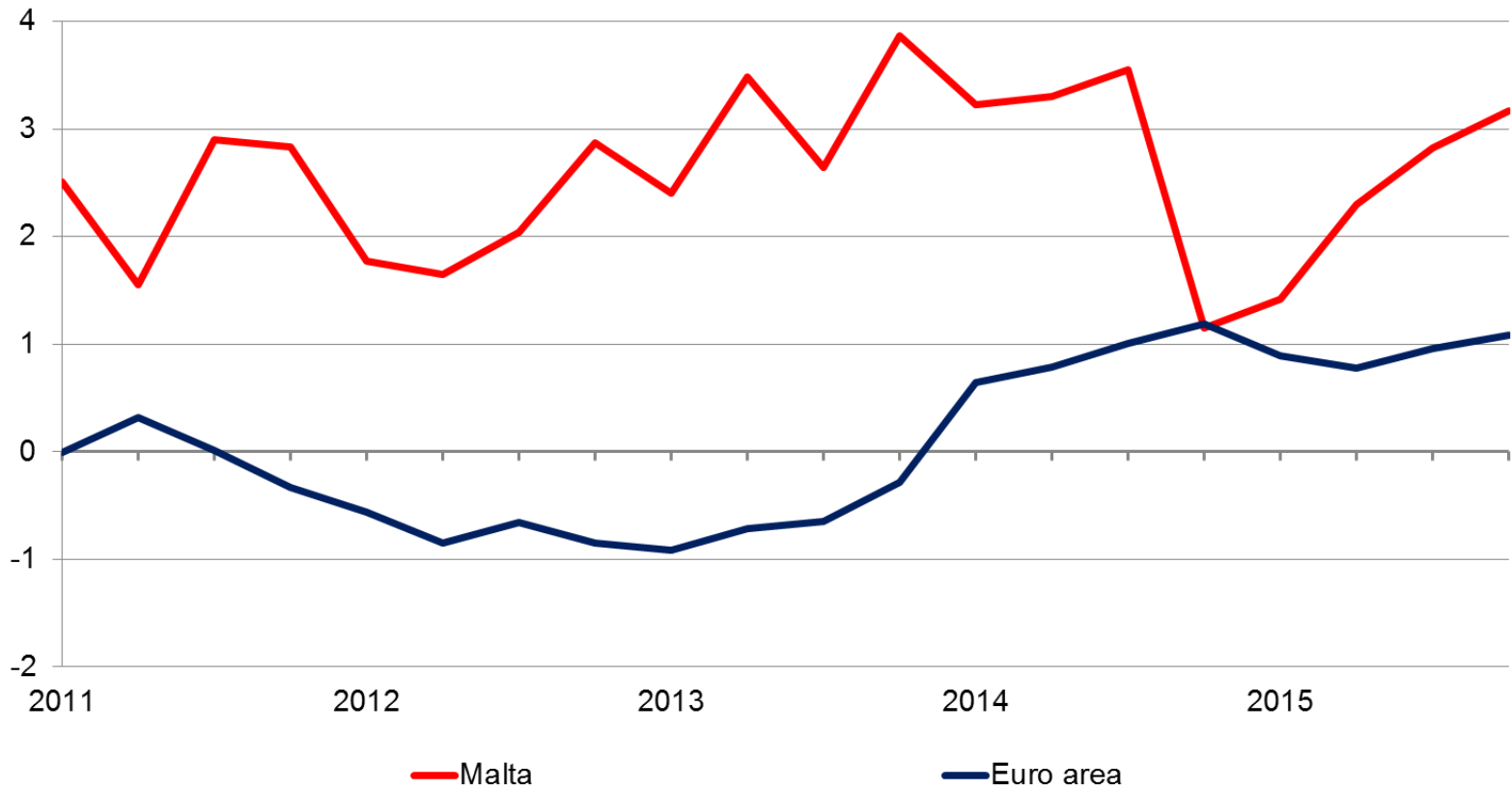




Growth in employment surpasses that of the euro area

Employment growth

(annual percentage change, Labour Force Survey)

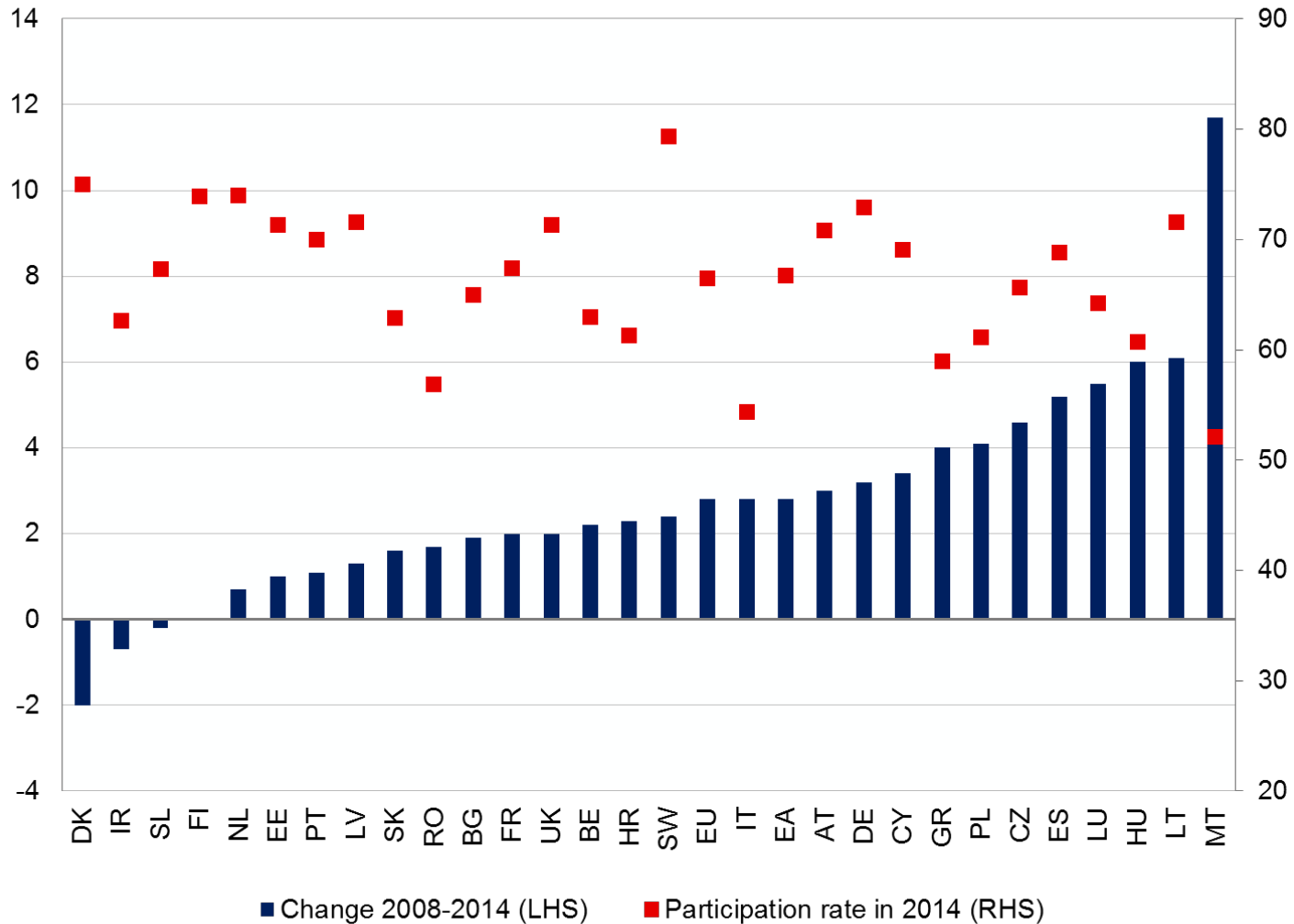


Source: Eurostat



Female participation in Malta registers the highest growth in the EU, with the potential to grow further

Female participation rate in EU countries
(percentage points; per cent)

