



## L-ERBATAX-IL LEGIŻLATURA

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Eleanor Scerri  
Skrivan tal-Kamra



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

**FIFTY-SIXTH ANNUAL REPORT  
AND  
STATEMENT OF ACCOUNTS  
2023**

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*However, the cut-off date for tourism and monetary financial institutions' interest rates has been extended to 6 March 2024, while that for the euro area has been extended to 8 March 2024. Figures in tables may not add up due to rounding.*

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## MISSION STATEMENT

The Central Bank of Malta (the Bank) is an independent institution, which forms an integral part of the Eurosystem and, as a member of the European System of Central Banks (ESCB), has the primary objective of maintaining price stability. It is entrusted with all major central banking tasks, particularly that of ensuring the stability of the financial system.

The Bank carries out its statutory responsibilities in the public interest and is committed to performing its functions effectively, efficiently and economically to the highest level of integrity, competence and transparency. In this regard, in accordance with the Central Bank of Malta Act, and in conformity with the Treaty on European Union and the Treaty on the Functioning of the European Union and the Protocol on the Statute of the ESCB and of the European Central Bank (ECB), it:

- (i) **undertakes economic and financial analysis and research** to support the Governor's participation in the decision-making process of the ECB's Governing Council and provides independent advice to the Government on economic and financial policy issues;
- (ii) **implements the ECB's monetary policy** through market operations conducted within the operational framework of the Eurosystem;
- (iii) **contributes effectively to the stability of the financial system** by identifying and assessing systemic risks and imbalances, and making the appropriate policy recommendations;
- (iv) **formulates and implements a macro-prudential policy** to fulfil its task as the national macro-prudential authority;
- (v) **promotes and supports the development and integration of financial markets** in Malta through oversight of market infrastructures and by ensuring the availability of cost efficient securities settlement and payment systems;
- (vi) **provides an adequate supply of banknotes and coins** to meet the demands of the public, while ensuring high quality and authenticity of the currency in circulation;
- (vii) **collects, compiles and publishes economic and financial statistics** in line with international standards;
- (viii) **acts as banker to Government and to the banking system**;
- (ix) **holds and actively manages financial assets** with the aim of optimising returns, subject to prudent risk management practices;
- (x) **actively participates in the ESCB, the Eurosystem and other relevant European Union bodies**, including their sub-structures;
- (xi) **acts as the supervisory authority** of credit reference agencies for the purpose of overseeing and regulating the issuance of credit scores.

**In addition, as a member of the Eurosystem, the Bank fully subscribes to the Eurosystem's mission, strategic intents and organisational principles.**

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\*as at 28 March 2024

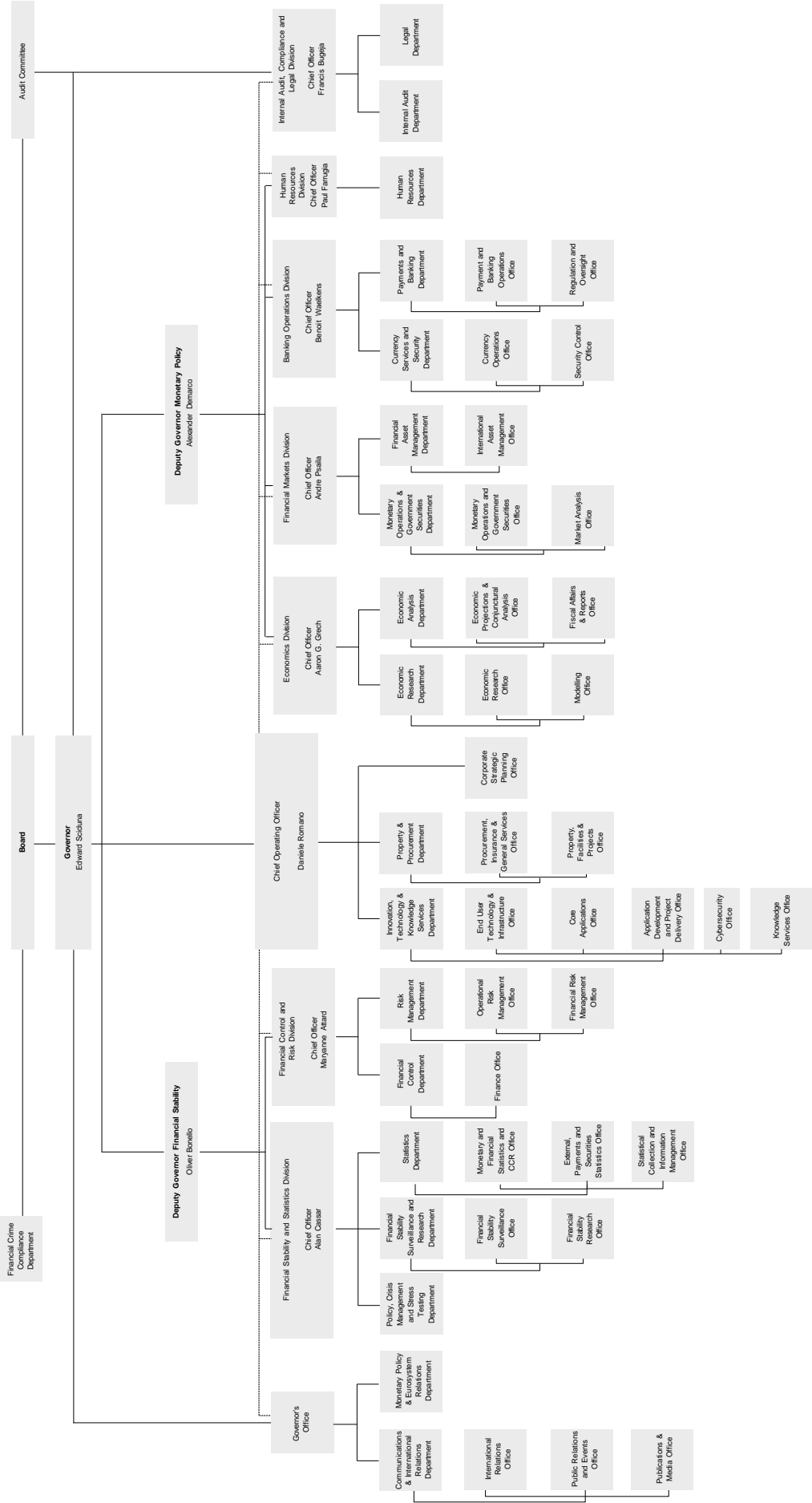
## THE BOARD OF DIRECTORS\*



(left to right)  
Francis Bugeja (Secretary), Romina Borg (Director), Alexander Demarco (Deputy Governor), Edward Scicluna (Governor), Oliver Bonello (Deputy Governor), Frank Bezzina (Director),  
Lauren Ellul (Director), Peter J. Baldacchino (Director).

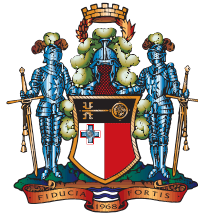
\*as at 28 March 2024

# ORGANISATION CHART\*



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA

*Il-Gvernatur*



CENTRAL BANK OF MALTA  
EUROSYSTEM

*The Governor*

28 March 2024

Hon Clyde Caruana  
Minister for Finance  
Maison Demandols  
South Street  
Valletta VLT 1102

Dear Minister,

#### **LETTER OF TRANSMITTAL**

In terms of Article 21 of the Central Bank of Malta Act (Cap. 204), I have the honour to transmit to you, in your capacity as Minister responsible for finance, a copy of the Annual Report of the Bank for the financial year ended 31 December 2023.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'e.g./L'.

Professor Edward Scicluna



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## ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
APP	Asset Purchase Programme
ATM	automated teller machine
BCI	Business Conditions Index
BCM	Business Continuity Management
BLS	Bank Lending Survey
BOP	balance of payments
CCI	construction cost index
CCR	Central Credit Register
CCyB	countercyclical capital buffer
CGS	COVID-19 Guarantee Scheme
COICOP	Classification of Individual Consumption by Purpose
COVID-19	coronavirus disease 2019
CPE	compensation per employee
CPI	Consumer Price Index
CRA	credit reference agency
CSR	Corporate Social Responsibility
DCS	Depositor Compensation Scheme
DORA	Digital Operational Resilience Act
DSGE	Dynamic stochastic general equilibrium
EA	euro area
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECMS	Eurosystem Collateral Management System
EDI	Equality, Diversity and Inclusion
EDP	Excessive Deficit Procedure
EEL	Employment Expectations Indicator
EFC	Economic and Financial Committee
ESA	European System of Accounts
ESG	Environmental, Social and Governance
ESI	Economic Sentiment Indicator
ESRB	European Systemic Risk Board
€STR	euro short-term rate
ETF	exchange-traded funds
EU	European Union
EUI	Economic Uncertainty Indicator
EURIBOR	Euro Interbank Offered Rate
FC	financial corporation
FCI	Financial Conditions Index
FMI	Financial Market Infrastructure
FOMC	Federal Open Market Committee
FSB	Financial Stability Board
FSR	Financial Stability Report
FX	foreign exchange
GDP	gross domestic product
GEAD	generalised exactly additive decomposition
GFCF	gross fixed capital formation
GVA	gross value added
HCI	harmonised competitiveness indicator
HFCS	Household Finance and Consumption Survey
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IAC	Internal Auditors Committee
ICS	Investor Compensation Scheme

IPC	Investment Policy Committee
IREF	Integrated Reporting Framework
LFS	Labour Force Survey
LSGS	Liquidity Support Guarantee Scheme
LTRO	Longer-term refinancing operation
MAPS	Market Activities Processing System
MCAST	Malta College of Arts, Science and Technology
MCH	Malta Clearing House
MDB	Malta Development Bank
MFI	monetary financial institution
MFSA	Malta Financial Services Authority
MGS	Malta Government Stocks
MIA	Malta International Airport
MMSR	Money Market Statistics Reporting
MPC	Monetary Policy Committee
MQF	Malta Qualification Framework
MRO	main refinancing operation
MSE	Malta Stock Exchange
NCB	national central bank
NEER	nominal effective exchange rate
NEIG	non-energy industrial goods
NFC	non-financial corporation
NHPAB	Numismatics and Historical Publications Advisory Board
NMPP	non-monetary policy portfolio
NPISH	non-profit institutions serving households
NSO	National Statistics Office
OFI	other financial institution
ORM	Operational Risk Management
OPEC	Organisation of the Petroleum Exporting Countries
O-SIIs	Other Systemically Important Institutions
PEPP	pandemic emergency purchase programme
PPI	Property Price Index
PSD2	Payment Service Directive
PSPP	Public Sector Purchase Programme
RIAD	Register of Institutions and Affiliates Database
RPI	Retail Price Index
RRF	Recovery and Resilience Facility
SDDS	Special Data Dissemination Standard
SEPA	Single Euro Payments Area
SLS	Subsidised Loan Scheme
SME	small and medium-sized enterprise
SPB	structural primary balance
SSS	securities settlement system
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T2	TARGET2
T2S	TARGET2-Securities
TARGET	Trans-European Automated Real-Time Gross Settlement Express Transfer System
TIBER-EU	Threat Intelligence-based Ethical Red Teaming
TIPS	TARGET instant payment settlement
TLTRO	targeted longer-term refinancing operation
ULC	unit labour cost
VAT	value added tax
WBG	World Bank Group

## 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.

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.

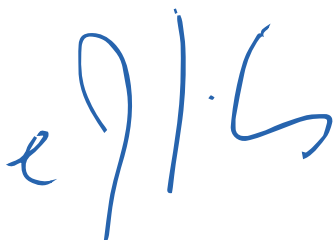
The monetary policy stance in the euro area over the past year has also brought with it the need to use again the Bank's financial provisions that were built over the past decade. Yet, this has not detracted the Bank from contributing to Eurosystem tasks or improving its processes.

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.

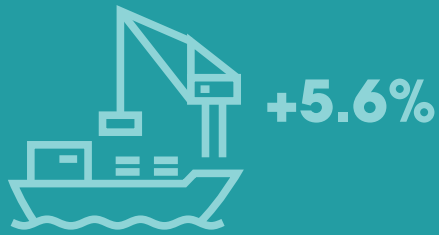
On behalf of the Board of Directors I would like to thank the Bank's staff for their dedicated and professional service. I am confident that together we can rise to the challenges that lie ahead.



Professor Edward Scicluna

## AT A GLANCE

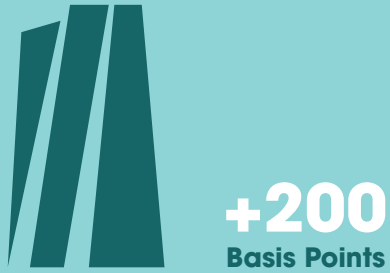
### Economic Growth



### HICP Inflation

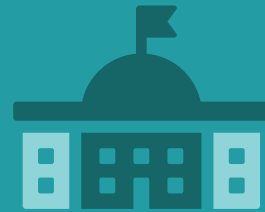


### ECB Interest Rates



### Government Deficit

**3.4%**  
% of GDP  
Q3 2023



### Employment Growth



Latest revised figure.



Simar Nature Reserve, Xemxija

# **I. FINANCIAL AND ECONOMIC DEVELOPMENTS**



## 1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

*During 2023, economic activity in the United States (US) grew at a faster pace than the year before, whereas in the United Kingdom (UK) economic growth slowed down markedly. Unemployment remained practically unchanged both in the United States and in the United Kingdom. Price pressures, though remaining elevated, eased notably. By the end of the year, the annual rate of consumer price inflation fell to 3.4% in the United States and 4.0% in the United Kingdom.*

*During the year, both the Federal Reserve and the Bank of England raised their key policy rates further on several occasions to address still-high, albeit easing, inflation. Both central banks also continued to unwind the stock of assets held on their balance sheets.*

*In the euro area, real gross domestic product (GDP) growth slowed down to 0.4% in 2023. Employment continued to increase, though at a slower pace than in the previous year, while the unemployment rate declined slightly further, to 6.5%. Consumer price inflation, measured on the basis of the Harmonised Index of Consumer Prices (HICP), though still high, abated markedly during 2023, with the average for the year as a whole standing at 5.4%, compared to 8.4% in 2022.*

*During 2023, the ECB continued to tighten its monetary policy stance in the context of elevated, though moderating, inflation. The Governing Council raised the interest rates on the deposit facility, the main refinancing operations (MROs) and the marginal lending facility six times, such that by December these rates stood 200 basis points above their level at the end of 2022.*

*In February 2023, the Governing Council decided that the Eurosystem's holdings of securities under the APP would decline at an average monthly pace of €15 billion between March and the end of June 2023. APP reinvestments were discontinued as of July 2023. As regards the pandemic emergency purchase programme (PEPP), at its December meeting, the Governing Council expressed its intention to continue with full reinvestments during the first half of 2024. Over the second half of this year, the PEPP portfolio was expected to decline by €7.5 billion per month on average. The Governing Council intended to discontinue reinvestments under the PEPP at the end of 2024.*

*During 2023, the price of oil declined, amid some notable fluctuations, as supply outpaced subdued demand. Meanwhile, the price of European Natural Gas fell markedly, amid high volatility. Whereas gas supplies remained rather tight, mainly on account of disruptions and the replenishment of inventories, demand continued to decline.*

### Key advanced economies

#### *US economic growth accelerates*

During 2023, the US economy strengthened further, with economic growth expanding at an accelerated pace (see Table 1.1). Fiscal policy supported growth, with the Federal budget deficit widening from 5.3% of GDP in 2022 to 6.2% of GDP in 2023.

