



# Central Bank of Malta Annual Report 2017

**Dr Mario Vella, Governor**

**Mr Alexander Demarco, Deputy Governor**

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# Overview

- International developments and monetary policy
- Central Bank of Malta's operations
- Overview of the banking sector in 2017
- The Maltese economy: 2017 performance and prospects



# International developments and monetary policy



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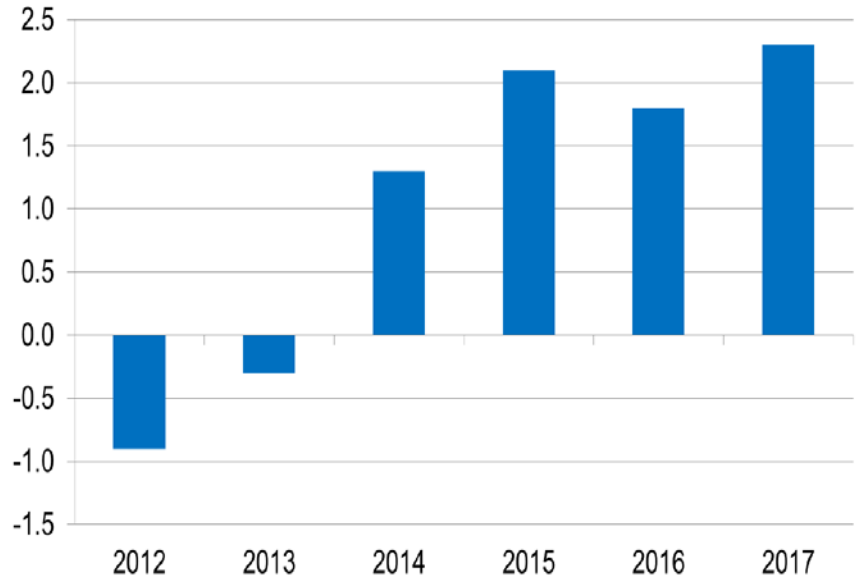




# Euro area GDP growth strengthens, while inflation rises partly due to higher oil prices

### GDP growth in the euro area

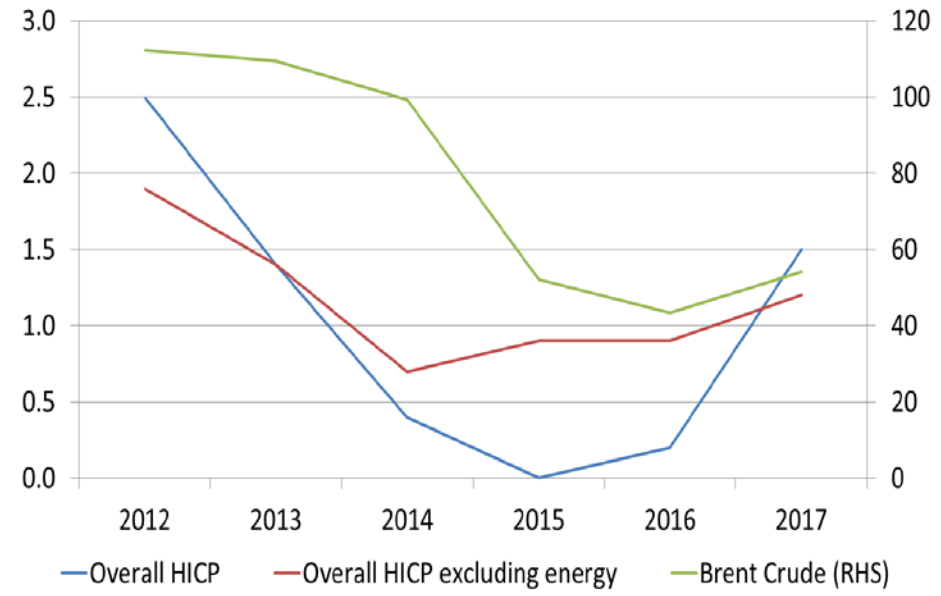
(annual percentage changes)



Source: Eurostat

### HICP and Brent Crude

(annual percentage changes, USD)



Source: Eurostat



## The ECB's monetary policy

Against this background, the ECB maintained an accommodative monetary stance. The interest rates on main refinancing operations (MRO), the marginal lending facility and the deposit facility were held at 0.00%, 0.25% and -0.40%, respectively.

The Governing Council expects these rates to remain at present levels for an extended period of time, and well past the horizon of the net asset purchases.

The ECB also continued to provide long-term liquidity to eligible credit institutions through its second series of targeted longer-term refinancing operations, with the last operation conducted in March 2017.

Meanwhile, the asset purchase programme (APP) was extended although the monthly pace of purchases was reduced to €60 billion from April 2017 and further to €30 billion from January 2018.



# Central Bank of Malta's operations



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## The Bank implemented the Eurosystem's monetary policy

During 2017, the Bank continued to implement the Eurosystem's monetary policy decisions in Malta, through standing facilities, liquidity-providing operations and the Public Sector Purchase Programme (PSPP).

As liquidity remained ample, domestic credit institutions made limited use of the Eurosystem's refinancing operations and the average daily level of excess funds which eligible credit institutions placed overnight with the Bank through the deposit facility more than doubled.

Through the PSPP, the Bank bought approximately €245.7 million worth of Maltese government bonds, bringing total purchases since the start of the programme to €948.1 million by the end of 2017.