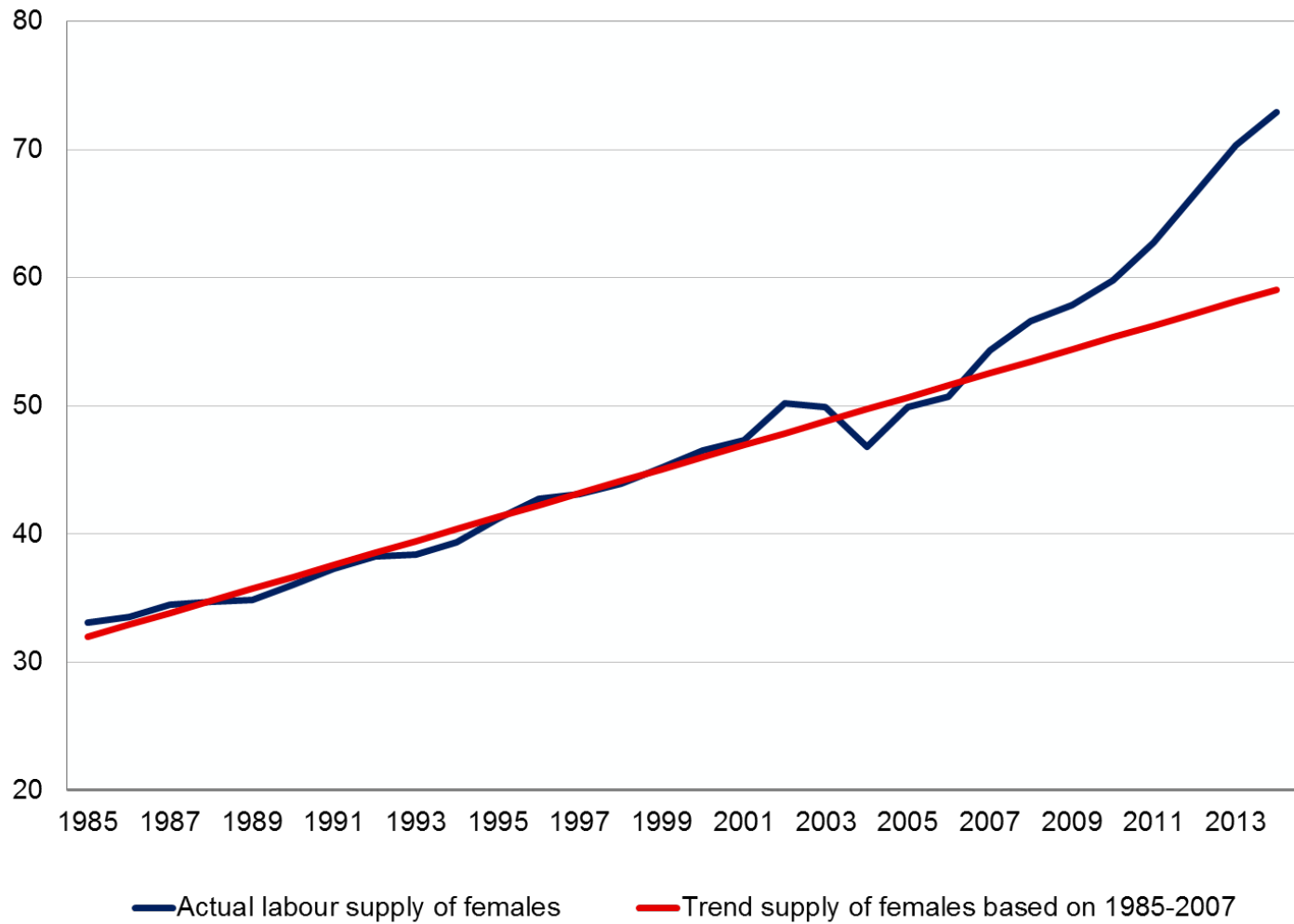


Sources: Eurostat; Central Bank of Malta calculations



Growth in female participation in Malta compared to trend

Actual and hypothetical labour supply of females
(thousands of persons)



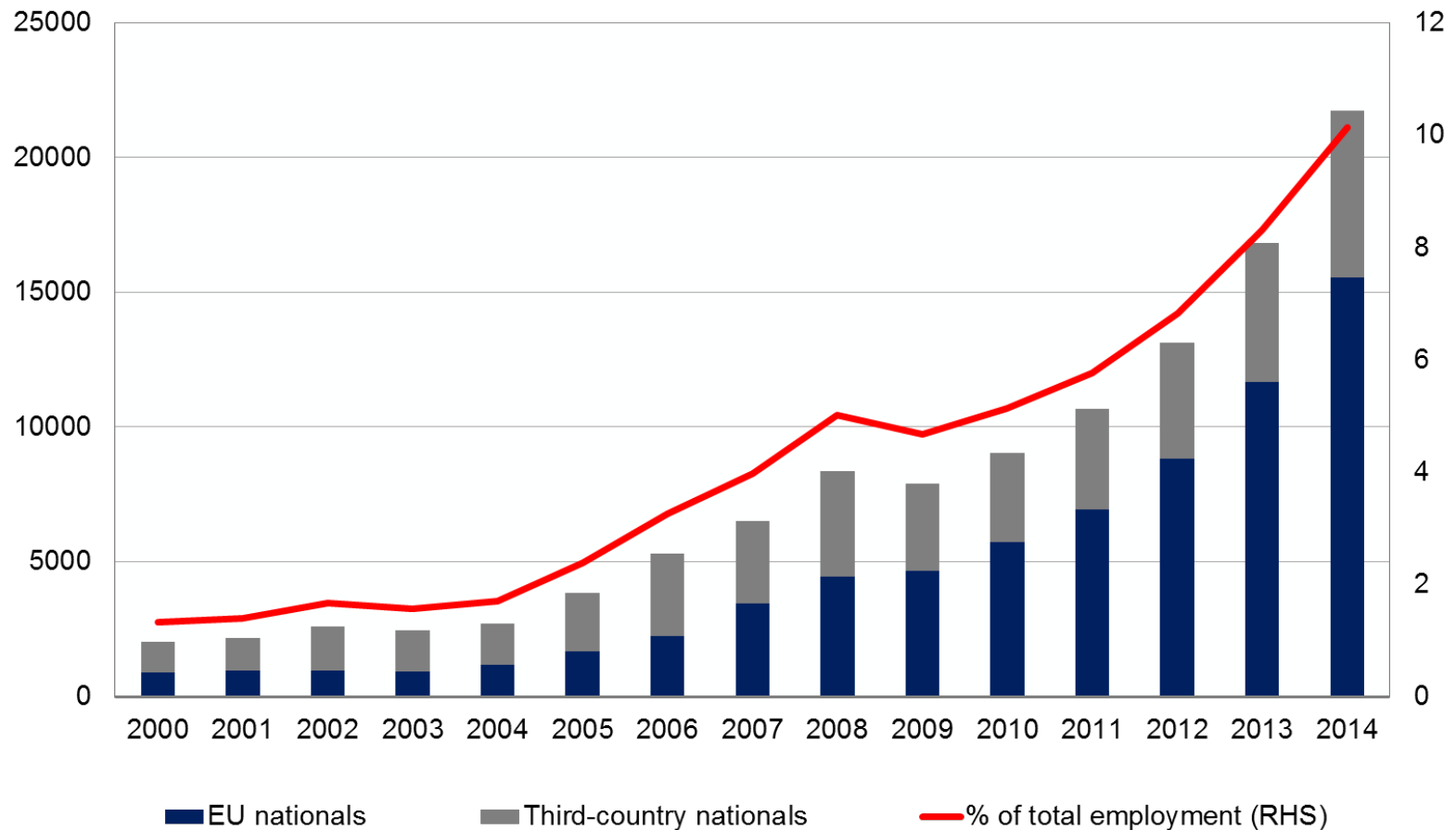
Sources: Labour Force Survey; Central Bank of Malta calculations



Inward migration further supports employment growth

Size of foreign workforce in Malta

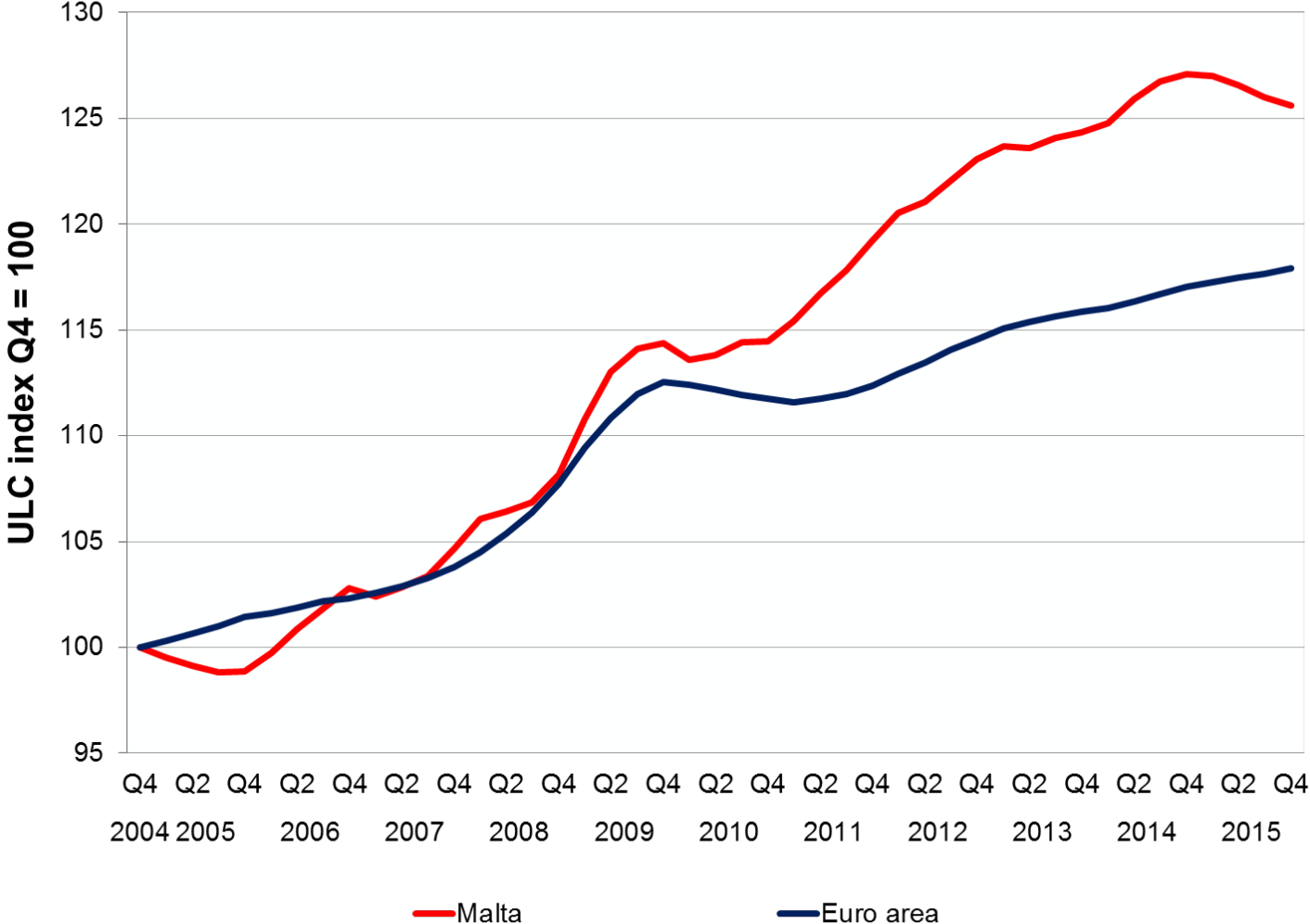
(number of persons; percentage of total employment)





