



CENTRAL BANK OF MALTA

ANNUAL REPORT 2011

24 April 2012



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



Outline

- Some salient points on the current economic environment
- The external environment
- The euro area economy
- Monetary and fiscal developments in the euro area
- The domestic economy
- The domestic financial system
- CBM operational highlights



Some salient points on the current economic environment

2011 was a year of continued recovery in the Maltese economy in the face of a further slowdown in major export markets

The outlook is for slower growth ahead, and in that context, the preservation of international competitiveness becomes even more essential against a background of heightened uncertainty and volatility in the financial markets.

During the year, the Eurosystem took various measures to address problems in the monetary transmission process as markets remained fragile and volatile



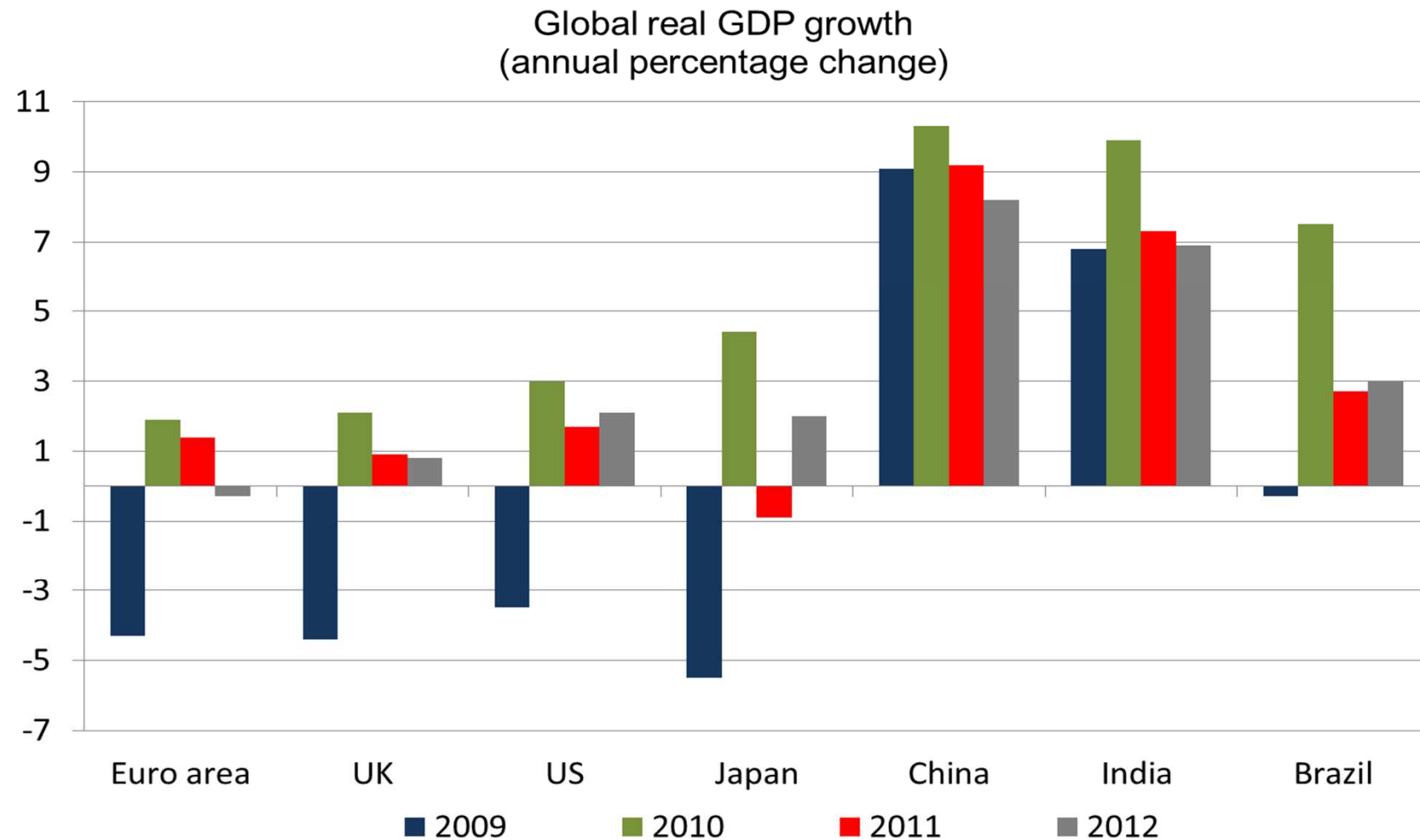
THE EXTERNAL ENVIRONMENT



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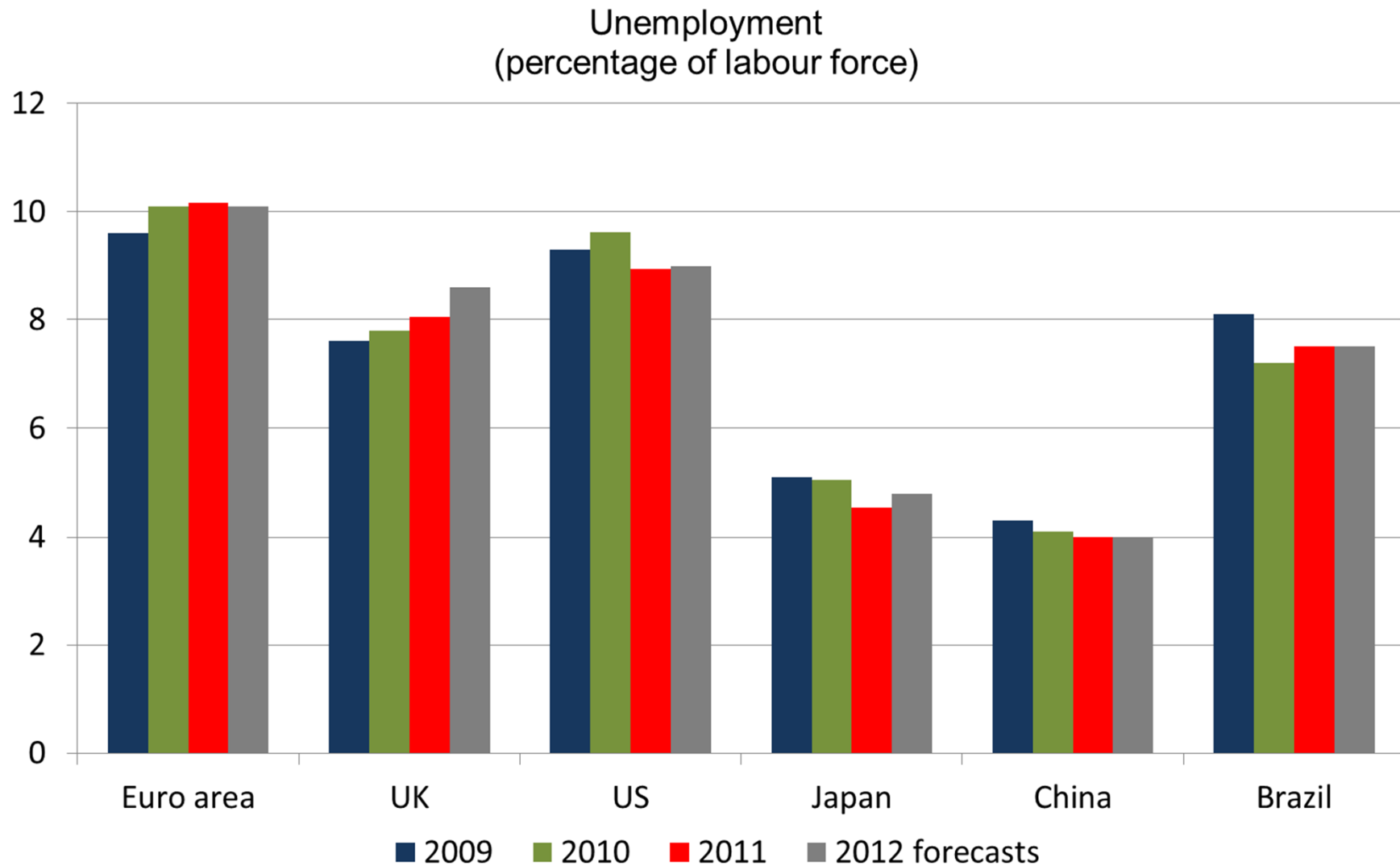
GDP growth moderated in the major economies during 2011 ...



Sources: Eurostat; US Bureau of Labor Statistics; Statistics Bureau Japan; National Bureau of Statistics China; OECD



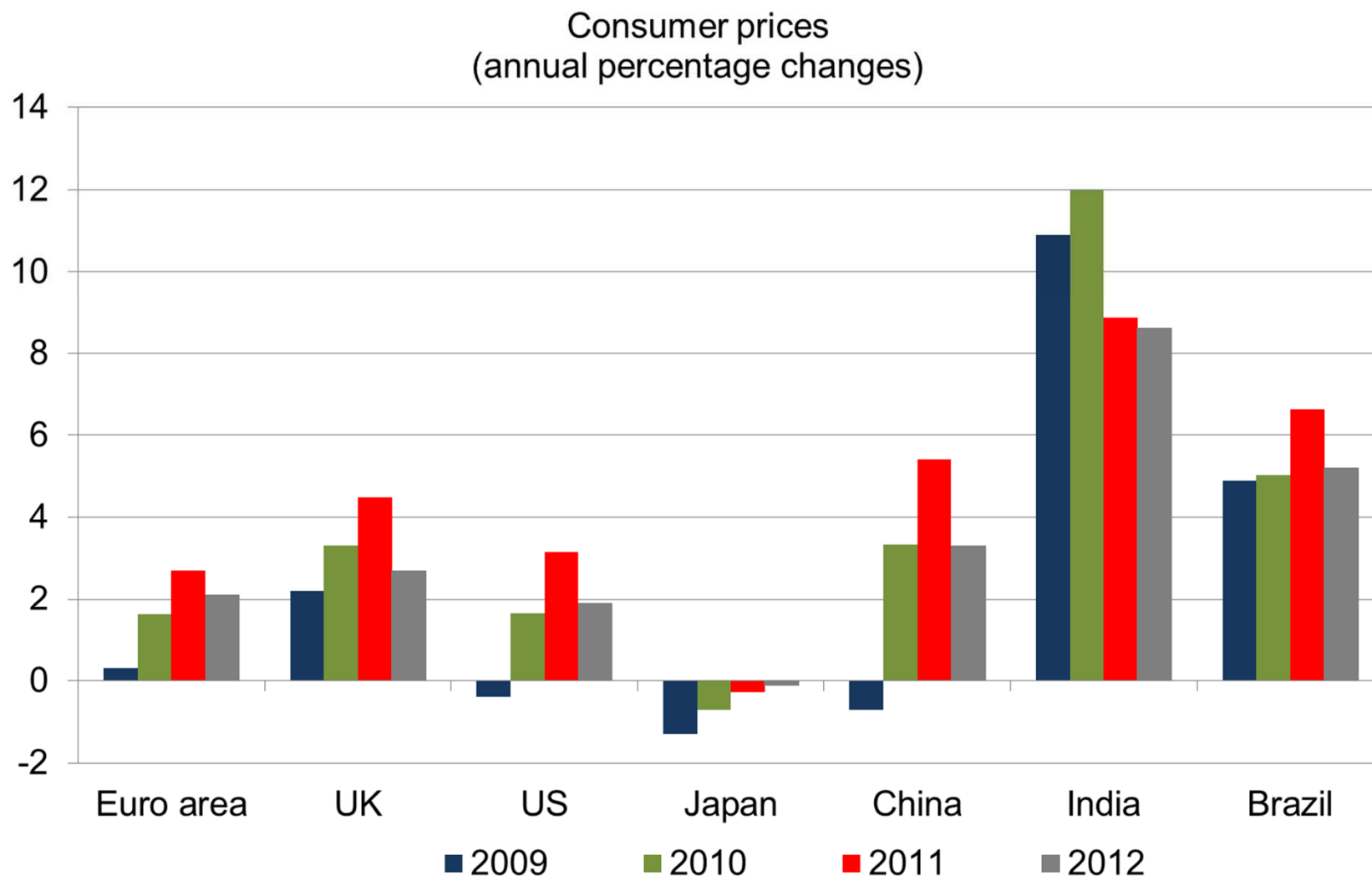
... while unemployment remained high ...



Sources: Eurostat; EC Autumn Forecasts 2011; IMF World Economic Outlook database



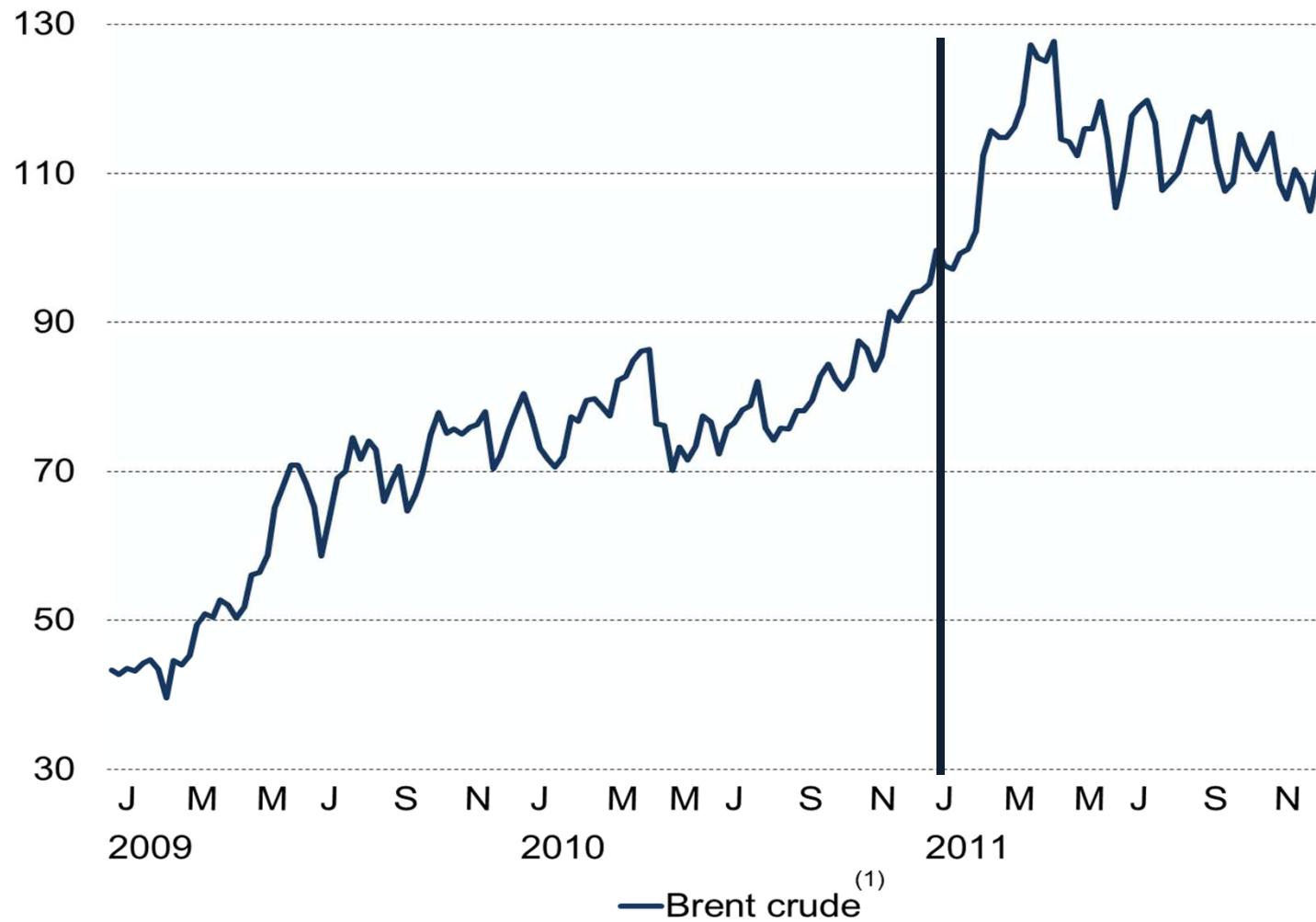
... and inflation remained elevated ...



Sources: Eurostat, EC Autumn Forecasts 2011, EC Interim Forecasts 2012, IMF World Economic Outlook September 2011; US Bureau of Labor Statistics; Japan Statistics Bureau; OECD



...driven by higher energy prices



(1) US dollars per barrel, end of week.