Real GDP increased by 2.5% in 2023, up from 1.9% in the previous year. This mainly reflected a notable rise in government expenditure, as against a contraction in 2022, and less negative net exports of goods and services. The latter reflected an increase in exports and a decrease in imports. These factors were partly offset by a slowdown in personal consumer expenditure, mainly reflecting slower growth in spending on services, and a decline in gross private domestic investment, largely on account of decreases in residential investment as

**Table 1.1**  
**REAL GDP GROWTH IN SELECTED ADVANCED ECONOMIES**

*Percentage changes over preceding period*

	2018	2019	2020	2021	2022	2023
United States	3.0	2.5	-2.2	5.8	1.9	2.5
Euro area	1.8	1.6	-6.1	5.9	3.4	0.4
United Kingdom	1.4	1.6	-10.4	8.7	4.3	0.1

Sources: Bureau of Economic Analysis, US; Eurostat; Office for National Statistics, UK.

well as inventory investment. Fixed investment rose, but at a slower pace than in 2022.

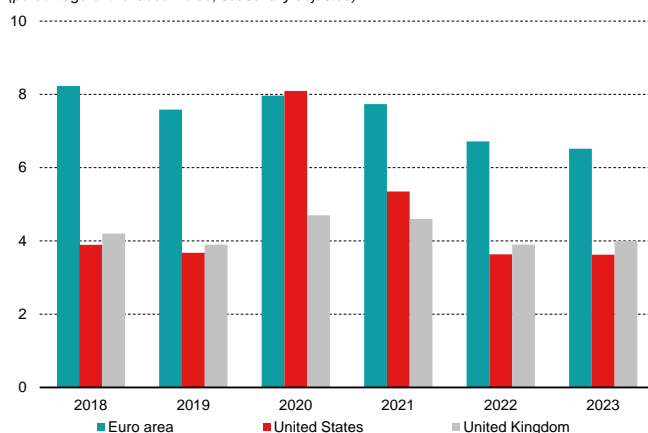
Economic growth in the United States was underpinned by a robust labour market. Employment rose by 1.7% on average during the year, after having increased by 3.7% in 2022.

Non-farm payroll data suggest that during 2023 employment was higher across all main economic sectors, with the strongest level increases recorded in the education and health and leisure and hospitality sectors as well as government. The labour force participation rate edged up, averaging 62.6% in 2023, compared to 62.2% a year earlier. Meanwhile, the unemployment rate averaged 3.6% in 2023, unchanged from 2022 (see Chart 1.1).

Inflationary pressures declined significantly during 2023, with the annual inflation rate based on the consumer price index (CPI) broadly halving to 4.1% from 8.0% in 2022. Inflation fell to 3.4% in December, from 6.5% a year earlier (see Chart 1.2). US inflation fell consistently to 3.0% in June and subsequently it fluctuated in a relatively narrow range.

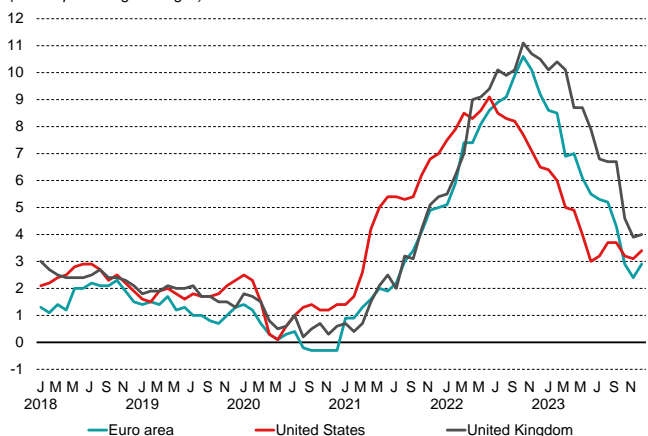
The decline in inflation reflected mainly lower energy prices, coupled with lower increases in the other major components. Annual energy price inflation turned negative in March and continued to follow a negative trend through the remainder of the year, with the decline being especially pronounced between May and July. Energy price inflation ended the year at -2.0%, in contrast with 7.3% in December 2022. Food price inflation rose at a substantially slower pace during the year when compared to the previous year. It eased to 2.7% in December 2023 from 10.1% a year earlier. The rest of the

**Chart 1.1**  
**UNEMPLOYMENT RATE**  
*(percentage of the labour force; seasonally adjusted)*



Sources: Eurostat; US Bureau of Labor Statistics; Office for National Statistics, UK.

**Chart 1.2**  
**CONSUMER PRICE INFLATION**  
*(annual percentage changes)*

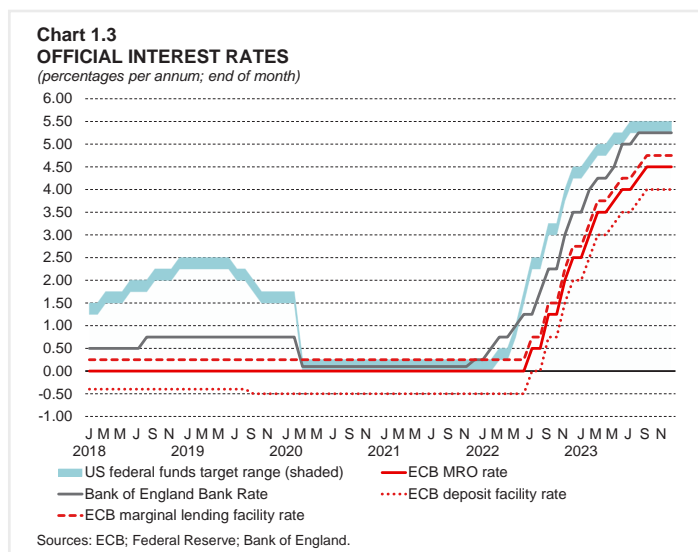


Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.

components of inflation also rose at slower rates. Services inflation decreased to 5.0% in December 2023, while prices of commodities excluding food and energy grew at an annual rate of 0.2%, as against 7.5% and 2.1%, respectively a year earlier. As a result, inflation excluding food and energy slowed down to 3.9% at the end of 2023, from 5.7% in December 2022.

As regards monetary policy, the Federal Open Market Committee (FOMC) continued to raise the target range for the federal funds rate during 2023 to attain a stance of monetary policy that would be sufficiently restrictive to return inflation

to 2.0% over time (see Chart 1.3). To this effect, the FOMC increased the target range four times between February and July so that, by the end of 2023, it stood between 5.25-5.50%, up from 4.25-4.50% at the end of 2022. The FOMC expressed its preparedness to adjust the stance of monetary policy as appropriate if risks emerged that could impede the attainment of its dual inflation and employment mandate.<sup>1</sup> Moreover, throughout the year, the Committee continued to reduce its holdings of Treasury securities and agency debt and agency mortgage-backed securities.



### UK economic growth slows down markedly

During 2023, the UK economy stagnated, with real GDP growing by just 0.1%, down from 4.3% in 2022 (see Table 1.1). Growth recorded in the first quarter of the year was almost offset by contractions in economic activity registered consecutively in the third and fourth quarters. The rate of expansion in 2023 was the weakest since 2020, which was affected by the COVID-19 pandemic. Expenditures by households and non-profit institutions increased at a markedly slower pace as elevated price pressures and tight financial conditions weighed on consumption. Government consumption also grew less rapidly than in the year before. Nevertheless, UK general government net borrowing is estimated to have increased in 2023. Similarly, business investment, including inventories, increased at a much slower pace. On the other hand, the trade deficit narrowed, as the decline in imports exceeded that in exports.

In 2023, payrolled employees in the United Kingdom rose by 0.7%, a slower rate of increase than the 1.3% recorded a year earlier. The employment rate stood at 75.1%, on average, same as in 2022. The unemployment rate averaged 4.0%, slightly up from 3.9% a year earlier (see Chart 1.1).

After having reached new highs towards the end of 2022, consumer price inflation in the United Kingdom abated steadily during 2023, driven by the energy component, although inflationary pressures remained elevated. Thus, annual inflation, based on the CPI averaged 7.2%, from 9.1% in 2022. It declined to 4.0% in December 2023, from 10.5% in December 2022 (see Chart 1.2). Annual energy inflation fell consistently from a historical high of 59.0% in October 2022, turning negative in July 2023 and ending the year at -17.3%. Inflation eased across all the other major components during 2023, albeit to various extents, but remained positive. The annual rate of change of prices for food, alcoholic beverages and tobacco declined in December, though, it remained high at 9.3%. Services inflation eased marginally, ending the year at 6.4%, while non-energy industrial goods (NEIG) inflation dropped to 3.1%. The annual rate of inflation

<sup>1</sup> In its meeting held on 30-31 January 2024, the Committee kept both the target range for the federal funds rate and the pace of quantitative tightening unchanged. The FOMC dropped its tightening bias in favour of a more neutral stance, as it stated the risks to achieving its goals were “moving into better balance”. However, the Committee added it needed to gain “greater confidence” that inflation was moving sustainably towards 2% before it could cut rates.

based on the CPI excluding energy, food, alcoholic beverages and tobacco, declined to 5.1% in December 2023 from 6.3% a year earlier.

In the context of a persistently tight labour market, stronger-than-expected employment growth and evidence of heightened domestic inflationary pressures, the Bank of England's Monetary Policy Committee (MPC) continued to increase its Bank Rate, and did so five times during the year, with the last rise coming in August. Against the background of mixed developments in key indicators of inflation persistence, the MPC kept the Bank Rate unchanged in the later months of the year. Hence, the Bank Rate ended 2023 at 5.25% (see Chart 1.3). However, the MPC stated that monetary policy would need to be sufficiently restrictive for sufficiently long to return CPI inflation to the 2% target sustainably in the medium term.

In September, the Committee agreed that the Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by GBP 100 billion over the period from October 2023 to September 2024, to a total of GBP 658 billion.<sup>2</sup>

## Economic and financial developments in the euro area

### *Euro area GDP growth slows down sharply<sup>3</sup>*

Real GDP growth in the euro area slowed down to 0.4% in 2023, compared to 3.4% in 2022 (see Table 1.2). After having expanded marginally in quarter-on-quarter terms during the first half of 2023, economic activity contracted slightly in the second half of the year. The slowdown in economic growth over the year as a whole occurred mainly on the back of muted domestic demand, largely reflecting subdued consumer and business confidence, elevated inflationary pressures that lowered real disposable income, and tighter financing and credit supply conditions. Both imports and exports declined, with the latter reflecting sluggish global demand and exchange-rate developments.

**Table 1.2**  
**REAL GDP GROWTH IN THE EURO AREA**

*Chain-linked volumes*

	2018	2019	2020	2021	2022	2023
	<i>Annual percentage changes</i>					
Private consumption	1.5	1.4	-7.7	4.4	4.2	0.5
Government consumption	1.0	1.8	1.0	4.2	1.6	0.7
Gross fixed capital formation	3.1	6.9	-5.9	3.5	2.5	1.1
Exports	3.6	3.2	-9.1	11.5	7.2	-1.1
Imports	3.9	5.0	-8.5	9.2	7.9	-1.6
<b>GDP</b>	<b>1.8</b>	<b>1.6</b>	<b>-6.1</b>	<b>5.9</b>	<b>3.4</b>	<b>0.4</b>
	<i>Percentage point contributions</i>					
Private consumption	0.8	0.7	-4.1	2.3	2.1	0.3
Government consumption	0.2	0.4	0.2	0.9	0.3	0.2
Gross fixed capital formation	0.7	1.4	-1.3	0.8	0.5	0.3
Changes in inventories <sup>(1)</sup>	0.1	-0.3	-0.3	0.6	0.4	-0.5
Exports	1.7	1.5	-4.4	5.2	3.6	-0.6
Imports	-1.7	-2.2	3.8	-3.9	-3.6	0.9
<b>GDP</b>	<b>1.8</b>	<b>1.6</b>	<b>-6.1</b>	<b>5.9</b>	<b>3.4</b>	<b>0.4</b>

Source: Eurostat.

<sup>2</sup> In its meeting ending on 31 January 2024, the MPC kept the Bank Rate unchanged. The MPC removed its tightening bias, due to positive news on inflation, and now it stated that it would "keep under review" how long the Bank Rate should be held at the current level. The MPC added it needed to see more evidence that inflation would return sustainably to 2% before it could cut rates.

<sup>3</sup> The cut-off date for data on euro area GDP and the labour market in this chapter is 8 March 2024.

The marginal growth in real GDP largely reflected a modest rise in domestic demand and net exports of goods and services, which turned positive in 2023. As regards domestic demand components, gross fixed capital formation (GFCF) and private consumption rose by 1.1% and 0.5%, respectively, over the previous year and contributed 0.3 percentage point each to GDP growth. Also, government consumption expenditure increased by 0.7% and contributed 0.2 percentage point to economic growth. Meanwhile, net exports added 0.3 percentage point to GDP growth, as a 1.1% drop in exports was outweighed by a 1.6% decline in imports. By contrast, a drawdown in inventories exerted a negative impact on GDP growth during 2023.

From a sectoral perspective, activity expanded in most economic sectors during 2023, although contributions to overall growth were smaller than the year before. This applies particularly to wholesale and retail trade, transport, accommodation and food service activities. Meanwhile, the industrial sector registered a contraction in activity.

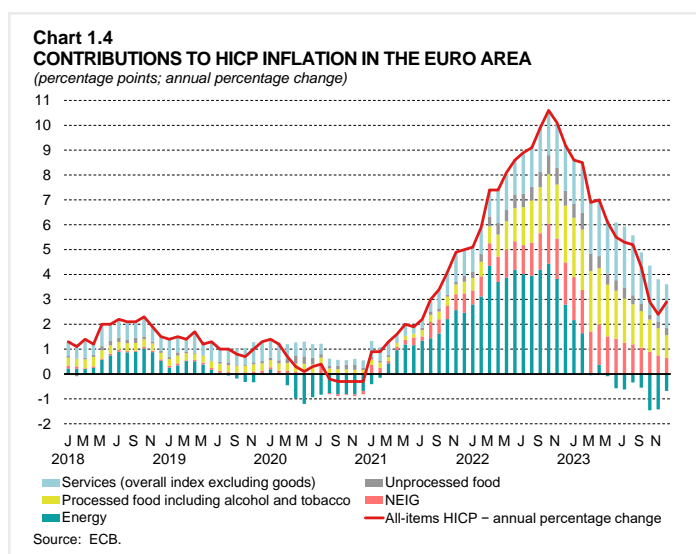
### Labour market conditions remain strong

Labour market conditions in the euro area remained robust during the year under review, with employment increasing by 1.4% in 2023, compared to 2.3% in 2022. Meanwhile, unemployment declined slightly further throughout 2023, with the seasonally-adjusted unemployment rate averaging 6.5% during the year, down from 6.7% in 2022 (see Chart 1.1). In December 2023, the unemployment rate stood at 6.5% as against 6.7% a year earlier. Buoyant labour market conditions attracted a strong inflow of persons, including migrants and those previously inactive, to joining the labour force. The drop in the unemployment rate also partly reflected labour hoarding as economic activity was subdued.