Lower ULCs as a result of improved productivity

Unit labour costs in Malta and the euro area
(four-quarter moving average indices; 2004Q4 = 100)



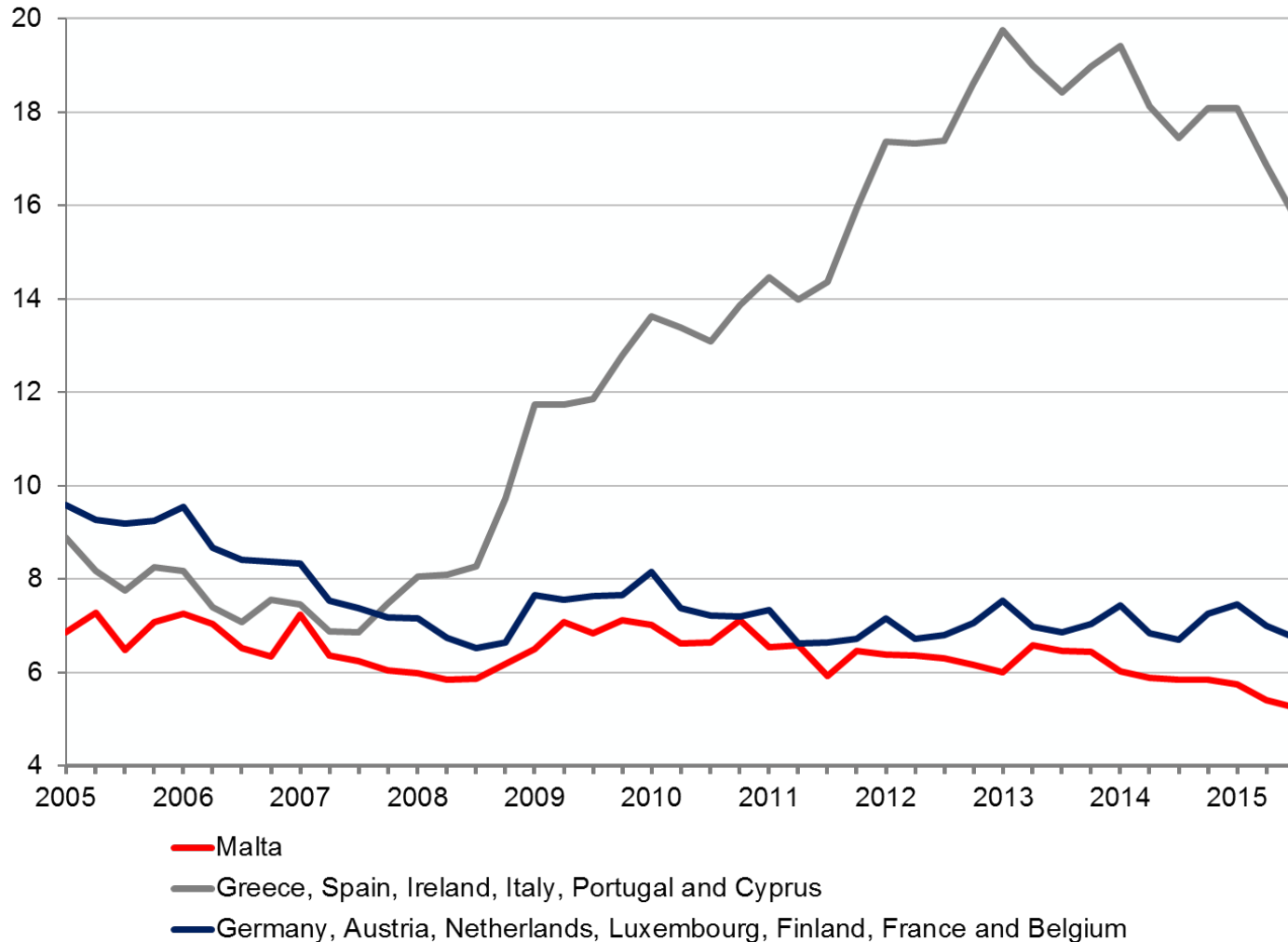
Sources: European Central Bank; Central Bank of Malta estimates



Unemployment rate in Malta consistently below that of euro area countries, including the best performers

Unemployment rates

(per cent)

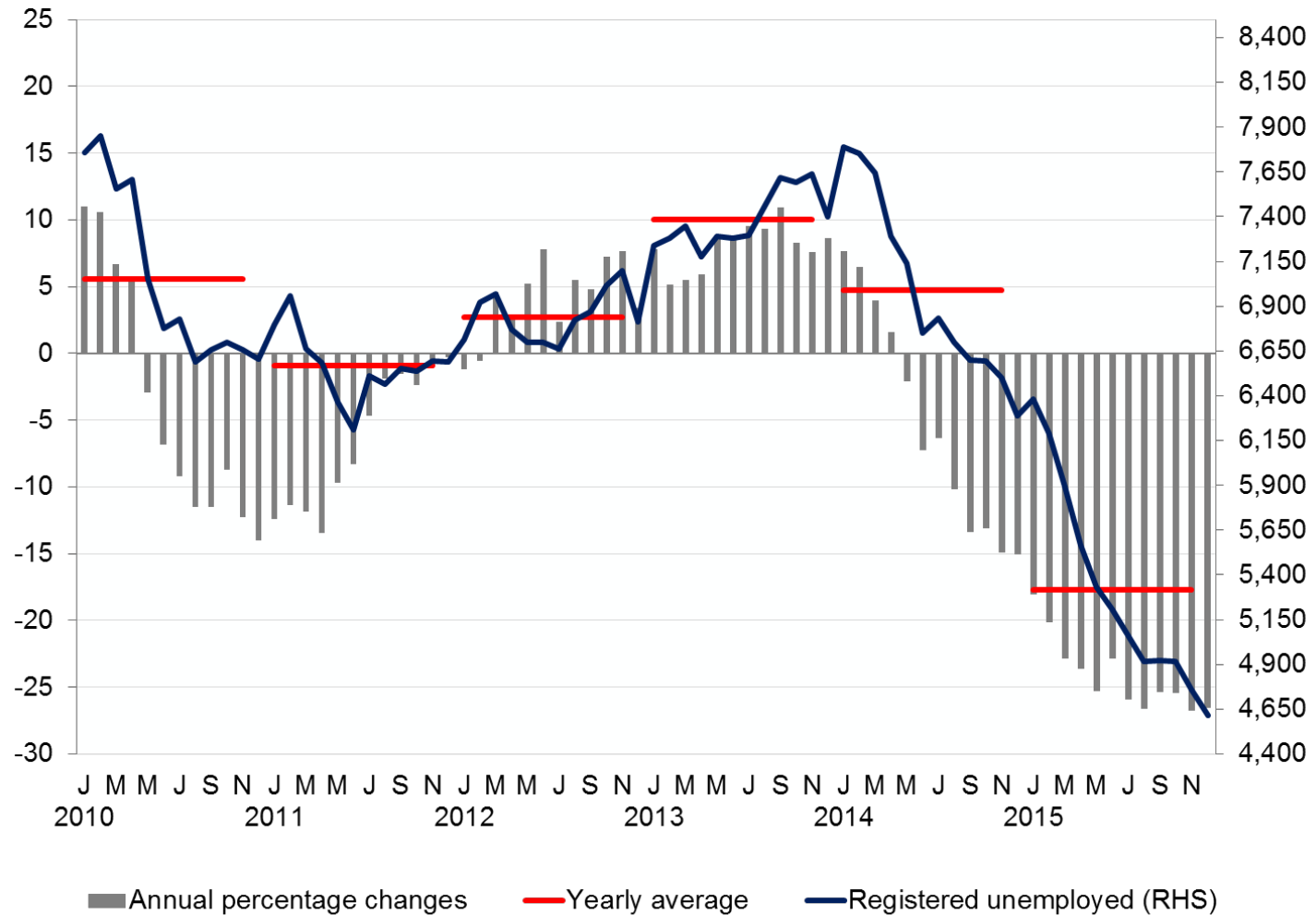


Sources: Statistical Data Warehouse, Eurostat



Registered unemployed trending downwards

Registered unemployed
(annual percentage changes; persons)



