



5. CURRENCY, PAYMENT SYSTEMS AND BANKING SERVICES

The Central Bank of Malta is responsible for the issue and circulation of euro banknotes in accordance with the legal framework of the ESCB, the ECB and of the Central Bank of Malta Act. The Bank also issues coins on behalf of the Government of Malta through a Memorandum of Understanding. Moreover, the Bank is responsible for the regulation and oversight of the payment and securities settlement systems in Malta.

Currency operations

The Central Bank of Malta provides an adequate supply of euro banknotes and coins to meet the demand of the banking system. The Bank ensures the high quality and authenticity of the currency in circulation. All currency returned to the Bank is processed by ECB accredited machines. Counterfeit banknotes and coins are withdrawn, while those found to be unfit for circulation are destroyed. Data on stocks and flows of banknotes and coins are reported on a daily and monthly basis to the ECB through the Currency Information System.

In terms of the obligations laid down under Central Bank of Malta Directive No. 10, the Currency Operations Office monitors recycling activities performed by credit institutions and other professional cash handlers. Annual monitoring tests are performed on banknote handling machines and coin processing machines. Other monitoring checks are undertaken on an ad hoc basis at branches of commercial banks.

The Counterfeit Surveillance Unit within the Currency Operations Office analyses banknotes and coins suspected to be counterfeit and provides expert evidence related to counterfeit currency in terms of the obligations laid down under Article 54 of the Central Bank of Malta Act (Cap. 204).

Circulation of notes and coins

During 2022, the number of notes inspected by the Bank totalled 53.4 million compared with 76.3 million in 2021. The inspected notes had a value of approximately €1,356.2 million, €511.5 million lower than in 2021. When compared to 2021, there was a decrease of 30.0% in volume of notes inspected by the Bank. This can be attributed to the significant increase in re-circulation activities by commercial banks during 2022. A total of 45.8 million banknotes with a value of €1,106.6 million were found suitable for re-issue, while 7.6 million banknotes with a value of €279.3 million were destroyed. The share of destroyed banknotes decreased by 11.6% in volume terms but increased by 13.4% in value terms due to the destruction of €200 and €100 from the old series.

In 2022 the value of euro banknotes in circulation grew by 8.0%. At the end of the year the total value of banknotes in circulation was €2,301.6 million (see Table 5.1). No new series of notes were issued during 2022.

In 2022, the outstanding volume of euro coins rose by 5.7%. By the end of the year, there were 402.6 million coins issued and outstanding, equivalent to €105.9 million (see Table 5.2).

Table 5.1
BANKNOTES ISSUED AND OUTSTANDING BY THE CENTRAL BANK OF MALTA

EUR millions

Total	Issued	Withdrawn	Net issue	Issued and outstanding
2021	2,130.8	1,831.6	299.2	2,131.5
2022	1,503.0	1,332.9	170.1	2,301.6

Source: Central Bank of Malta.

Table 5.2
COINS ISSUED AND OUTSTANDING BY THE CENTRAL BANK OF MALTA

EUR millions

Total	Issued	Withdrawn	Net issue	Issued and outstanding
2021	24.4	20.3	4.1	100.2
2022	26.9	21.2	5.7	105.9

Source: Central Bank of Malta.

During 2022, the Bank processed 36.2 million coins, equivalent to €22.3 million. Between 2021 and 2022, the number of coins examined increased from 35.8 million to 36.2 million, an increase of 1.1%. No coins were demonetised or ceased to be exchangeable during 2022.

During 2022, the Bank continued using the Cash Single Shared Platform system for stock management of banknotes and coins. Staff tested extensively an upgrade of this system which will be released during 2023. Moreover, the Central Bank of Malta Directive No. 10 on the authentication fitness checking and recirculation of euro banknotes and coins was amended to further expand the list of items which cash handlers need to report to the Bank.

During 2022, Currency Operations Office continued with the certification of professional cash handlers using its dedicated online platform. Various employees involved in cash handling from credit institutions renewed their certificates by taking online tests in *Anti-Money Laundering and Know Your Banknotes* modules. By the end of 2022, there were 1,579 certified professional cash handlers enrolled.