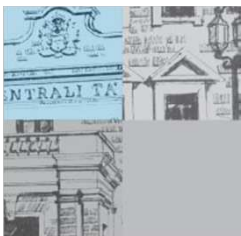
Source: Reuters



THE EURO AREA ECONOMY

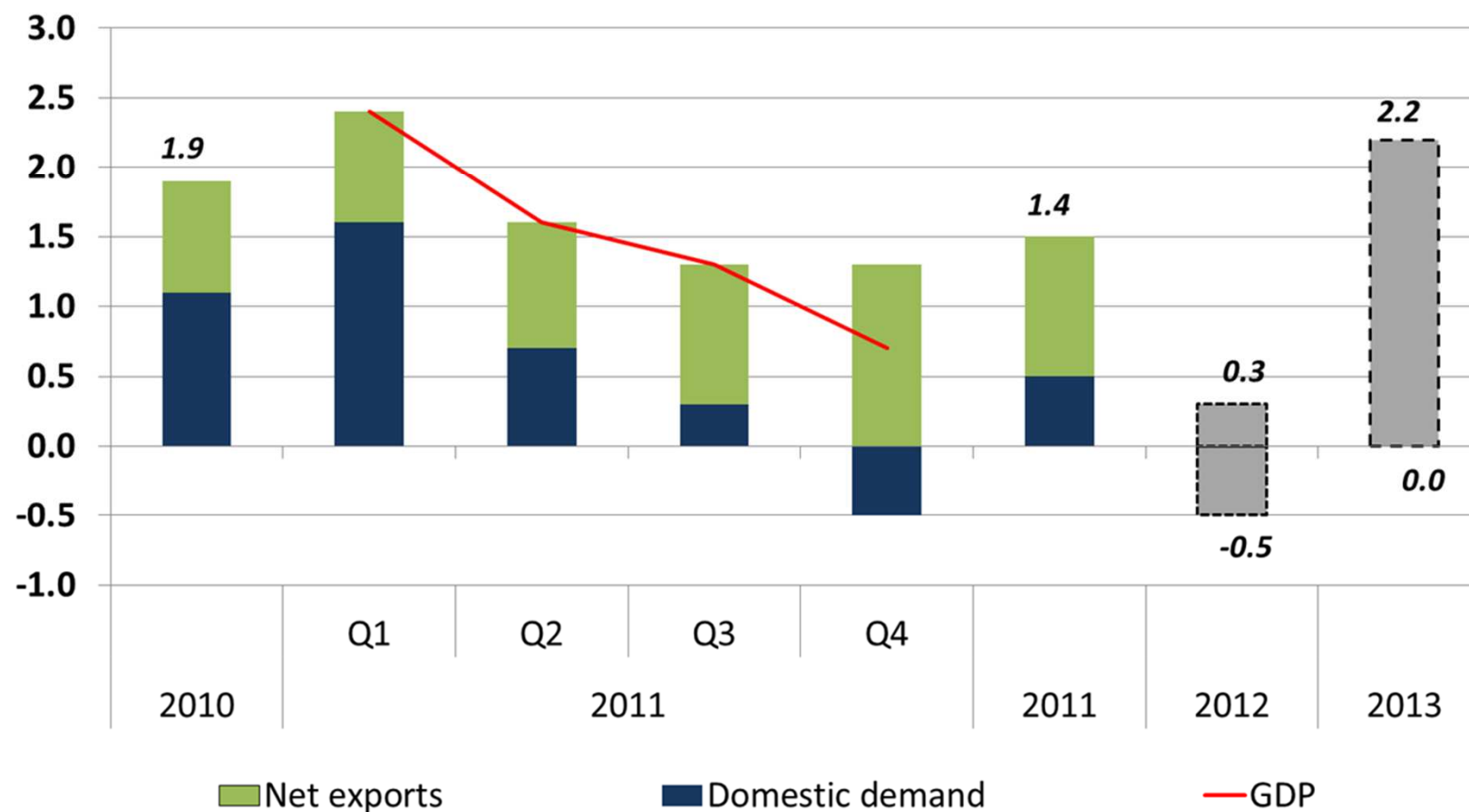


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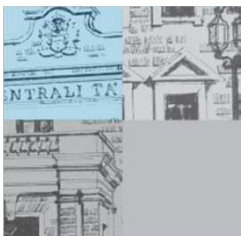


Euro area growth is expected to remain weak ...

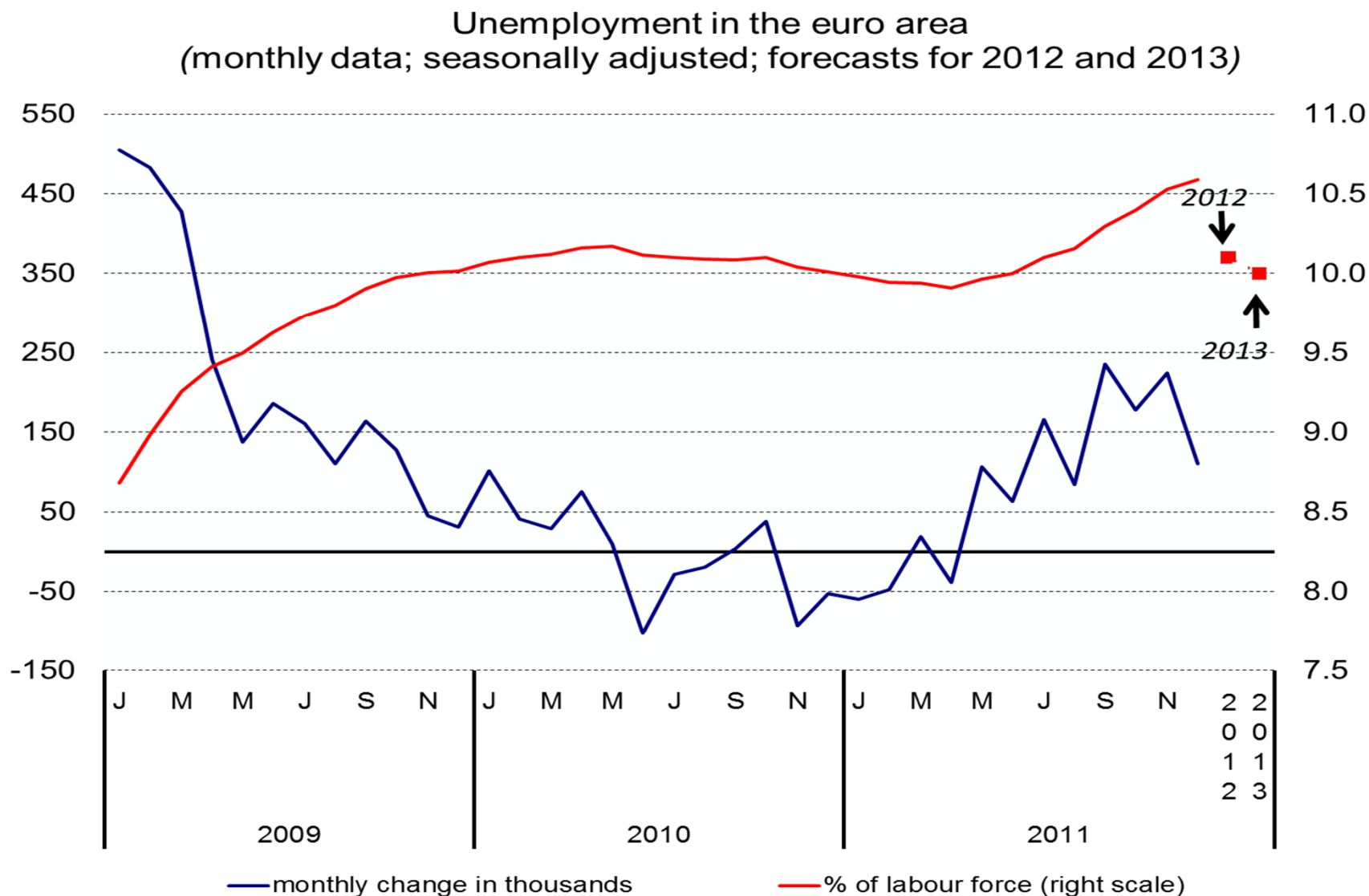
(Annual growth rate, percentage point contribution, seasonally adjusted.
Forecast ranges for 2012 and 2013)



Sources: Eurostat; ECB staff macroeconomic projections



... with unemployment also remaining high

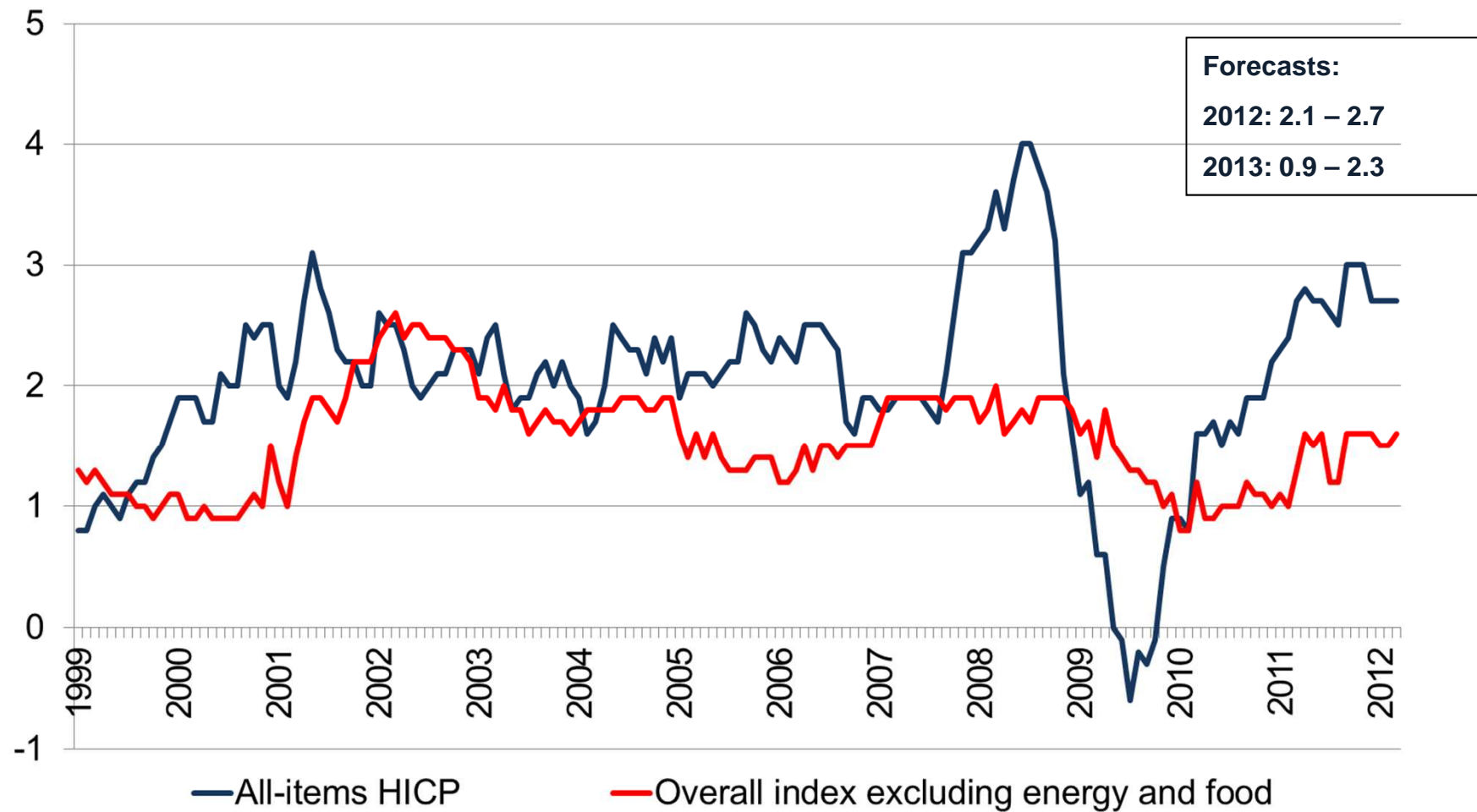


Sources: Eurostat; EC Autumn Forecasts 2011



Inflation is peaking off, despite commodity price increases

Euro area HICP inflation
(annual percentage change)



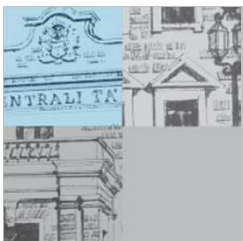
Sources: Eurostat; ECB staff macroeconomic projections



MONETARY AND FISCAL DEVELOPMENTS IN THE EURO AREA

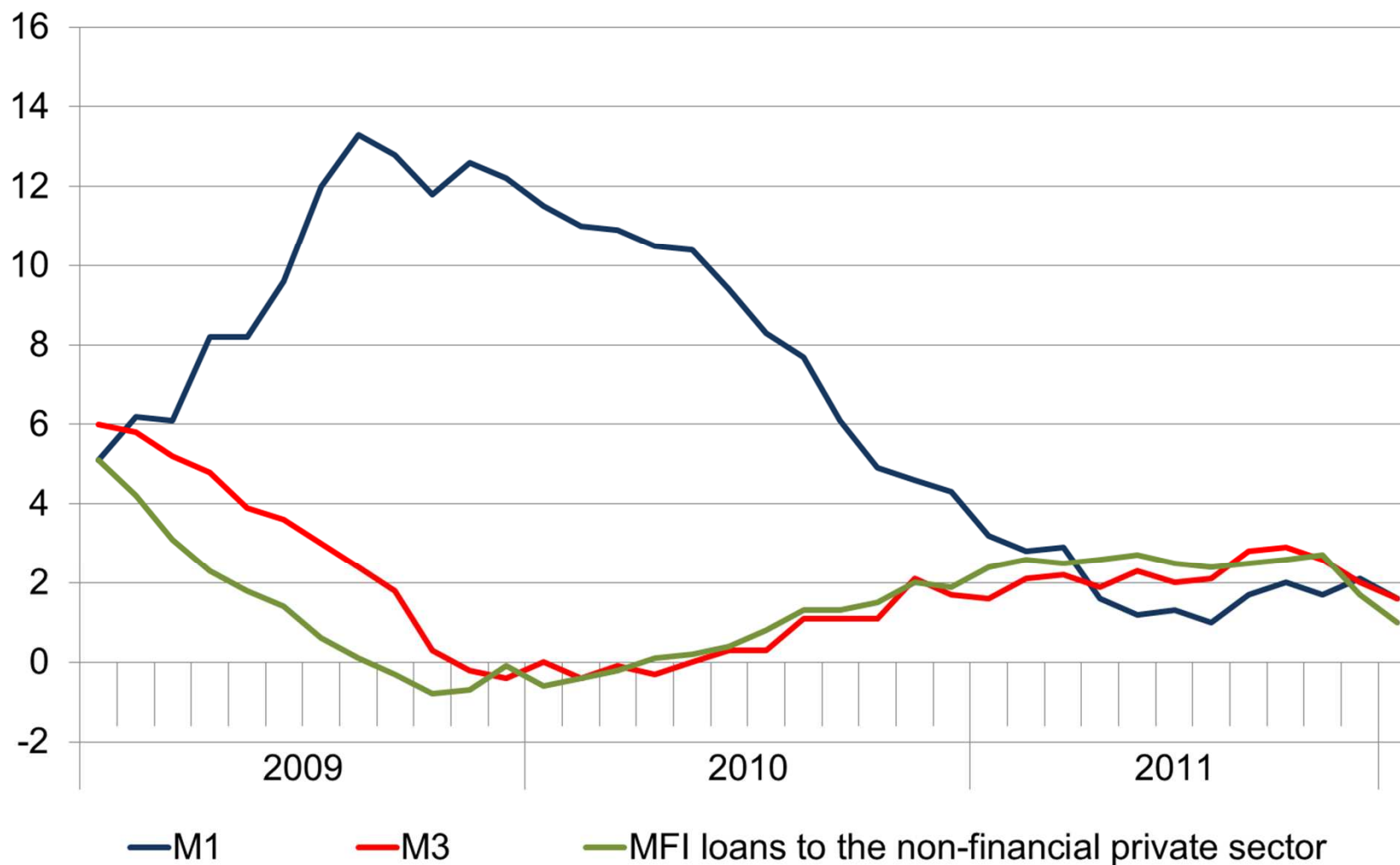


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Monetary and credit growth in the euro area decelerated

(annual percentage changes)