### HICP inflation, though still elevated, eases notably

The annual rate of HICP inflation in the euro area, though still high, abated markedly during 2023, with the average for the year as a whole standing at 5.4%, compared to 8.4% in 2022. This decrease mainly reflected a sustained decline in energy inflation, which fell to an average of -2.0% as against a rise of 36.9% in 2022, partly reflecting developments in commodity markets, as well as downward base effects. As a result, the contribution of energy to overall inflation fell to -0.1 percentage point in contrast to a rise of 3.8 percentage points in the previous year. Unprocessed food inflation decelerated to 9.1% on average in 2023, from 10.4% the year before, with its contribution to overall inflation easing slightly. On the other hand, the other major components of inflation rose further and at slightly faster rates, during 2023. Processed food (including alcohol and tobacco) inflation rose to 11.6%, on average, while NEIG inflation went up to 5.0% and services inflation rose to 4.9%, on average. Consequently, the processed food contribution to overall inflation increased to 1.8 percentage points, from 1.4 percentage points a year before, while services contributed 2.1 percentage points to overall inflation, up from 1.5 percentage points in 2022. The contribution of NEIG to overall inflation went up marginally to 1.3 percentage points.

However, inflationary pressures eased almost consistently as the year progressed, with the annual rate of HICP inflation falling to 2.9% in December 2023 from 9.2% a year earlier (see Chart 1.4). In the early months of the year, the gradual pass-through of past cost increases continued to exert an upward impact on inflation, but thereafter this factor faded out partly also as the sustained tightening of the monetary policy stance



dampened demand. Nonetheless, domestic price pressures remained considerable, also reflecting rising wages, though these were to an extent absorbed by previous increases in profit margins, thus averting a wage-price spiral.

HICP inflation excluding energy and food averaged 5.0% during 2023, 1.0 percentage point higher than that recorded in 2022, though this measure of inflation moderated as the year progressed. It peaked at 5.7% in March and then embarked on a general downward trend, falling to 3.4% in December.

### *ECB projects a gradual recovery in economic activity, while inflation is set to decline further*

According to the ECB staff macroeconomic projections published in March 2024, real GDP growth in the euro area is expected to increase marginally to 0.6% in 2024, before rising further to 1.5% and 1.6% in 2025 and 2026, respectively (see Table 1.3).<sup>4</sup> Economic activity is expected to remain sluggish in early 2024 as tight financing conditions and high consumer uncertainty continue to exert an adverse impact on growth. Nevertheless, in the first half of this year, falling inflation and strong wage growth are expected to bolster households' purchasing power, boosting private consumption. This, together with higher government consumption, is expected to bring about slightly higher economic growth in the second half of 2024. Over the medium term, real economic growth is expected to stabilise at rates that modestly exceed potential growth as inflation slows down and income growth remains strong. Although the negative impact of tight monetary policy on financing conditions and on economic growth is initially strong, it is expected to begin to gradually fade in 2024. ECB staff estimate that the fiscal stance tightened during 2023, with the general government budget deficit narrowing to 3.2% of GDP. The deficit is expected to narrow further, and the withdrawal of energy and inflation compensatory fiscal support measures should have a small negative impact on economic growth over the projection horizon.

Compared to the December 2023 projections, real GDP growth has been revised downwards by 0.2 percentage point for 2024. Growth projections remained unchanged for 2025 and were revised upwards by 0.1 percentage point for 2026. The revision for 2024 mainly reflects downward revisions to investment and private consumption, which outweighed a positive revision to the external trade balance and an upward revision to government consumption. By contrast, small upward revisions to private consumption and investment led to an upward revision to GDP growth outlook for 2026.

Turning to the outlook for prices, according to the March 2024 projections, headline HICP inflation is envisaged to decline to 2.3% in 2024, and ease further to 2.0% and 1.9% in 2025 and 2026, respectively. Energy

**Table 1.3**  
**MACROECONOMIC PROJECTIONS FOR THE EURO AREA<sup>(1)</sup>**  
*Annual percentage changes*

	2022	2023	2024	2025	2026
<b>GDP</b>	<b>3.4</b>	<b>0.5</b>	<b>0.6</b>	<b>1.5</b>	<b>1.6</b>
Private consumption	4.2	0.5	1.2	1.6	1.5
Government consumption	1.6	0.2	1.3	1.4	1.2
GFCF	2.8	0.8	-0.6	1.6	2.3
Exports	7.4	-0.7	1.0	2.9	3.2
Imports	8.1	-1.3	1.0	3.1	3.2
<b>HICP</b>	<b>8.4</b>	<b>5.4</b>	<b>2.3</b>	<b>2.0</b>	<b>1.9</b>
HICP excluding energy and food	3.9	4.9	2.6	2.1	2.0

Source: ECB.

<sup>(1)</sup> ECB staff macroeconomic projections (March 2024).

<sup>4</sup> Figures for 2022 and 2023 may differ from those reported in Table 1.2 due to an earlier cut-off date for the ECB staff projections.

inflation is expected to rebound by end 2024 mainly on account of three factors: upward base effects, the unwinding of government energy compensation schemes and measures related to climate change. Subsequently, however, HICP energy inflation is expected to ease to around 0.5% in 2025 and 2026 in a context characterised by modestly downward sloping energy commodity futures prices. Food inflation is expected to fall markedly in 2024, as the impact from earlier input cost increases will likely ease and stabilise at a somewhat slightly elevated level in 2025 and 2026. Similarly to headline inflation, HICP inflation excluding energy and food is expected to decline further over the projection horizon albeit at a more measured pace than in the recent past. Whereas pipeline pressures continue to decline, high labour cost pressures are expected to gradually impact underlying inflation.

Compared to the December 2023 projections, HICP inflation has been revised downwards by 0.4 percentage point for 2024 and 0.1 percentage point for 2025 but was unrevised for 2026. The downward revision for 2024 largely reflects developments in energy prices. As regards 2026, upward revisions to energy inflation offset downward revisions to food and HICP inflation excluding food and energy, resulting in an unrevised headline inflation projection. Meanwhile, HICP inflation excluding food and energy was revised downwards across the horizon. This mainly reflects indirect effects from lower energy prices as well as the weaker growth outlook and lower growth in unit labour costs (ULCs).

### *ECB raises key interest rates further*

The ECB's Governing Council tightened further its monetary policy stance in 2023 amid heightened inflationary pressures. Thus, the Council raised policy rates six times during the year, so that the interest rates on the deposit facility, the MRO and the MLF ended 2023 at 4.00%, 4.50% and 4.75%, respectively, compared to 2.00%, 2.50% and 2.75% at the end of 2022 (see Chart 1.3 and Box 1). The Council continued to follow a data-dependent approach in determining the appropriate level and duration of a restrictive monetary policy.<sup>5</sup>

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<sup>5</sup> On 25 January 2024, the Governing Council kept the three key ECB interest rates unchanged. The Council expressed its determination to ensure that inflation would return to its 2% medium-term target in a timely manner. The Council reiterated it would continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. Regarding refinancing operations, as banks were repaying the amounts borrowed under the targeted longer-term refinancing operations (TLTRO III), the Governing Council would regularly assess how these operations and their ongoing repayment were contributing to its monetary policy stance.

## BOX 1: CHRONOLOGY OF ECB MONETARY POLICY DECISIONS IN 2023

### 2 February

Against the background of persistently elevated inflationary pressures, the Governing Council of the ECB decided to raise the three key interest rates further, by 50 basis points. Accordingly, the interest rate on the deposit facility was raised to 2.50%, while the interest rates on the MROs and the marginal lending facility were raised to 3.00% and 3.25%, respectively. In view of underlying inflationary pressures, the Governing Council announced its intention to raise rates further in March 2023, but reiterated that its future policy rate decisions would continue to be data-dependent and follow a meeting-by-meeting approach.

The Governing Council also decided on the modalities for reducing the Eurosystem's holdings of securities under the APP. More specifically, the Governing Council restated that these holdings would decline at an average monthly pace of €15 billion between March and the end of June 2023. The subsequent pace of portfolio reduction will be determined over time.

As regards the PEPP, the Governing Council reiterated its intention to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. The future roll-off of the PEPP portfolio would be managed to avoid interference with the appropriate monetary policy stance. Redemptions coming due in the PEPP portfolio were being reinvested flexibly, to counter risks of fragmentation in the monetary policy transmission mechanism.

As to refinancing operations, the Governing Council stated that since banks were repaying the amounts borrowed under TLTRO III, it would regularly assess how targeted lending operations were contributing to its monetary policy stance.

The Governing Council reaffirmed that it stood ready to adjust all of its instruments within its mandate to ensure that inflation returned to its 2% target over the medium term. It recalled that the Transmission Protection Instrument was available to ensure that the monetary policy stance was transmitted smoothly across all euro area countries. This would allow the Governing Council to more effectively deliver on its price stability mandate.

### 16 March

The Governing Council decided to raise the three policy interest rates by an additional 50 basis points so that the interest rates on the deposit facility, the MROs and the marginal lending facility reached 3.00%, 3.50% and 3.75%, respectively.

In view of the recent emergence of market tensions triggered by bank failures in the United States, the Governing Council stated that it was monitoring the situation closely and stood ready to respond as necessary to preserve price stability and financial stability in the euro area.

### 4 May

In light of the ongoing high inflation pressures, the Governing Council decided to raise the three key ECB interest rates by 25 basis points. Thus, the interest rates on the deposit facility, the MROs and the marginal lending facility went up to 3.25%, 3.75% and 4.00%, respectively.

Regarding the APP portfolio, the Governing Council said that it expected to discontinue the reinvestments as of July 2023.

### 15 June

The Governing Council considered that although inflation was declining, it was projected to remain too high for too long. Accordingly, the Governing Council decided to hike the three policy interest rates by an additional 25 basis points. Hence, the interest rates on the deposit facility, the MROs and the marginal lending facility were raised to 3.50%, 4.00% and 4.25%, respectively.

The rate increase reflected the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission.

The Governing Council observed that its past rate increases were being transmitted forcefully to financing conditions and were gradually having an impact across the economy.

Regarding the APP, the Governing Council reiterated that it would discontinue reinvestments under this programme as of July 2023.

### 27 July

The Governing Council decided to raise the three key ECB interest rates by 25 basis points. Thus, the interest rates on the deposit facility, the MROs and the marginal lending facility reached 3.75%, 4.25% and 4.50%, respectively.

The Governing Council also decided to set the remuneration of minimum reserves at 0% with effect from the beginning of the reserve maintenance period starting on 20 September 2023.

### 14 September

Although inflation continued to decline, it was still expected to remain too high for too long. Accordingly, the Governing Council decided to hike the three policy interest rates by an additional 25 basis points so that the interest rates on the deposit facility, the MROs and the marginal lending facility were increased to 4.00%, 4.50% and 4.75%, respectively.

The Governing Council considered that the key ECB interest rates reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to the target.

### 26 October

The Governing Council decided to keep the three key ECB interest rates unchanged and stated that its future decisions would ensure that policy rates would be set at sufficiently restrictive levels for as long as necessary.

Inflation was still expected to stay too high for too long, and domestic price pressures remained strong. Meanwhile, inflation fell notably in September, and most measures of underlying inflation had continued to ease. The Governing Council's past interest rate increases continued to be transmitted forcefully into financing conditions. This was increasingly dampening credit demand and thereby helping to push down inflation.

### 14 December

The Governing Council decided to keep the three key ECB interest rates unchanged. While inflation had dropped in recent months, it was likely to pick up again temporarily in the near term. Although underlying inflation had eased further, domestic price pressures remained elevated, primarily owing to strong growth in ULCs.

The Governing Council said that it would continue to follow a data-dependent approach in determining the appropriate level and duration of a restrictive monetary policy stance.

The Governing Council also announced further steps in the normalisation of the Eurosystem balance sheet. It stated that it intended to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of that year, the PEPP portfolio was expected to decline by €7.5 billion per month on average. The Governing Council intended to discontinue reinvestments under the PEPP at the end of 2024.

### Money market rates continue to rise

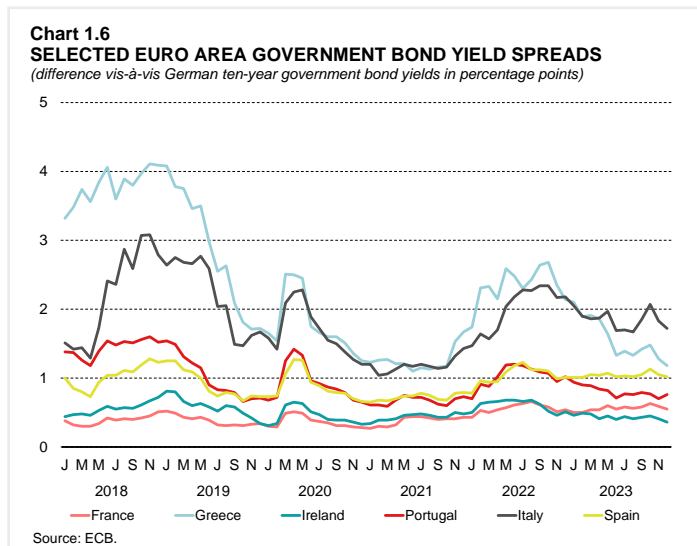
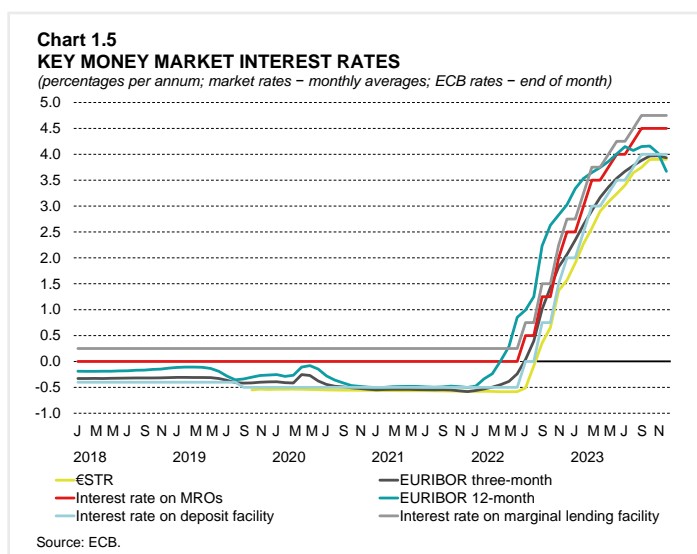
In the context of the ECB's further tightening of its monetary policy stance and indications that future decisions on policy rates would continue to follow a data-dependent approach, money market rates in the euro area rose further in 2023. Nevertheless, most rates increased at a slower pace when compared to 2022. The euro short-term rate (€STR) stood at 1.57%, on average, in December 2022 and continued to increase consistently until October 2023, reflecting changes in the key ECB interest rates. Subsequently, it remained largely unchanged, and averaged 3.90% in December.<sup>6</sup> It remained slightly below the interest rate on the ECB's deposit facility throughout the year.