During 2022, Currency Operations Office held 70 information sessions on banknotes and coins at retailers. Several other information sessions were delivered to primary school children. Sessions took place online, at the Bank's premises and in retail outlets. The Bank also participated in the European Money Week organised by the Malta Bankers' Association, which focused on financial education and raised awareness amongst students about money and personal finances.

Anti-counterfeit measures

During 2022, the Central Bank of Malta continued to monitor credit institutions and other professional cash handlers, ensuring that all cash handlers were appropriately certified and trained. In addition, Bank staff performed monitoring tests on each type of banknote handling device and coin processing machines. A total of 41 unannounced inspections at branches of credit institutions, seven inspections at Cash-in-transit companies and 17 monitoring tests on banknote handling machines were undertaken to ensure compliance with the Bank's Directive No. 10 on the Authentication, Fitness Checking and Recirculation of Euro Banknotes and Coins. Data on recirculation were collected from cash handlers during the year, analysed, and sent to the ECB.

Quarterly meetings on currency matters and counterfeit developments with credit institutions continued to be held to keep members updated. Assistance was also provided to cash handlers with the upgrading of their banknote handling machines.

During 2022, 927 banknotes and 487 coins were examined, and findings were uploaded into the ECB's Counterfeit Monitoring System. Following analysis, 389 banknotes and 406 coins were confirmed to be counterfeit and removed from circulation. When compared to the previous year, the number of counterfeits detected increased by 27.5%. At 389 pieces, the number of counterfeits is still considered to be negligible. The quality of the counterfeits continues to be low and they can be detected very quickly and easily by applying the *feel-look-tilt* test.

Currency Operations Office personnel were also asked to provide expert evidence during court cases. During 2022, Currency Operations issued one press release to inform the public on the status of counterfeit notes in the Eurosystem in general and more specifically, on the local situation. As from the last quarter of 2022, the Bank started publishing weekly informative posts regarding the euro on social media.

BOX 6: NUMISMATIC RELEASES 2022

500th Anniversary of the Magellan-Elcano Circumnavigation of the Globe

An issue of gold and silver coins commemorated the 500th Anniversary of the first circumnavigation of the globe by Ferdinand Magellan and Sebastian Elcano. Captained by Ferdinand Magellan, a flotilla of five Spanish ships set sail in August 1519 on a quest to establish a route to the fabled Spice Islands and claim them for the King of Spain. The voyage was completed by a single surviving ship under the command of Sebastian Elcano which reached San Lucar de Barrameda on 6 September 1522. This epic maritime feat widened the existing knowledge of the world and proved that the earth could be circumnavigated. It was also the first step towards globalism.



The coins were designed and engraved by Maria Anna Frisone and were minted at the Royal Dutch Mint. The coin obverse features the coat of arms of Malta. The reverse shows a representation of the two sea captains set against a representation of the globe as known in the 16th century.

The Birth of Agostino Levanzin – 150th Anniversary

A silver coin was issued to mark the 150th anniversary of the birth of Agostino Levanzin. A chemist and a legal practitioner by profession, Levanzin is best remembered for his newspaper *In-Naħla* and his historical novel *Is-Saħħar Falzun*. Levanzin promoted the Maltese language at a time when it lacked recognition and status. He was also a pioneer of Esperanto in Malta. As a social activist, he was concerned with workers' rights, compulsory education and female suffrage.



The coin was designed by Noel Galea Bason and was minted at the Royal Dutch Mint. The coin obverse features the coat of arms of Malta. The reverse carries a portrait of Levanzin.

The Birth of Louis Pasteur – 200th Anniversary

A silver coin was issued to mark the 200th anniversary of the birth of Louis Pasteur. Pasteur, a French chemist is best remembered for the process of pasteurisation and for developing the principle of vaccination. The development of a vaccine for rabies sealed Pasteur's fame and opened the way for the development of vaccines against different diseases, contributing to the saving of millions of lives.



The coin was designed by Maria Anna Frisone and was minted by the Royal Dutch Mint. The coin obverse features the coat of arms of Malta. The reverse carries a representation of Louis Pasteur together with some of the tools he used in the conduct of experiments.