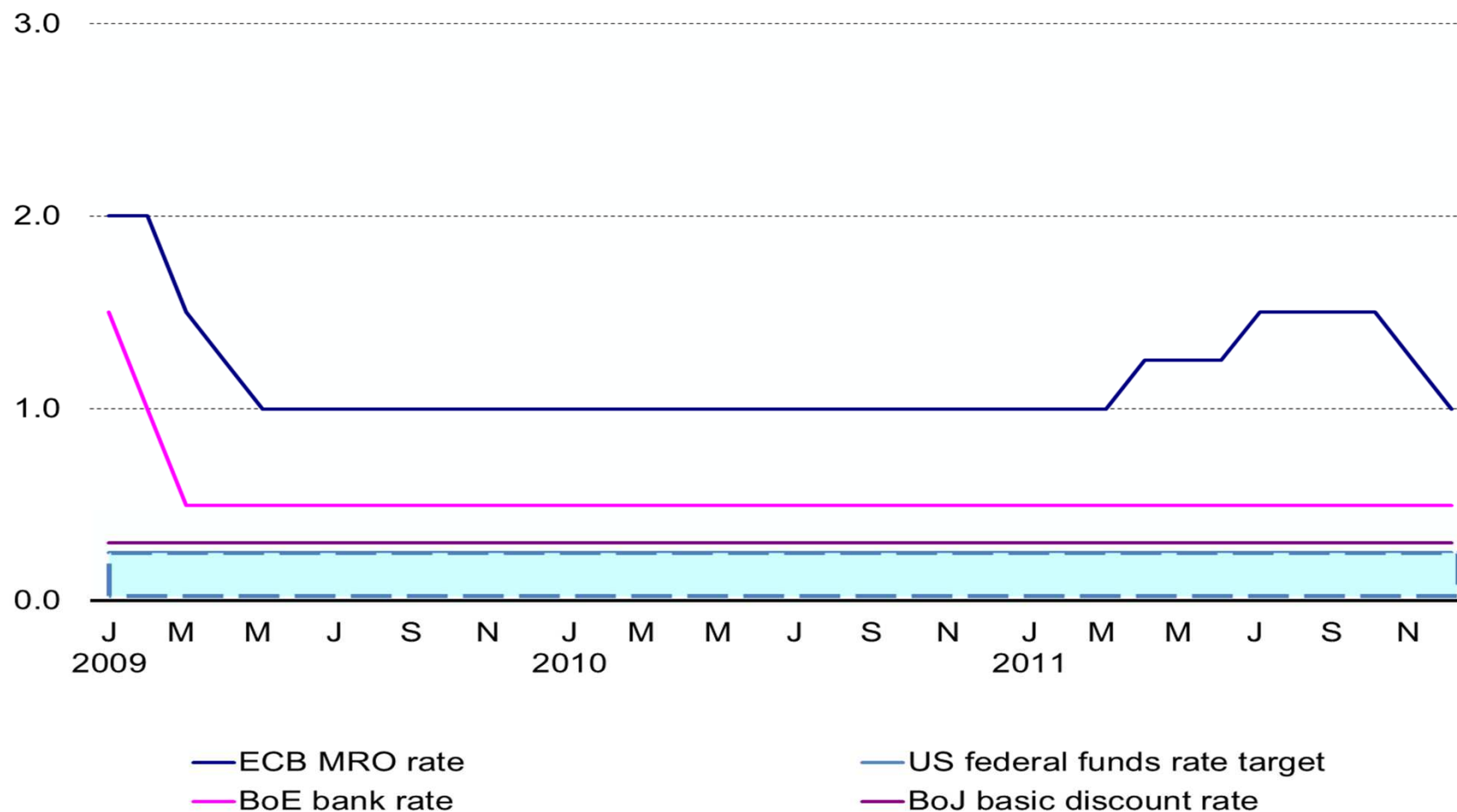


Source: European Central Bank



Key interest rates initially increased but were then lowered

Official interest rate movement in major economies
(percentages per annum, end of month)



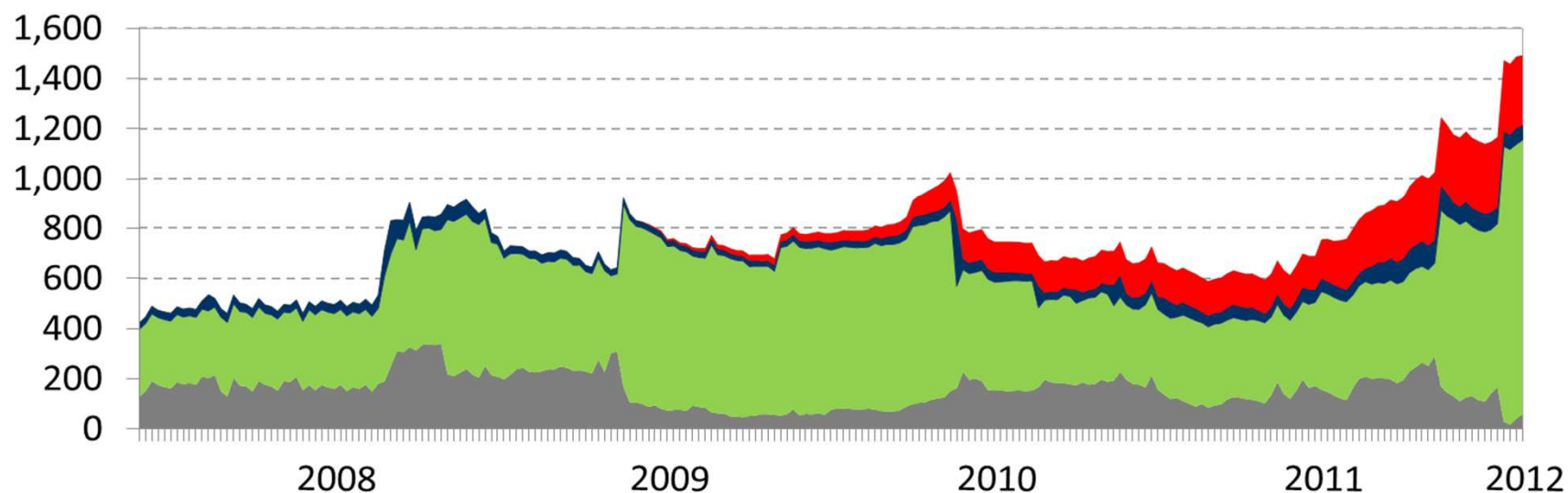
Sources: European Central Bank; Federal Reserve; Bank of England; Bank of Japan



The ECB continued to implement enhanced credit support measures

Lending and other claims on euro area credit institutions

(EUR billions)



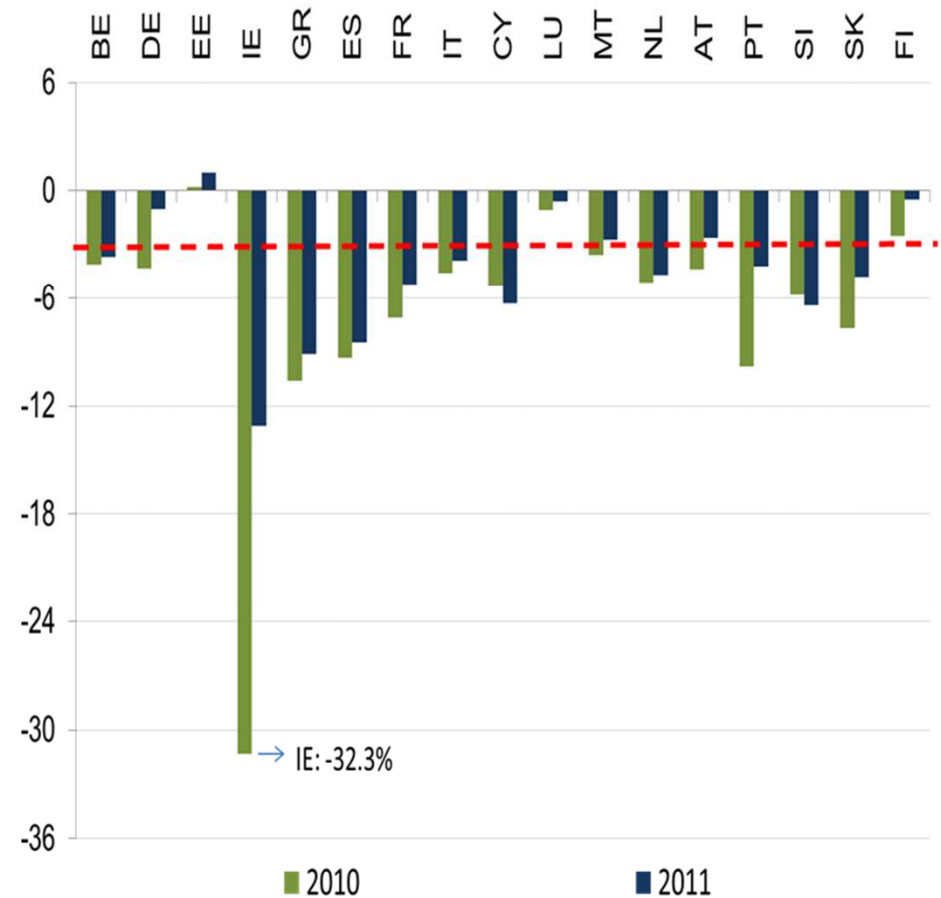
- securities held for monetary policy purposes (CBPP + SMP)
- other claims (including marginal lending facility, margin calls, fine tuning and structural operations)
- longer-term refinancing operations (LTRO)
- main refinancing operations

Source: European Central Bank



Euro area fiscal imbalances continued to narrow ...

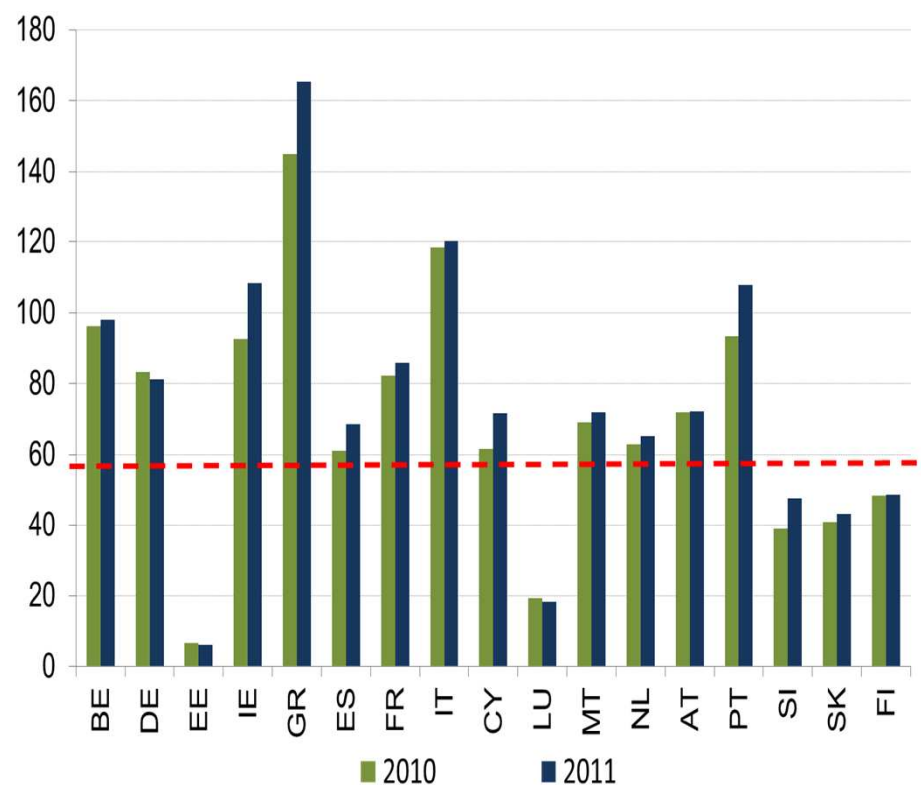
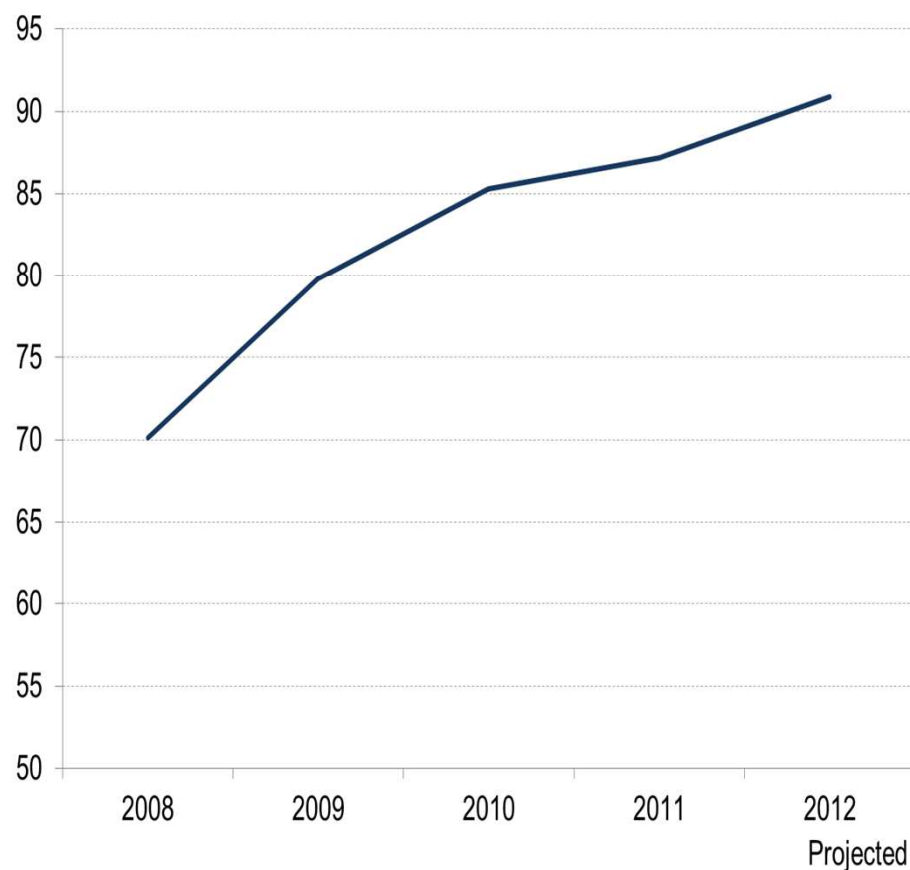
General government balance
(as a percentage of GDP)





... however, debt ratios continued to increase ...

