



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Financial Stability Report 2023

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Presentation Outline



- Macroeconomic backdrop



- Financial sector developments



- Credit dynamics



- Key takeaways and policy implications



Macroeconomic backdrop



The domestic economy remained supportive, with strong growth and low unemployment



Geopolitical risks remain at the root of global uncertainty



Inflation has decelerated but remains above the ECB target, with ECB key rates still historically high



Weaker-than-expected economic growth could negatively impact financial stability

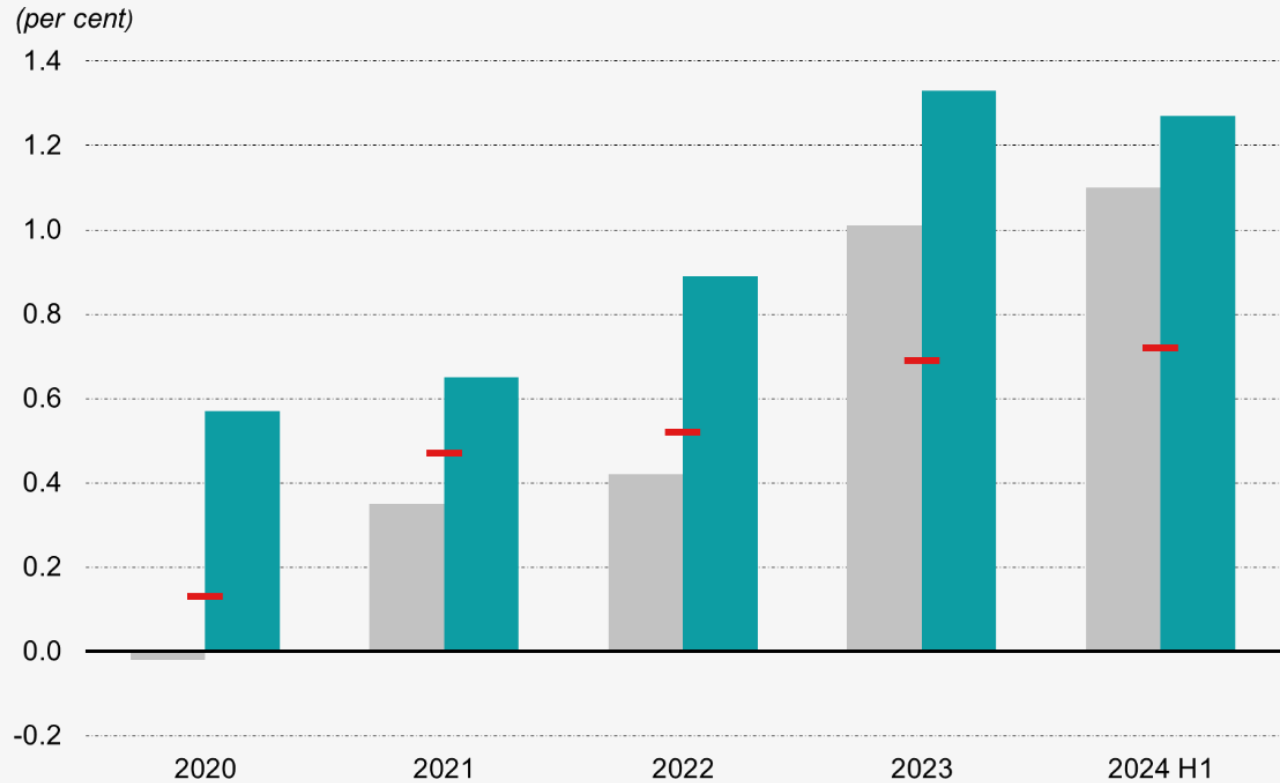


Reassessment of risk premia is possible, particularly in certain asset classes

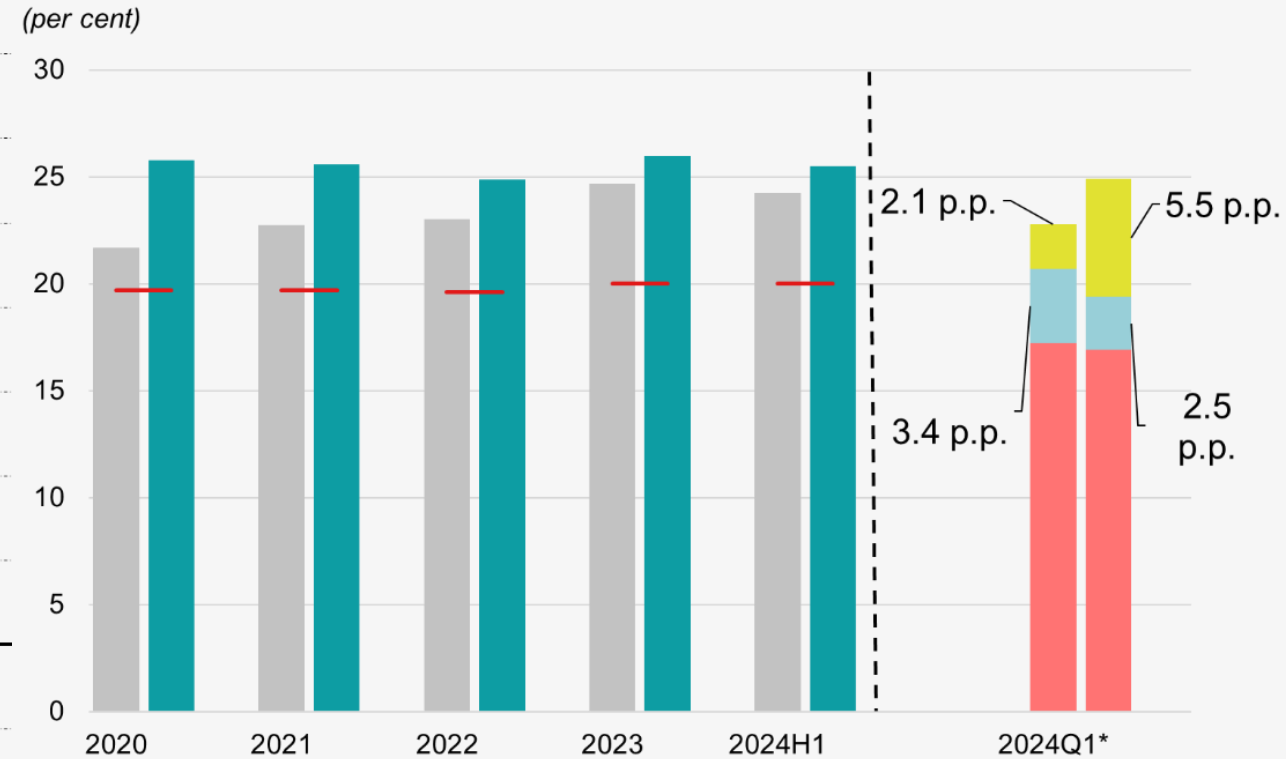


Profitability recovered further; Capital remained healthy with sufficient voluntary buffers

RETURN ON ASSETS



TOTAL CAPITAL RATIO



■ Core domestic banks
 ■ Total banks
 ■ Total Capital Requirement
 ■ Voluntary buffer - MREL allocated
 ■ Voluntary buffer - additional
 — EU banks