The Centenary of the First Performance of *Innu Malti*

The Central Bank of Malta marked the centenary since the first public performance of *Innu Malti* with an issue of silver and gold coins. *Innu Malti*, Malta's national anthem, came into being shortly after that Malta, then a British colony, was granted a measure of self-government in 1921. *Innu Malti* combines verses written by Dun Karm Psaila and the music of Robert Samut, a well-known and respected medical doctor. *Innu Malti* was first performed in public on 27 December 1922 but it was only when Malta attained independence, in 1964, that *Innu Malti* was formally recognised as the National Anthem of Malta.



The coins were designed by Noel Galea Bason and were minted at the Royal Dutch Mint. The coin obverse features the coat of arms of Malta. The reverse shows a profile portrait of Robert Samut and Dun Karm Psaila.

Hal Saflieni Hypogeum

During the year, the Central Bank of Malta also issued three commemorative €2 coins. One of the coins depicts the *Hal Saflieni* Hypogeum a prehistoric site which is inscribed as a UNESCO World Heritage Site. This coin concluded a series of seven coins dedicated to Malta's prehistoric heritage. The coin was designed by Noel Galea Bason and was minted at the Royal Dutch Mint.



Women, Peace and Security

The second coin issue commemorates the 22nd anniversary of the United Nations Security Council Resolution 1320 on Women, Peace and Security. The coin was designed by Antonella Napolione and was minted at the Royal Dutch Mint.



The 35th Anniversary of the Erasmus Programme

The third coin issue formed part of a euro area joint issue commemorating the 35th anniversary of the Erasmus Programme. These coins featured a common design on the national side showing a portrait of Desiderius Erasmus, set against a geometric background.



The common design was created by Joaquin Jimenez. The Maltese coins were minted at the Royal Dutch Mint.

The Numismatics and Historical Publications Advisory Board (NHPAB) was set up in 2017 to propose themes for the Central Bank of Malta commemorative coins programme and to act as editorial board for historical publications. It took over this role from the Currency Advisory Board.

During 2022, the NHPAB was chaired by the Governor of the Central Bank of Malta, with Chief Officer Banking Operations Jesmond Gatt, Prof. John Chircop, Dr Lillian Sciberras and Dr Mario Brincat as members. Board secretary is Kevin Cassar, Curator of the Central Bank's Museum.

Payment and securities settlement systems

The Bank's responsibility to carry out regulation and oversight activities stems from Articles 34 and 34A of the Central Bank of Malta Act whereby the Bank is responsible for the promotion and provision of a stable and sustainable payments landscape in Malta. To fulfil this responsibility, the Bank oversees and regulates the operations of, and the participation in, domestic payment systems. Moreover, the Bank oversees and regulates the provision of payment services, payment applications, payment card schemes and payment transactions operated and effected by credit and financial institutions. In doing so, the Central Bank of Malta, is involved in various regulatory developments and enforcement processes, as well as the carrying out of multiple oversight assessments on relevant entities to promote an effective and efficient payments landscape in Malta.

Third Annual Review of the Malta Stock Exchange under the Central Securities Depository Regulation

As outlined in the Central Securities Depository Regulation (CSDR), both the Competent Authority (i.e., MFSA) and the Relevant Authority (i.e., Central Bank of Malta) are required to perform an annual review and evaluation process on Central Securities Depositories (CSDs) to confirm that the provisions outlined in the regulation are implemented. The third annual assessment on the MSE was carried out in 2022 and the assessment report was approved by the Eurosystem decision-making bodies. Furthermore, an abridged version of the approved report was provided to the MFSA.

Annex 3 of Bank's Directive No. 1

In line with Central Bank of Malta Directive No. 1, credit and financial institutions submitted an annual report on the Information and Communication Technology and security risk management of their operations. During 2022, the Bank received and reviewed 60 reports from such institutions.