General government debt
(as a percentage of GDP)

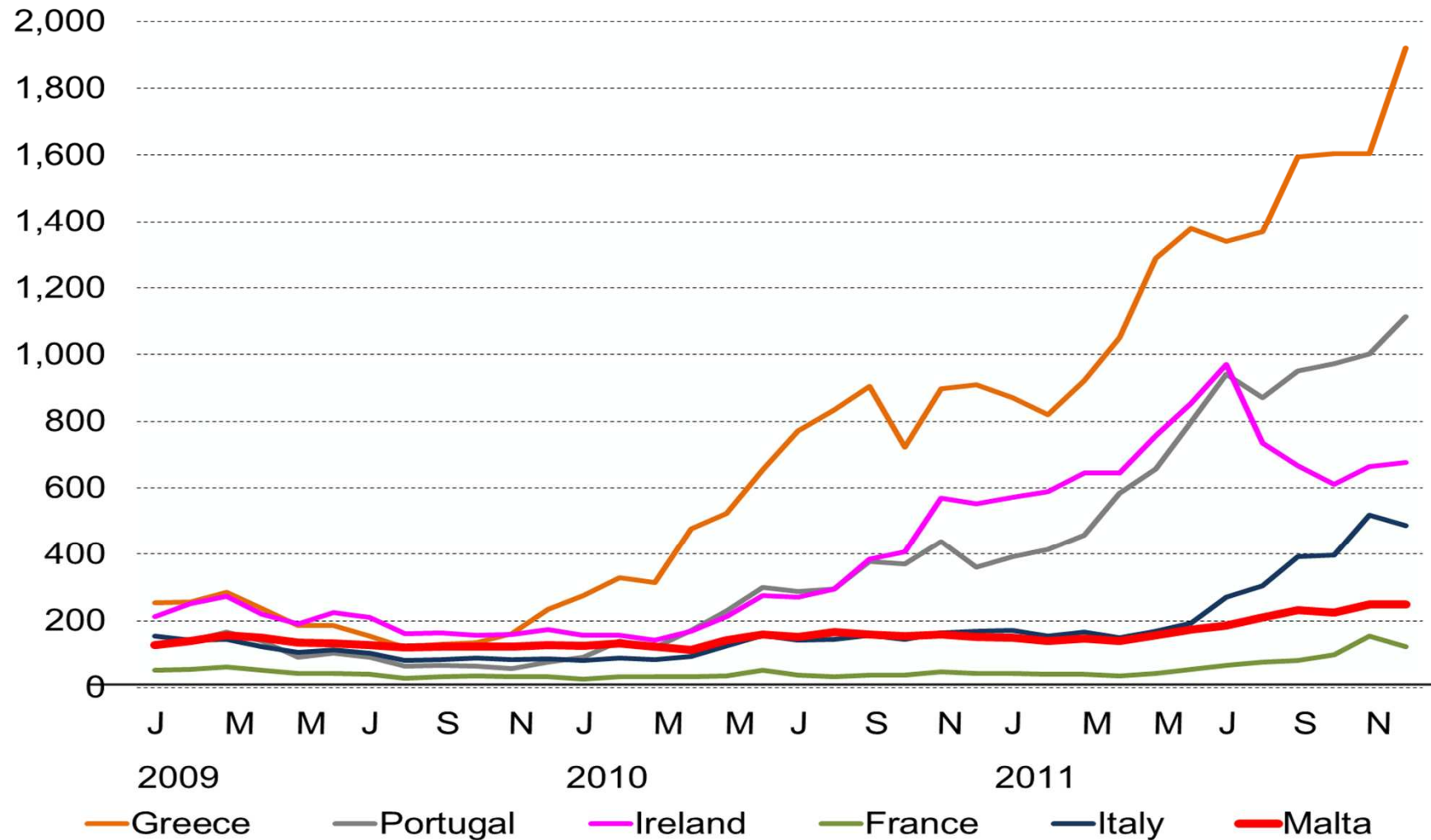




... while borrowing costs rose

10-year bond differentials against the Bund

(basis points)



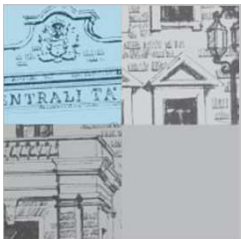
Source: European Central Bank



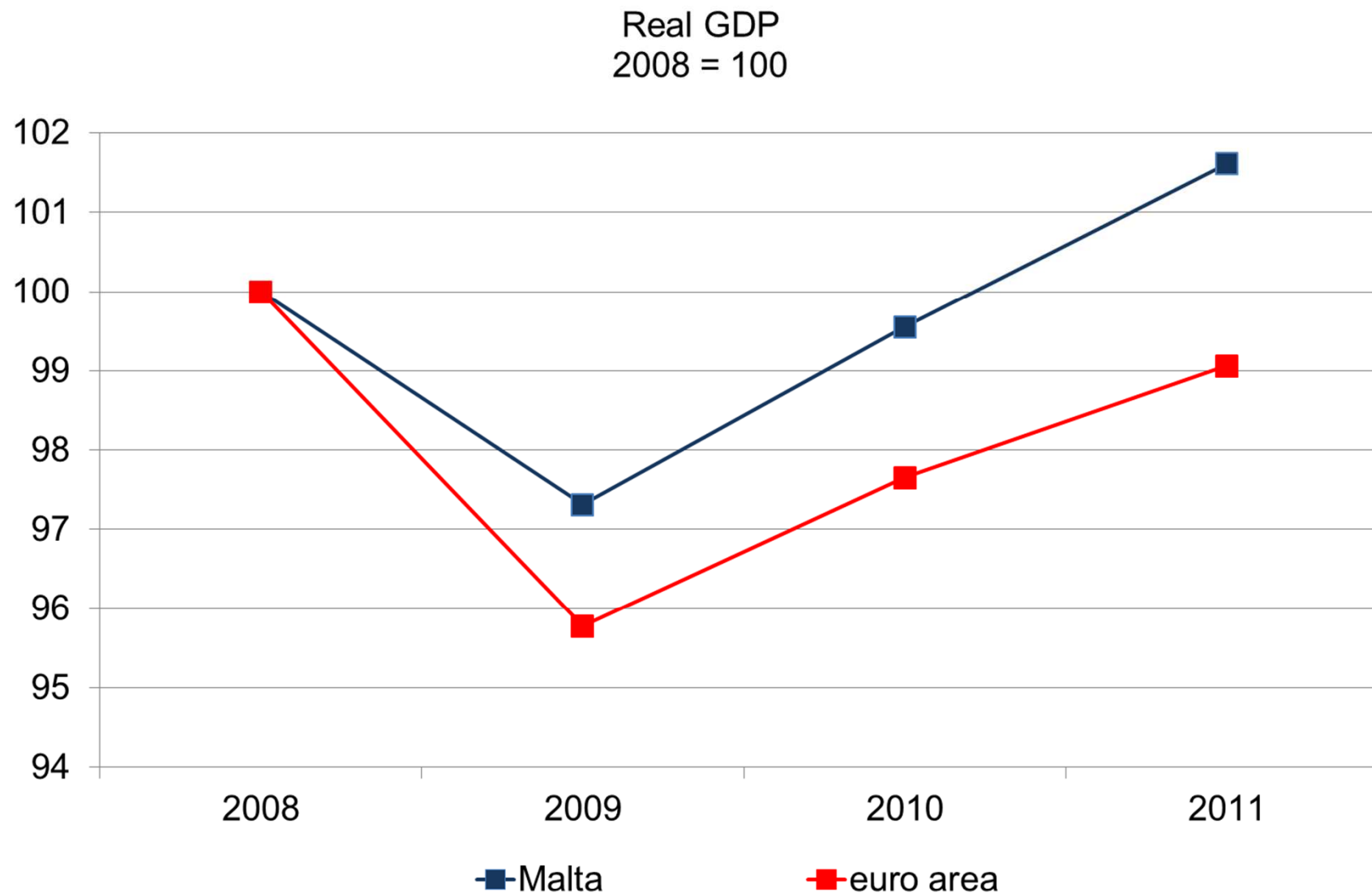
THE DOMESTIC ECONOMY



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The Maltese economy has grown at a faster rate than that of the euro area

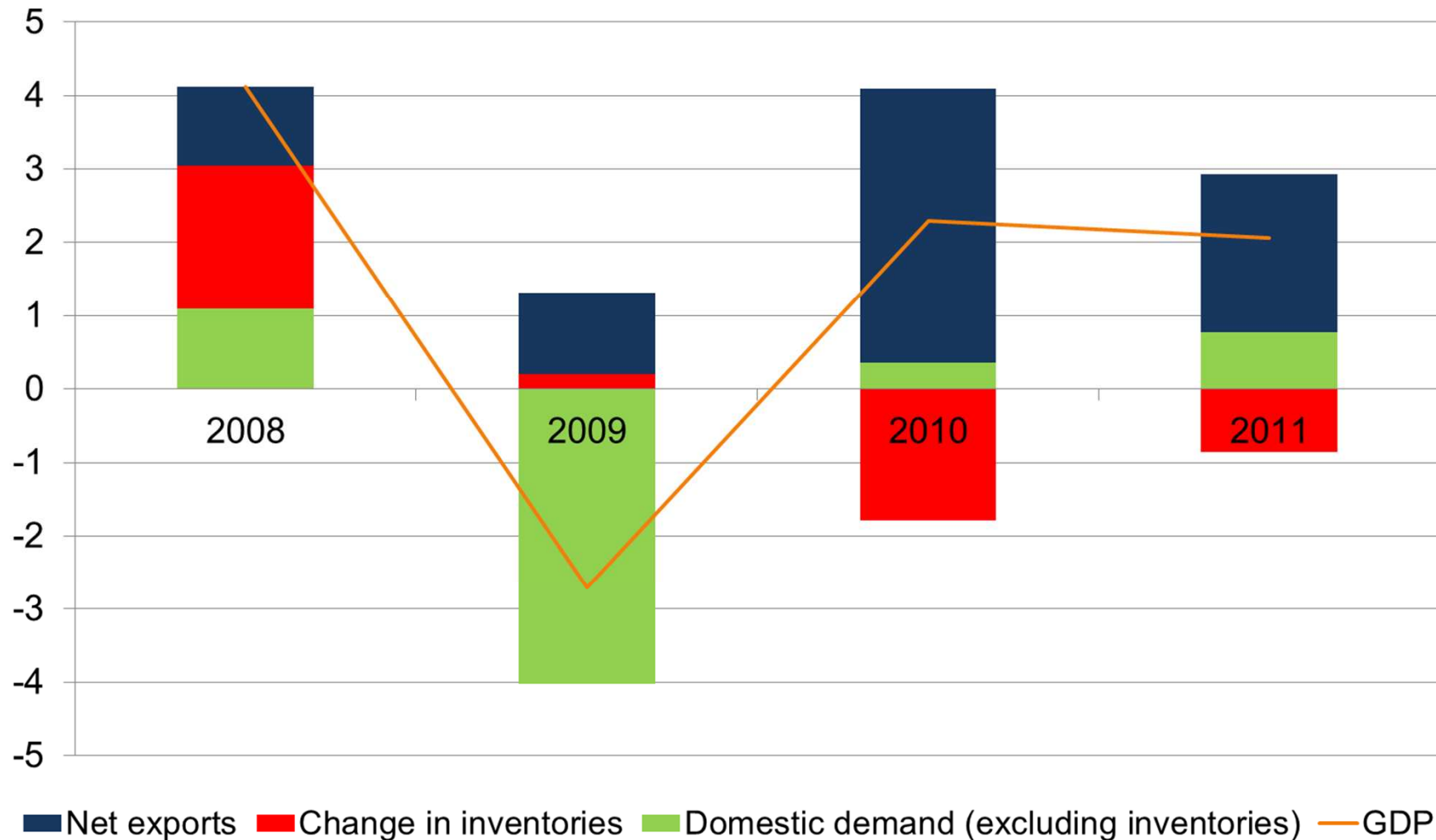


Source: Eurostat



Growth in 2011 was once again driven by net exports

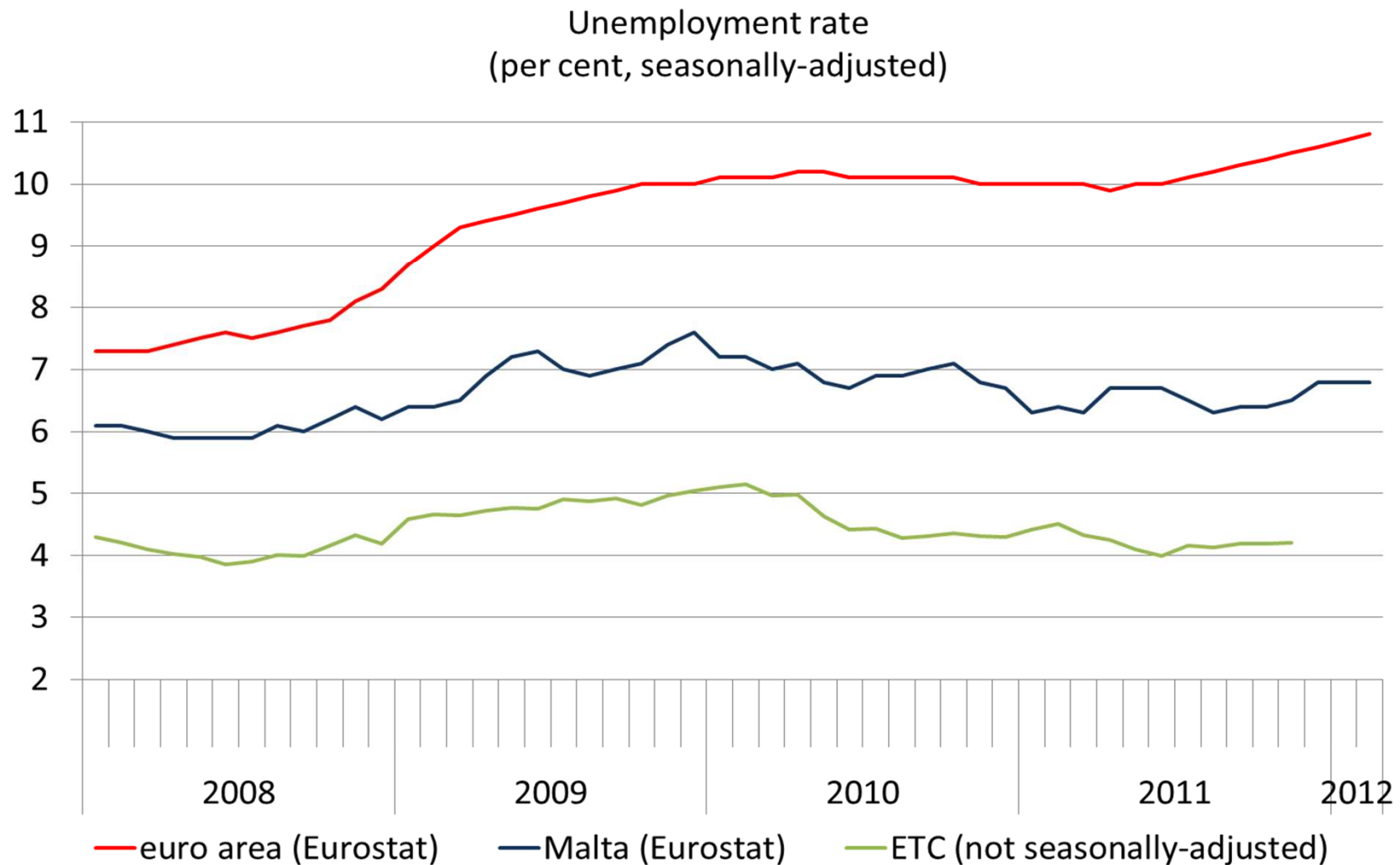
(Growth rate, percentage-point contribution)



Source: Eurostat



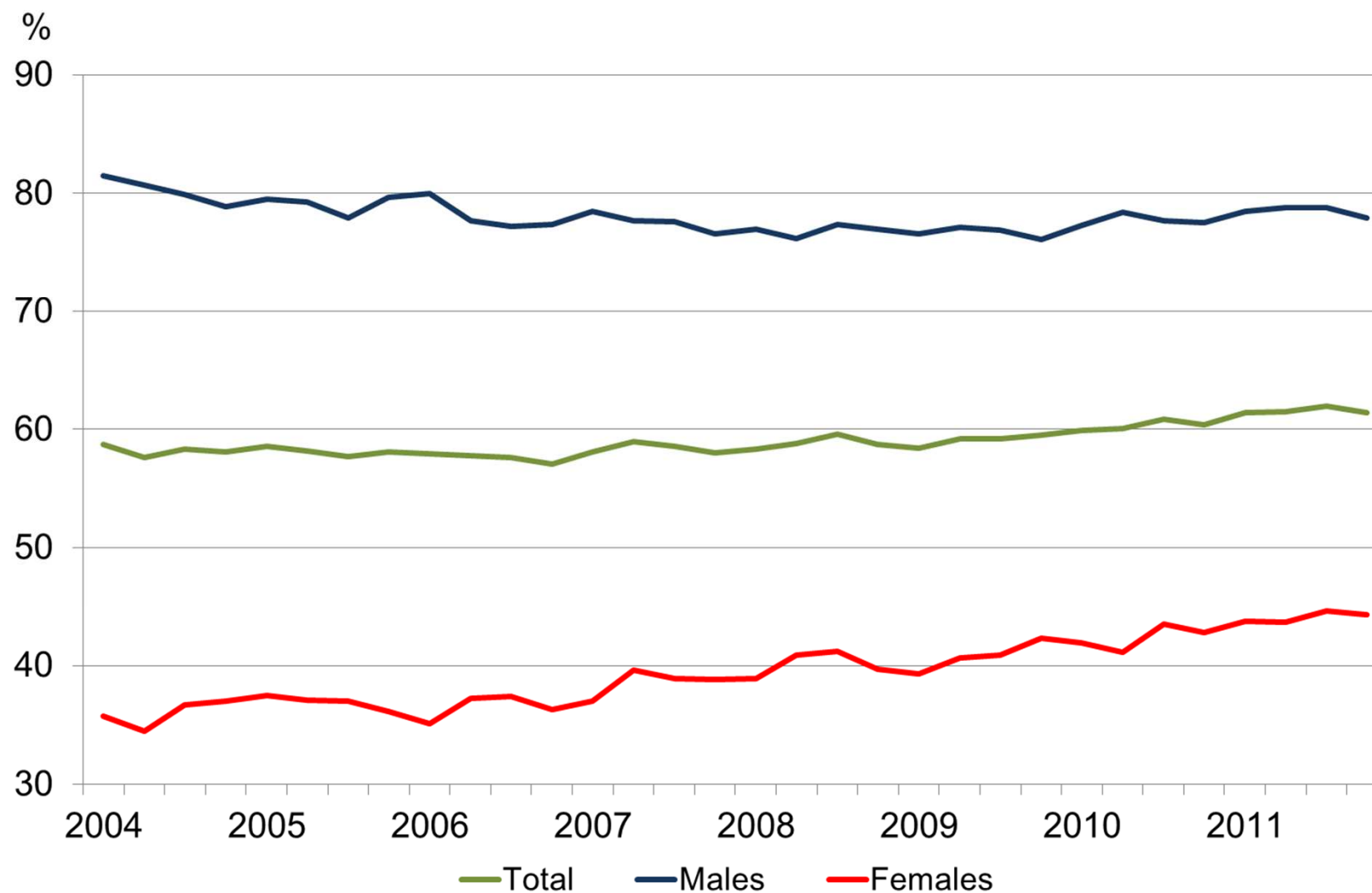
The unemployment rate remained relatively low while employment expanded ...