Source: Central Bank of Malta, European Banking Authority

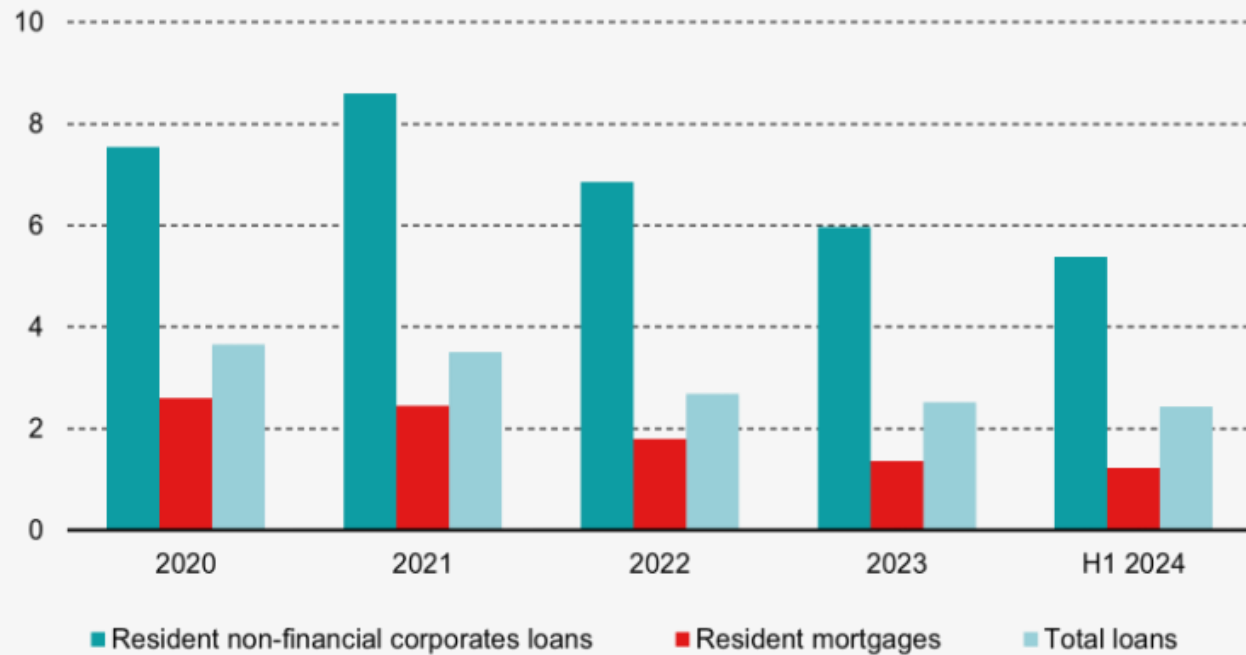
Note: 2024 EU figures refer to March 2024. * figures reflect consolidated data for core domestic banks and overall bank, respectively, as at March 2024.



Asset quality improved while bank liquidity remained strong

NPL RATIOS – CORE DOMESTIC BANKS

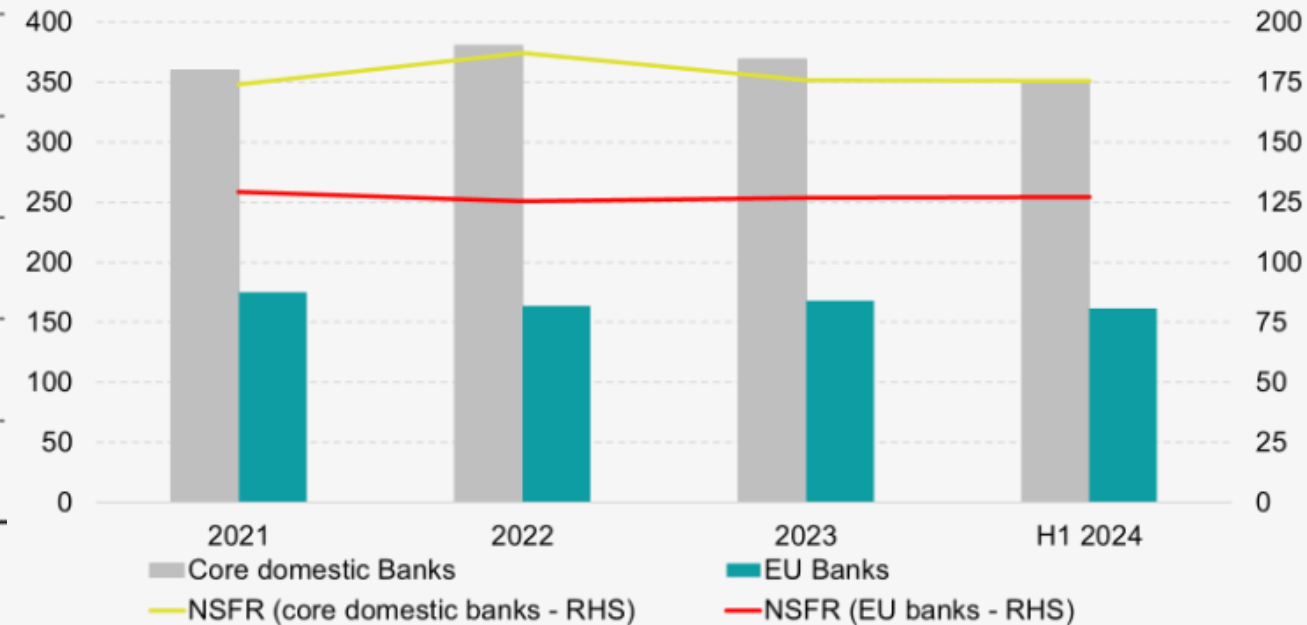
(per cent)