## The low interest rate environment continued to weigh on the Central Bank's earning capacity

The Bank's balance sheet expanded further. Total assets reached €8.6 billion at the end of 2017, from €5.5 billion in 2016.

Net interest income rose to €63.3 million from €56.5 million, partly reflecting the substantial increase in the use of the deposit facility, which carries a negative interest rate in line with ECB policy.

Notwithstanding this, operating profit before transfers to provisions decreased to €51.6 million from €76.4 million a year earlier, mainly due to exceptional gains on the Bank's financial operations that had been realized towards the end of 2016.

The Bank transferred €16.6 million to provisions, leaving €35.0 million payable to the Government of Malta.



## Organisational developments and initiatives

In 2017 the Bank continued to provide prominence to its research findings, organising a research symposium that discusses challenges for small open economies, including the possible impact of Brexit. During the event the Bank also launched a publication on the sustainability of Malta's growth model.

The Bank also increased its regular economic publications and the material it publishes on its macroeconomic and fiscal forecasts.

The *Economic Update* now also includes a monthly business conditions index developed by the Bank's economists.

The Bank continued to engage directly with large companies and public sector entities to obtain a better gauge of economic conditions and business prospects.

A Social Research Unit was established to complement standard economic analysis.



## Organisational developments and initiatives

In the area of financial stability, the Bank continued to monitor the resilience of the financial sector, assessing systemic risks and imbalances and formulating relevant policy recommendations.

The Bank also supported the work of the Maltese Presidency of the European Union on matters related to financial services. It also began to prepare for an assessment under the IMF's Financial Sector Assessment Program (FSAP), scheduled for 2018.

Works on a new building – Binja Laparelli – were finalised. The building hosts modern meeting and conference facilities, the Bank's library and archives as well as offices.

The Bank launched a new investments, banking and general ledger (IBGL) environment. It also upgraded its banknote examination facilities and several systems used in ESCB-related operations, including its collateral management and payment messaging systems.



# Overview of the banking sector in 2017



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## The composition of the banking sector in Malta

The banking sector comprises 25 banks of which:

- 6 core domestic banks
- 5 non-core domestic banks
- 14 international banks

In 2017 the size of the banking sector stood at 431.5% of GDP

- core domestic banks: 206.4% of GDP
- non-core domestic banks: 19.7% of GDP
- international banks: 205.4% of GDP

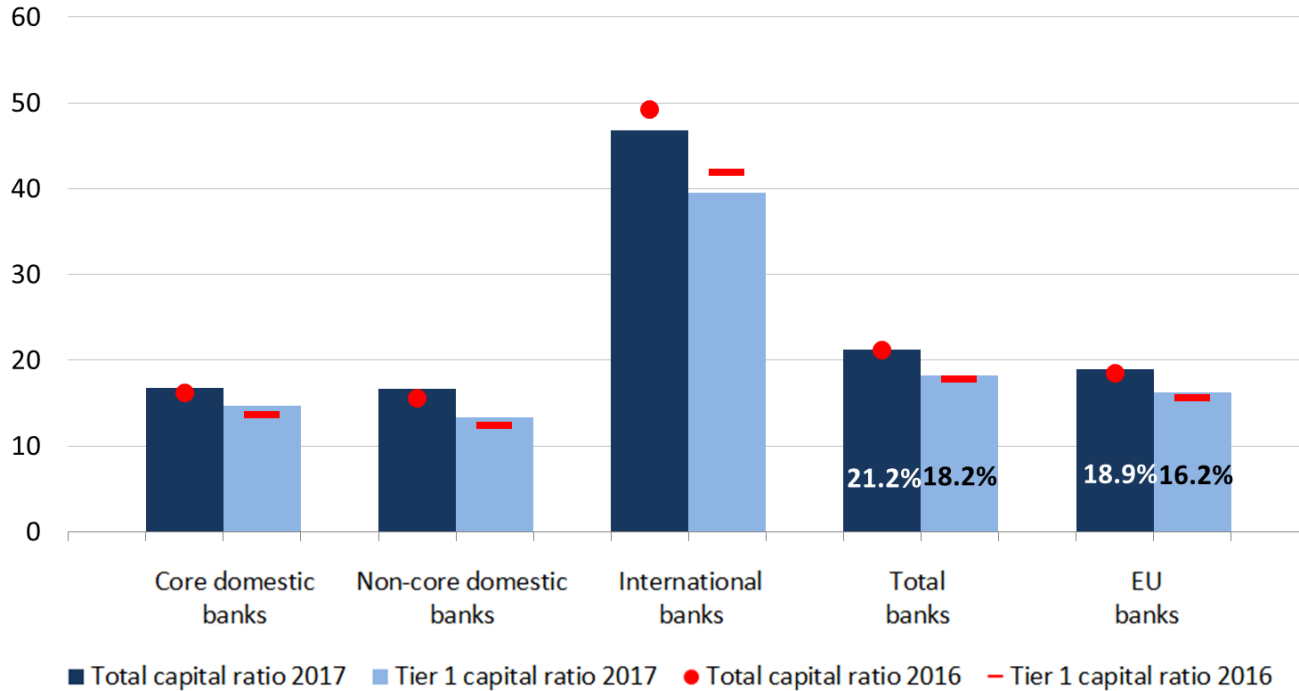
The average size of the EU banking sector is about 260% of GDP



# Capital

## Capital ratios

(per cent)



