**Financial Stability Report 2021 Launch – *'Resilience in Uncertain Times'***

**29 September 2022**

**OPENING REMARKS**

**Central Bank of Malta Governor**

**Professor Edward Scicluna**

I welcome you to our first, launch of our flagship report on financial stability.

We are very much looking forward to this opportunity to open a dialogue with you, our key stakeholders, on this Report which effectively gives a 360 view on the status of our financial system. I feel that it was about time to have this opportunity and we intend to keep this appointment for future editions.

As you are all aware, one of our primary roles as a central bank is to build a stronger and safer financial system for the future. This Report showcases the work being carried out by the Bank to ensure that the system stands ready for any near and medium-term risks and vulnerabilities that we see on the horizon, coupled with the implementation of macroprudential measures to improve the resilience of our financial system.

Today's presentations shed light on the key takeaways and analyses of the Report and provide a clear example of the Bank's work in this sphere. Furthermore, the Report also includes the Bank's first attempt at incorporating climate change into its macro stress testing framework. The idea is to shed light on the banks 'preparedness under an adverse scenario and assess the impact on their capital from heightened transitional risks following oil price hikes to disincentivise its use and reach net zero emissions by 2050. We will hear more of this later in the day. I just wanted to highlight that this is but one of the strands of work that the Bank is carrying out in this area which, has grown in importance and in the public's awareness.

The concept of resilience has never been more apt than in current times, as the financial sector's landscape keeps shifting, also spurred by digital transformations. At the same time, the COVID-19 pandemic has put to test the resilience of the system, and the extraordinary efforts by both Governments and regulatory authorities including central banks have ensured that such unprecedented shock does not break the financial system or the economy. Indeed, we have seen that a stable and resilient financial system is an essential ingredient, and in the view of the ECB's Governing Council, a prerequisite for the conduct of monetary policy and the maintenance of price stability. This is so because systemic crises are costly and can impair the transmission mechanism of monetary policy, with adverse implications on growth and price stability.

Some have argued that the substantial monetary policy easing that we had experienced for more than a decade, in response to the effects of the great financial crisis, may have contributed to the build-up of risks, such as inflated asset prices, increased indebtedness, and lax lending standards, as the ultra-low interest rate environment created incentives for more risk-taking. But in the background of these developments, a stronger, more comprehensive, albeit less publicised, macro-prudential framework was being built, to buttress the system from such potential collateral damage from monetary policy. The framework, whilst still in its infancy, has shown to be moving in the right direction in terms of its effectiveness. COVID-19 has also tested this framework and the consensus view is that the financial system has withstood this storm very well. What is certain is that monetary policy cannot ignore financial stability and both policies must work in tandem, to limit as much as possible, any unintended consequences. This is clearly attested by the events at the height of the pandemic where programmes such as the pandemic emergency purchase programme (PEPP) was key in restoring confidence and liquidity in the system, and thereby limiting any systemic financial stability risks. Indeed, monetary policy cannot function independently of financial stability, and financial stability cannot be delivered in the absence of price stability. This view has also been clearly reflected in the ECB's Strategic review, that was concluded last year. Not only was Financial Stability formally recognised as a prerequisite for price stability, but more concretely, more in-depth technical analysis in this field is being presented at the Governing Council on a regular basis ahead of monetary policy decisions. And this could have not been any timelier, as we face the next phase of the policy challenge - taming the cycle whilst minimising the impact on real growth in the current hostile environment. This is indeed true for both policy spheres – monetary and macro-prudential policy. Here, indeed, the challenge is to address the rising risks of inflation and other cyclical vulnerabilities, without jeopardising growth and investment; to continue the recovery from the Pandemic shock. As you will see, the Report does identify these cyclical risks and we look forward to a discussion on them during today's event.

Besides the value added in terms of these more technical aspects covered by the report, which I am sure add value to the initiated reader like yourselves. It is also our intention to make the key takeaways more accessible to the public; since financial stability does underpin the people's day-to-day lives. To this end, we are also trying to use more contemporary means to relay our key messages and we intend to intensify this effort, going forward.