Source: Central Bank of Malta.

LIQUIDITY COVERAGE RATIO - CORE DOMESTIC BANKS

(per cent)

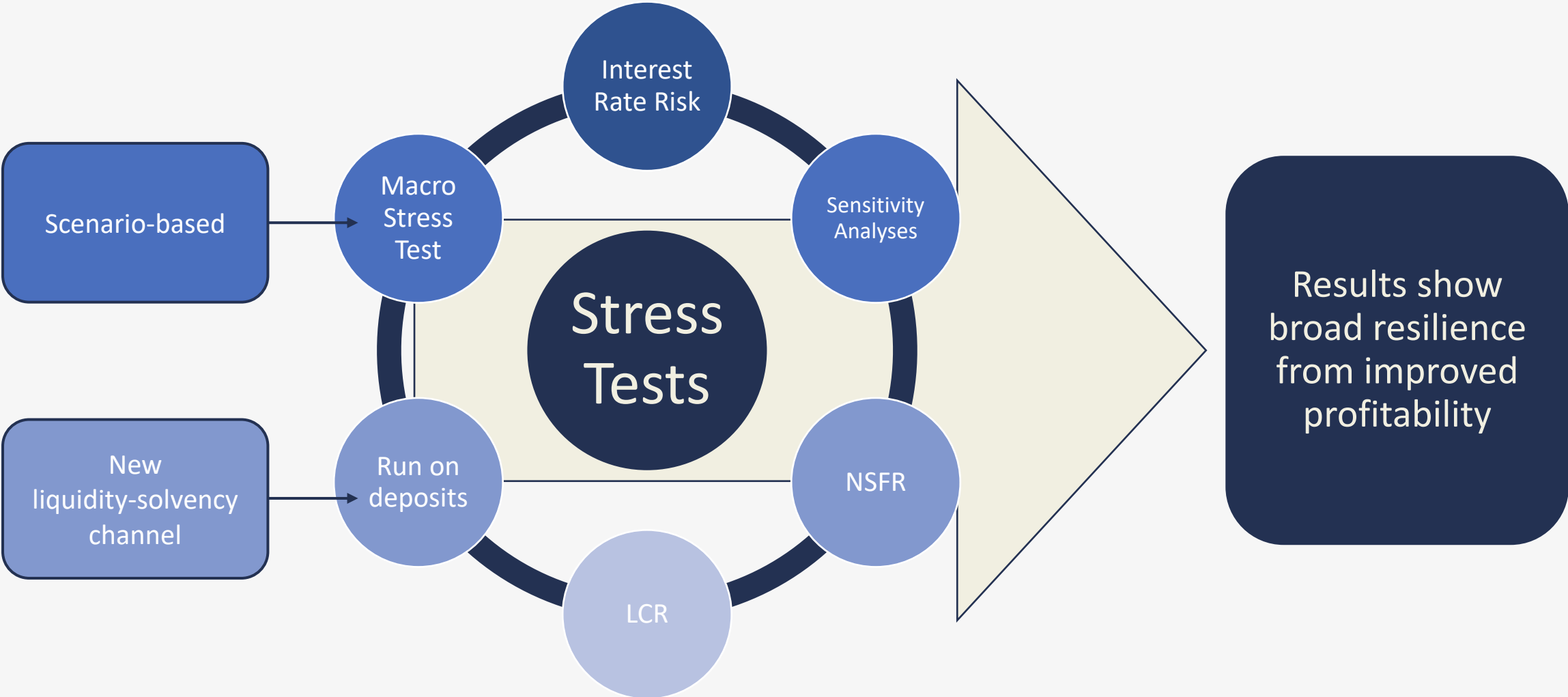


Source: Central Bank of Malta, European Banking Authority.

Note: 2024 EU figures refer to March 2024



CBM Stress Test Results



Non-banks remained resilient with no perceived systemic risks



INSURANCE SECTOR

- Solvency Coverage Ratio:
 - Non-life: 243%,
 - Life: 220%,
- Return on Assets:
 - Non-life: 9.9%,