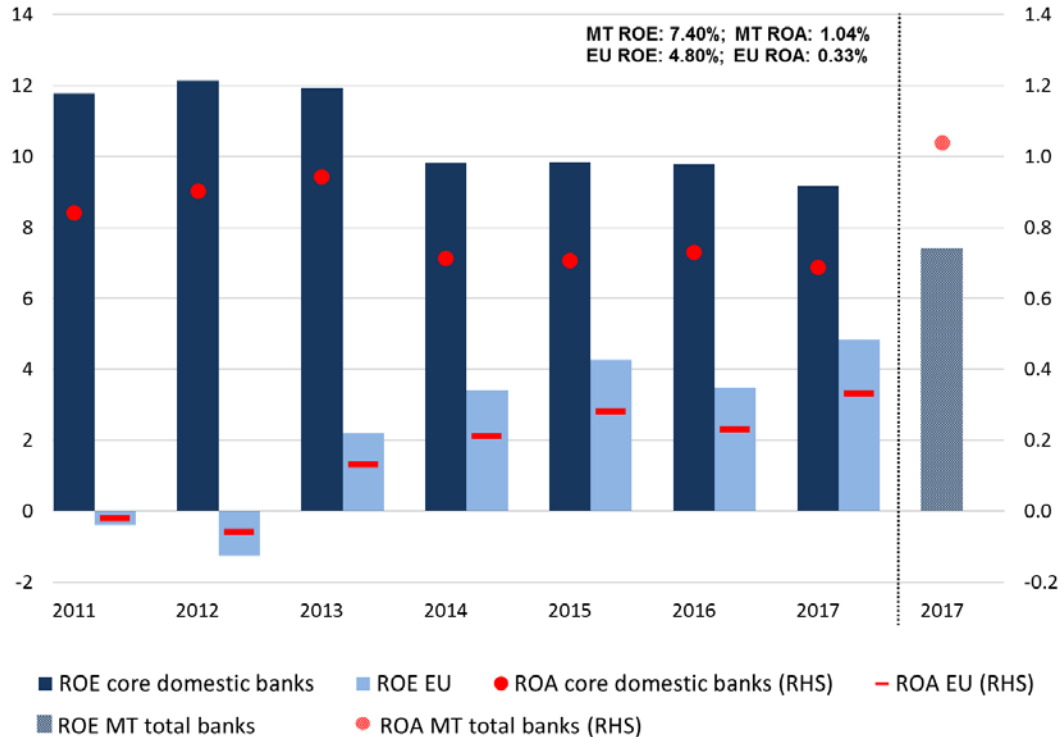
Sources: Central Bank of Malta and European Central Bank

Note: 2017 data for the EU refers to September



# Profitability

**Return on assets and on equity**  
(per cent)



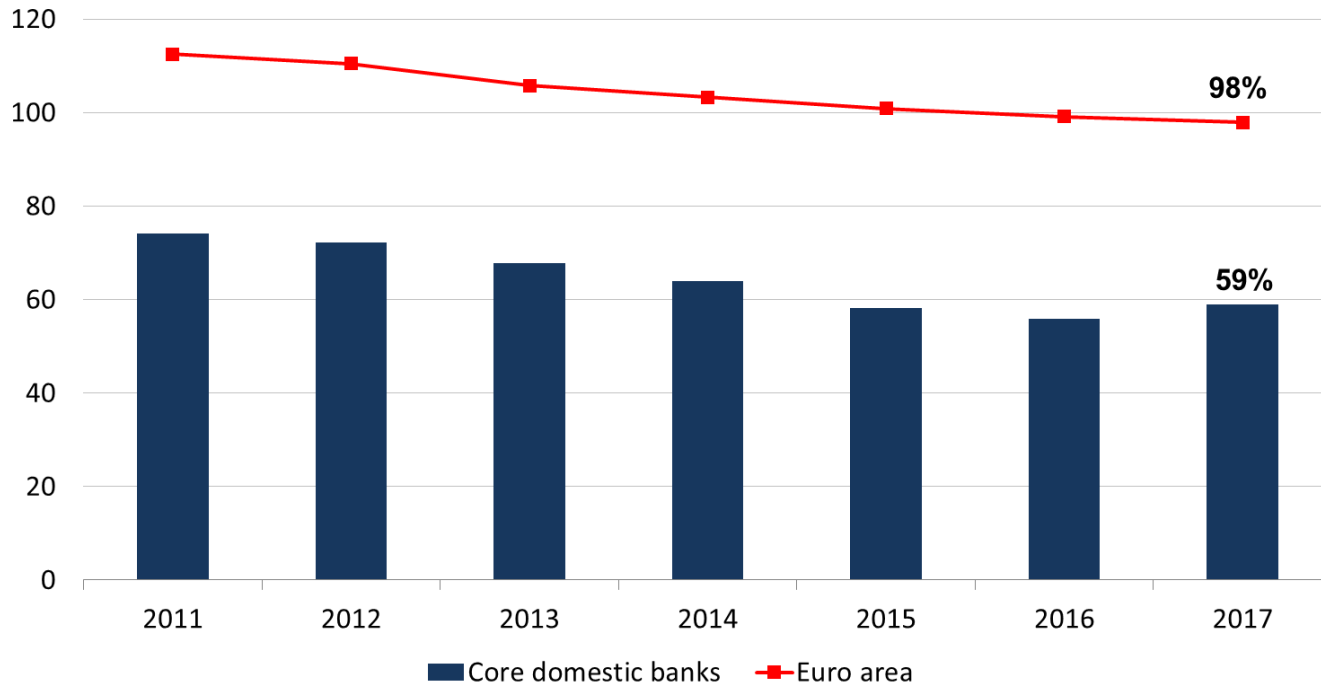
Sources: Central Bank of Malta and European Central Bank  
Note: 2017 data for the EU refers to September