Source: Eurostat



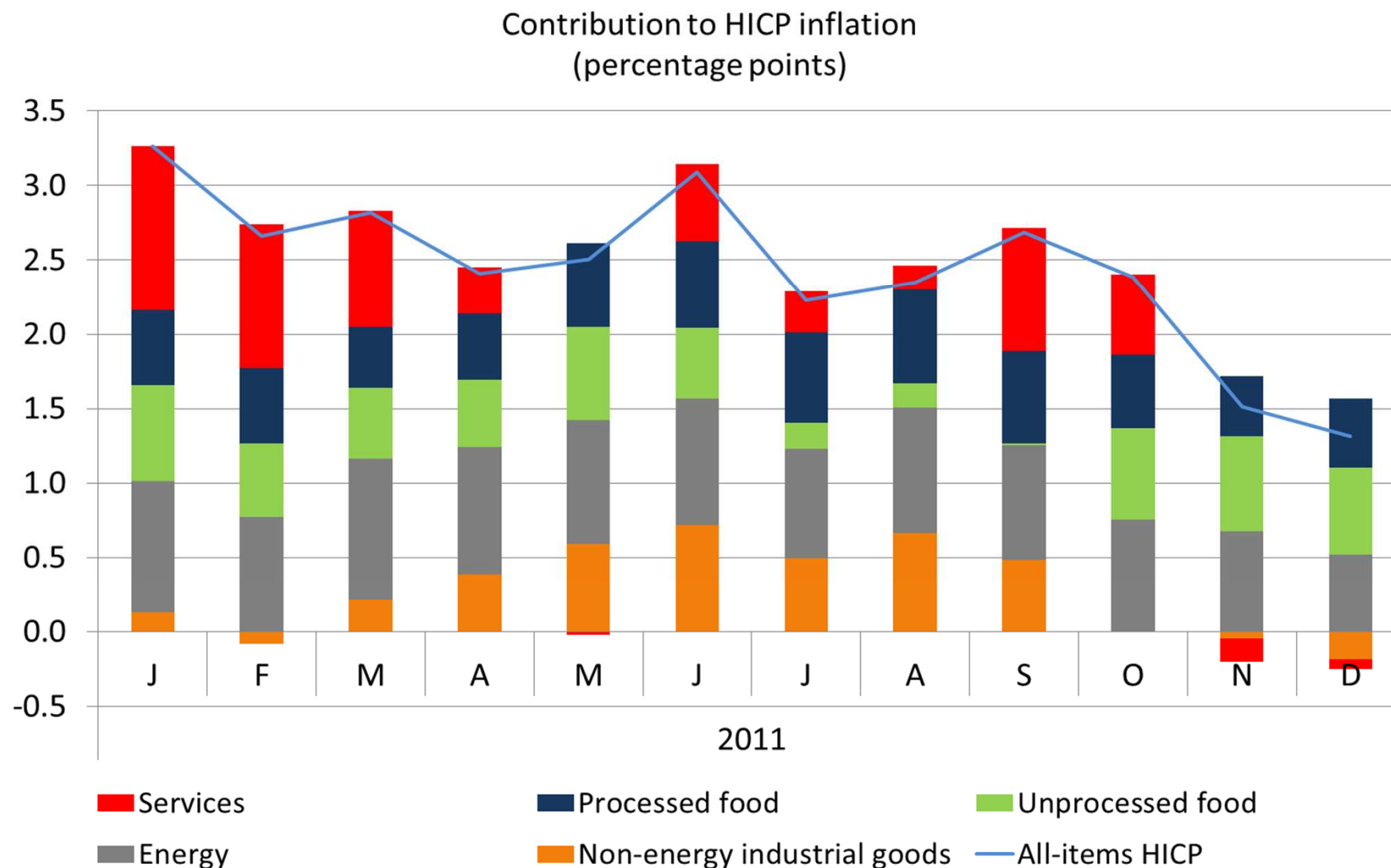
... and the rate of female participation rose



Source: Eurostat



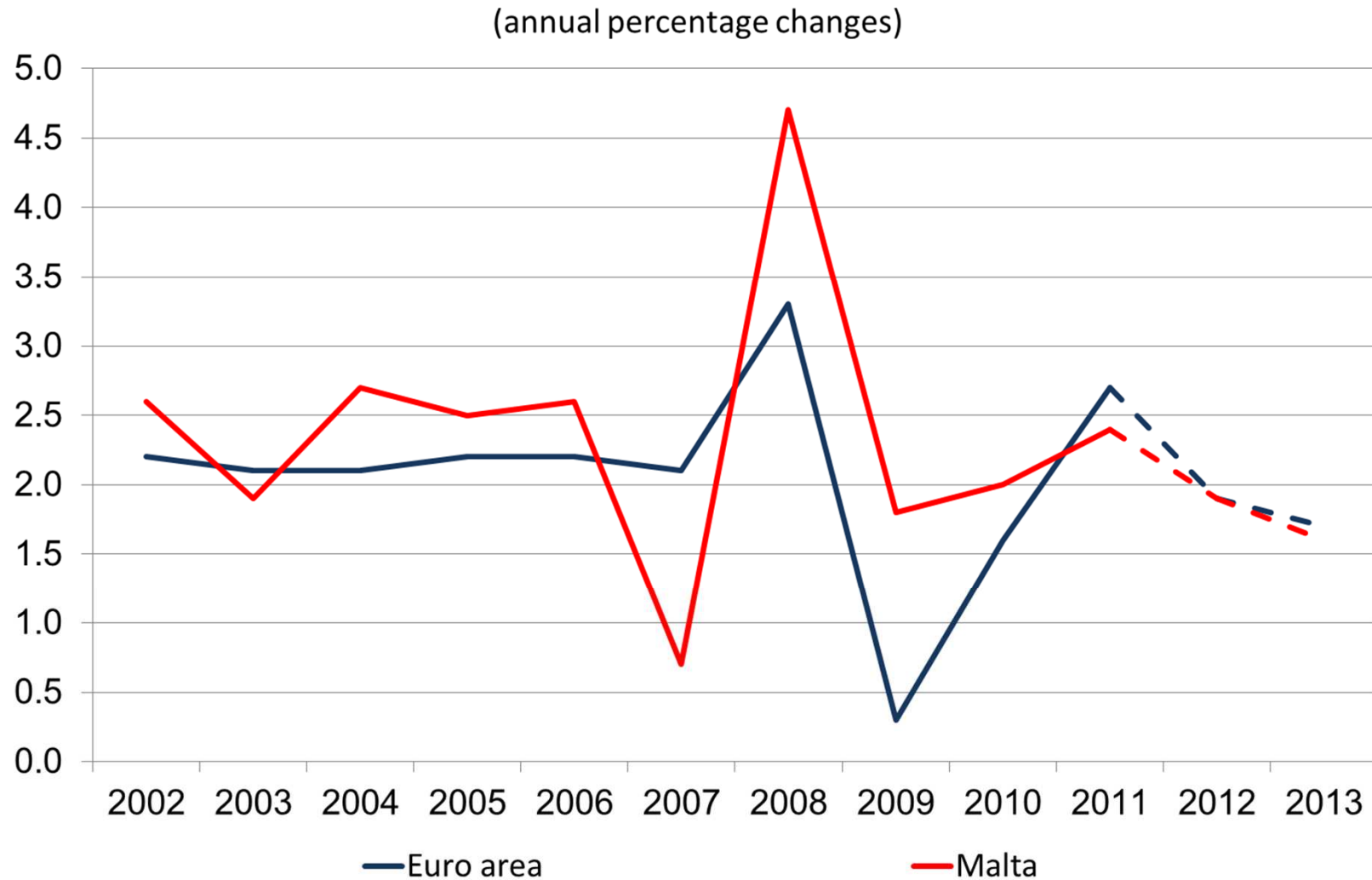
Meanwhile inflation decelerated ...



Source: Eurostat



... with the positive inflation gap between Malta and the euro area turning negative



Source: Eurostat, European Central Bank



ULC growth continued to be broadly in line with that of the euro area ...

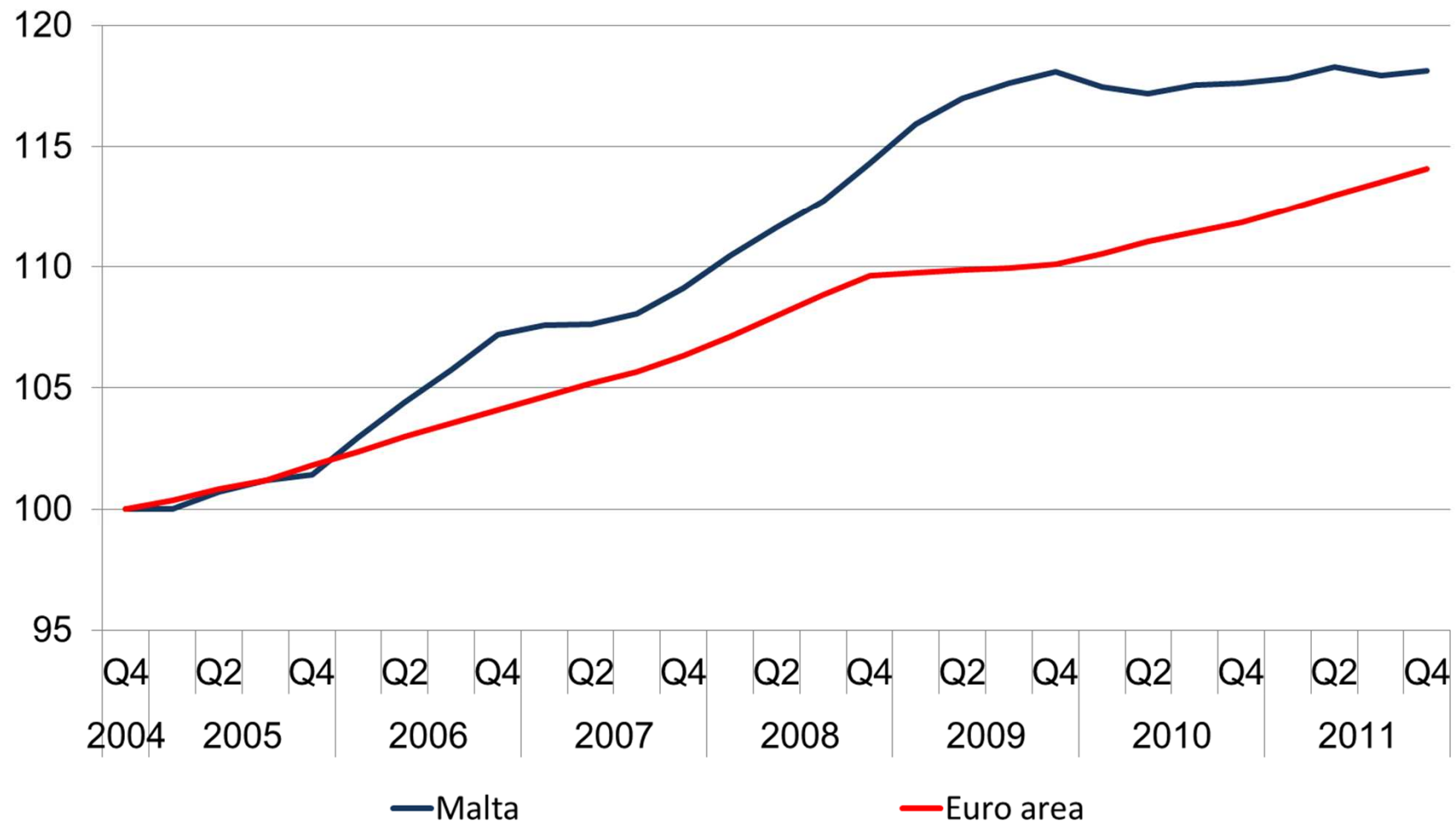


Source: Eurostat



... even though the rate of compensation in Malta rose at a faster pace

Compensation per employee
(four-quarter moving average indices; 2000 Q4 = 100)

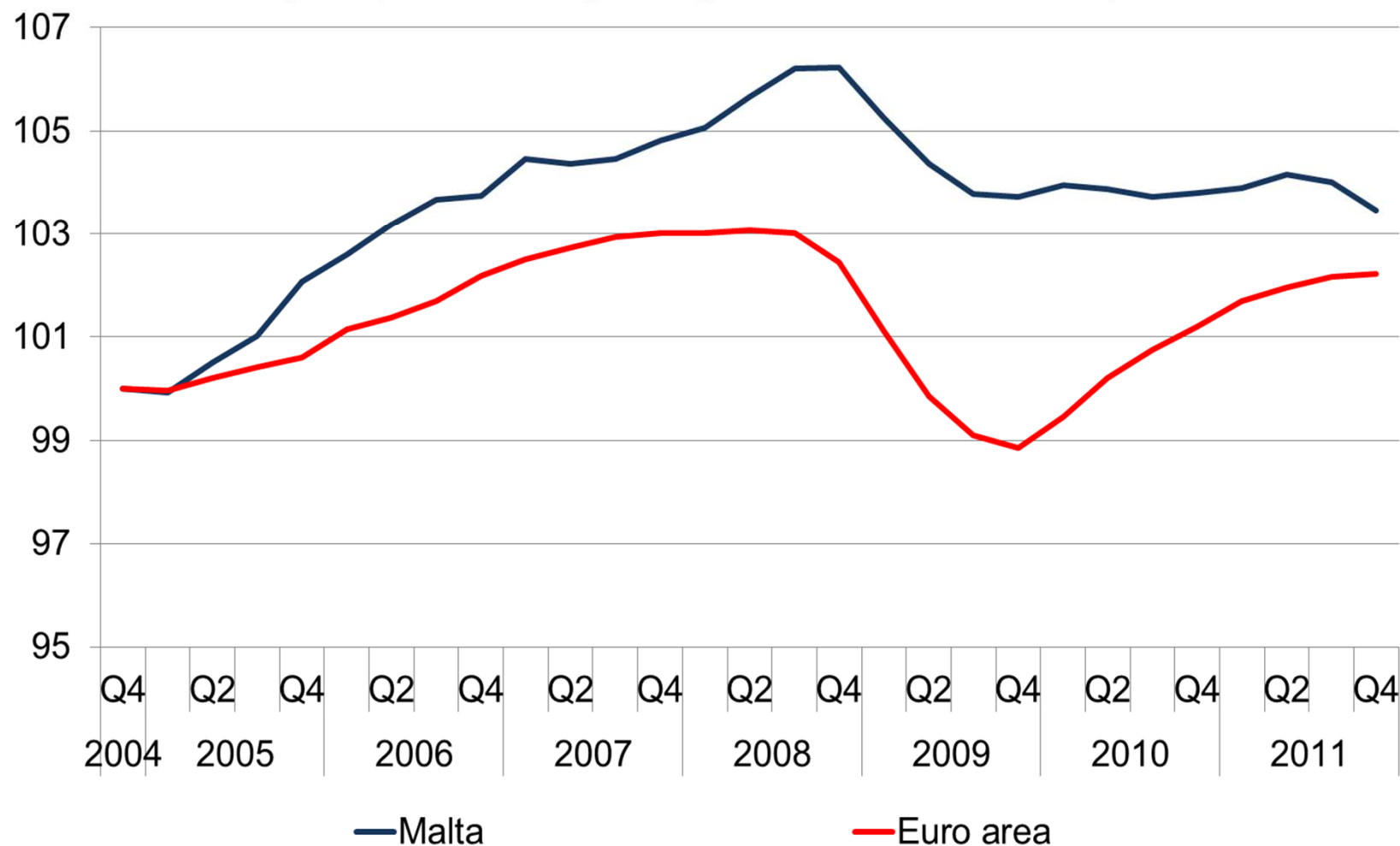


Source: Eurostat



However productivity growth continued to exceed that of the euro area

Real labour productivity per person employed
(four-quarter moving average indices; 2004 Q4 = 100)