 - Life: 0.7%



INVESTMENT FUNDS SECTOR

- Investment funds reported a recovery in their holdings, operating with very limited leverage, and strong liquidity.
- AUM-to-NAV: 100.3%
- Liquid Assets Ratio: 63.6%



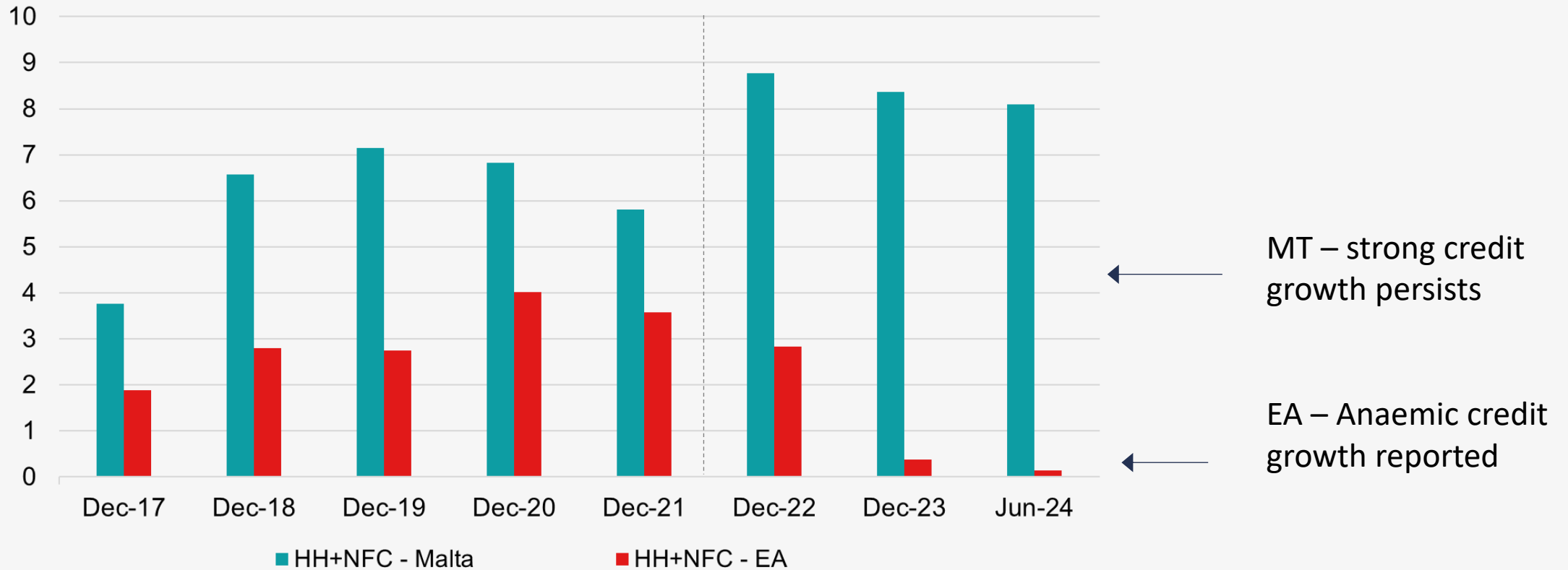
NON-BANK FINANCIAL INSTITUTIONS

- The NBFBI Broad Measure places Malta in second place within the EU, while the Narrow Measure is much smaller, consisting of only 2.4% of the non-banks' assets.