The three-month Euro Interbank Offered Rate (EURIBOR) averaged 2.07% in December 2022 and continued to rise incrementally until November, when it reached 3.97%. Subsequently, it fell marginally and averaged 3.93% in December. The 12-month EURIBOR rose from 3.03% to 4.15% between December 2022 and July 2023. It declined towards the end of the year, possibly because market players considered that the interest rate hiking cycle had peaked, and it averaged 3.67% in December (see Chart 1.5).<sup>7</sup>

### Euro area bond yields fall slightly

After having risen notably in 2022, the ten-year benchmark government bond yield in the euro area increased further during 2023, peaking in October. This occurred against the background of still high inflationary pressures. However, the ten-year benchmark government bond yield subsequently decreased amid market sentiment that the tightening phase of the monetary policy cycle had probably reached an end. Overall, the euro area ten-year benchmark government bond yield fell from 3.00% at end-December 2022 to 2.87% one year later.

Whereas some government bond yields in the euro area rose modestly during 2023, most sovereign bond yields fell. German ten-year bond yields rose incrementally until October 2023 but fell in the last two months of the year. Thus, they stood at 2.10% in December or just 2 basis points higher than twelve months before. French and Spanish bond yields went up by 3 basis points to average 2.65% and



<sup>6</sup> The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area.

<sup>7</sup> The EURIBOR is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.

3.12%, respectively, in December. Slovak yields recorded the highest increase among the sovereign bonds in the euro area, as they rose by 11 basis points to 3.31%. Most other euro-area government bond yields fell, the most prominent of which being those on Cypriot, Greek and Italian bonds, which went down by 97 basis points, 94 basis points and 44 basis points, averaging 3.23%, 3.28% and 3.82%, respectively, in December.

Consequently, spreads between yields on ten-year German bonds and those on similar bonds issued by most other euro area sovereigns narrowed over the year (see Chart 1.6). By the end of 2023, spreads on Cyprus and Greek bonds narrowed by nearly 100 basis points while those on Italian bonds declined by 46 basis points. The narrowing of spreads was more contained in Portugal and Ireland. By contrast, yield spreads of Slovak sovereign bonds widened, as did those of French and Spanish bonds, albeit marginally.

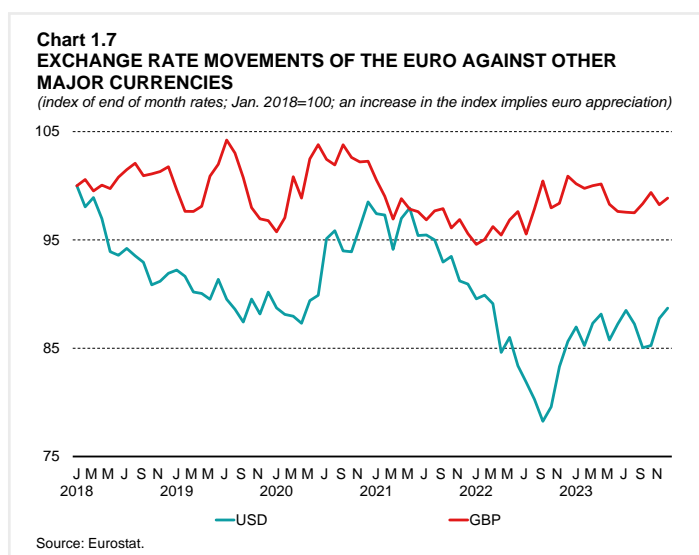
### *The euro appreciates versus the US dollar but weakens against the British pound*

The euro exchange rate appreciated in nominal effective terms during 2023, with the NEER-18 gaining 1.7% from its end-2022 level.<sup>8</sup> This exceeded an appreciation of 0.2% in 2022. The increase in the external value of the euro during 2023 mainly reflected the tightening of the monetary policy stance in the euro area and indications that the ECB was not about to cut policy rates soon.

On a bilateral basis, the euro gained 3.6% against the US dollar in 2023, which contrasts with a 5.8% loss recorded the previous year (see Chart 1.7). The euro appreciated further versus the US currency during the first half of the year, peaking in July. This mainly occurred in the context of narrowing interest-rate differentials between the euro area and the United States. Subsequently, however, the euro fell versus the US currency mainly on indications of a global economic downturn and the strong economic growth prospects for the United States relative to the weak outlook for the euro area. Nevertheless, in the later months of the year, the single currency rebounded against the US dollar largely on the back of ongoing Fed rate cut expectations as inflation pressures abated, positive risk appetite, and signs that the ECB would keep its tight monetary policy stance for longer.

Over the year as a whole, the euro recorded gains against several other currencies, including the Japanese yen, the Chinese renminbi, the Australian dollar, the Canadian dollar, the Swedish krona and, to a lesser extent, the Romanian leu, the Czech koruna and the Danish krone.

By contrast, the euro fell by 2.0% against the pound sterling in 2023, as against an appreciation of 5.6% the year before. The euro fell slightly versus the pound sterling during the first quarter, as the pound benefitted from indications that UK's political outlook had stabilised and weakened noticeably in the second quarter. However, in the second half of the year, the euro partly reversed its losses against the pound, which was undermined by renewed signs of weakness in the UK economy. In 2023, the single currency also weakened versus the Polish zloty, the Hungarian forint, and the Swiss franc.



<sup>8</sup> The nominal effective exchange rate (NEER) is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

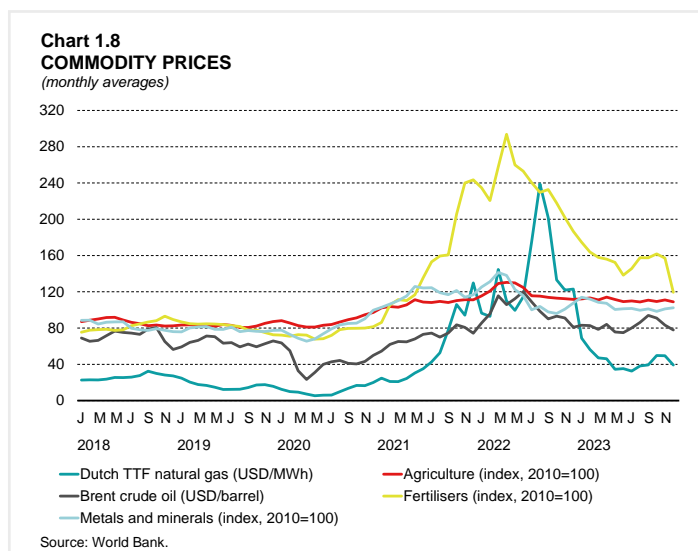
## Commodities

### Commodity prices end the year lower

At the beginning of 2023, oil prices continued to follow a downward path, as supply increased markedly whereas global demand remained muted. This dynamic was reinforced in the second quarter, as low demand, especially in advanced economies, outpaced supply cuts from some OPEC+ countries. Subsequently, however, oil prices rebounded, reflecting an upswing in demand and a marked reduction in supply particularly by OPEC+ countries. Nevertheless, oil prices resumed their declining trend in the later months of the year as an increase in non-OPEC+ supply coincided with slowing growth in global oil demand. The announcement that OPEC+ output cuts would be extended into the first quarter of 2024 failed to halt the decline in oil prices. The price of Brent crude oil ended 2023 at USD 77.9 per barrel, 3.8% below the level prevailing at the end of 2022 (see Chart 1.8).

The price of European natural gas started 2023 on a marked downward trend, which continued almost uninterrupted until around mid-year. A milder-than-normal winter, gas savings measures, a reinforced shift towards liquefied natural gas imports and healthy inventory levels in the European Union exerted downward pressure on the price of European natural gas. Following some fluctuations, reflecting high volatility amid supply disruptions and broadly flat demand, the price of European natural gas resumed its decline towards the end of the year, mainly in the context of high storage levels in the European Union. The price of Dutch TTF natural gas averaged USD 39.3 per megawatt hour in December 2023, 68.1% lower than the year before.

Non-energy commodity prices fell during 2023, with World Bank data showing a decrease of 5.1%. The drop mainly reflected lower prices for fertilisers, which were down by over a third, and, to a lesser extent, agricultural products, metals and minerals.





## 2. MONETARY AND FINANCIAL DEVELOPMENTS

*According to the Bank's Financial Conditions Index (FCI), in 2023 financing conditions were tight from a historical perspective, but the degree of tightness diminished when compared to 2022.*

*The total assets of domestic monetary financial institutions (MFIs) in Malta rose during 2023, driven by an expansion in the assets belonging to the core domestic banks. Meanwhile, Maltese residents' deposits continued to expand, albeit at a more moderate pace when compared to 2022, amid a shift away from overnight deposits to longer-term maturities. This likely reflects the more attractive terms on fixed deposit accounts offered by certain credit institutions in response to the recent monetary policy tightening. Meanwhile, credit to residents also rose at a slower pace, largely reflecting a contraction in MFI holdings of Treasury bills. By contrast, credit to the private sector rose at a faster pace, in line with faster growth in lending to non-financial corporations (NFCs). Although still strong, growth in loans to households moderated compared to 2022, reflecting slower growth in loans for house purchases. By contrast, consumer credit and other lending to households rose at a faster pace.*

*The outstanding amount of corporate debt and equity increased at a more moderate pace compared to 2022.*

*Interest rates on outstanding deposits to Maltese residents increased during the year. Interest rates on outstanding loans also increased, reflecting higher rates charged to NFCs. As lending rates on outstanding volumes rose faster than deposit rates, the spread between the two widened, and remained at elevated levels.*

*Interest rate data on new business, however, show a narrowing in the spread between the deposit and the lending rate – although remuneration on new deposits increased, the lending rate on new loans declined.*

*In the primary money market, domestic yields rose during 2023. On the other hand, yields on five-year and ten-year Maltese government bonds declined, mirroring a similar movement in the corresponding euro area yields. In the equity market, after having fallen in the previous three years, the Malta Stock Exchange (MSE) Equity Price Index closed the year above the level registered at the end of December 2022.*

### Financial conditions

#### *FCI indicates less tight conditions*

The Bank monitors domestic financial conditions through a summary measure which combines a number of domestic and international financial variables that influence economic activity.<sup>1</sup>

Financial conditions for the period January to September 2023 were tight from a historical perspective. Although the degree of tightness decreased when compared with 2022, it remained more significant than that prevailing during the pandemic. The improvement relative to 2022 mainly reflected a smaller tightening effect from foreign factors (see Chart 2.1).

The smaller tightening effect attributed to foreign factors reflected a smaller negative contribution from euro area stock prices during 2023, and a sharp decline in financial market uncertainty.

<sup>1</sup> The analysis in this section is based on the Bank's FCI, as described in Micallef, B., and Borg, I., "A Financial Conditions Index for the Maltese Economy", in Grech, A.G., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the case of Malta*, Central Bank of Malta, 2017, and later updated in the Central Bank of Malta – *Annual Report 2017*.

Domestic factors had a similar tightening effect to that estimated for 2022. However, while in 2022, this tightening effect stemmed entirely from balance sheet conditions, in 2023 it also reflected developments in the 'other' component. The latter was affected by a negative contribution from issues of NFC securities. By contrast, the interest rate and spread component had a loosening effect on the FCI, as domestic lending rates do not fully reflect recent increases in the ECB's policy rates that were transmitted to the local bond market.

### Assets of the banking sector and other monetary aggregates

Total assets pertaining to the Maltese banking system (including the Central Bank of Malta) stood at €53,889.6 million at the end of 2023, an increase of €1,208.2 million when compared with 2022. This increase was mostly driven by an increase in the assets of core domestic banks, which increased by €919.2 million, or 3.2%.<sup>2</sup> As a result, the share of core domestic banks' assets in GDP stood at 151.5% at the end of 2023. This was below the 163.2% recorded a year earlier (see Chart 2.2), as GDP outpaced assets by a significant margin. Meanwhile, assets pertaining to non-core domestic banks rose by €176.0 million, or 5.2%. The assets of the Central Bank of Malta also increased during the year, adding €279.0 million or 2.6%.<sup>3</sup>

On the other hand, assets pertaining to international banks contracted by €165.9 million, or 1.6%.

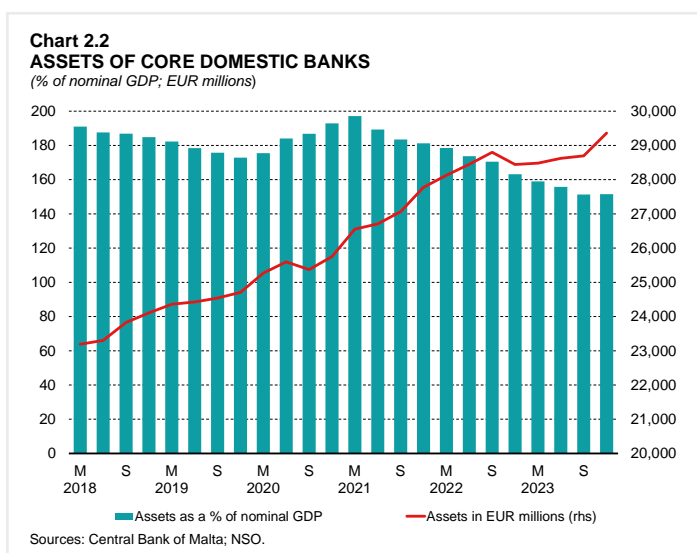
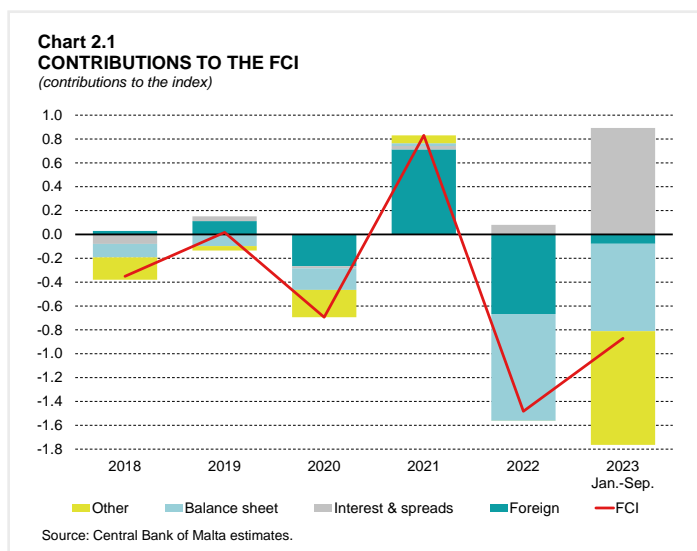
### Residents' deposits expand at a slower pace

Total deposits held by residents with MFIs in Malta rose by 1.7% during 2023, reaching €23,757.7 million by the end of the year (see Table 2.1). Growth in total deposits slowed down compared to 2022, when it reached 3.0%. Monetary policy tightening contributed to a shift in behaviour, as deposits with agreed maturity up to two years and deposits outside M3 increased, while deposits redeemable at three months or less and overnight deposits decreased.