Source: Eurostat

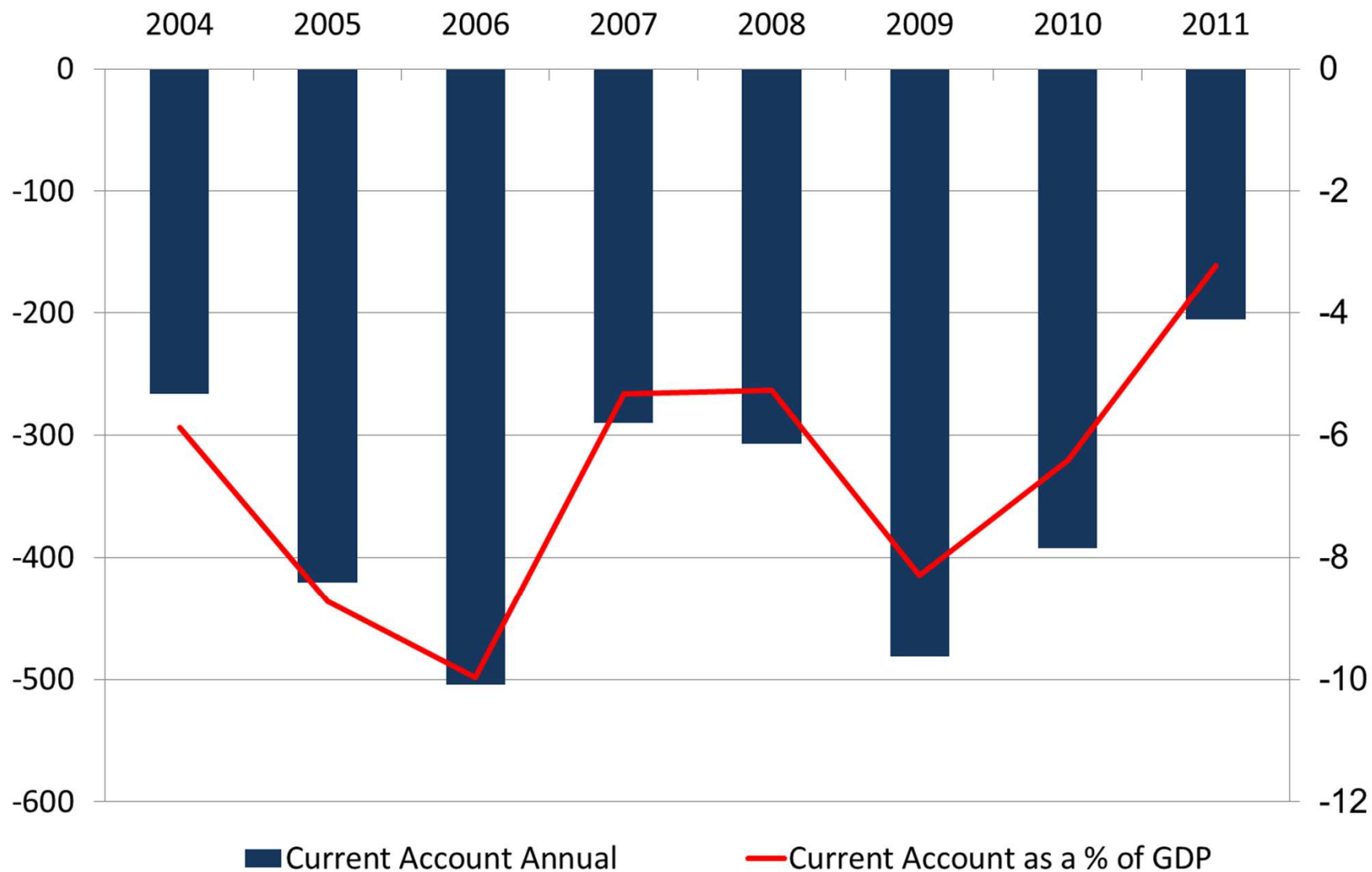


Wages and productivity

- Caution must be exercised to ensure that compensation increases are driven as much as possible by productivity growth
- Consideration should therefore be given to measures that would permit a greater degree of flexibility in the application of the COLA mechanism
- In particular, COLA increases should be incorporated as part of the negotiations in collective agreements. The primary determinant of wage increases has to be productivity increases, if wages are to be sustainable
- COLA increases should only be mandated through a wage order for workers not covered by collective agreements
- At a time when various countries are reducing labour market rigidities, greater caution is therefore required when considering any upward adjustment to the current wage structure



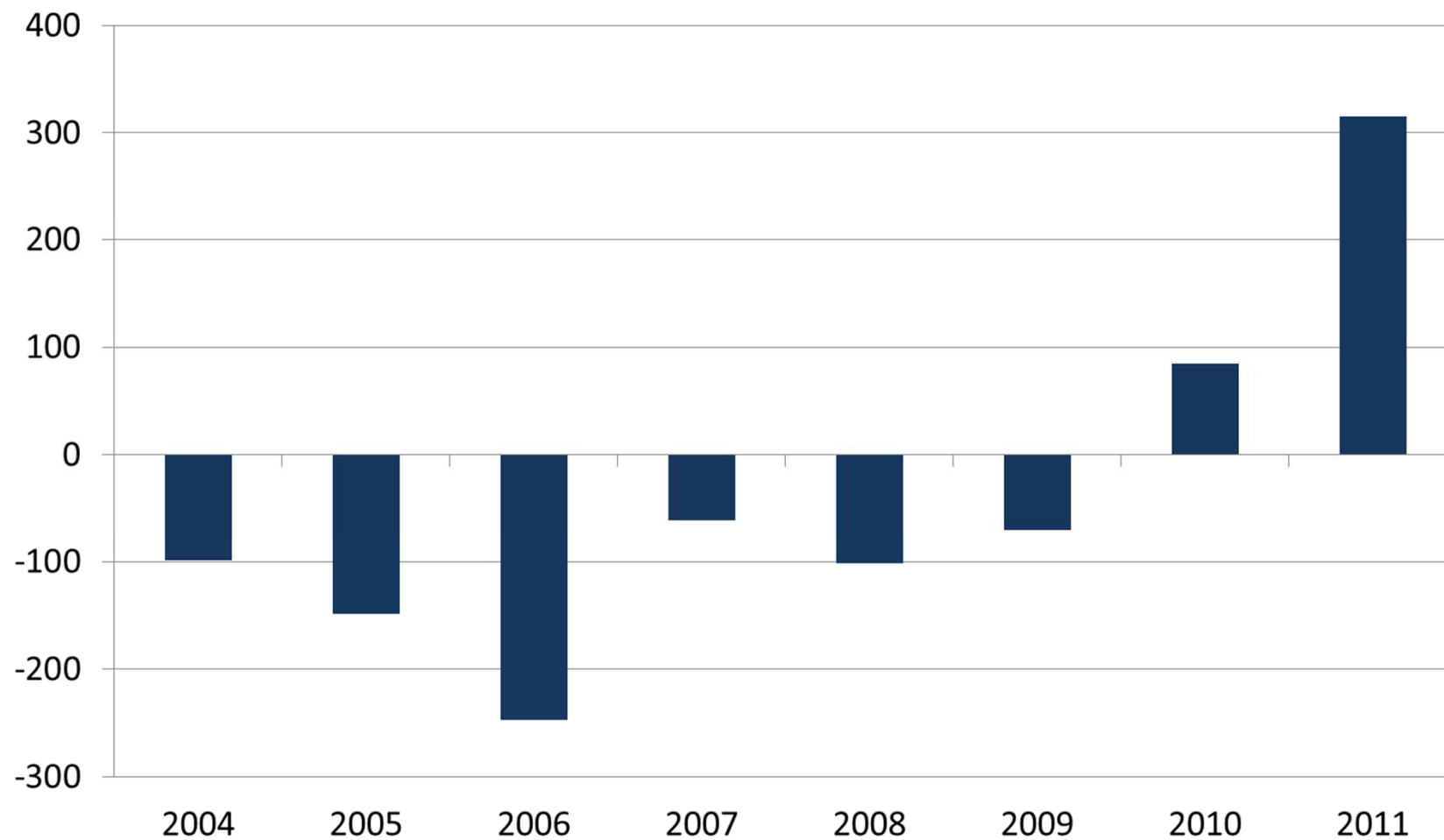
The current account deficit narrowed ...





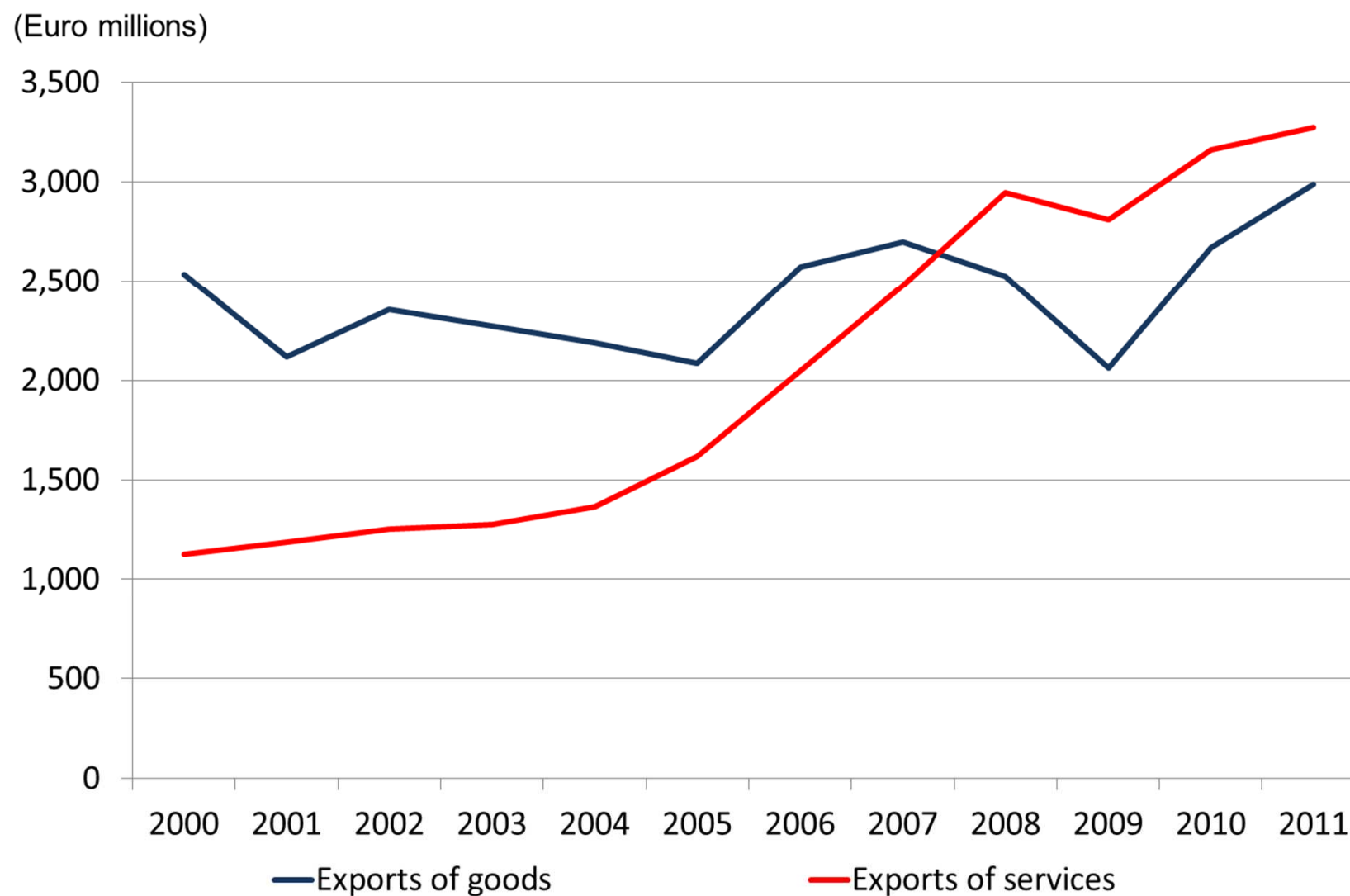
**... mainly on account of a reversal in
the goods and services balance, ...**

Net exports of goods and services
(euro millions)





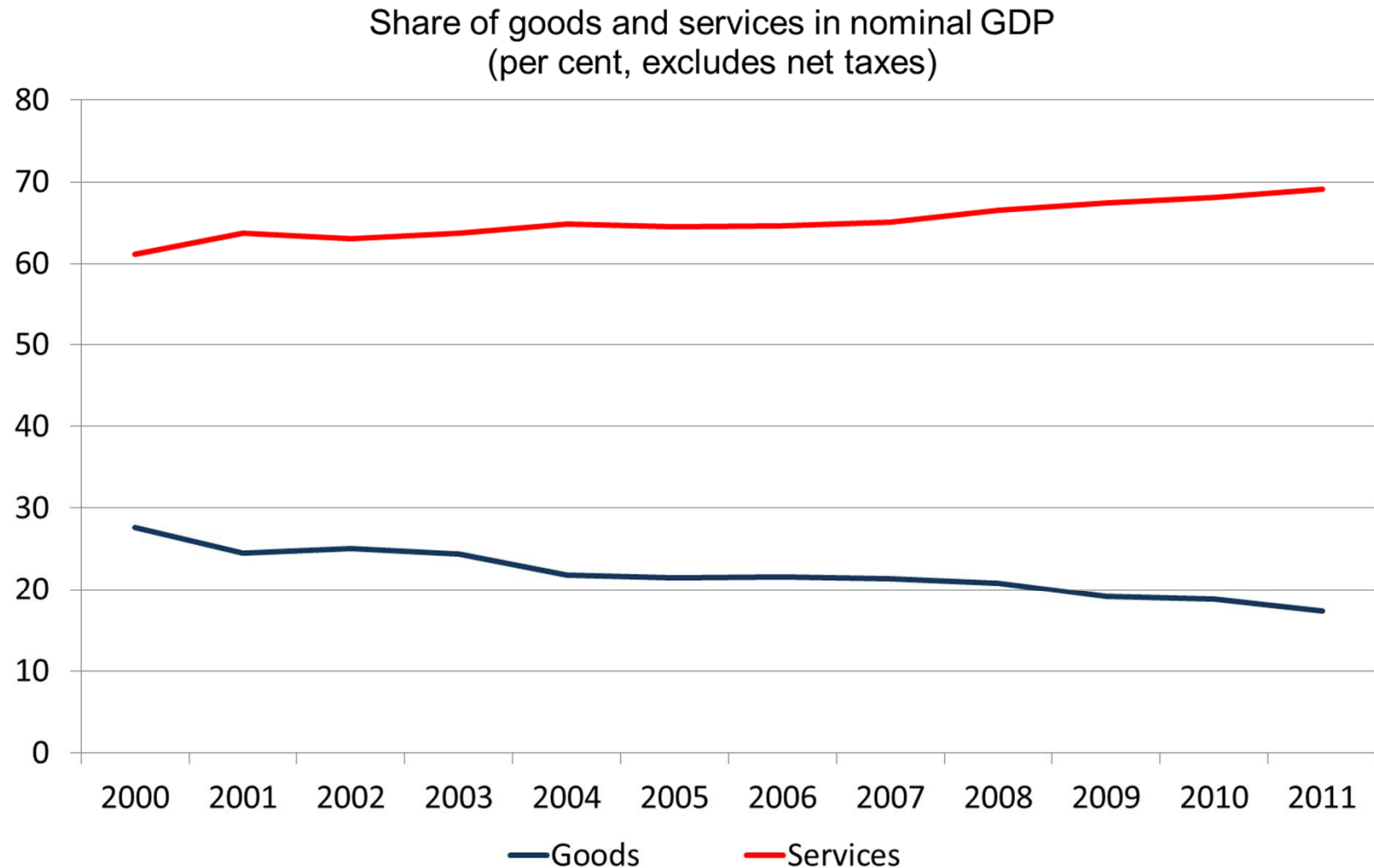
... reflecting a strong increase in
exports of services ...



Source: Eurostat



... and the growing share of services in GDP ...