Diverging credit cycles are evident between Malta and the euro area

ANNUAL CREDIT GROWTH RATE

(per cent)



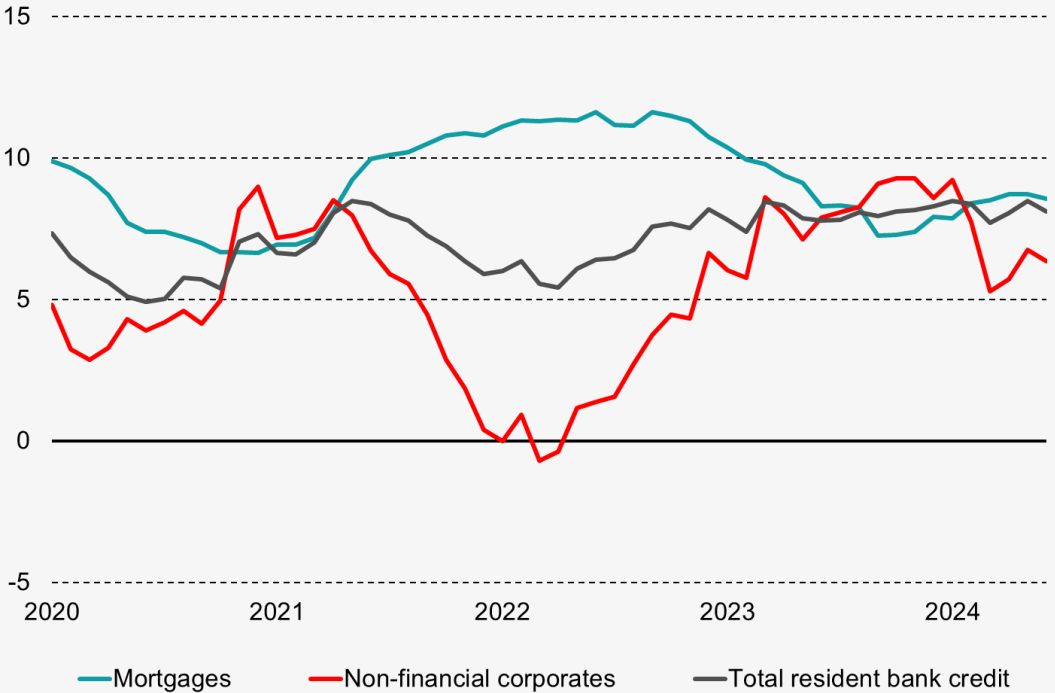
Source: ECB Data Portal



Resident lending remained strong, driven by households, and more recently NFC growth