Although overnight deposits remained the dominant category of deposits for residents during 2023, these contracted by 0.2% over the 12 months to December, compared with an 8.0% increase a year earlier. As

<sup>2</sup> The core domestic banks in Malta are APS Bank Limited, Bank of Valletta plc, BNF Bank plc, HSBC Bank Malta plc, Lombard Bank Malta plc, and MeDirect Bank (Malta) plc.

<sup>3</sup> Data on the banking sector's assets in this chapter may differ from those reported in the financial statements, due to methodological differences.



**Table 2.1**  
**DEPOSITS OF MALTESE RESIDENTS**

Annual percentage changes; EUR millions

	2021	2022	2023		
	Dec.	Dec.	Dec.	Amount outstanding	Absolute change
<b>Overnight deposits</b>	<b>12.3</b>	<b>8.0</b>	<b>-0.2</b>	<b>20,372.6</b>	<b>-49,740</b>
<i>of which</i>					
Households	12.8	12.4	1.8	14,268.1	246,572
Non-financial corporations	11.2	8.0	-5.0	4,474.6	-236,706
<b>Deposits redeemable at notice up to three months</b>	<b>59.9</b>	<b>-38.7</b>	<b>-26.0</b>	<b>86.3</b>	<b>-30,315</b>
<i>of which</i>					
Households	14.7	5.4	-98.6	0.6	-41,035
Non-financial corporations	67.3	-59.5	30.4	61.1	14,241
<b>Deposits with agreed maturity up to two years</b>	<b>-4.3</b>	<b>-24.7</b>	<b>25.7</b>	<b>2,290.2</b>	<b>467,752</b>
<i>of which</i>					
Households	-6.2	-27.6	34.0	1,814.1	460,445
Non-financial corporations	-12.8	-3.4	23.1	234.7	44,076
<b>Deposits outside M3<sup>(1)</sup></b>	<b>-13.9</b>	<b>-14.4</b>	<b>0.8</b>	<b>1,008.7</b>	<b>7,834</b>
<i>of which</i>					
Households	-12.7	-9.6	-4.5	899.6	-42,103
Non-financial corporations	-1.1	-34.5	-2.8	33.8	-959
<b>Total residents deposits<sup>(2)</sup></b>	<b>8.8</b>	<b>3.0</b>	<b>1.7</b>	<b>23,757.7</b>	<b>395,531</b>

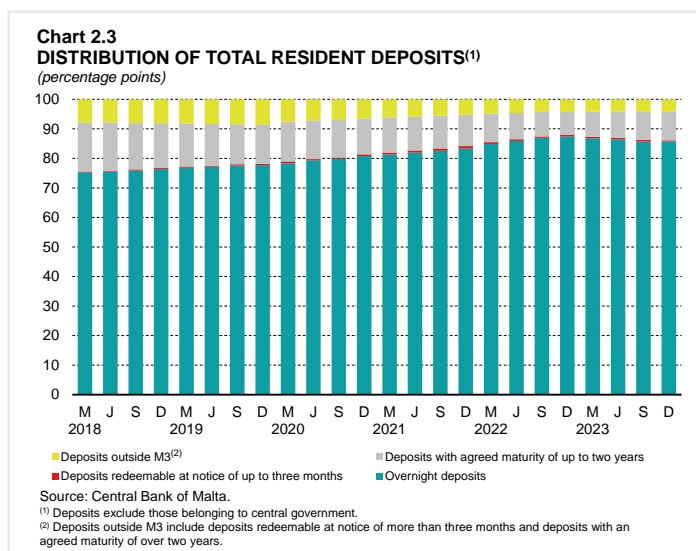
Source: Central Bank of Malta.

<sup>(1)</sup> Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

<sup>(2)</sup> Total residents deposits exclude deposits belonging to Central Government.

a result, by the end of 2023, the share of overnight deposits in total deposits edged down to 85.8%, from 87.4% in December 2022 (see Chart 2.3). The latest contraction in this deposit category reflected a sharp decline in balances held by NFCs and financial intermediaries. By contrast overnight deposits belonging to households increased.

In contrast, time deposits with a maturity of up to two years – the second largest category – registered a strong increase of 25.7% in the year to December, following a contraction of 24.7% a year earlier. This outcome possibly reflects more attractive terms on fixed deposit accounts by certain credit institutions in response to the latest monetary policy tightening cycle. The latest increase was driven by higher balances belonging to households and firms, which offset decreases in the balances held by financial intermediaries. As a result, the share of this deposit category in overall deposits reached 9.6% from 7.8% in December 2022.



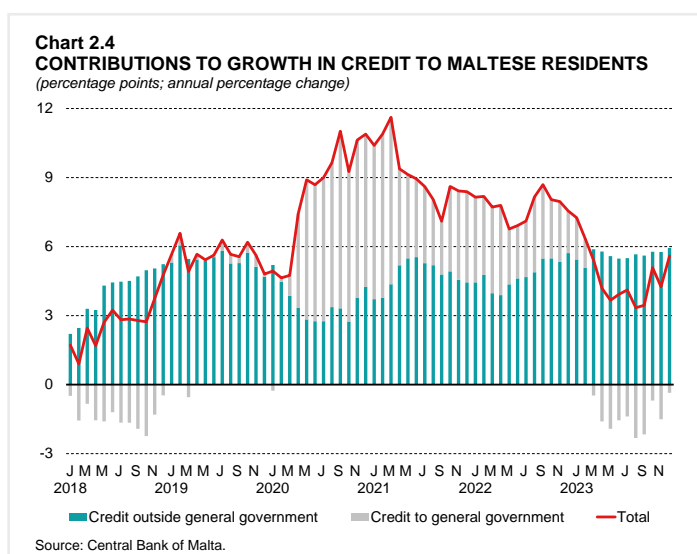
Additionally, deposits classified outside M3 rose by 0.8% when compared with their end-2022 level. This contrasts with a decline of 14.4% in the previous year and marks the first increase since the start of 2020. Overall, however, their share in total deposits edged down to 4.2% at the end of 2023. At the same time, the share of deposits redeemable at notice of up to three months decreased marginally to 0.4%.

### Credit to residents expands at a slower rate

Credit to residents of Malta expanded during 2023, albeit at a slower pace compared to 2022. It reached €19,396.2 million by the end of the year (see Table 2.2). This signifies an increase of €1,025.9 million, or 5.6%, and follows a 7.5% increase in 2022.

The latest expansion was driven by developments in credit to residents outside general government, which increased by €1,091.4 million, or 8.0% (see Chart 2.4). Growth in this component exceeded that of 7.8% a year earlier. Meanwhile, credit to general government fell by €65.5 million, or 1.4%, following an increase of 7.0% in 2022. The decline in this component reflects a sharp decrease in net issues of Treasury Bills during the year.

The acceleration in credit to residents outside general government was driven by a smaller contraction in MFI holdings of securities issued by the private sector, as well as faster growth in loans to NFCs. The latter rose by 8.8% in 2023, following a 6.7% increase in 2022. At the same time, lending to households rose by 8.2%, following a 10.1% increase over the 12 months to December 2022.



**Table 2.2**  
**MFI CREDIT TO MALTESE RESIDENTS**

Annual percentage changes; EUR millions

	2021	2022	2023		
	Dec.	Dec.	Dec.	Amount outstanding	Absolute change
<b>Credit to general government</b>	<b>16.1</b>	<b>7.0</b>	<b>-1.4</b>	<b>4,735.6</b>	<b>-65.5</b>
<b>Credit to residents outside general government</b>	<b>5.9</b>	<b>7.8</b>	<b>8.0</b>	<b>14,660.6</b>	<b>1,091.4</b>
Securities & equity	11.2	-5.7	-4.6	309.0	-14.8
Loans	5.7	8.1	8.4	14,351.6	1,106.2
<i>of which:</i>					
Loans to households	9.6	10.1	8.2	8,353.4	633.4
Mortgages	10.9	10.4	7.8	7,697.2	556.1
Consumer credit	-4.1	50.2	22.6	446.5	82.2
Other lending	-4.2	-27.8	-2.3	209.6	-5.0
Loans to NFCs <sup>(1)</sup>	0.3	6.7	8.8	4,986.3	403.5
<b>Total credit to residents</b>	<b>8.4</b>	<b>7.5</b>	<b>5.6</b>	<b>19,396.2</b>	<b>1,025.9</b>

Source: Central Bank of Malta.

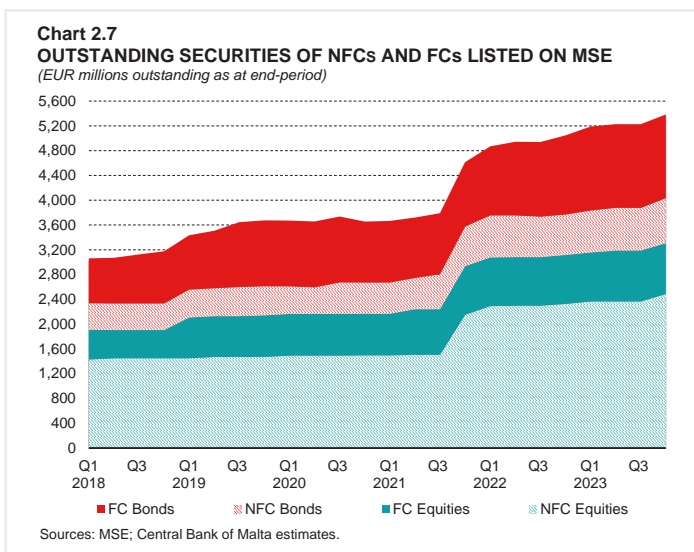
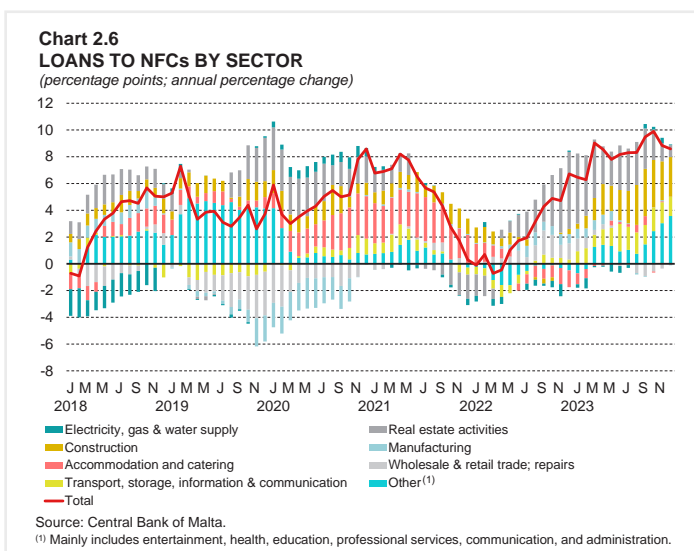
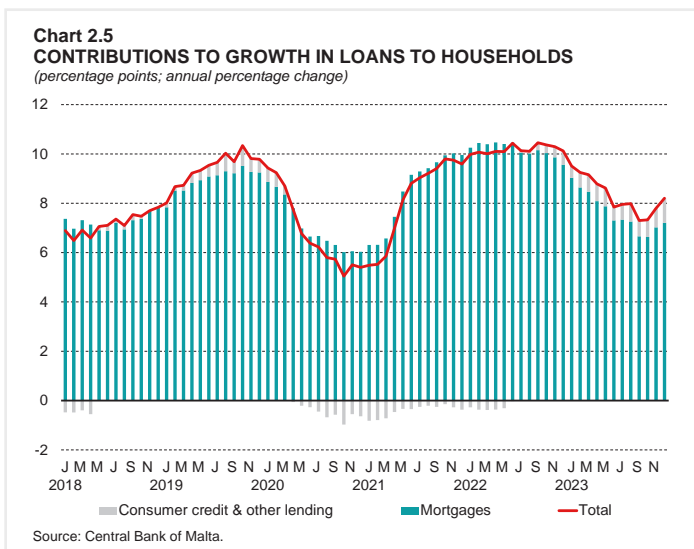
<sup>(1)</sup> NFCs include sole proprietors and non-profit institutions serving households (NPISH).

Faster growth in loans to NFCs reflected a strong increase in lending to public sector NFCs, which offset slower growth in credit to private sector NFCs.

Loans to households grew at a slower pace, reflecting weaker dynamics in lending for house purchases (see Chart 2.5). Indeed, mortgage lending grew by 7.8% during 2023, compared with a 10.4% increase in 2022. Consumer credit also rose at slower pace. It increased by 22.6%, after a 50.2% increase in 2022. Meanwhile, 'other lending' to households decreased at a slower pace.

A sectoral breakdown of loans to NFCs suggests that growth in the year to December was driven by a strong increase in the construction sector, followed by the professional, scientific, and technical activities sector, which is classified under the other component of Chart 2.6. Banks also expanded their loans to the sector comprising transportation, storage, and information and communication activities as well as the real estate sector. Smaller increases were recorded in lending to the energy sector, as well as the trades and repair sector. By contrast, loans to the manufacturing sector, and the accommodation and food services sector, declined.

Supplementary data suggest that corporate issuance of bonds and stocks continued to increase. By the end of 2023, €2,076.5 million in corporate debt was outstanding on the MSE, 7.6% higher than the amount listed 12 months earlier (see Chart 2.7). The increase was broadly equally spread across non-bank financial institutions and NFCs. However, around 65% of the outstanding stock was issued by financial entities other than credit institutions.



Meanwhile, the outstanding amount of equity listed on the MSE increased by 6.1% in annual terms, to €3,306.6 million. Around three-fourths of this volume was issued by NFCs, with FCs playing a secondary role. The largest equity issues were in companies within the retail and information technology sectors. Overall, the amount of listed equity outstanding at the end of 2023 exceeded that of bonds by around 59%.<sup>4</sup>

### Interest rates increase

Interest rates on residents' deposits with MFIs in Malta increased in 2023, with the weighted average deposit rate offered to households and NFCs on outstanding balances going up by 15 basis points to 0.31% by the end of the year (see Table 2.3).<sup>5</sup> This was mainly driven by higher rates on time deposits belonging to NFCs, although the remuneration on balances held by households also increased. The increase in residents' deposits reflects the lagged response to the policy rate tightening by the ECB.