# Liquidity

## Customer loan-to-deposit ratio

(percent)

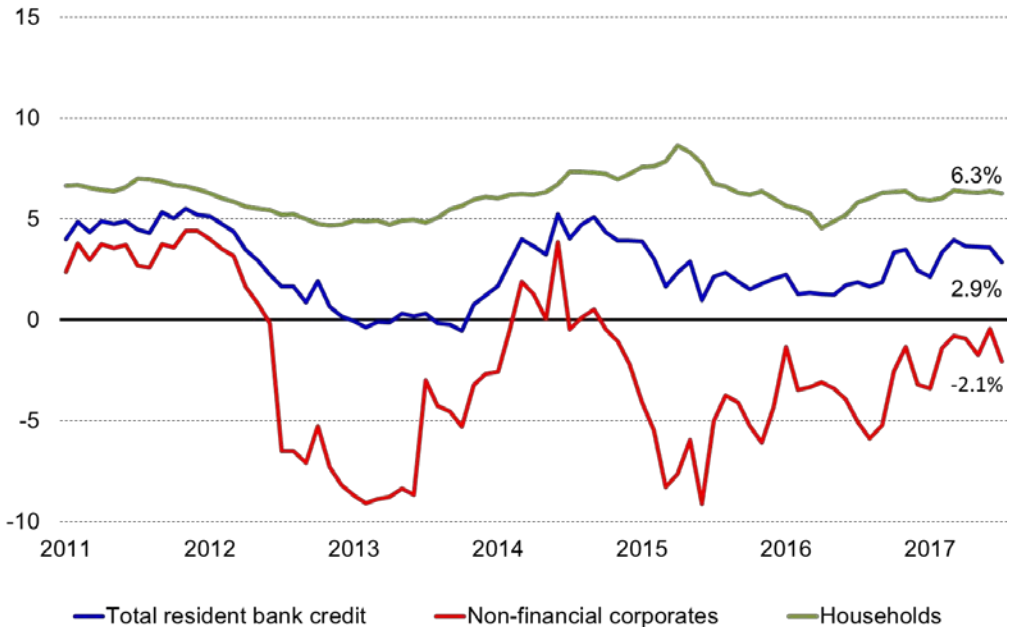


Sources: Central Bank of Malta and European Central Bank



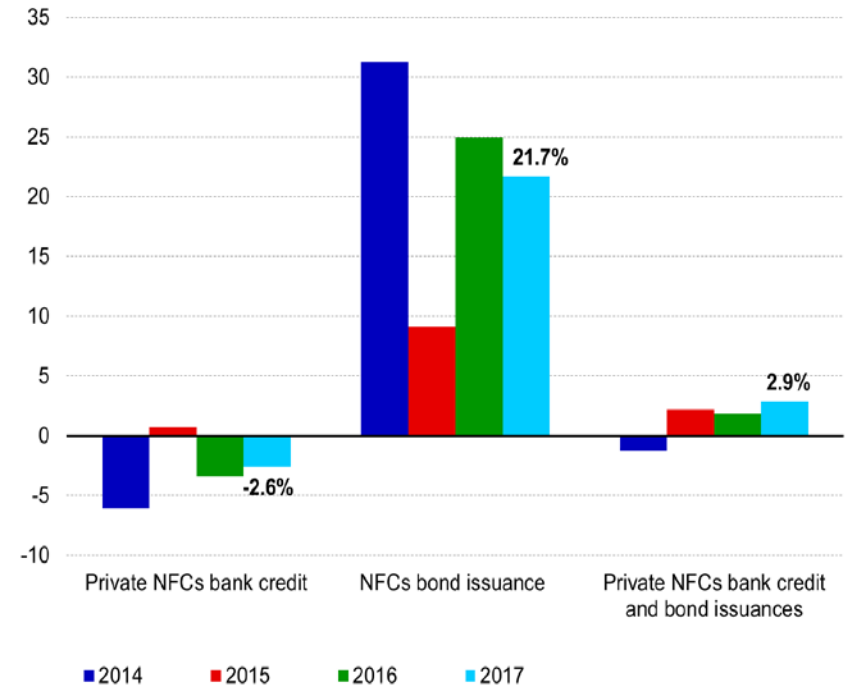
# Domestic credit developments

**Annual credit growth rate**  
(per cent)



**Annual growth rate**

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



Sources: Central Bank of Malta, Malta Stock Exchange

Note: A break in series was reported in May 2017 with regards to HH consumer credit due to a reclassification exercise.