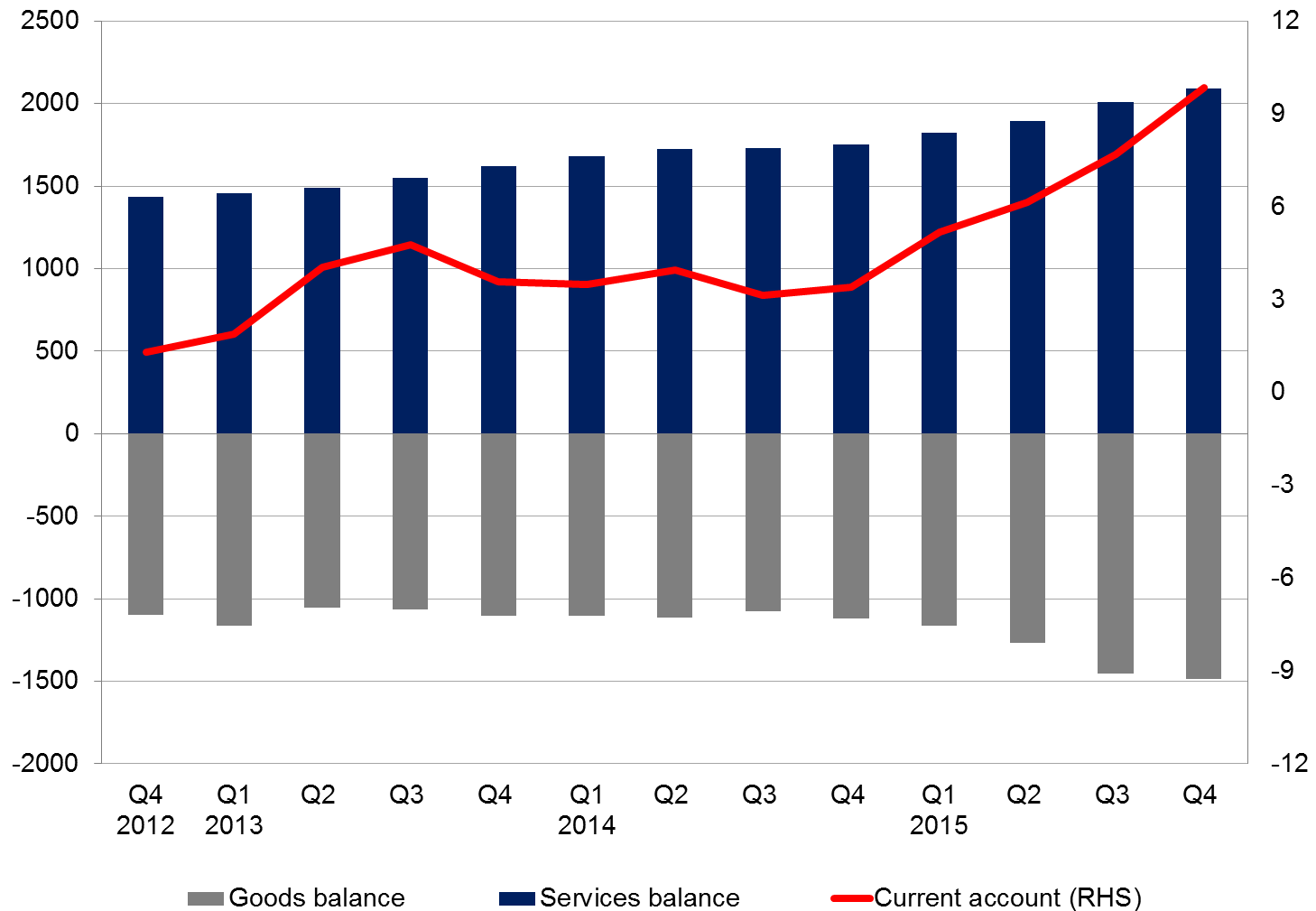
Source: National Statistics Office



The current account surplus widened further

Composition of current account

(four-quarter moving sums in EUR millions; as a percentage of GDP)