ANNUAL GROWTH RATE OF RESIDENT LOANS

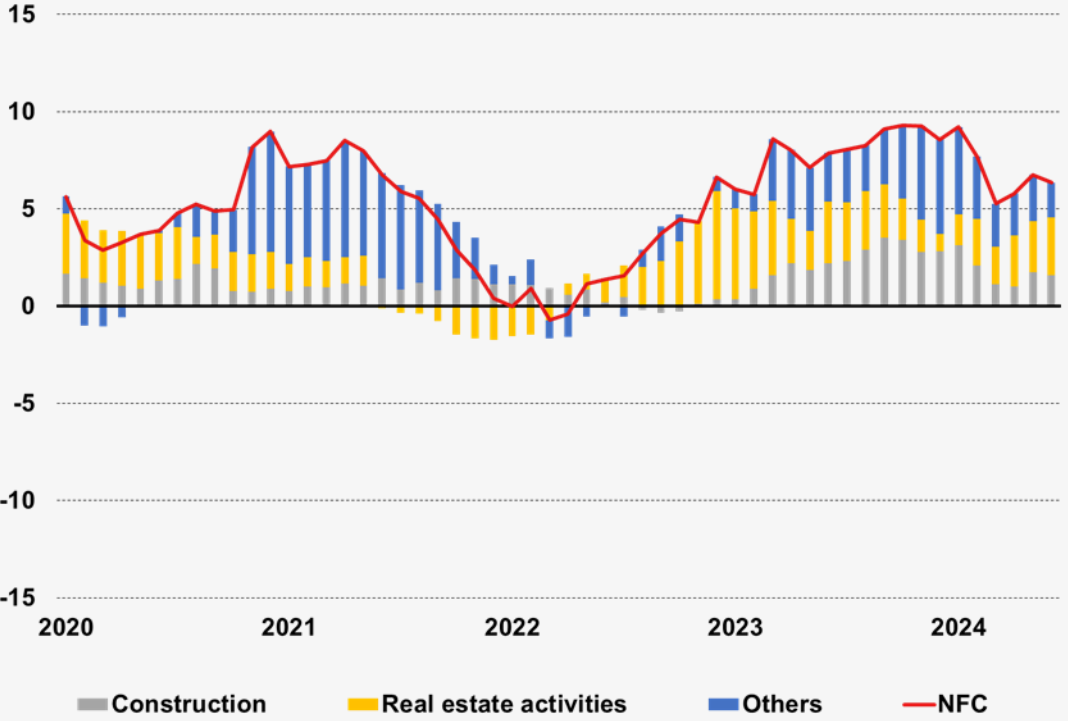
(per cent)



Source: Central Bank of Malta.

CONTRIBUTION TO ANNUAL NFC CREDIT GROWTH RATE

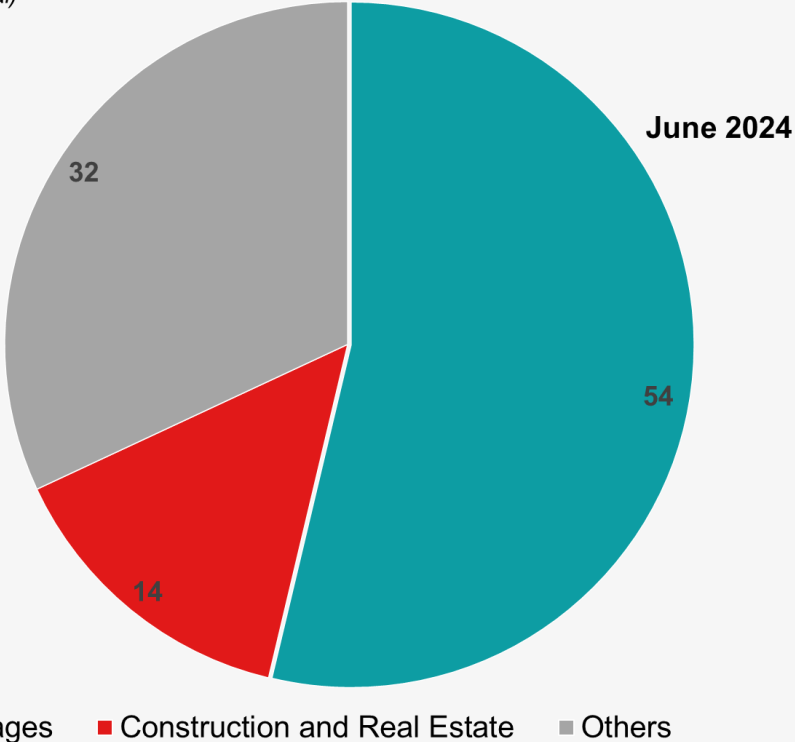
(per cent)



Source: Central Bank of Malta.