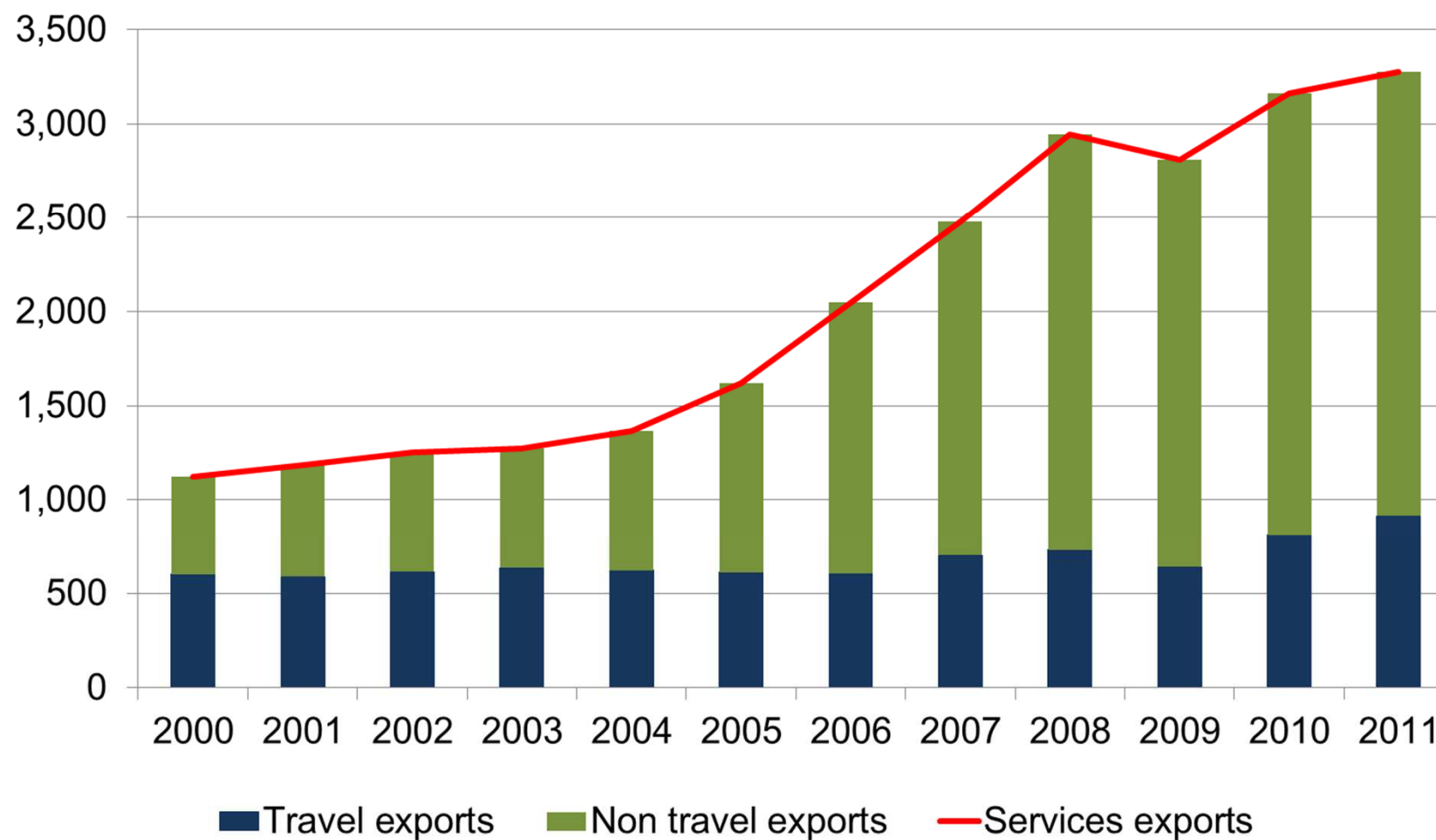


Source: National Statistics Office



... particularly non-tourist services

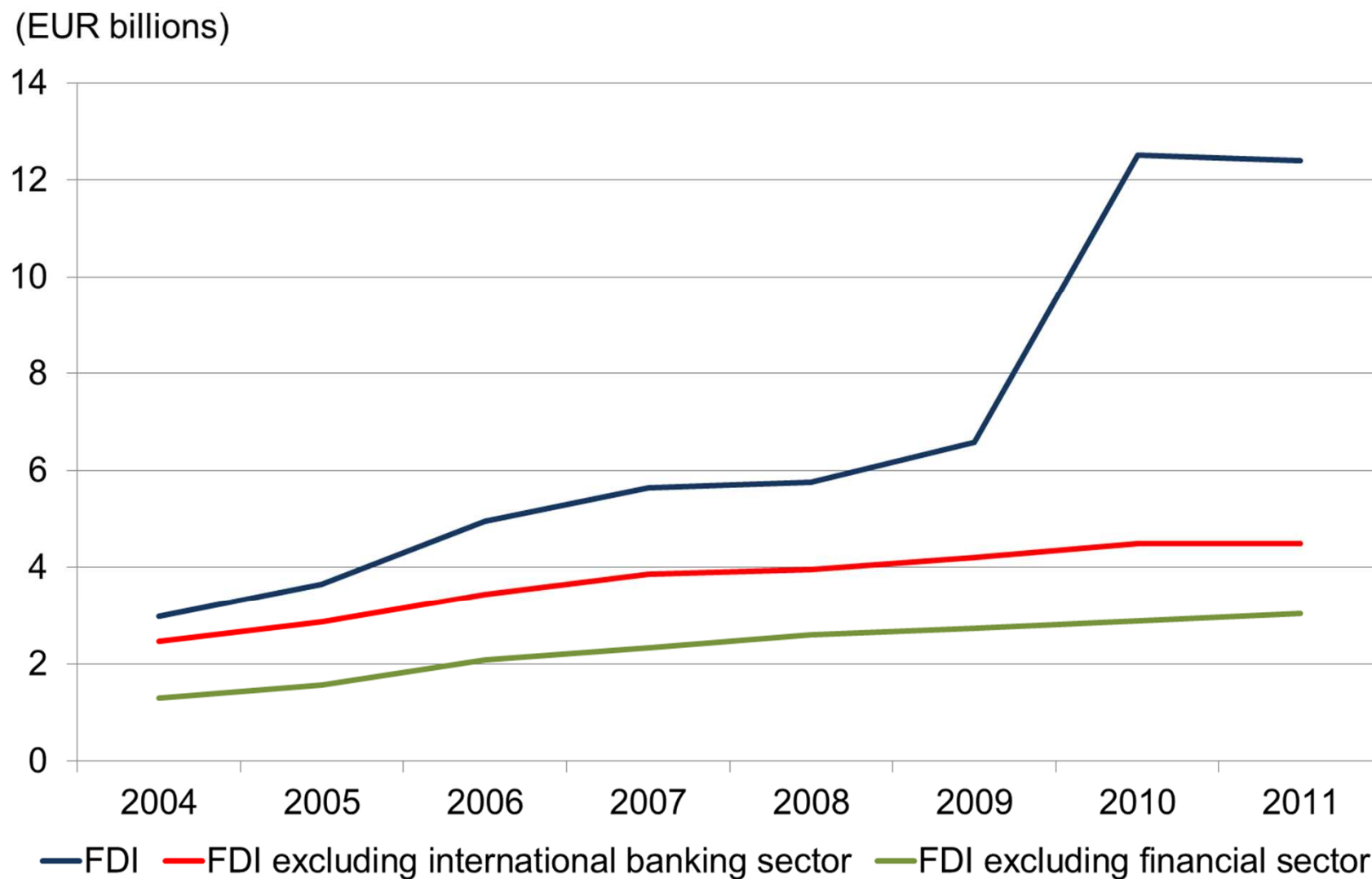
(EUR millions)



Source: Eurostat, National Statistics Office



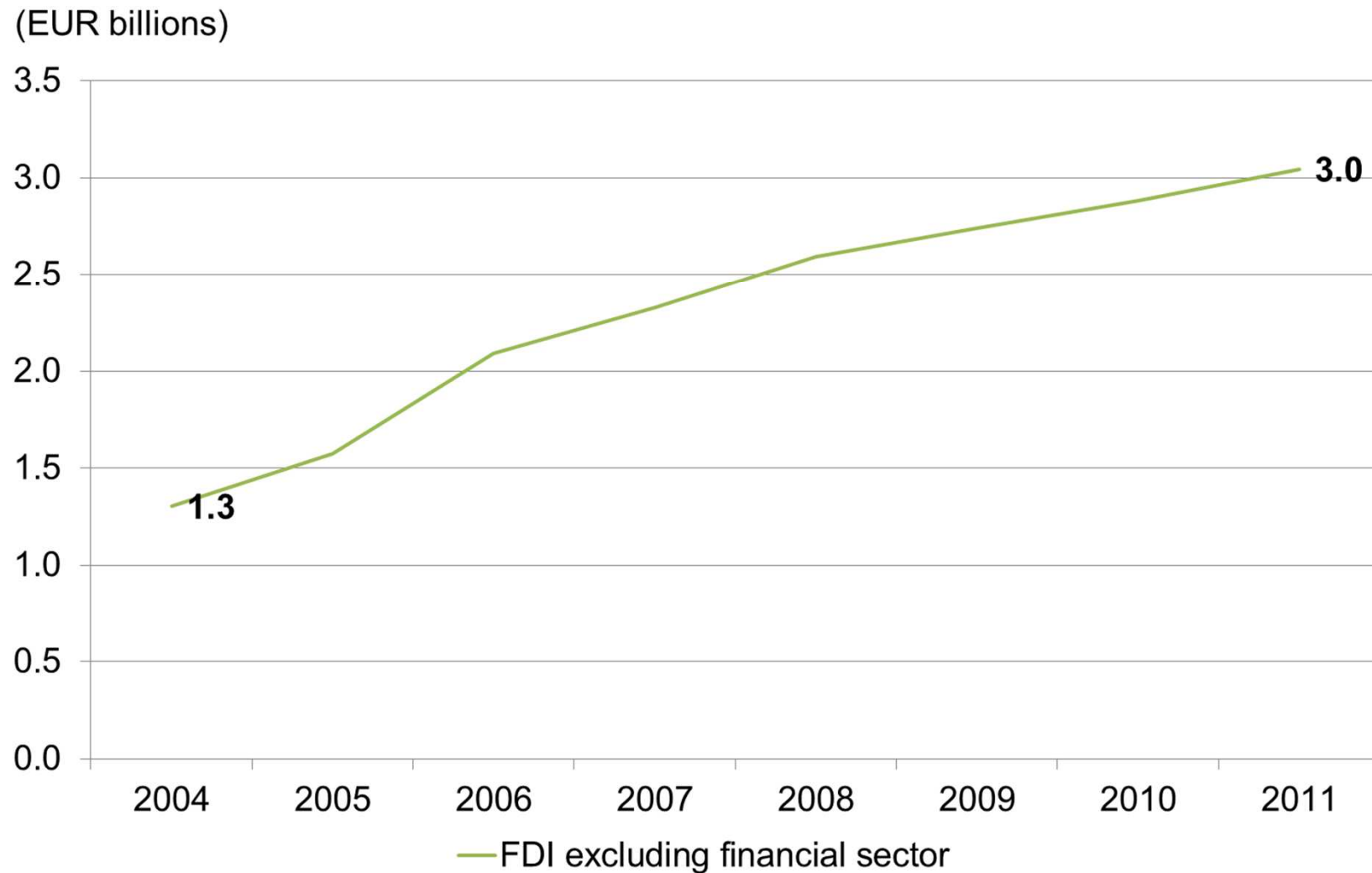
In the financial account, foreign direct investment continued to increase ...



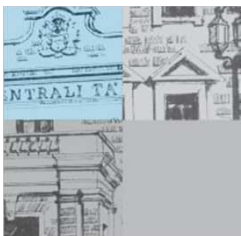
Source: National Statistics Office



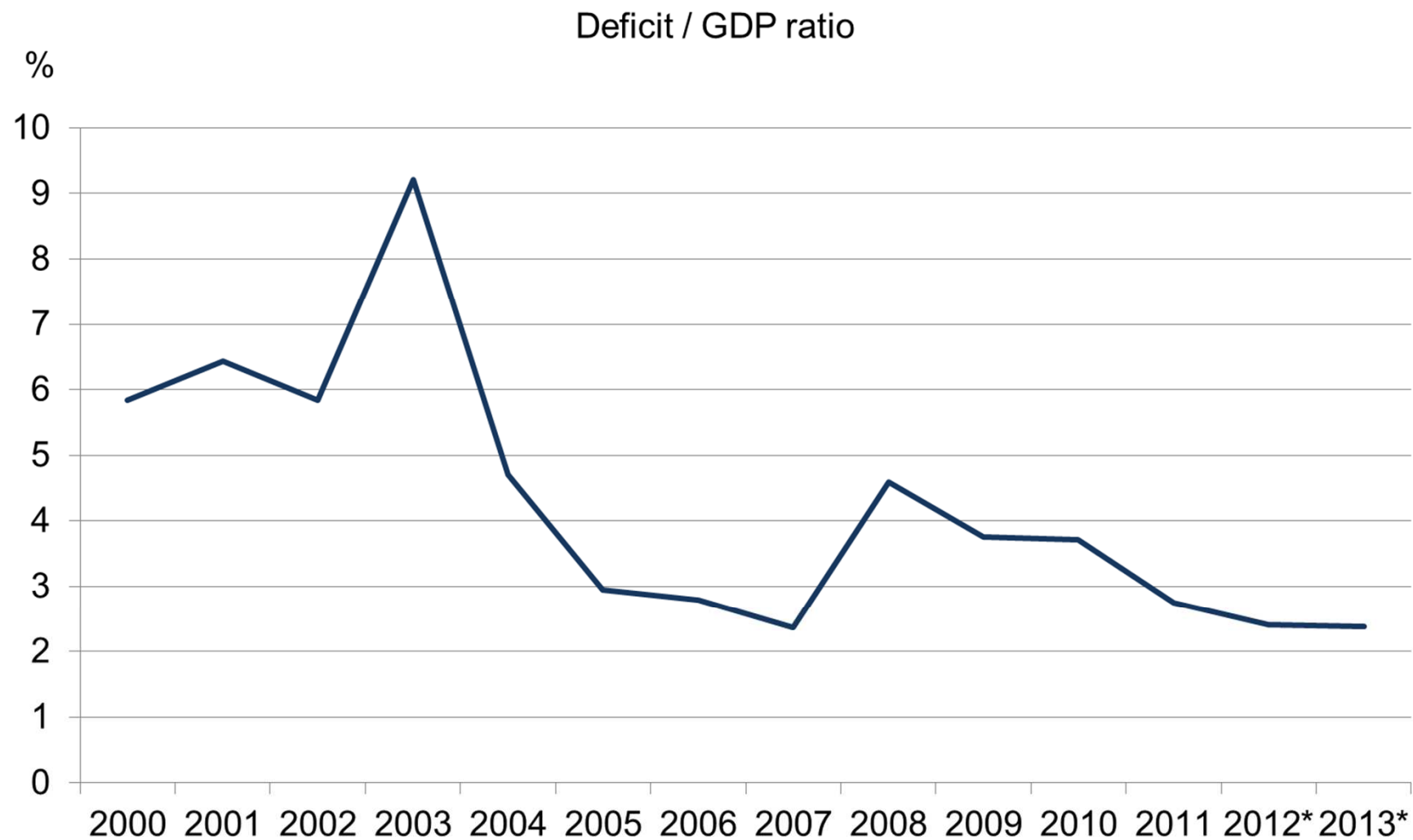
... partly reflecting a steady rise in FDI in the non-financial sector



Source: National Statistics Office



The fiscal deficit fell below the 3% deficit / GDP ratio ...