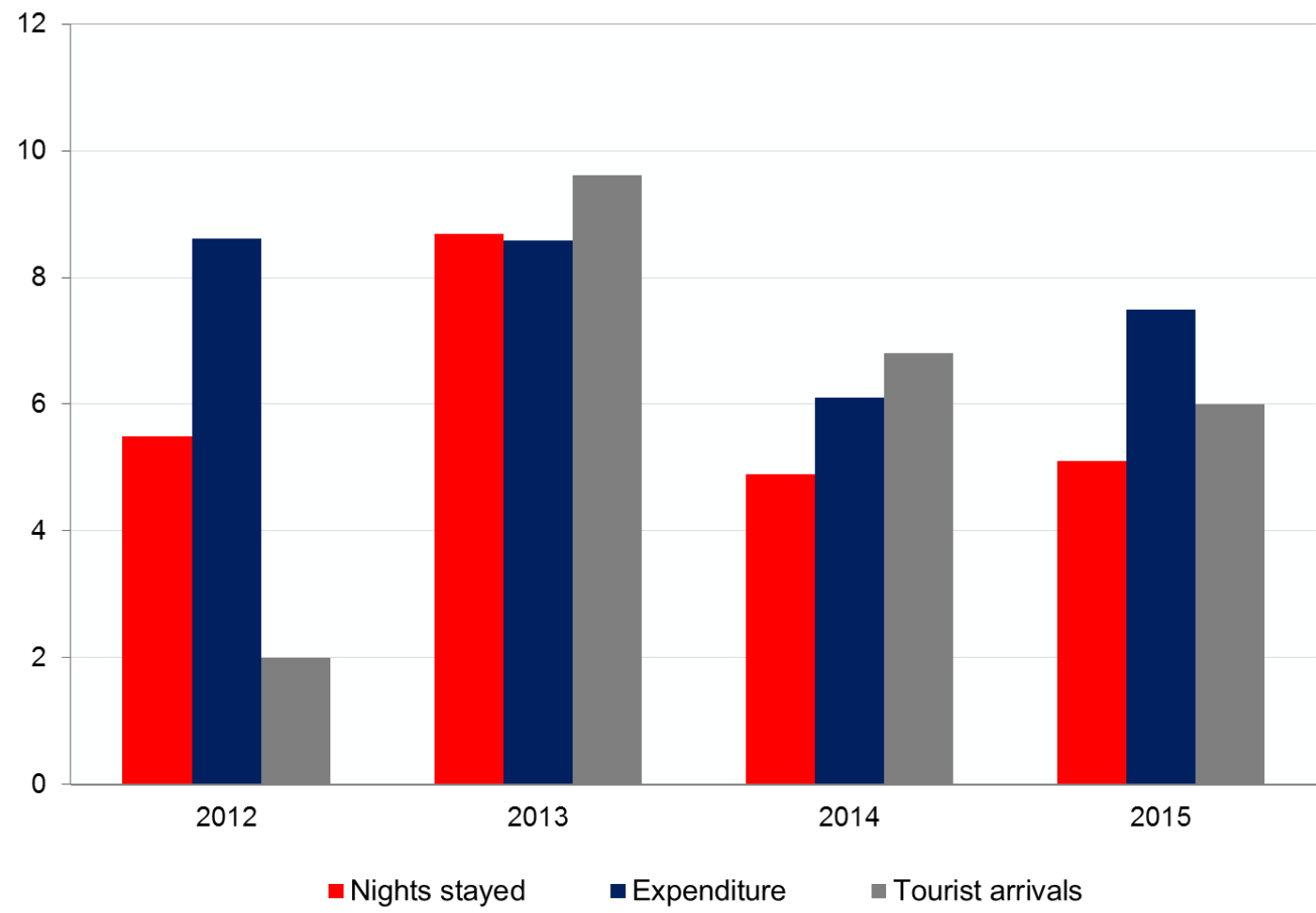


Source: National Statistics Office



Tourism sector continues to perform buoyantly

Tourism indicators *(annual percentage changes)*



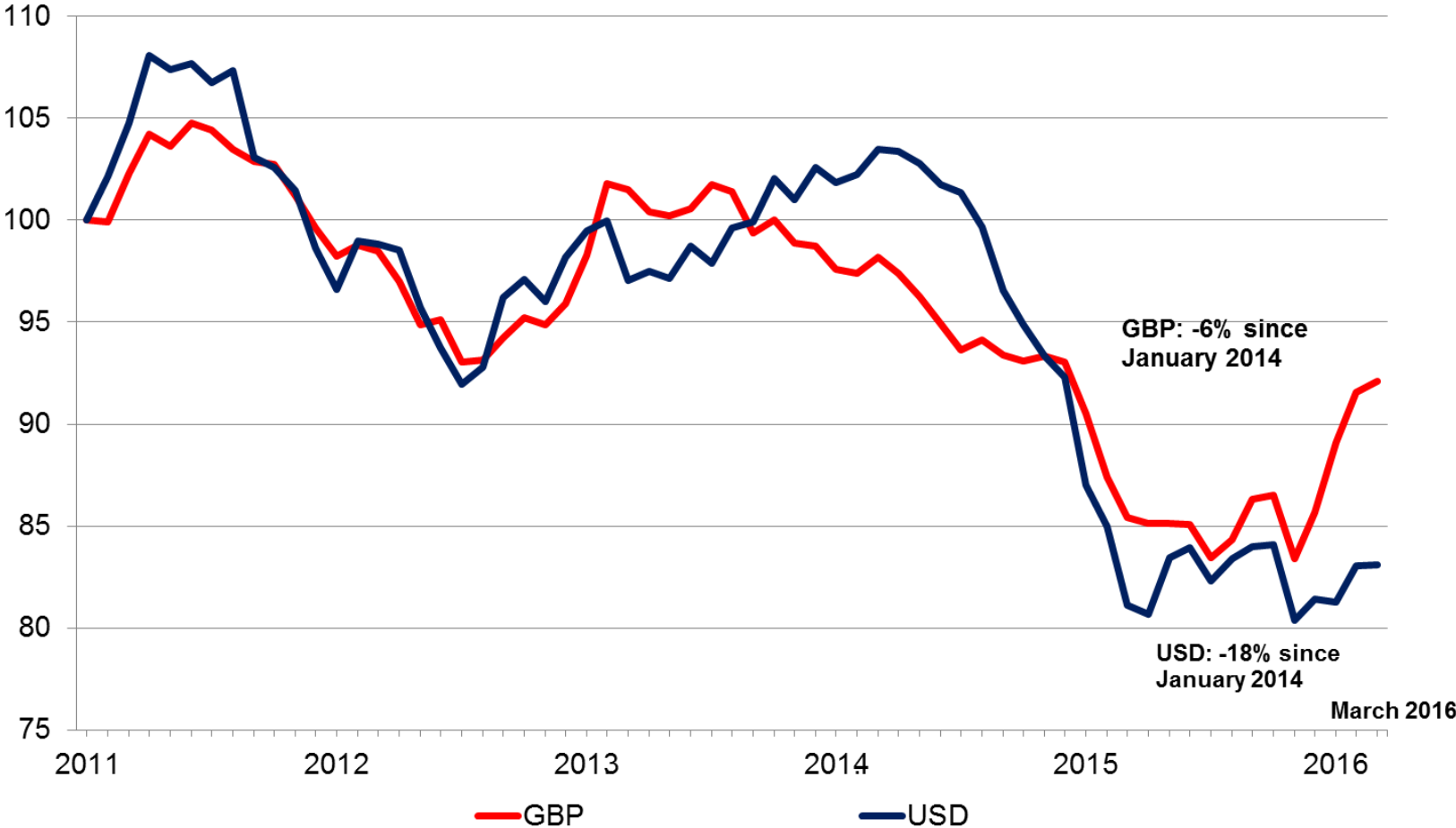
Source: National Statistics Office



The depreciation of the euro improves external competitiveness

Exchange rate movements of the euro against other major currencies

(index of end of month rates; January 2011=100; an increase in the index implies euro appreciation)



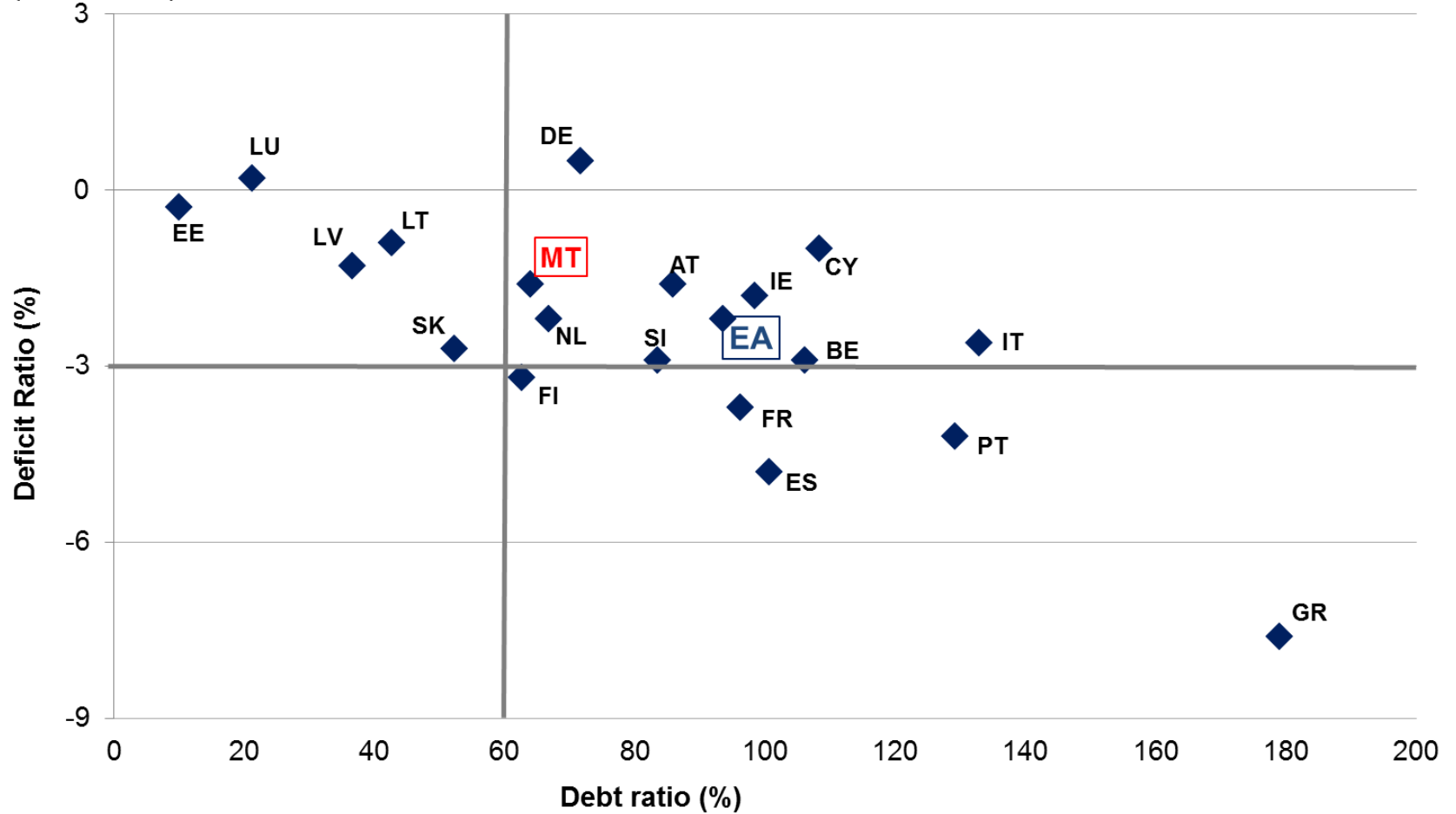
Source: Eurostat



Malta's budgetary position compared to EU countries

Fiscal position - euro area countries

(as at 2015)



Source: European Commission Winter Forecasts, 2016



The banking sector



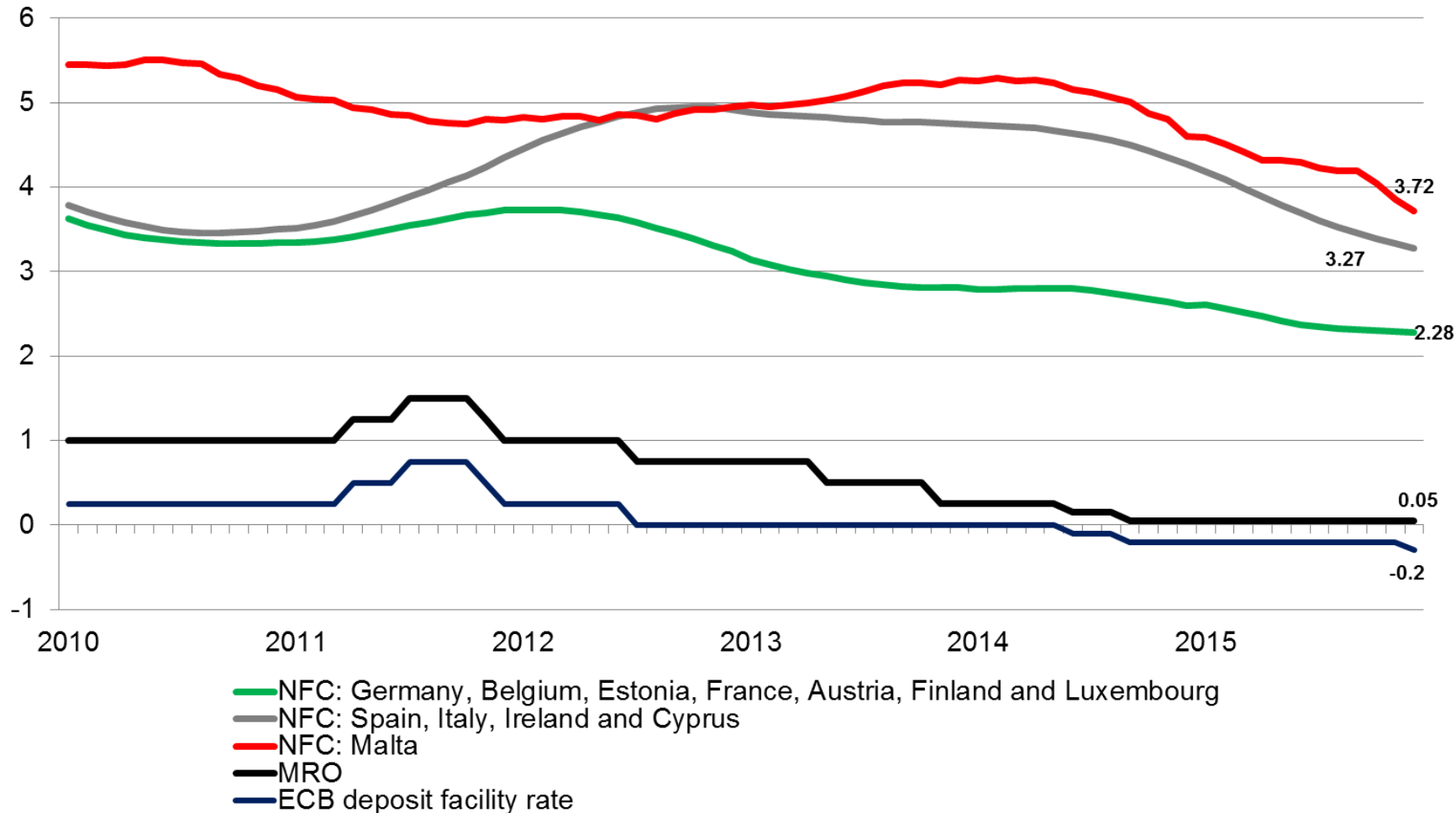
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SME lending rates in Malta on a downward trend