At the same time, the weighted average lending rate paid by households and NFCs to resident MFIs on outstanding loans increased by 26 basis points, reaching 3.58%. This increase was driven by higher rates paid by NFCs, which rose further above those charged to households, reflecting differences in credit risk. By contrast, rates charged to households remained broadly stable at 2.85%. Mortgage rates edged up by 1 basis point to 2.69%, while rates on consumer credit and other lending decreased by 28 basis points to 4.26%.

The spread between the weighted average lending rate and the deposit rate closed the year under review at 328 basis points, above the 316 basis points recorded at the end of 2022.

**Table 2.3**  
**INTEREST RATES ON DEPOSITS AND LOANS**

*Percentages per annum to residents of Malta; weighted average rates as at end of period*

	2020	2021	2022	2023			
	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec.
<b>Total deposits<sup>(1)</sup></b>	<b>0.21</b>	<b>0.16</b>	<b>0.15</b>	<b>0.19</b>	<b>0.24</b>	<b>0.27</b>	<b>0.31</b>
<i>of which</i>							
<b>Overnight deposits</b>							
Households	0.02	0.02	0.02	0.03	0.04	0.05	0.04
NFCs	0.01	0.01	0.03	0.07	0.07	0.07	0.10
<b>Time deposits (less than two years)</b>							
Households	0.57	0.51	0.72	0.95	1.32	1.58	1.79
NFCs	0.62	0.49	0.74	0.95	1.15	1.58	1.85
<b>Time deposits (more than two years)</b>							
Households	1.87	1.78	1.73	1.73	1.76	1.77	1.79
NFCs	1.39	1.12	1.60	1.49	1.26	1.38	3.06
<b>Total loans<sup>(1)</sup></b>	<b>3.36</b>	<b>3.23</b>	<b>3.32</b>	<b>3.41</b>	<b>3.59</b>	<b>3.61</b>	<b>3.58</b>
<i>of which</i>							
<b>Households and NPISH</b>	<b>3.21</b>	<b>3.01</b>	<b>2.87</b>	<b>2.84</b>	<b>2.91</b>	<b>2.87</b>	<b>2.85</b>
Lending for house purchases	2.98	2.80	2.67	2.65	2.72	2.69	2.69
Consumer credit and other lending	4.78	4.67	4.54	4.50	4.52	4.43	4.26
<b>NFCs</b>	<b>3.61</b>	<b>3.63</b>	<b>4.16</b>	<b>4.45</b>	<b>4.87</b>	<b>4.98</b>	<b>4.95</b>
<b>Spread<sup>(2)</sup></b>	<b>3.15</b>	<b>3.06</b>	<b>3.16</b>	<b>3.22</b>	<b>3.35</b>	<b>3.34</b>	<b>3.28</b>

Source: Central Bank of Malta.

<sup>(1)</sup> Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.

<sup>(2)</sup> Difference between composite lending rate and composite deposit rate.

<sup>4</sup> Apart from the official MSE platform, small and medium-sized enterprises (SMEs) can also obtain finance through the specifically-g geared platform – Prospects.

<sup>5</sup> Basis points are rounded to the nearest whole number.

During the year to December 2023, the weighted average deposit rate offered on new balances held by households and NFCs in Malta increased by 111 basis points, to 2.41%. Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs fell by 54 basis points, to 3.02%. This decline was visible in both lending rates for households and NFCs. In the case of households, it was driven by lower rates for consumer credit and mortgages. By contrast, borrowing rates on 'other lending' increased. As a result, the spread between the weighted average lending rate and the deposit rate closed the year under review at 61 basis points, well below the 226 basis points recorded at the end of 2022.

### Liquidity support measures

By the end of December 2023, 542 facilities were approved under the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) launched in 2020. These facilities covered total sanctioned lending of €410.2 million (see Table 2.4).<sup>6</sup>

In value terms, the sector comprising wholesale and retail activities had the largest cumulative number of facilities benefiting from the scheme. Between April 2020 and December 2023, 146 facilities were approved in this sector, with a sanctioned value of €73.5 million. This was followed by accommodation and food services activities, with 124 facilities and a sanctioned amount of €95.0 million.

The value of disbursed loans that were still outstanding by the end of 2023 stood at €228.8 million. Consequently, by end-2023, around 56% of the value of loans sanctioned since 2020 was still outstanding. Almost all these loans will mature in the next four years.

In 2022, the MDB launched additional support measures in response to the war in Ukraine and high inflation. These schemes closed in December 2023.

**Table 2.4**  
**MDB CGS**

*Cumulative amounts for the period April 2020 – December 2023*

	Total number of facilities <sup>(1)</sup>	Sanctioned amount <sup>(2)</sup>
Manufacturing	52	18.1
Construction	27	34.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	146	73.5
Transportation and storage and information and communication	35	40.6
Accommodation and food service activities	124	95.0
Professional, scientific and technical activities	33	20.0
Administrative and support service activities	34	12.1
Real estate	11	4.8
Other <sup>(3)</sup>	80	111.3
<b>Total</b>	<b>542</b>	<b>410.2</b>

Source: MDB.

<sup>(1)</sup> The number of facilities taken by various sectors.

<sup>(2)</sup> The total number of loans sanctioned under the scheme as at end month, in EUR millions.

<sup>(3)</sup> Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation and other services activities, activities of households, electricity, gas & water supply sector and agriculture, forestry and fishing, and public administration and defence.

<sup>6</sup> The MDB CGS provided guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. The scheme received applications until 30 June 2022. For further details see <https://www.mdb.org.mt/past-schemes/covid-19-guarantee-facilities/covid-19-guarantee-scheme-cgs/>.

By end-year, three facilities had been approved under the Subsidised Loan Scheme (SLS), for a total value of €14.2 million.<sup>7</sup> The outstanding level of disbursements in terms of this scheme stood at €2.9 million. These facilities are expected to be fully repaid by May 2024. Moreover, a total of €24.5 million was approved and disbursed under the Liquidity Support Guarantee Scheme (LSGS).<sup>8</sup>

### *Bank Lending Survey indicates broadly unchanged credit standards*

Results from the Bank Lending Survey (BLS) show that credit standards, and credit terms and conditions on loans to NFCs in Malta remained unchanged in 2023. In the first quarter of the year, all surveyed banks reported stable demand compared to last quarter of 2022. However, by the end of 2023, only half of the respondents said that demand had remained unchanged, with mixed views reported by the remaining banks.

Credit standards for house purchases were mostly unchanged, while those for consumer credit and other lending were unchanged throughout the year. While some tightening in terms and conditions for these credit categories was reported at the start of 2023, these remained unchanged during the rest of the year. Demand for mortgages and consumer credit and other lending was generally unchanged, although selected banks did report some changes in certain components of credit standards.

In response to an ad hoc question on changes in banks' access to wholesale and retail funding as a result of the prevailing situation in financial markets, the majority of banks reported throughout the year no impacts as regards access to interbank unsecured money markets, debt securities and securitisation. Generally, the ability to transfer risks off balance sheet was also unaffected. However, some isolated tightening effects were reported in terms of access to retail deposit funding.

Participating banks claimed that their non-performing loan ratio had not affected their credit standards, and credit terms and conditions during 2023.

Respondent banks were also asked whether the ECB's monetary asset portfolio led to a change in their assets or affected their bank's cost of funds and balance sheet constraints. All surveyed banks reported no changes. Moreover, the majority of banks reported no changes in their capital position. With regards to the effects on profitability, some of the banks reported an improvement in profitability. Most of the participating banks reported no changes in credit standards, terms and conditions, and lending volumes, as a result of the ECB's monetary policy portfolio.

Participating banks were asked to gauge the impact of the Eurosystem's third series of TLTROs. All respondents reported no impact on their bank's financial situation, lending policy and lending volumes. Banks were asked whether the ECB's key interest rates decisions (both those already taken and those expected) led to a change in their profitability. In this regard, the majority of banks reported an increase in their overall profitability owing to higher interest income, while a broadly neutral impact was reported in terms of non-interest income.

Respondent banks were also asked to state how their credit standards, terms and conditions on new loans, and the demand for loans had changed across different economic sectors. Generally, respondent banks reported no change in credit standards and the terms and conditions during the year. Replies regarding the demand for loans were more mixed across participating banks and sectors.

Banks were asked whether climate-related risks and measures to cope with it led to changes in the bank's credit standards, terms and conditions, and demand for loans to enterprises. All banks said that there were no changes to their credit standards.<sup>9</sup> As regards credit terms and conditions, half of the banks reported no

<sup>7</sup> The SLS provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products.

<sup>8</sup> This LSGS consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans are available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A and 80% under LSGS-B.

<sup>9</sup> The BLS uses the following terms: "Green firms" – Firms that do not contribute or contribute little to climate change; "Firms in transition" – Firms that contribute to climate change, which are making considerable progress in the transition; "Brown firms" – Firms that highly contribute to climate change, which have not yet started or have so far made only little progress in the transition.

changes while the other half experienced some easing for non-brown sectors. Turning to demand for loans, half of the banks said that due to climate change, the demand for loans by green firms, brown firms, and also by firms in transition had increased. The remaining half said that they experienced no such changes. Half of the banks said that fixed investment and corporate restructuring related to climate change had brought about an increase in demand for loans, as did fiscal support.

In the last quarter of the year, banks were also asked to gauge the impact of recent regulatory or supervisory action on banks' assets, risk-weighted assets, capital, and funding conditions as well as on their lending standards and margins. The majority of surveyed banks reported no changes in their total assets and risk weighted assets while half of the surveyed banks saw an increase in their capital stock. Moreover, all banks said that there were no changes relating to funding conditions, credit standards, and credit margins as a result of the regulatory or supervisory requirements. When asked whether the change in banks' excess liquidity held with the Eurosystem had led to a change in their bank's lending conditions and loan volumes, all banks reported no changes.

### The money market

In the domestic primary market, the yield on three-month Treasury bills rose to 3.58% at the end of 2023, from 2.23%, 12 months earlier.

In total, the Treasury issued €2,202.6 million worth of bills in 2023, which is lower than the amount of €2,511.2 million issued in 2022. The majority of bills issued had a maturity of three months, followed by those with a maturity of six months. Together they made up over 94% of all bills issued. The value of Treasury bills issued in 2023 was lower than that of maturing bills, which stood at €2,377.7 million.

### The capital market

In the capital market, total issues of long-term debt by the Government and the private sector increased to €1,791.8 in 2023, up from €1,481.3 million in 2022 (see Table 2.5). Taking into account the amount

**Table 2.5**  
**ISSUES OF LONG-TERM DEBT SECURITIES<sup>(1)</sup>**

EUR millions<sup>(2)</sup>

	2019	2020	2021	2022	2023
<b>Government</b>					
Total issues <sup>(3)</sup>	350.0	1,335.0	1,455.2	1,044.7	1,394.2
Redemptions & roll-overs <sup>(4,5)</sup>	422.2	461.1	458.8	374.6	355.8
Net issues	-72.2	873.9	996.4	670.1	1,038.4
<b>Corporate sector</b>					
Total issues	377.6	176.0	242.2	436.6	397.6
Redemptions, roll-overs & buybacks <sup>(5,6)</sup>	167.9	162.0	49.7	161.1	140.9
Net issues	209.7	14.0	192.5	275.5	256.7
<b>Total net issues</b>	<b>137.5</b>	<b>887.9</b>	<b>1,188.9</b>	<b>945.6</b>	<b>1,295.1</b>

Sources: Central Bank of Malta; MSE; Treasury.

<sup>(1)</sup> Banks, non-MFIs and public NFCs are included with corporate issuers. Long-term securities are those with an original term to maturity exceeding one year, and include preference shares.

<sup>(2)</sup> Amounts denominated in foreign currency are converted to euro according to the exchange rate prevailing on the day of transactions.

<sup>(3)</sup> Data exclude MGSs that were issued directly to the Foundation for Church Schools.

<sup>(4)</sup> Redemptions exclude the redemption of MGSs that were issued directly to the Foundation for Church Schools.

<sup>(5)</sup> Roll-overs refer to the reinvesting of funds from a maturing security into a new issue of the same or a similar security. They are therefore deducted from new issues.

<sup>(6)</sup> Buy-backs, which consist of the purchase of corporate bonds by the issuing company are also deducted from new issues.

of redemptions, roll-overs and buybacks made over the year, positive net issues of long-term debt were recorded in 2023. These stood at €1,295.1 million, mostly consisting of net issuances of Malta Government Stocks (MGS), as against €945.6 million in 2022.

### New issues of MGS exceed redemptions

In 2023, the Government issued €1,394.2 million in long-term debt and redeemed €355.8 million, such that net issues for the year were positive for the fourth consecutive year (see Table 2.5). The Treasury tapped the bond market four times in 2023, through nine individual issues spread across households and wholesale investors. These issues had maturity dates ranging from three to 20 years.

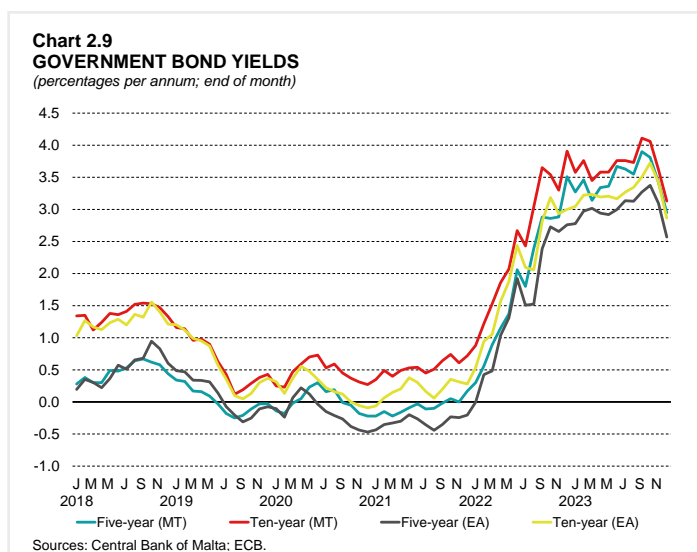
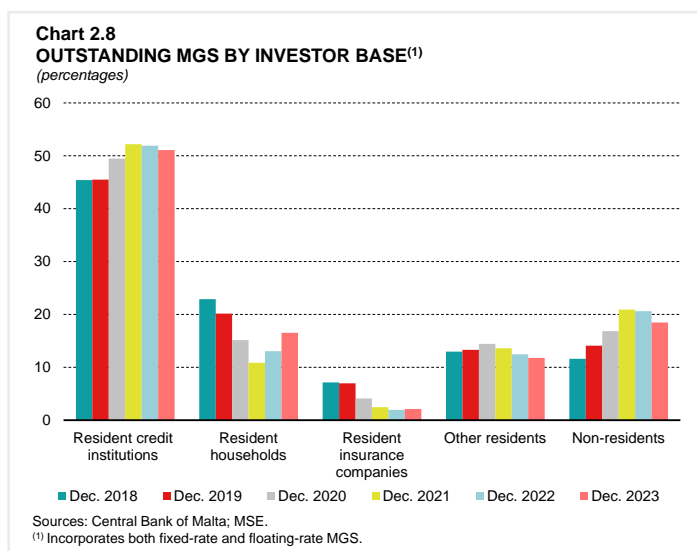
The amount of outstanding MGS increased to €8,344.4 million at the end of 2023, of which 81.5% was held domestically and 18.5% was held by non-residents (see Chart 2.8). Resident credit institutions held 51.1% of outstanding MGS, compared to 51.9% in 2022. The share of MGS held by resident households increased to a four-year high of 16.5% from 13.1% in 2022.