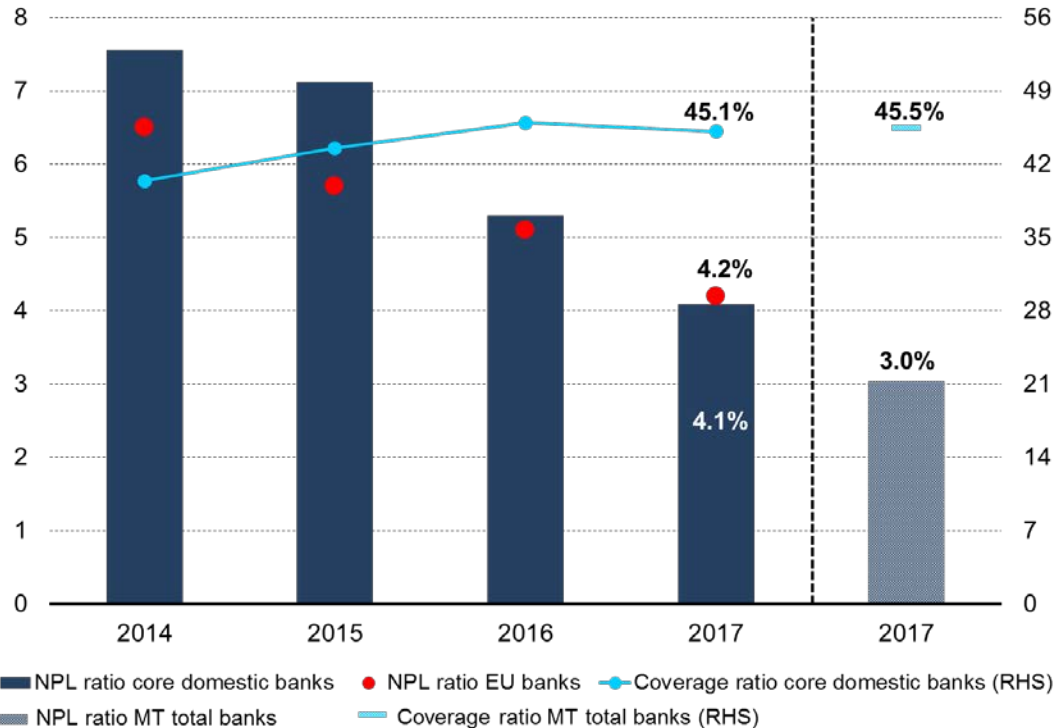
Source: Central Bank of Malta



# Asset quality

## NPL and coverage ratios

(per cent)



Sources: Central Bank of Malta and European Banking Authority  
Note: 2017 Data for the EU refers to September.



## In sum ...

- The banking sector in Malta continued to demonstrate resilience and continued to be a contributor to economic growth
- Profitability remains healthy in spite of the prolonged low interest rate environment
- Capital levels are increasing, exceeding minimum regulatory requirements and operating with ample liquidity
- Credit risk attenuated further, with core domestic banks reporting a noticeable decline in non-performing loans.



# The Maltese economy: 2017 performance and prospects



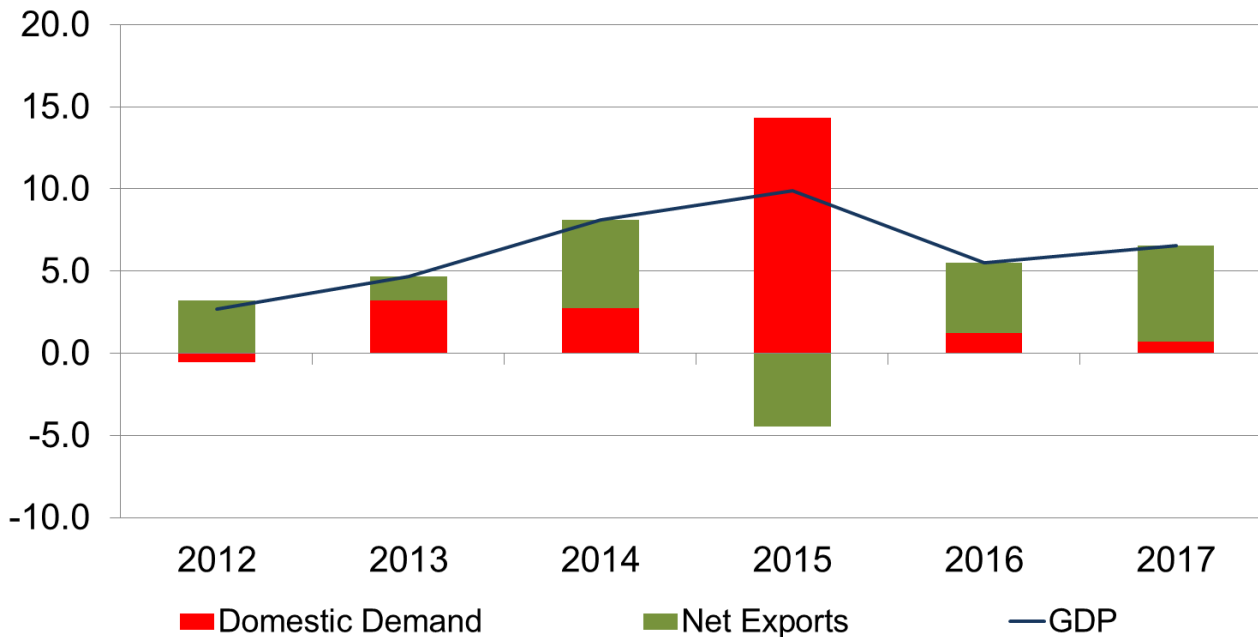
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# The Maltese economy continued to grow robustly during 2017

## GDP growth

(percentage point contributions, annual percentage changes)