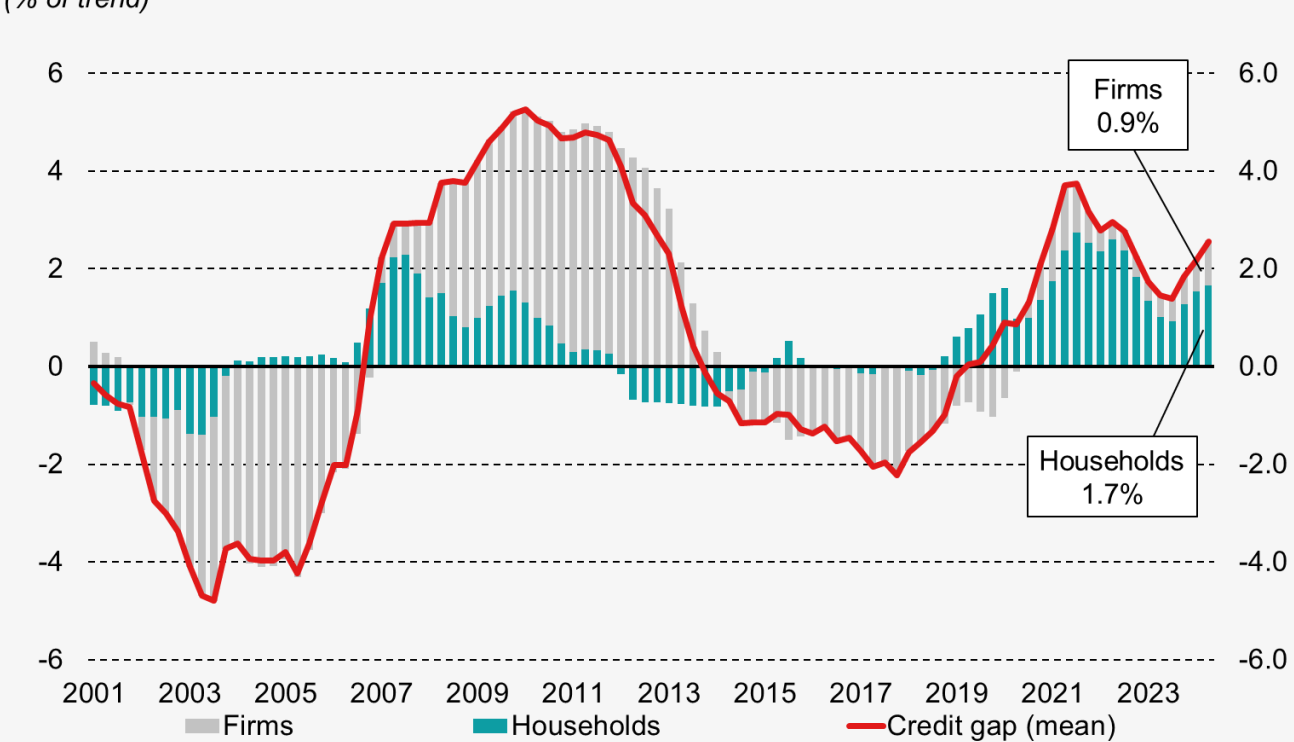
Concentration risk increasing further, with both households and firms contributing to positive credit gap

RESIDENT LOANS - TOTAL BANKS
(percent of total)



Source: Central Bank of Malta.

SECTORAL DECOMPOSITION OF THE CREDIT GAP
(% of trend)



Source: Financial Stability Research Office.

Key takeaways



Financial sector's strong performance

- Higher capital
- Stronger profitability
- Better asset quality
- Healthy Liquidity
- Resilient non-banking sector



Risks remain present

- Global geopolitical risks primary source of uncertainty
- Asynchronous and expansionary domestic credit cycle
- Local vulnerabilities remain, driven by sustained expansionary credit cycle and concentration risk in the Real Estate



Policy implications



Given limitations of monetary policy - added importance and responsibility on Macroprudential policy in Malta



Malta's diverging and still expansionary credit cycle weakens any argument for less resilience



Increasing evidence for the need of more resilience to mitigate against emerging risks related to the commercial side of real estate



Benign time for any potential policy action



Importance for Macroprudential policy to remain a national prerogative; no one-size-fits-all



Thank you

