

GOVERNOR'S FOREWORD



The year under review continued to be characterised by high inflation, further monetary tightening, and an escalation of geopolitical tensions. Although the global environment remains challenging, there are positive signs on inflation, with the rate moderating significantly from peaks above 10% recorded in late 2022, to around 3% in recent months. While this largely reflects lower energy prices, the moderation in inflation is broad based also due to improving supply conditions as well as slowing demand, the latter partly reflecting the effectiveness of monetary tightening by many central banks globally.

The European Central Bank (ECB) has been no exception. It increased its policy rates by 200 basis points during 2023, bringing them to historical highs, also taking further steps to unwind its monetary policy portfolios. The increase in policy rates since July 2021 is even more significant, at 450 basis points. Although policy rates have been on hold since September 2023, there remains a degree of tightening impulse that should drive inflation down further. In fact, incoming information suggests that euro area inflation could reach 2% earlier than expected.

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Inflation has also moderated in Malta. With energy prices fixed, the decline in inflation was driven entirely by non-energy prices. Incoming data for the first months of 2024 suggests that food inflation has continued to decrease, in part reflecting government price stabilisation measures that became effective in February 2024. Meanwhile, inflation excluding energy and food remains below the corresponding rate for the euro area – a pattern evident since June 2023.

Despite still elevated inflationary pressures and higher financing costs, activity has shown resilience in both the euro area and in Malta, though with increasing signs of weakening dynamics in the latter half of 2023, which could have a negative carry-over effect in the near term.

Uncertainty related to ongoing geopolitical tensions, structural impediments to productivity growth and climate-related risks, is significant. However, there are also tailwinds that should support stronger activity over the medium-term, not least the ongoing improvement in purchasing power as inflation fades.

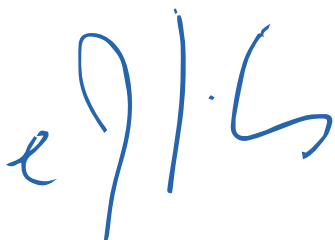
The monetary policy stance in the euro area over the past year has also brought with it the need to use again the Bank's financial provisions that were built over the past decade. Yet, this has not detracted the Bank from contributing to Eurosystem tasks or improving its processes.

During the year under review the Bank continued to diversify its portfolio of financial assets, and gradually switched to financial assets that also better align with its climate neutrality objective underpinning its non-monetary policy portfolios (NMPPs). In March 2023, the Bank's first climate-related financial disclosures report was published. Meanwhile, the Bank improved its operational processes in respect of its market-making role in government securities, together with that of managing stocks of banknotes and coins. The Bank's technological infrastructure was upgraded to render it more resilient against cybersecurity risks. Efforts are also underway to assess the cyber-resilience of financial institutions and the national financial market infrastructure (FMI).

Meanwhile, the Bank and the National Statistics Office (NSO) completed the final steps leading to Malta's enrolment in the highest tier of the International Monetary Fund's (IMF) Data Standards Initiatives. In parallel, the Bank continued to adopt advanced techniques for statistical data collection and analysis, enhanced its macroeconomic modelling toolkit, and took steps to improve its outreach to the public.

Following the Governing Council's decision to proceed with the preparation phase of the digital euro last October, the Bank is also contributing in the discussions at the European level on this project.

On behalf of the Board of Directors I would like to thank the Bank's staff for their dedicated and professional service. I am confident that together we can rise to the challenges that lie ahead.



Professor Edward Scicluna