Secondary market turnover of MGS rose during 2023. It stood at €132.4 million compared with €108.4 million a year earlier.

Secondary market yields on domestic MGS ended 2023 at a lower level compared with a year earlier. The five-year and ten-year yields fell by 56 and 78 basis points respectively, to 2.95% and 3.13% at end-December (see Chart 2.9). Meanwhile, in the euro area, the benchmark five-year yield declined by 19 basis points compared with its end-2022 level and ended the year at 2.57%. The euro area ten-year yield fell by 13 basis points to 2.87%. As euro area yields fell to a lesser extent than domestic yields, the spread between the five-year and ten-year yields in Malta and their euro area benchmark tightened. At the end of 2023, the spreads on the five-year and ten-year yields stood at 38 and 26 basis points respectively.

### Corporate bond issues decline

In the corporate bond market, new issues of long-term debt listed on the MSE stood at €397.6 million in 2023. As the amount of redemptions and buybacks stood at €140.9 million, net issues for the year were positive but lower than a year earlier. During 2023, 15 private companies had new bonds listed on the MSE.



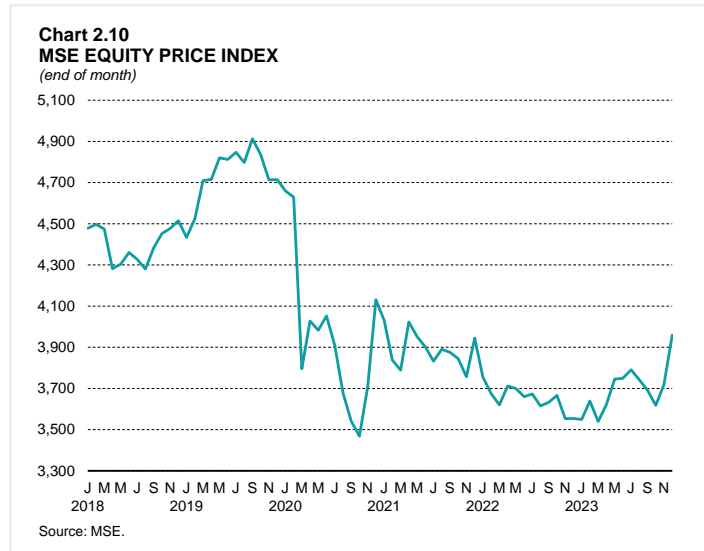
By the end of 2023, 21 firms had listed bonds through Prospects, an unchanged number compared with end-2022.<sup>10</sup>

Turnover in the secondary corporate bond market declined marginally during 2023. It stood at €99.6 million, down from €99.9 million in the previous year.

**MSE index increases**

In 2023, turnover in the equity market increased to €58.0 million, from €32.0 million, a year earlier. After having declined in the previous three years, the MSE Equity Price Index rose by 11.4% during 2023 and ended the year at 3959.4 (see Chart 2.10).

Meanwhile, the MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 14.5% higher than its level at end-December 2022.



<sup>10</sup> Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.



### 3. OUTPUT AND EMPLOYMENT

The Bank's Business Conditions Index (BCI) stood slightly above its long-term average, estimated since 2000.

Real GDP growth moderated to 5.6% in 2023, following an increase of 8.1% a year earlier. The expansion in economic activity was driven by net exports. By contrast, domestic demand contributed negatively to growth, as a negative base effect in private investment offset growth in household and government consumption. Real gross value added (GVA) data show that the increase in real GDP was largely driven by the services sector. The largest gain within the services sector stemmed from the sector comprising professional, scientific, administrative, and related activities.

Labour Force Survey (LFS) data for the first three quarters of 2023 show that employment continued to increase, and it did so at a faster pace when compared with the same period of 2022.<sup>1</sup> The number of foreign workers also rose and increased at a faster rate than that of the previous year.

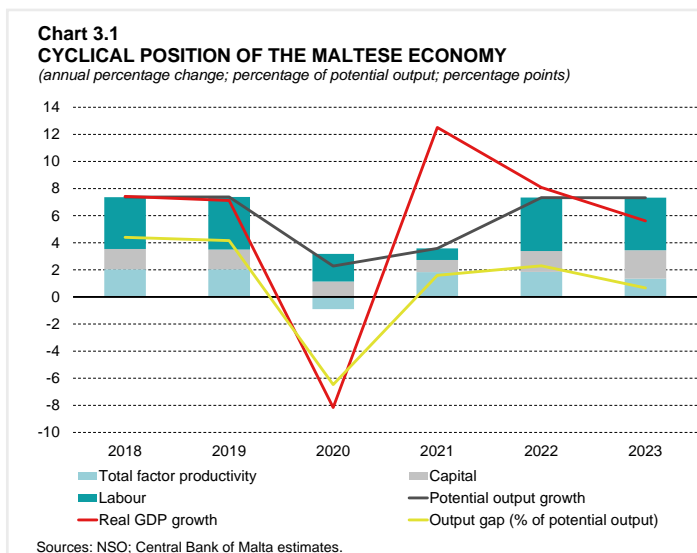
The unemployment rate remained low from a historical perspective and was less than half of that reported for the euro area. It was also lower than the Bank's estimate of structural unemployment.

Administrative data show that in 2023, the average number of registered unemployed persons fell by 30, to 968 persons. Meanwhile the job vacancy rate reached 2.7% during the first three quarters of the year, marginally above the rate of 2.6% recorded a year earlier. Another indicator of labour tightness, which is the ratio of the job vacancy rate to the unemployment rate, also increased and remained at elevated levels from a historical perspective.

#### Potential output and Business Conditions Index

##### Malta's output gap narrows<sup>2</sup>

The Central Bank of Malta estimates that in 2023, potential output growth remained unchanged at 7.3% (see Chart 3.1). As GDP growth moderated, the output gap narrowed to 0.7%, from 2.3% in 2022. Although to a lesser extent



<sup>1</sup> LFS data in this report do not take into account NSO News Release 044/2024 which was published on 8 March 2024. <https://nso.gov.mt/labour-force-survey-reweighting-based-on-2021-census-q1-2018-q3-2023/>.

<sup>2</sup> Potential output measures the medium-to-long-term level of real output which is sustainable in an economy. The estimates presented here are derived using a production function approach. For further details on the methodology adopted see Micallef, B., and Ellul, R. (2017), "Medium-term Estimates of Potential Output Growth in Malta", in Grech, A. G., and Zerafa, S. (Eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta.

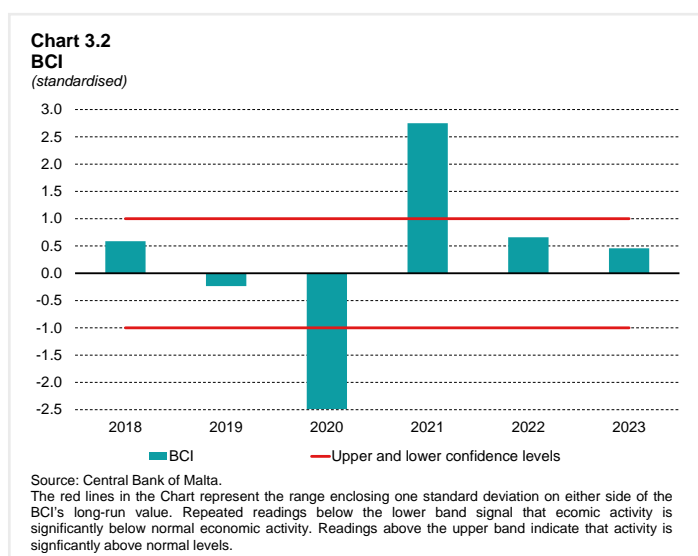
than the year before, this implies that there is still some degree of overutilization of the economy's productive capacity.<sup>3</sup>

The main contributor to potential output growth in 2023 was labour which continued to be characterised by significant inflows of migrant workers and, to a lesser extent, further increases in the participation rate. Although the contribution of labour edged down, it continued to account for more than half of potential output growth. The contribution of total factor productivity eased from the previous year's high, while that of capital increased in line with recent dynamics in investment.

### BCI close to its long-term average<sup>4</sup>

The Bank's BCI continued to move closer to its long-run average measure of economic growth. The index averaged 0.5 during 2023, compared with 0.7 in 2022 (see Chart 3.2). The decrease in the index mainly mirrors a decline in the issuance of development permits for residential buildings. At the same time, growth in both inbound tourism and GDP eased, despite remaining above their respective long-term average, and thus still contributing to an above average BCI.

This offset faster growth in tax revenues, industrial production and the economic sentiment indicator (ESI) (despite these variables also outperforming their long-term average), and lower unemployment.



## GDP and industrial production

### Real GDP growth driven by net exports

Economic activity in Malta continued to register robust growth, albeit at a more moderate one than that of 2022. Real GDP rose by 5.6%, after increasing by 8.1% a year earlier.<sup>5</sup> Growth in 2023 reflects a large positive contribution from net exports, which offset a negative contribution from domestic demand (see Table 3.1).

Domestic demand rose by 0.2% during the year under review, following a 13.6% increase in 2022, with the slowdown largely driven by a sharp decline in GFCF. This, in turn, mostly reflected a correction in import-intensive investment in the aviation sector from the high level recorded in the previous year. Overall, domestic demand shed 1.7 percentage points from GDP growth in the year under review.

Private consumption rose by 7.7%, following a 10.9% increase in 2022, and added 3.2 percentage points to GDP growth. Data on the Classification of Individual Consumption by Purpose (COICOP) show that the

<sup>3</sup> The output gap may be viewed as a gauge of over- or underutilisation of the productive capacity of the economy over the business cycle. A positive gap signals over-utilisation of resources, whereas a negative one indicates underutilised resources.

<sup>4</sup> The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term-structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction, it has an average value of zero over the estimation period since 2000. A full time series can be found at <https://www.centralbankmalta.org/business-conditions-index>. For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 05/2016.

<sup>5</sup> The analysis of GDP in this Chapter is based on data published in *News Release* 039/2024 published on 28 February 2024.

**Table 3.1**  
**GROSS DOMESTIC PRODUCT<sup>(1)</sup>**

	2018	2019	2020	2021	2022	2023
	<i>Annual percentage changes</i>					
Private final consumption expenditure	9.6	4.3	-10.7	8.2	10.9	7.7
Government final consumption expenditure	11.3	13.4	14.8	6.8	1.9	3.3
GFCF	3.9	10.3	-6.0	14.2	31.4	-22.2
<b>Domestic demand</b>	<b>8.2</b>	<b>8.0</b>	<b>-3.7</b>	<b>8.7</b>	<b>13.6</b>	<b>0.2</b>
Exports of goods and services	8.4	9.7	-1.8	7.6	8.6	8.7
Imports of goods and services	9.1	10.5	1.5	5.1	11.7	4.6
<b>GDP</b>	<b>7.4</b>	<b>7.1</b>	<b>-8.2</b>	<b>12.5</b>	<b>8.1</b>	<b>5.6</b>
	<i>Percentage point contributions</i>					
Private final consumption expenditure	4.4	2.0	-4.8	3.5	4.5	3.2
Government final consumption expenditure	1.6	2.1	2.4	1.4	0.4	0.6
GFCF	0.8	2.0	-1.2	2.8	6.4	-5.6
Changes in inventories	-0.1	0.4	0.5	-0.3	-0.1	0.0
<b>Domestic demand</b>	<b>6.7</b>	<b>6.5</b>	<b>-3.0</b>	<b>7.4</b>	<b>11.2</b>	<b>-1.7</b>
Exports of goods and services	13.4	15.6	-3.0	13.2	14.2	14.4
Imports of goods and services	-12.6	-14.9	-2.2	-8.1	-17.4	-7.1
<b>Net exports</b>	<b>0.8</b>	<b>0.6</b>	<b>-5.2</b>	<b>5.1</b>	<b>-3.1</b>	<b>7.3</b>
<b>GDP</b>	<b>7.4</b>	<b>7.1</b>	<b>-8.2</b>	<b>12.5</b>	<b>8.1</b>	<b>5.6</b>

Sources: NSO; Central Bank of Malta calculations.

<sup>(1)</sup> Chain-linked volumes, reference year 2015.

rise in private consumption was broad-based across most expenditure categories. The strongest increase in absolute terms was recorded in spending on miscellaneous goods and services, which includes expenditure on personal care, insurance, and financial services among others. This was followed by higher spending on restaurants and hotels, transport, as well as recreation and culture. Expenditure on these items benefitted from the continued strong growth in tourism activity. On the other hand, spending on housing, water, electricity, gas and other fuels contracted significantly. Smaller declines were also reported in spending on furnishings, household equipment and routine household maintenance, and on food and non-alcoholic beverages.

In the national accounts, private consumption data by COICOP category are based on the domestic concept, and thus include the expenditure of non-residents in Malta. Given that tourist arrivals exceeded the previous year's levels, certain COICOP categories of expenditure were affected by a strong increase in non-residents' expenditure in Malta. Nevertheless, the remaining component of domestic consumption – the expenditure of residents of Malta – also rose on a year earlier. Meanwhile, the expenditure of Maltese residents abroad was over a third above its year-ago level, partly reflecting an increase in trips over the same period.

In 2023, government consumption grew by 3.3%, above the 1.9% recorded in 2022. This acceleration is due to higher growth in spending on intermediate consumption and compensation of employees. Overall, government consumption added 0.6 percentage point to annual GDP growth.

Following an increase of 31.4% in 2022, GFCF contracted sharply by 22.2% in 2023, shedding 5.6 percentage points from GDP growth. The most significant decrease was recorded in expenditure on transport equipment, reflecting a decrease in registrations of aircraft from the very high level recorded a year earlier. Investment in other buildings and dwellings also declined. On the other hand, investment in intellectual property increased, while investment in cultivated biological resources remained broadly stable.