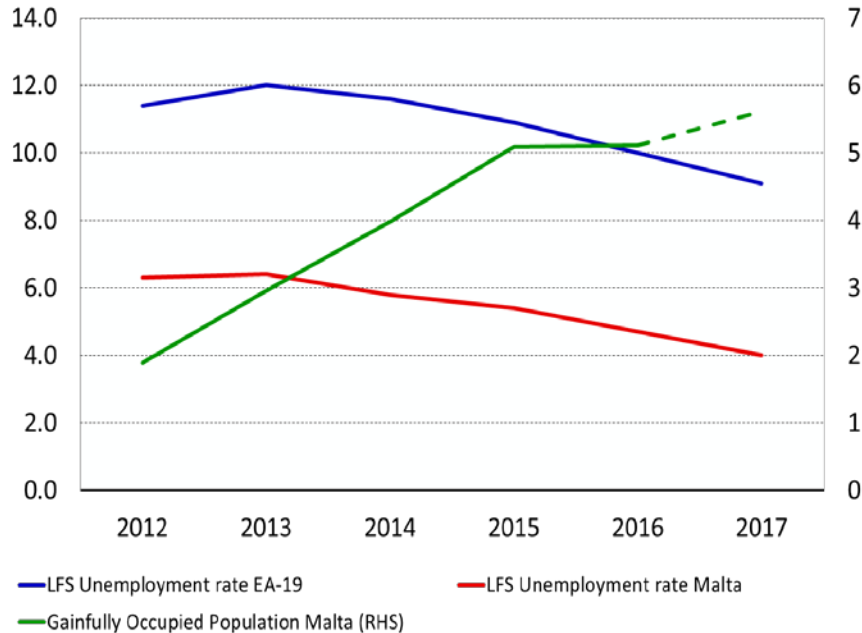
Source: National Statistics Office

# Employment increases further and unemployment rate reaches a new low



## Labour Market Developments<sup>1</sup>

(seasonally adjusted, per cent; percentage change)

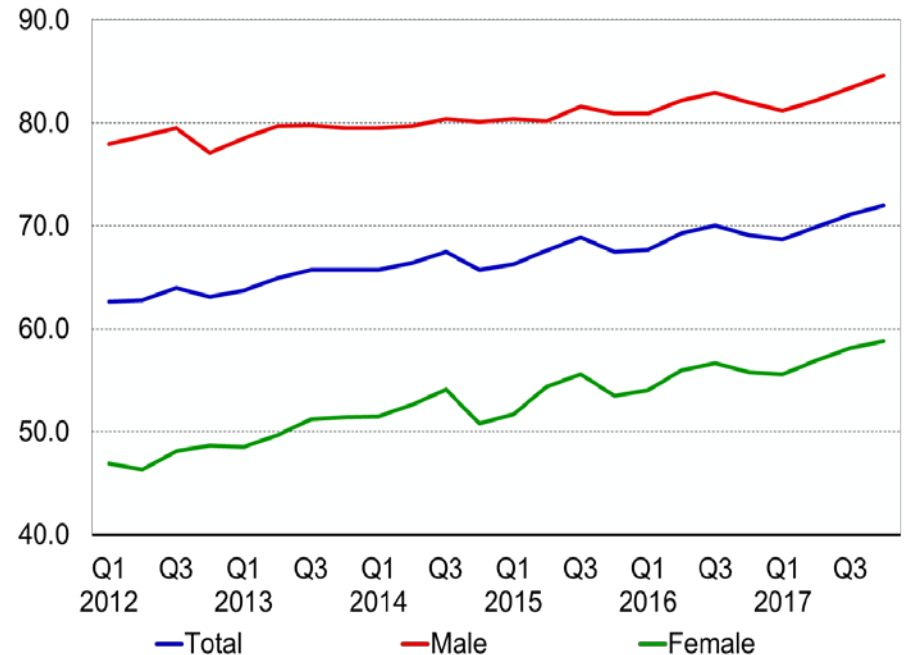


<sup>1</sup> Gainfully occupied population in 2017 is based on data until September 2017.

Sources: Eurostat, National Statistics Office

## Participation rate based on the Labour Force Survey

(percent)