Implementation of Digital Operational Resilience Act (DORA)

Given the increasing risk of cyber-attacks, the European Union felt the need to strengthen Information Technology security of financial entities. To this effect, DORA was drafted during 2022 mainly to facilitate and maintain resilient operations of relevant entities. In preparation for the implementation of this legislation, the Bank and the MFSA held regular meetings to discuss different aspects within DORA, highlighting obligations for the yet to be designated competent authority.

Implementation of an access interface for third party providers

As from 14 September 2019, credit and financial institutions offering a payment account which is accessible online, had an obligation to provide an access interface to third party providers. Such interface could either be in the form of a dedicated interface or the modification of the interface used by payment service users to access their account online. Those institutions, which opted for the dedicated interface, had an obligation to implement a fall-back mechanism if the dedicated interface is down. However, subject to certain criteria being met, institutions could be exempted from the provision of the fall-back mechanism. During 2022, nine institutions have met the criteria required and were granted an exemption.

Furthermore, following the publication of the European Banking Association Opinion on Obstacles, the regulatory function conducted an exercise to determine which customer journeys of Account Servicing Payment Service Providers (ASPSPs) contained obstacles. Several meetings with ASPSPs were held to ensure that such obstacles were removed.

Legislative proposal on instant payments

In October 2022, the European Commission published a new legislative proposal on instant payments. The objective of such proposal is to increase the uptake of instant payments by ensuring their affordability, security, and seamless processing across the European Union. It is expected that this proposal becomes law during 2023.

Malta Clearing House

Members of the Malta Clearing House (MCH) meet every morning at the Bank's premises to physically exchange the cheques negotiated during the previous working day. The number of cheques issued

Table 5.3
NUMBER AND VALUE OF CHEQUES PROCESSED BY THE MCH, 2021 AND 2022

	Number of cheques	Value (EUR millions)
2021	2,843,666	7,280.6
2022	2,774,534	7,563.9
Change	-69,132	283.3
Percentage change	-2.4	3.9

Source: Central Bank of Malta.

continued to decrease in 2022 (see Table 5.3). This may be attributed to the objectives of the new Central Bank of Malta Directive No. 19 on the use of cheques and bank drafts which came into effect on 1 January 2022, and the aim to increase the use of alternative payment methods following the COVID-19 pandemic.

As at the end of 2022, the MCH comprised 11 members, including the Central Bank of Malta.

TARGET2-Malta

During 2022, the number of direct participants in the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET2)-Malta remained unchanged. The total volume of payments processed during 2022 was 82,234 for a total value of €934.2 billion. The TARGET2-Malta payments traffic in 2022 registered a 4.7% decrease in terms of volume and an increase of 54.8% in terms of value when compared to 2021. The volume of customer payments was 56,449 for a total value of €10.3 billion, leading to a decrease in volume of 9.6% and an increase in value of 9.6% when compared to 2021. The volume of inter-bank payments was 25,785 for a total value of €923.9 billion, indicating an increase of 8.1% in terms of volume and an increase of 55.6% in terms of value (see Table 5.4).

Banker to the public sector

The Bank continued to provide a range of banking services to the Government. These included the opening and maintenance of various euro and foreign denominated accounts, the encashment of cheques drawn on the Bank and issued by government departments, the deposit of cash and cheques, the provision of safe deposit and safe custody facilities, the processing of Single Euro Payments Area (SEPA) Credit Transfers (SCTs) and SEPA Direct Debits (SDDs), and the processing of payments through TARGET2 and the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

In 2022, the Bank processed 3.3 million SCTs for a total value of €8.0 billion on behalf of its customers. When compared to the previous year, there was an increase of 2.7% in the volume whilst registering a decrease of 2.1% in the value of SCTs.

Table 5.4
TARGET2 PAYMENTS

	Total volume of payments	Total value of payments (EUR billions)	Total volume of customer payments	Total value of customer payments (EUR billions)	Total volume of inter-bank payments	Total value of inter-bank payments (EUR billions)
2021	86,274.0	603.4	62,419.0	9.4	23,855.0	593.9
2022	82,234.0	934.2	56,449.0	10.3	25,785.0	923.9
Change	-4,040.0	330.8	-5,970.0	0.9	1,930.0	330.0
Percentage change	-4.7	54.8	-9.6	9.6	8.1	55.6

Source: Central Bank of Malta.