MRO and NFCs lending rates

(12-month moving average, loans up to €1 million, weighted by loan volumes)



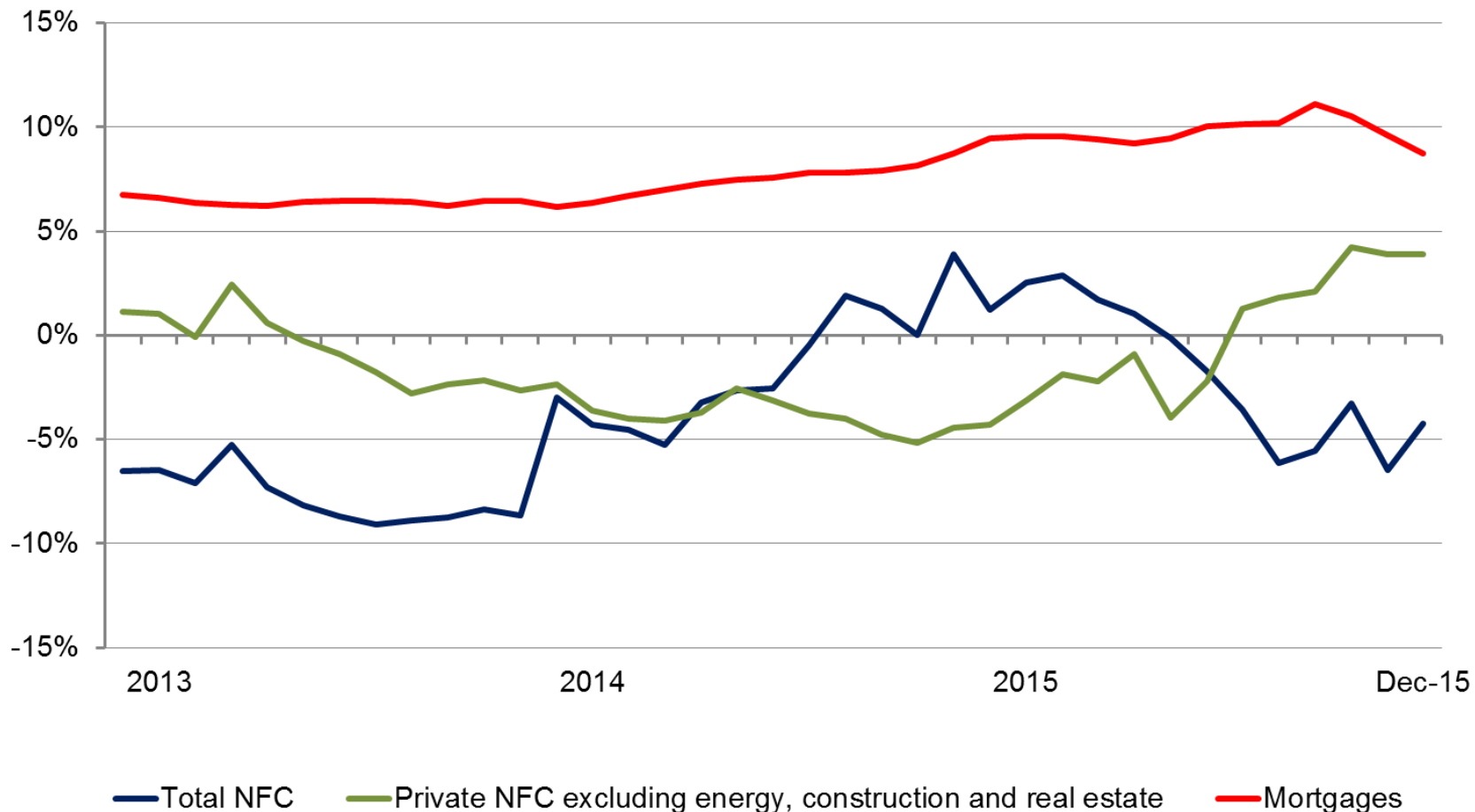
Source: Statistical Data Warehouse



Credit growth – corporate loans and mortgages

Credit growth

(Core domestic banks, resident, monthly data, annual percentage change)



Source: Central Bank of Malta

Banking sector is liquid, profitable and well-capitalised

Indicator	Maltese banks - December 2015				EU
	Core domestic banks	Non-core domestic banks	International banks	Total banks	Total banks
Total assets as a % to GDP	234.9	26.8	275.6	537.3	274¹
Customer loans-to-deposits ratio (%)	58.2	60.7	104.2	67.9	100.9²
Solvency					
<i>CET 1 Ratio</i>	12.2	18.5	49.6	18.4	approx. 14.5³
<i>Tier 1 Ratio</i>	12.2	18.5	54.8	19.1	
<i>Total Capital Ratio</i>	15.0	22.0	55.4	21.7	
Profitability					
<i>Return on assets</i>	0.7	0.2	1.0	0.8	approx. 0.42³
<i>Return on equity</i>	9.9	1.4	3.0	5.7	approx. 6.4³
Liquidity					
<i>Liquid assets to short term liabilities</i>	50.2	63.3	83.6	52.6	approx. 23.5³
<i>Liquid assets to total assets</i>	31.8	36.3	22.7	31.2	

Sources: Central Bank of Malta, European Central Bank

¹ ECB consolidated banking data and Statistical Data Warehouse. Data refers to Q3 2015

² Statistical Data Warehouse - December 2015

³ ESRB Risk Dashboard March 2016

Disclaimer: Data for EU banks may not be strictly comparable with that for Maltese banks



Central Bank of Malta's operations

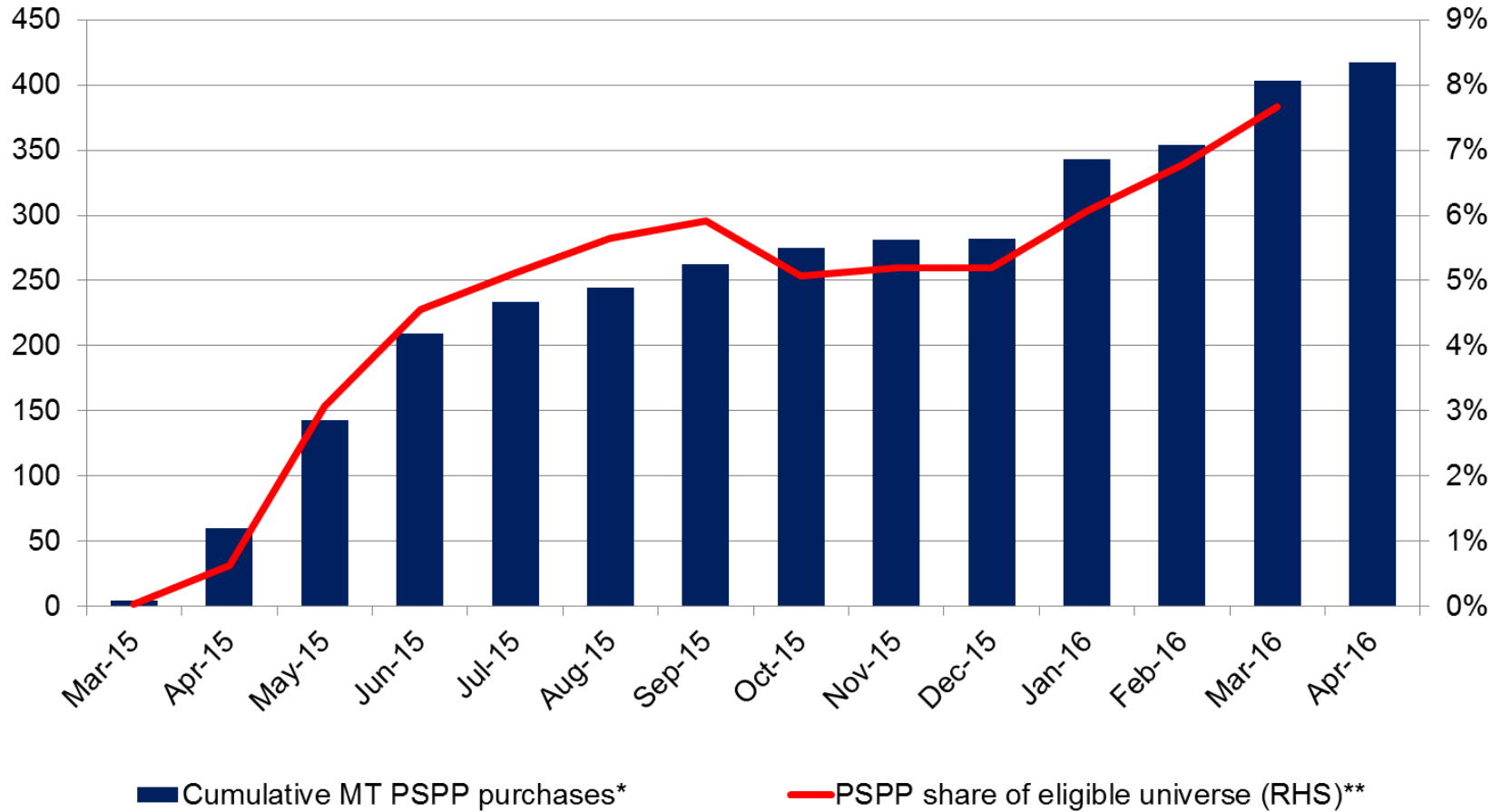


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PSPP purchases by the Bank

PSPP purchases - cumulative and share of eligible universe
(€ million, per cent)