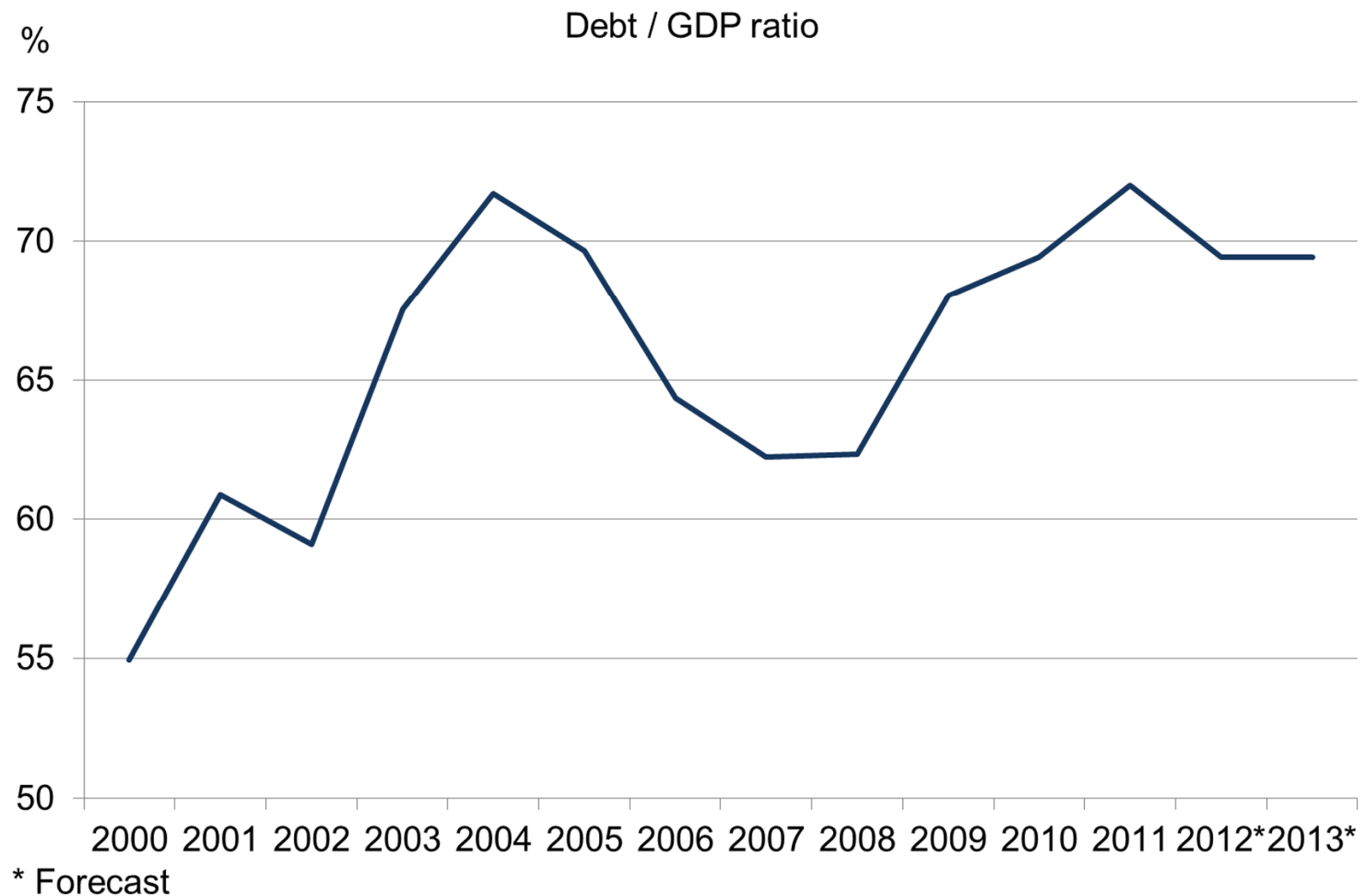


* Forecast

Source: Central Bank of Malta, *Annual Report 2011*



... while the general government debt ratio reached 72% in 2011



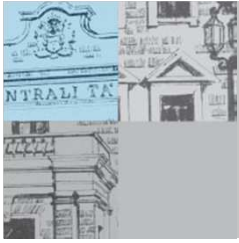
Source: Central Bank of Malta, *Annual Report 2011*



The Bank's projections point to growth deceleration in 2012, picking up in 2013

	2011	2012	2013
	<i>(annual percentage changes)</i>		
Private consumption	3.1	1.5	2.0
Public consumption	3.9	1.3	1.1
Investment	-13.4	5.1	5.6
Inventory changes (% of GDP)	-2.6	-2.4	-2.2
Exports	1.0	1.3	4.0
Imports	-1.0	1.8	4.5
GDP	2.1	1.6	2.0
<i>Contribution to GDP growth</i>			
Domestic demand	0.8	1.9	2.3
Net exports	2.2	-0.5	-0.4
Inventories	-0.9	0.2	0.2
HICP inflation	2.4	1.9	1.6
Unemployment rate	6.4	6.3	6.1
Current account (% of GDP)	-3.3	-3.5	-4.9
Fiscal deficit (% of GDP)	2.7	2.4	2.4
General government debt (% of GDP)	72.0	69.4	69.4

Source: Central Bank of Malta



Risks to the growth outlook are mainly on the downside

■ *Downside risks:*

- High uncertainty in the international economic and financial environment, particularly euro area countries
- Sovereign debt crisis in the euro area
- Prolonged slowdown in euro area economies

■ *Upside risks:*

- Depreciation of the euro could boost exports to non-euro area
- A resolution of the euro area sovereign debt crisis could lead to more business confidence



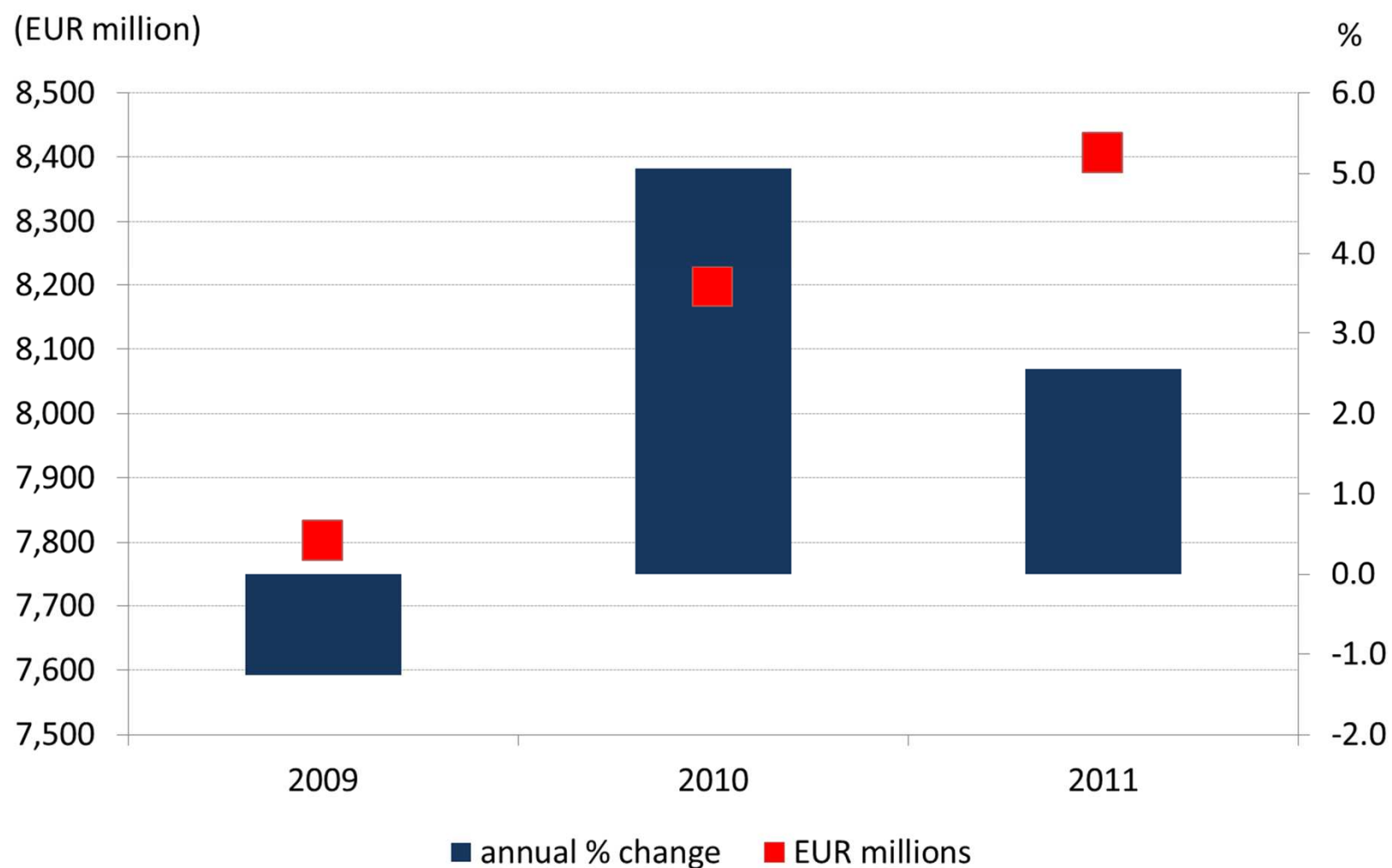
THE DOMESTIC FINANCIAL SYSTEM



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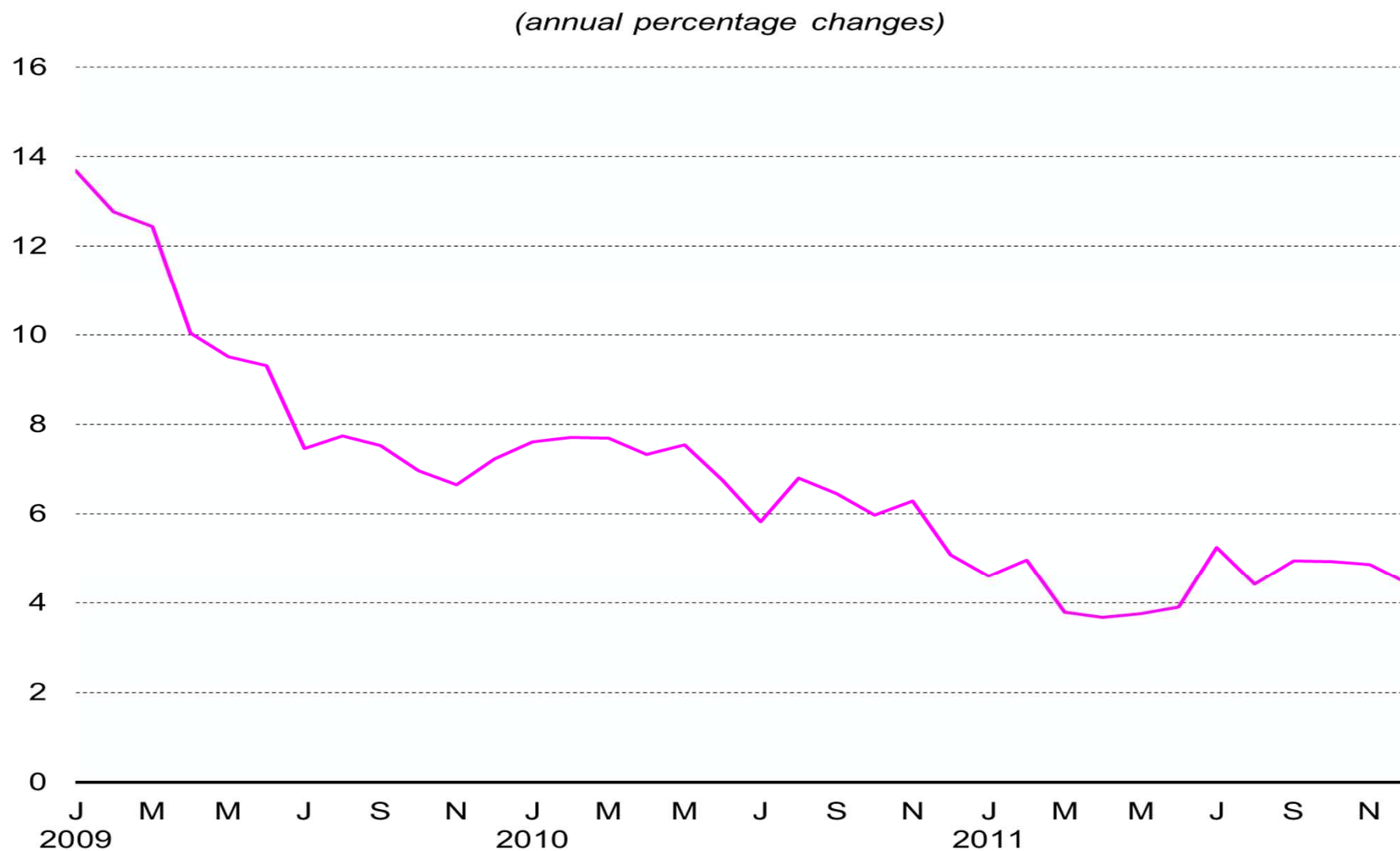
Deposits continued to grow ...



Source: Central Bank of Malta



... while credit to the private sector expanded though at a slower pace



Source: Central Bank of Malta



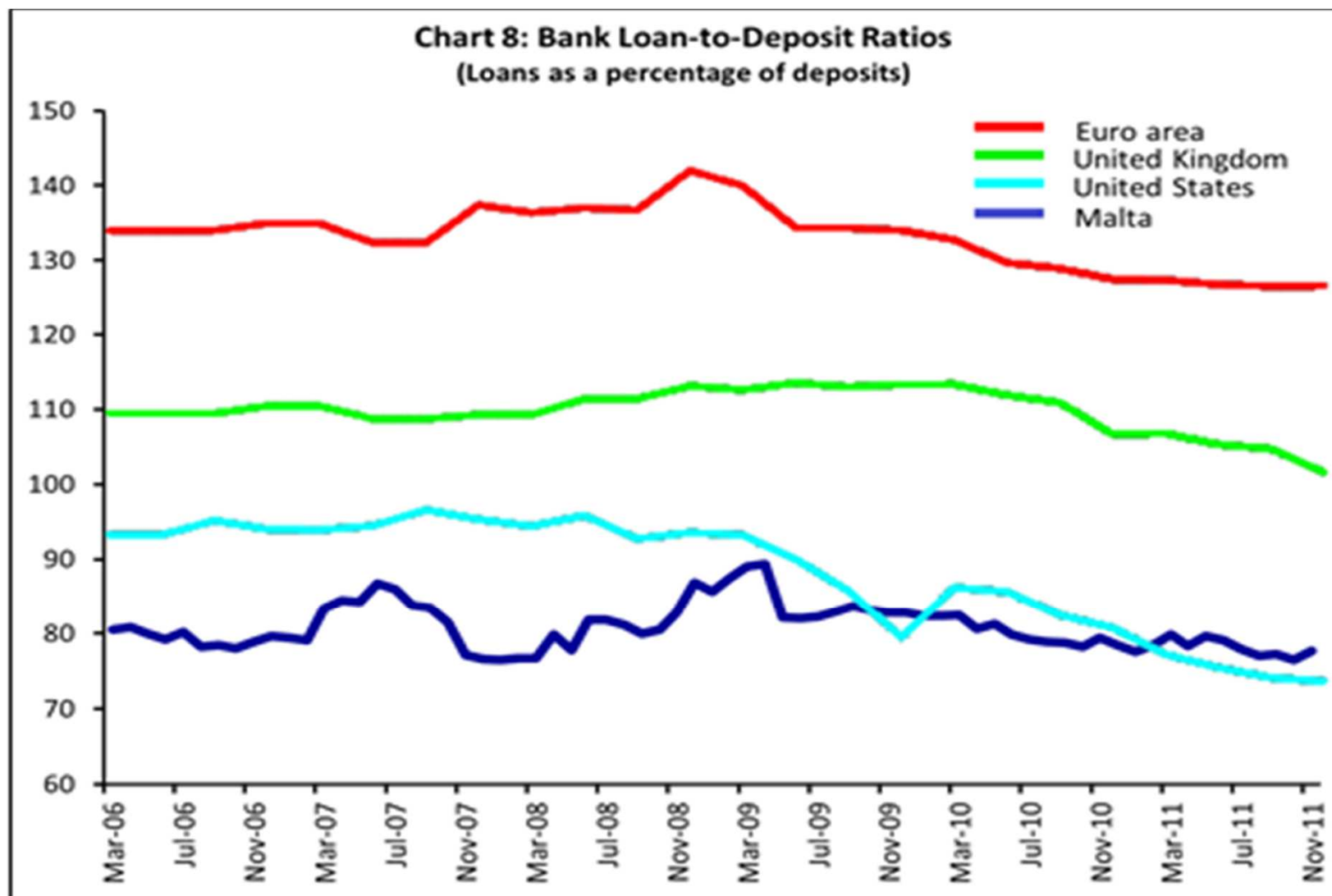
Financial stability conditions remained positive ...

Domestic banking system emerged from the international financial crisis relatively unscathed

- Adequate capital buffers - capital levels remained well above regulatory minima
- Solid liquidity ratios - well above the statutory requirements
- Credit growth decelerated, but no signs of credit supply restraints
- Positive profitability levels, despite some valuation losses



... with the loan-to-deposit ratio continuing at a relatively low level



Source: International Monetary Fund, Central Bank of Malta



CBM OPERATIONAL HIGHLIGHTS



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Operational highlights

- The CBM continued to participate in the formulation and implementation of euro area monetary policy
- Continued to assess potential risks to financial stability and together with the MFSA carried out a stress test on a major domestic bank as part of an EU-wide exercise
- Continued to oversee payment and securities settlement systems and to perform its currency-related functions, with large increases of payments processed through TARGET-2
- Realized an operating profit for 2011 of €52.5 million compared with €57.6 million in 2010; however the latter included an amount of €11 million mainly reflecting a one-off payment related to the demonetisation of Maltese lira coin and notes



THANK YOU



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