Table 5.5
NUMBER AND VALUE OF CHEQUES DRAWN ON THE CENTRAL BANK OF MALTA BY THE PUBLIC SECTOR

	Number of cheques	Value (EUR millions)
2021	427,040	205.2
2022	706,972	200.0
Change	279,932	-5.2
Percentage change	65.6	-2.5

Source: Central Bank of Malta.

The increase of cheques drawn on the Central Bank of Malta and issued during 2022 when compared to the previous year (see Table 5.5) can be primarily attributed to the budgetary measures introduced by the Maltese Government. Such measures included benefits in relation to the in-work benefit scheme, tax refunds, inflation and Cost of Living Allowance for low-income earners.

During 2022, the Bank continued servicing the Government's external debt through periodic payments. As in 2021, where €125,192 worth of capital repayments were settled, in 2022 such settlements stood at €128,025. The associated interest paid in 2022 was €6,471 which is 85.6% of last year's amount of €7,557. The Bank also paid €945,120 as interest during 2022 on SURE loans.

The total value of funds transferred to external debt sinking funds by debit of the Government account during 2022 amounted to €50,000.

Banker to the banking system

The Central Bank of Malta continued to act as banker to the rest of the banking system by providing deposit facilities to credit institutions. These institutions maintain balances at the Bank mainly to meet their reserve deposit requirements. They generally hold reserve accounts, margin call accounts and accounts pledged in favour of the Investor Compensation Scheme and Depositor Compensation Scheme.

Other financial services

Throughout 2022, the Bank continued to increase the number of participants and payment traffic in its retail payment system MTEUROPAY. A total of four institutions were onboarded in 2022 bringing the overall number of participants to 10. This is evidenced by the substantial increase in payments processed across all payment streams. Outgoing SCTs registered a 203.1% and 231.7% increase in value and volume respectively, while Incoming SCTs increased by 38% in value and 515.4% in volume when compared to 2021. Additionally, SDDs increased by 547.9% in value and 136.6% in volume when compared to 2021.

The traffic through the Bank's payment system MTEUROPAY is listed in Table 5.6.

Table 5.6
MTEUROPAY PROCESSED PAYMENTS

	SEPA OUT – SCTs		SEPA IN – SCTs		SEPA OUT – SDDs	
	Value (EUR millions)	Volume	Value (EUR millions)	Volume	Value (EUR millions)	Volume
2021	1,642.1	80,720	17,388.1	37,574	21.9	32,299
2022	4,976.5	267,758	23,991.2	231,231	141.9	76,433
Change	3,334.4	187,038	6,603.1	193,657	120.0	44,134
Percentage change	203.1	231.7	38.0	515.4	547.9	136.6

Source: Central Bank of Malta.

Digital euro

The Bank continued to participate in a high-level task force on Central Bank Digital Currency to assess the designs and distribution methods of a digital currency, together with the possible impact on the market. This analysis should be completed by the third quarter of 2023.

Survey amongst local merchants on the use of payment instruments

In the course of 2022, a survey was carried out amongst local merchants on the use and acceptance of payment instruments. The survey results were analysed and subsequently shared with the local banking community.

The survey showed that firms were becoming more receptive to alternative means of payment other than cash, whereas most retailers preferred card payments, followed by credit transfers. Furthermore, a majority of merchants considered the move to a cashless system as an opportunity for their business.

Information campaign on the use of direct debits

The Bank embarked on an educational campaign where several initiatives, including participation on several TV programmes and newspaper articles, were undertaken to raise awareness about the benefits of using direct debits.

Exchange of Hryvnia banknotes

The Bank, through an agreement with the National Bank of Ukraine and in line with the EU recommendations to assist displaced persons presenting evidence of being entitled to temporary protection as provided for in Directive 2001/55/EC on adequate protection under national law as referred to in Implementing Decision (EU) 2022/382, referred to in the communication from the Commission 2022/C 126 I/01, enabled the conversion of hryvnia banknotes into euro. Between 1 August and 7 December 2022, a total of UAH161,000, equivalent to €3,959.56, were exchanged.