Source: Central Bank of Malta

*Book value, **Nominal value



Organisational developments and initiatives (1)

- During 2015 collaboration continued with the Banca d'Italia on the adoption of INFOSTAT system
- New premises has some innovative environmental features and will host multipurpose conference facilities, office spaces, a library and an area for research with latest technology facilities (the structure replaces a previously derelict building).
 - Conference facilities should be finished by 17 June 2016 in time for hosting of the conference *Small euro area countries – performance after the crisis and challenges for the future.*
 - Other parts of the building will be ready but may not be functional



Organisational developments and initiatives (1a)



Facade



Foyer



Organisational developments and initiatives (1b)





Organisational developments and initiatives (2)

- October 2015 Governing Council meeting was held in Malta and hosted by the Central Bank of Malta
- The European Cultural Days of the European Central Bank focused on our cultural richness under the theme *Vibrant Malta*. Events organised in Frankfurt between November 2015 and February 2016
- Organizational restructuring - to attain a stronger degree of synergy at the Bank, changes to the organisation structure were undertaken as a first step in a broad restructuring process

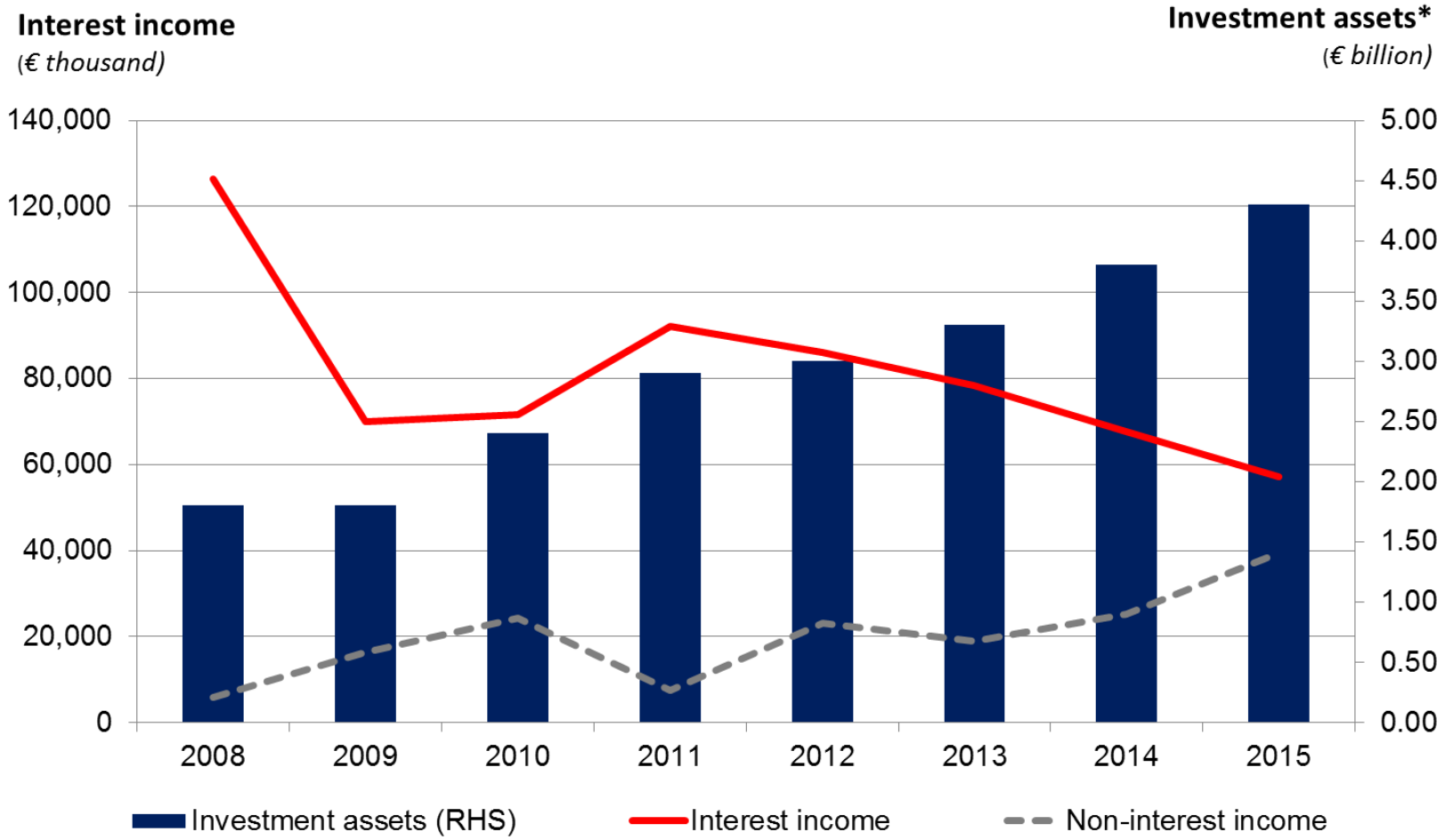


Banking sector - fees and charges

- Competition within the banking sector has important policy implications at a time of high lending rates to SMEs
- MCCA recommendations:
 - price transparency, barriers to expansion and consumer mobility
 - revised bank charges on SME loans and charges for credit transfers to facilitate access to finance
 - more widespread use of electronic money (that would ultimately result in lower processing costs to banks)
- CBM is participating in discussions with core domestic banks with a view of ameliorating the situation
- Central Credit Register as an effective remedy for information asymmetries amongst borrowers and lenders. Would also improve banking sector competition



The low interest rate environment has had an impact on the Central Bank's earning capacity



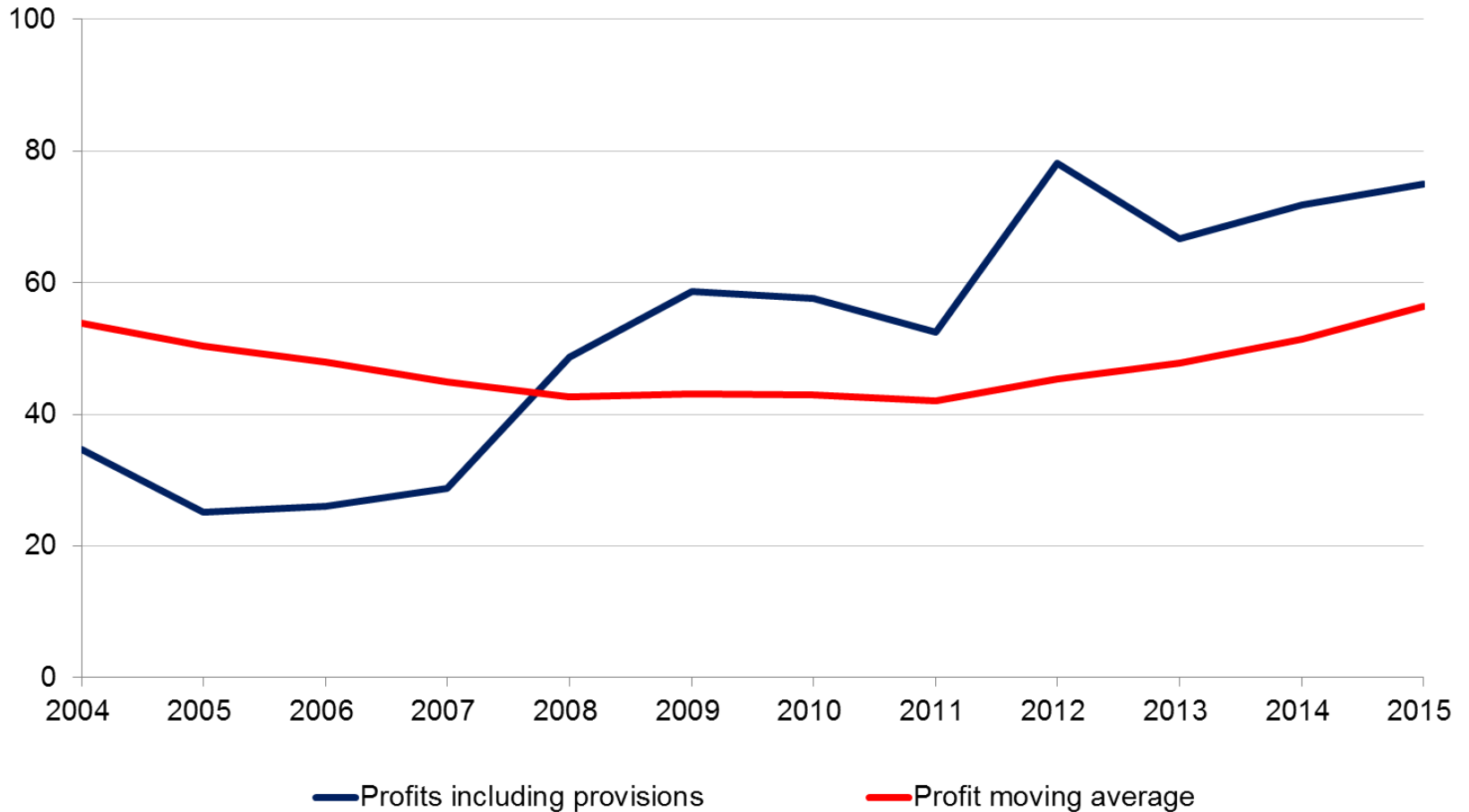
*Includes deposits and securities managed by the Bank and external managers (from 2013 onwards), Malta Government Stocks and International Monetary Fund