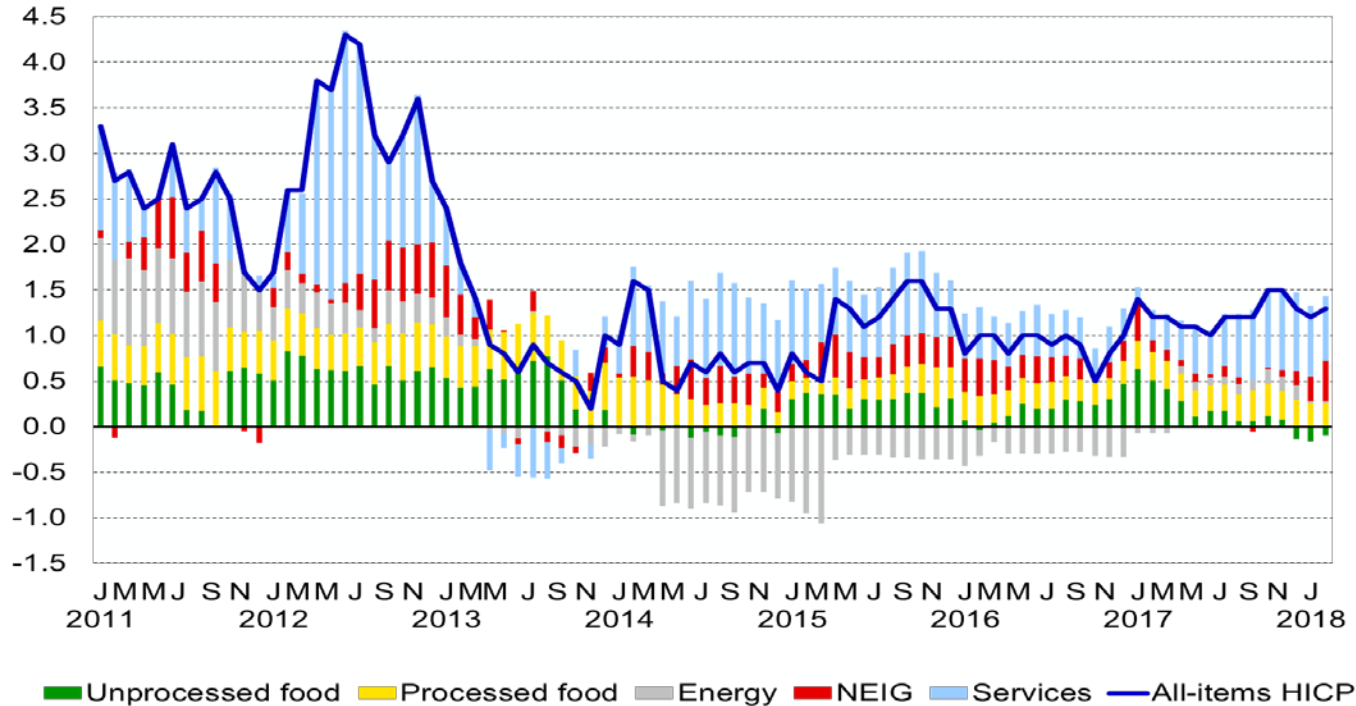


Source: National Statistics Office



# Inflation remains moderate despite tight labour market

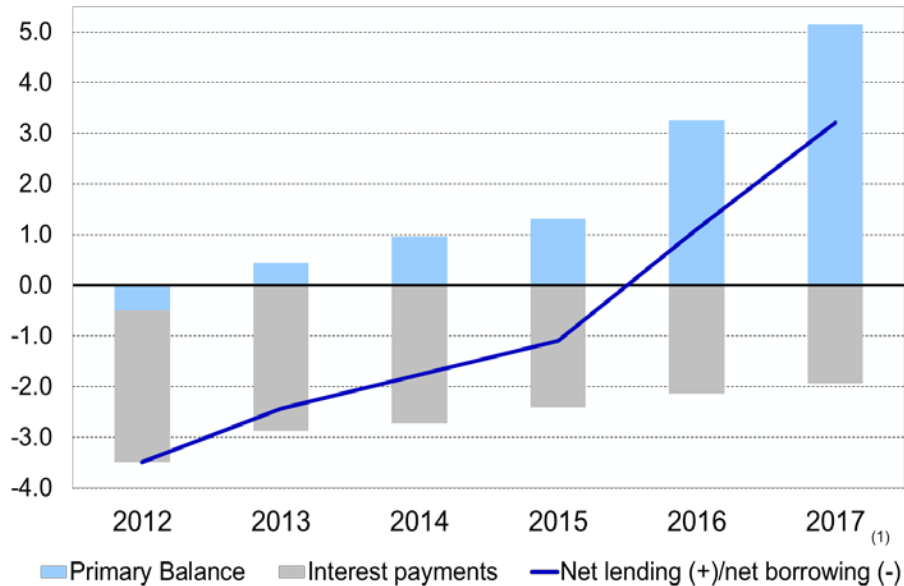
**Contributions to year-on-year HICP inflation**  
(percentage points; annual percentage change)



Source: Eurostat

# Fiscal surplus widens... while the debt burden falls

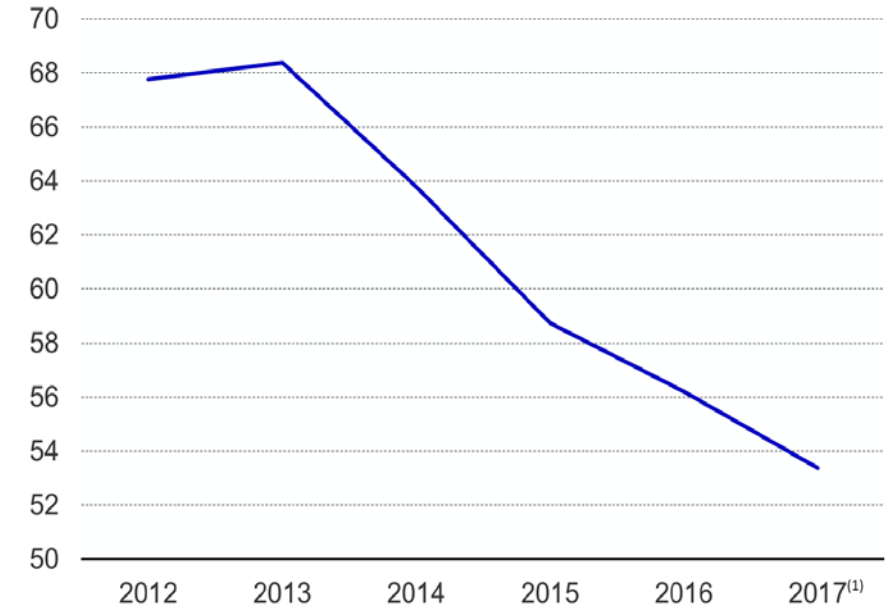
## General government balance (% of GDP)



<sup>(1)</sup> Four-quarter moving sums; period ending 2017Q3.