Source: Central Bank of Malta



Despite the lower interest rate environment, the Bank registered a higher annual operating profit

Annual profit, including provisions, compared to 10-year moving average
(€ million)



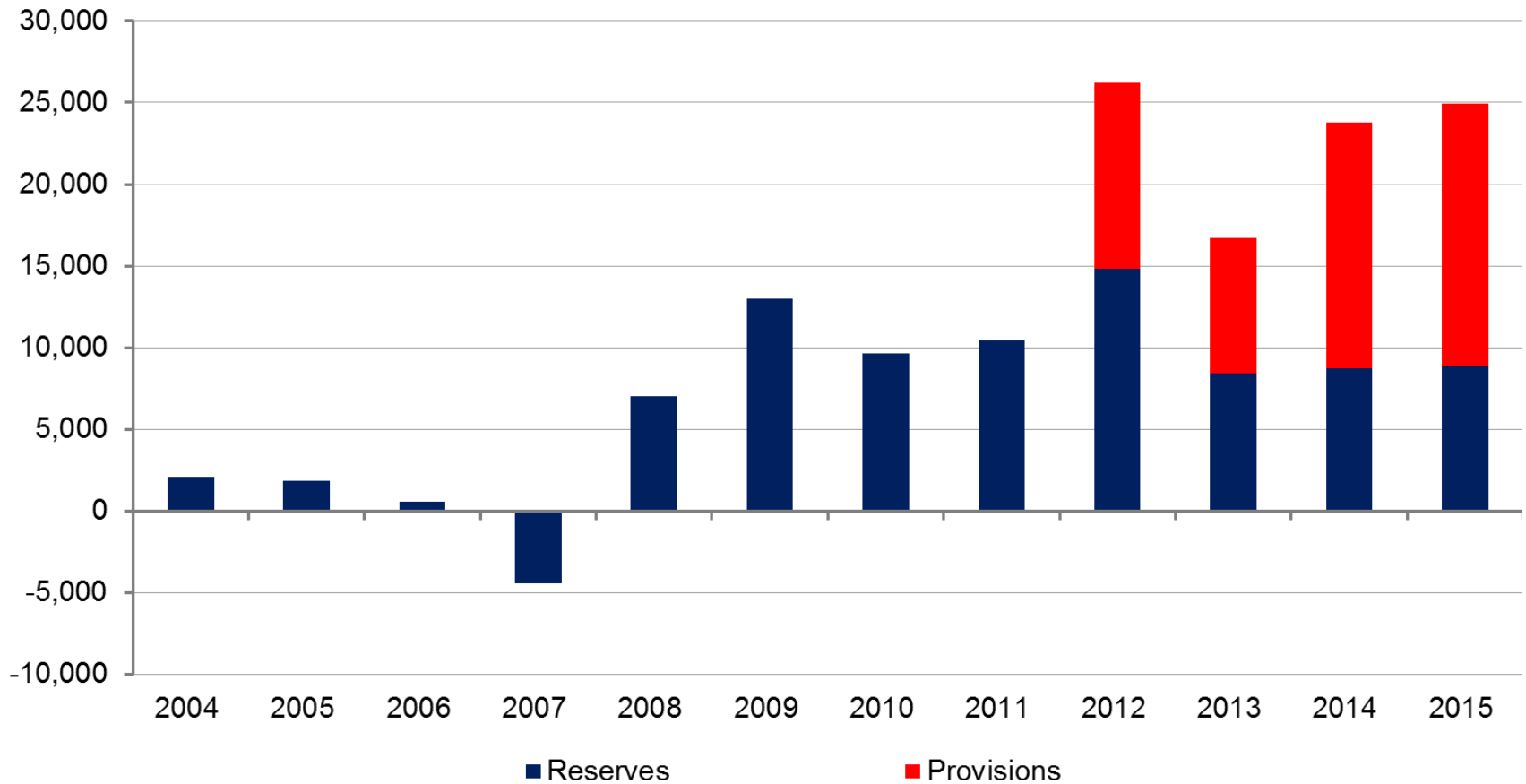
Source: Central Bank of Malta



Augmented financial buffers mitigate the risk of a larger investment portfolio

Annual contributions to the reserves and provisions

(€ thousand)

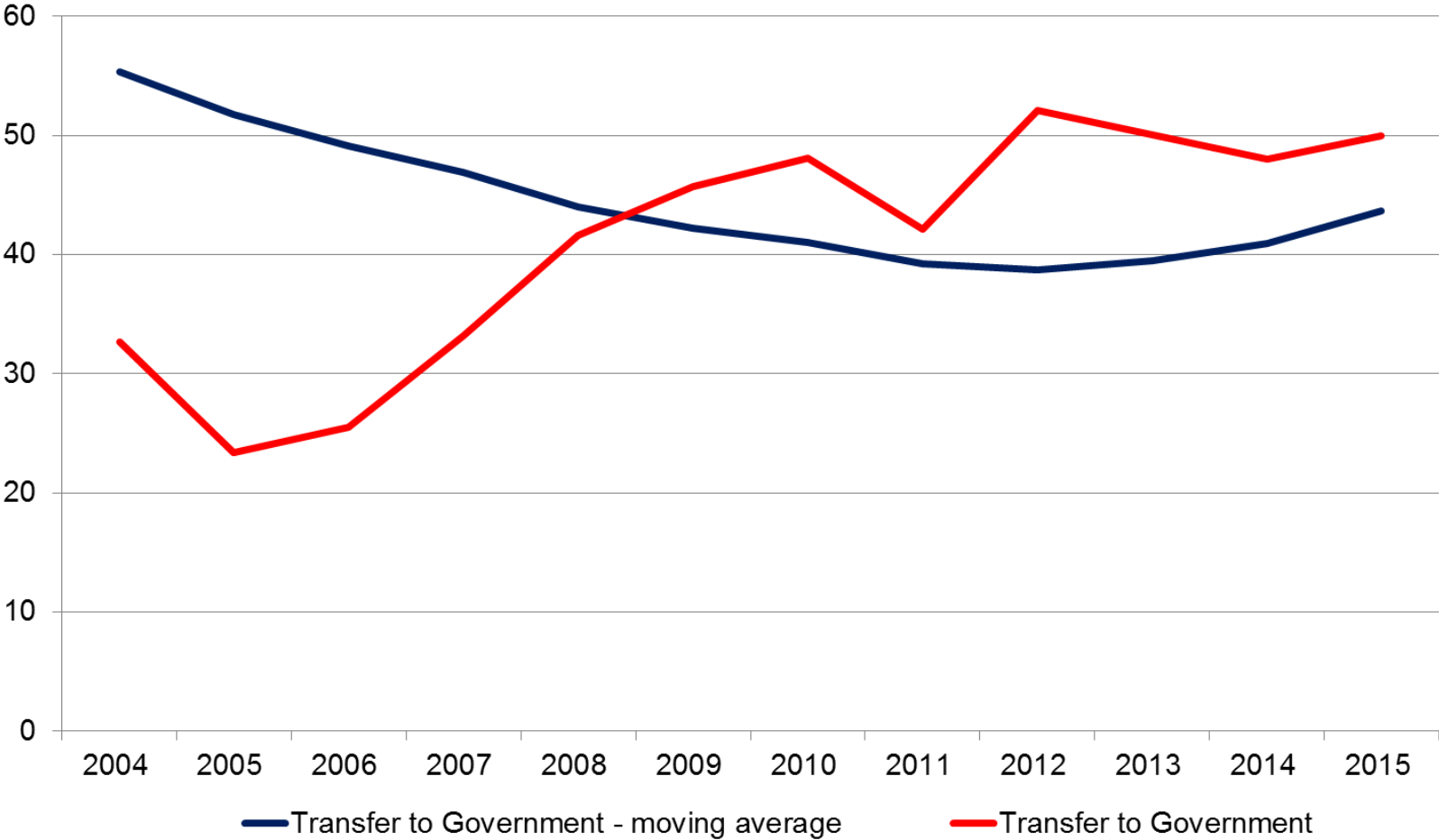


Source: Central Bank of Malta



Amount transferred to Government

Transferred to Government, compared to 10-year moving average
(€ million)



Source: Central Bank of Malta



Thank you



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