Source: National Statistics Office

## General government debt (% of GDP)



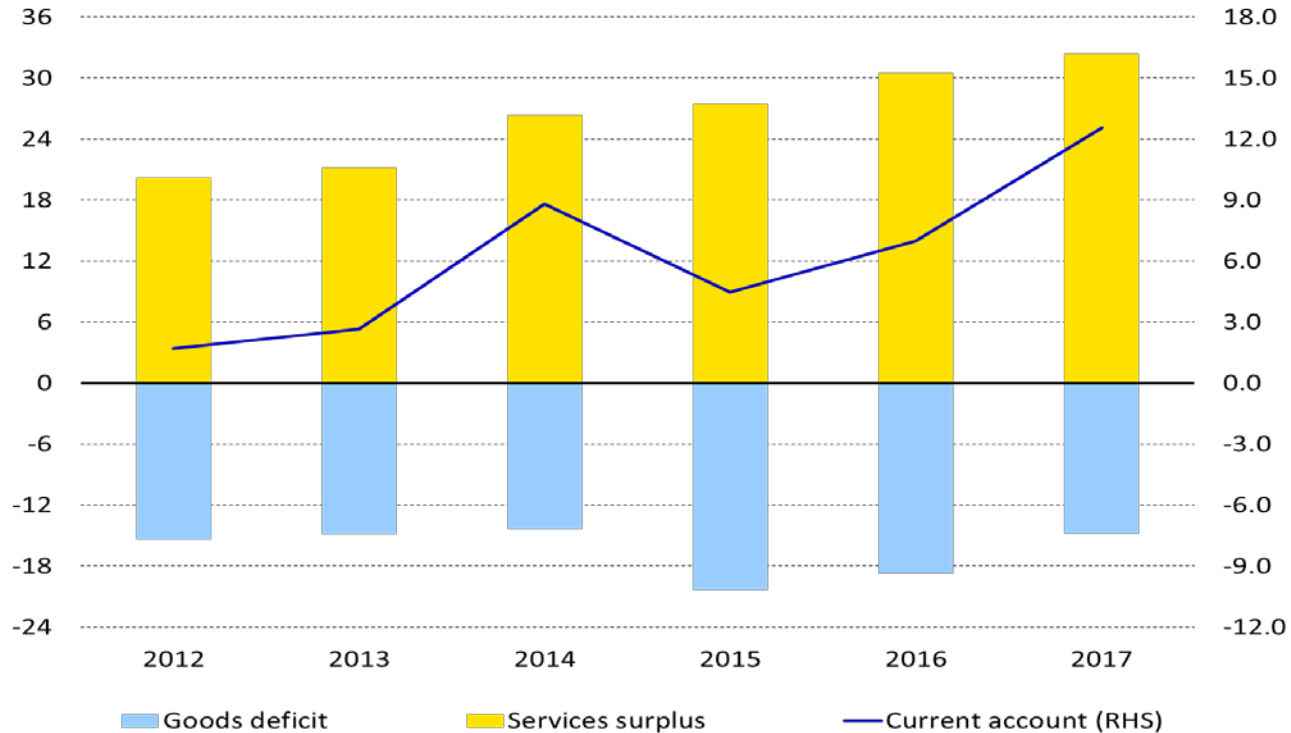
<sup>(1)</sup> Data as at 2017Q3

Source: National Statistics Office



# Current account surplus widens

**Current account balance**  
(percentage of GDP)



Source: National Statistics Office

# Macroeconomic outlook remains favourable

## Projections for the main macroeconomic aggregates for Malta<sup>(1)</sup>

	2018	2019	2020
<b>Real economic activity (% change)</b>			
GDP	6.2	4.8	4.0
Private consumption expenditure	4.2	3.6	3.5
Government consumption expenditure	7.7	7.5	6.8
Gross fixed capital formation	8.6	5.4	3.1
Exports of goods and services	2.6	2.7	2.9
Imports of goods and services	2.0	2.5	2.8
<b>Contribution to real GDP growth (in percentage pts)</b>			
Final domestic demand	5.0	4.1	3.4
Net exports	1.1	0.7	0.6
Changes in inventories	0.0	0.0	0.0
<b>Labour market (% change)<sup>(2)</sup></b>			
Total employment	3.7	3.2	3.0
Unemployment rate (% of labour supply)	4.0	4.1	4.2
<b>Prices and costs (% change)</b>			
Overall HICP	1.6	1.8	2.0
<b>Public Finances(% of GDP)<sup>(3)</sup></b>			
General government balance	1.6	1.1	0.6
General government debt	49.1	46.5	44.6

<sup>(1)</sup> Data on GDP were sourced from NSO News Release 193/2017 published on 6 December 2017.

<sup>(2)</sup> Data on the number of employed are consistent with national accounts data. The unemployment rate is based on the number of unemployed and employed as reported in the Labour Force Survey.

<sup>(3)</sup> CBM calculations based on NSO News Release 193/2017 (published on 6 December 2017) and News Release 8/2018 (published on 18 January 2018).



**Thank you**



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