**Table 3.2**  
**IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH<sup>(1)</sup>**

	2018	2019	2020	2021	2022	2023
	<i>Percentage point contributions</i>					
Private final consumption expenditure	2.3	0.9	-3.5	2.5	2.4	1.9
Government final consumption expenditure	1.3	1.7	1.8	1.3	0.3	0.5
GFCF	0.2	0.5	-1.0	1.3	2.0	-1.8
Changes in inventories	0.0	0.2	0.3	-0.2	-0.1	0.0
<b>Domestic demand</b>	<b>3.8</b>	<b>3.3</b>	<b>-2.3</b>	<b>4.9</b>	<b>4.6</b>	<b>0.6</b>
<b>Exports of goods and services</b>	<b>3.6</b>	<b>3.8</b>	<b>-5.9</b>	<b>7.6</b>	<b>3.5</b>	<b>5.0</b>
<b>GDP</b>	<b>7.4</b>	<b>7.1</b>	<b>-8.2</b>	<b>12.5</b>	<b>8.1</b>	<b>5.6</b>

<sup>(1)</sup> Chain-linked volumes, reference year 2015.

Source: Central Bank of Malta estimates.

Meanwhile, changes in inventories had a neutral contribution to GDP growth in 2023.

During 2023, imports grew by 4.6% and exports increased by 8.7% on a year earlier. As exports grew faster than imports, net exports increased, adding 7.3 percentage points to annual real GDP growth. This reflected a smaller trade deficit in goods (in volume terms), which in part reflected the aforementioned correction in aircraft imports, and a higher surplus from trade in services.

The contributions shown in Table 3.1 are consistent with the approach traditionally followed in official databases and economic publications. However, this approach does not account for the fact that the import content varies across the different expenditure components. Consequently, such contributions fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 3.2 addresses this limitation by apportioning imports to the respective domestic demand components and exports. Overall, import-adjusted contributions show that exports remained the main contributor to real GDP growth in 2023, despite recording a much smaller positive contribution compared with the traditional approach. Meanwhile, GFCF recorded a much smaller negative contribution than the traditional approach indicates. As a result, and in contrast with that approach, domestic demand had a small positive contribution to growth in the year under review. The main driver behind the growth in domestic demand remains private consumption.

### *Sectoral developments in GVA*

GDP data from the output approach show that real GVA grew by 5.7%, following a 10.0% increase in 2022, and added 5.3 percentage points to real GDP growth (see Table 3.3).

Services remained the main driver behind the rise in economic activity, adding 4.9 percentage points to real GDP growth. Most of the increase stemmed from the sector comprising professional, scientific, administrative, and related activities, which contributed 1.6 percentage points to GDP growth. The sector comprising wholesale and retail trade, transportation, accommodation, and related activities, and that of financial and insurance activities, jointly added 1.6 percentage points, while the remaining services sectors together added another 1.7 percentage points. The manufacturing sector added 0.3 percentage point to growth, while the construction sector lowered it by 0.3 percentage point as GVA in this sector fell for the second consecutive year.

Meanwhile, the contribution of net taxes on products turned marginally positive in annual terms.

**Table 3.3**  
**CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH**

Percentage points

	2018	2019	2020	2021	2022	2023
Agriculture, forestry and fishing	0.0	-0.2	0.3	0.4	-0.1	-0.1
Mining and quarrying; utilities	0.3	0.1	-0.1	0.3	0.1	0.4
Manufacturing	0.4	0.4	0.1	0.2	0.6	0.3
Construction	0.5	1.1	0.0	0.1	-0.3	-0.3
Services	5.2	6.0	-6.5	10.9	8.8	4.9
<i>of which:</i>						
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.9	0.9	-6.3	3.8	4.7	0.7
Information and communication	1.1	1.2	-0.4	1.5	1.1	0.5
Financial and insurance activities	0.0	0.4	0.8	0.3	0.1	0.9
Real estate activities	0.0	0.3	-0.2	0.4	0.1	0.2
Professional, scientific, administrative and related activities	0.8	1.8	-1.3	2.3	1.6	1.6
Public administration and defence; education; health and related activities	0.7	1.1	0.1	1.0	0.6	0.5
Arts, entertainment; household repair and related services	0.7	0.3	0.7	1.6	0.7	0.5
<b>GVA</b>	<b>6.5</b>	<b>7.4</b>	<b>-6.2</b>	<b>11.8</b>	<b>9.1</b>	<b>5.3</b>
<b>Net taxation on products</b>	<b>1.0</b>	<b>-0.2</b>	<b>-2.0</b>	<b>0.7</b>	<b>-1.0</b>	<b>0.4</b>
<b>Annual real GDP growth (%)</b>	<b>7.4</b>	<b>7.1</b>	<b>-8.2</b>	<b>12.5</b>	<b>8.1</b>	<b>5.6</b>

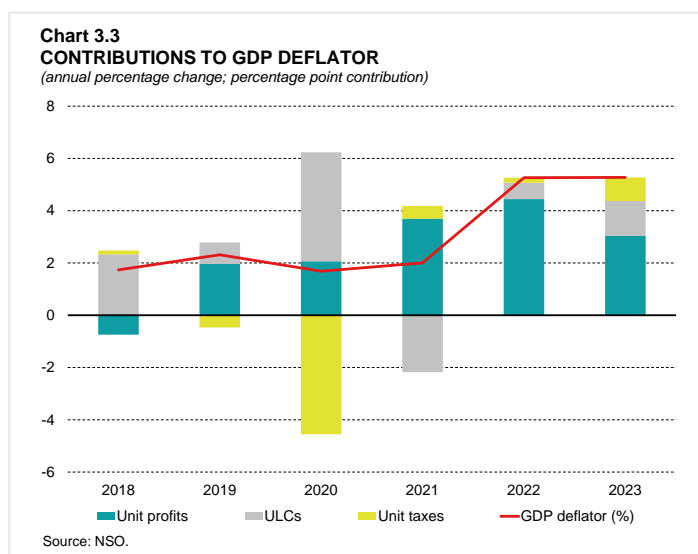
Source: NSO.

### Nominal GDP growth remains strong

Nominal GDP rose by 11.2% in 2023, after increasing by 13.8% in the previous year, and thereby registering double digit annual growth rates for the third consecutive year. All components from the income side – compensation of employees, operating surplus, and net taxes – contributed positively to nominal GDP growth. While gross operating surplus continued to exert the largest impact on growth, its contribution moderated compared with 2022.

Chart 3.3 shows the main contributors to growth in the GDP deflator. Annual growth in the latter remained elevated from a historical perspective. It stood at 5.3% in 2023, unchanged from the previous year.

Growth continued to be mainly driven by the unit profits component, although its contribution was less significant compared with 2022. Compared with a year earlier, the positive contribution from ULCs and unit taxes both increased. The latter partly reflects a decline in subsidies following the end of the Wage Supplement Scheme in mid-2022.



### Industrial production<sup>6</sup>

Industrial production rose at a faster pace of 5.8% in 2023, following an increase of 2.8% in 2022. After recording double-digit growth rates in the first five months of the year, industrial production rose at a slower pace in the second half, amid some volatility.

The faster rate of increase in production when compared to the previous year reflected higher developments in the manufacturing sector. On the other hand, output in the energy sector, which excludes energy generated abroad and imported through the interconnector, rose at a slower pace compared with 2022.

The volume of production in the manufacturing sector rose by 6.4% in 2023, compared with 3.1% in 2022.

Production rose strongly in the sector involved in the printing and reproduction of recorded media, and in the manufacture of computer, electronic and optical products. Significant increases were also reported in the pharmaceutical industry, and by firms that manufacture machinery and equipment. These increases offset strong falls in the manufacture of wearing apparel, and textiles. Smaller declines were also reported, on average, by firms that produce chemical and chemical products, and by firms involved in the manufacture of motor vehicles, trailers and semi-trailers, as well as those that produce paper and paper products.

Data on manufacturing sales point to a slower increase in turnover of 11.0% in 2023, following a 17.1% increase in 2022.<sup>7</sup> Although sales increased in both the domestic and non-domestic market, the former slowed markedly compared to 2022.

### Construction

The number of permits for residential units issued by the Planning Authority declined in 2023, after increasing significantly in 2022. Permits issued stood at 8,112, down from 9,599 in the previous year (see Table 3.4). The number of permits in 2023 exceeded the historical average of around 7,000 permits per year.

The latest decline in permits mostly reflects fewer permits for apartments, followed by those for maisonettes and terraced houses. On the other hand, the number of permits issued for other property categories increased slightly.

The number of development permits for commercial buildings decreased by 15.1% in 2023, following a rise of 7.7% in the preceding year. In 2023, 2,532 commercial permits were issued, below the 2,984 permits approved in 2022, and also below the long-term average of around 2,700 permits.

During 2023, construction investment decreased by around a tenth in real terms, following a decrease of around 7.5% in the preceding year. The latest decrease was largely driven by a fall in non-residential investment, which was down by over a tenth and accounted for around two-thirds of the decrease in construction investment.

**Table 3.4**  
**PERMITS ISSUED FOR THE CONSTRUCTION OF DWELLING UNITS**  
**BY TYPE**

	2018	2019	2020	2021	2022	2023
Apartments	11,211	10,726	6,735	6,451	8,280	7,026
Maisonettes	1,166	1,226	727	738	910	712
Terraced houses	396	402	299	290	333	292
Other	112	131	76	99	76	82
<b>Total</b>	<b>12,885</b>	<b>12,485</b>	<b>7,837</b>	<b>7,578</b>	<b>9,599</b>	<b>8,112</b>

Source: Planning Authority.

<sup>6</sup> Industrial production data are based on samples of firms engaged in quarrying, manufacturing, and energy production. Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added. Industrial production measures the volume of output without considering input costs. The sectorial coverage also differs, as industrial production data include the output of the energy sector, as well as mining and quarrying.

<sup>7</sup> Data on manufacturing sales are sourced from Eurostat.

**Table 3.5**  
**CONSTRUCTION ACTIVITY INDICATORS**

	2020	2021	2022	2023
<b>Real GVA (EUR millions)</b>	<b>571.8</b>	<b>579.5</b>	<b>540.6</b>	<b>496.5</b>
Share in total economy GVA (%)	5.2	4.7	4.0	3.4
<b>Total employment<sup>(1)</sup></b>	<b>14,965</b>	<b>15,810</b>	<b>17,131</b>	<b>18,777</b>
of which private employment	14,373	15,258	16,586	18,239
Share in total gainfully occupied population (%)	6.4	6.7	6.8	6.9

Source: NSO.

<sup>(1)</sup> Employment data are averages for the first nine months of the year, and are sourced from administrative records.

Residential investment contracted at a steeper rate of 7.3% in the year under review, following a decrease of 3.1% in 2022.

Meanwhile, GVA in the construction sector decreased by 8.2%, following a decrease of 6.7% in the preceding year (see Table 3.5). Its share in GVA for the total economy declined to 3.4%, from 4.0% in 2022.

Nevertheless, employment in construction continued to grow (see Table 3.5). Jobsplus data for the first nine months of 2023 show that the number of persons employed on a full-time basis in this sector rose by 1,647 or 9.6% on a year-on-year basis. This followed an 8.4% increase in the same period of 2022. Job growth in 2023, which remained driven by the private sector, was also above that registered in the economy as a whole.

The construction sector's share in the total gainfully occupied population edged up to 6.9% in the first nine months of 2023, from 6.8% in the corresponding period of 2022. According to national accounts data for the full year, compensation of employees in the sector increased by 9.0%, following an increase of similar magnitude in 2022.

## The labour market<sup>8</sup>

### Labour force grows further

On average, the labour force expanded by 5.1% in the first nine months of 2023, a faster pace than that of 4.3% registered in the same period of 2022 (see Table 3.6).

The activity rate went up by 1.7 percentage points on a year earlier, to 81.3%, exceeding the euro area average of 75.0%.<sup>9</sup> The increase in the activity rate partly reflects a higher male activity rate, as the latter edged up by 1.7 percentage points to 87.7%. At the same time, the female activity rate rose by 1.6 percentage points to 74.0%. Both rates exceeded those for the euro area, which stood at 79.6% and 70.5%, respectively.<sup>10</sup>

In the first three quarters of 2023, the number of actual weekly hours worked averaged 34.1, broadly in line with the number of hours reported in the same period of 2022. The average number of hours worked in the first three quarters of the year has thus remained broadly at the same levels since 2021.<sup>11</sup>

### Employment grows at a faster pace

During the first three quarters of 2023, employment expanded at an average annual rate of 5.4% (see Table 3.6). This compares with 5.0% during the corresponding period of 2022 and exceeds the average increase

<sup>8</sup> This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted on a quarterly basis by the NSO based on definitions set by the International Labour Organization (ILO) and Eurostat; and administrative records compiled monthly by Jobsplus, according to definitions established by domestic legislation on employment and social security benefits.

<sup>9</sup> The activity rate measures the number of persons in the labour force aged 15-64 years (whether employed or seeking work) as a proportion of the working-age population, which is defined as all those aged 15-64 years.

<sup>10</sup> The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who were actively seeking a job during the previous four weeks and available for work within two weeks of the reference period.

<sup>11</sup> Actual hours refer to the number of hours actually spent at the place of work during the reference week for the main job. Data cited in this report are sourced from the NSO, which may differ from Eurostat data due to differences in the methodology.

**Table 3.6****LABOUR MARKET INDICATORS BASED ON THE LFS<sup>(1)</sup>***Persons; annual percentage changes*

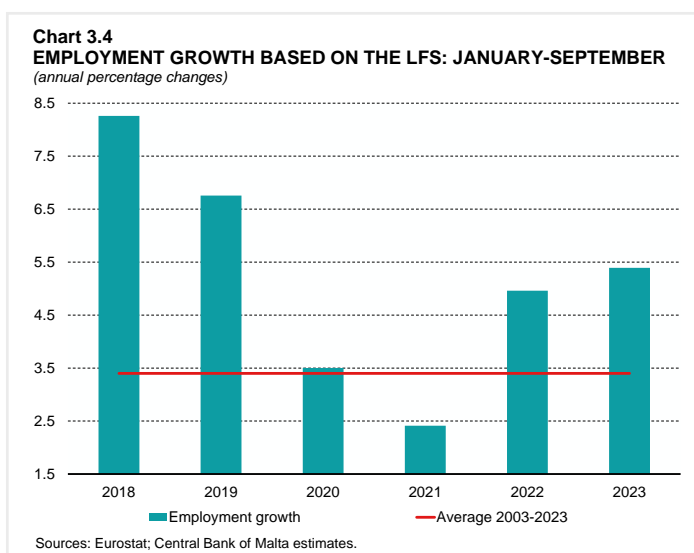
	2022 (revised) Jan.-Sep.	2023 Jan.-Sep.	Annual change %
<b>Labour force</b>	<b>289,100</b>	<b>303,800</b>	<b>5.1</b>
Employed	280,700	295,800	5.4
<i>By type of employment:</i>			
Full-time	246,300	259,700	5.4
Part-time	34,400	36,200	5.2
Unemployed	8,400	8,000	-5.5
<b>Activity rate (%)</b>	<b>79.7</b>	<b>81.3</b>	
Male	86.0	87.7	
Female	72.4	74.0	
<b>Employment rate (%)</b>	<b>77.3</b>	<b>79.1</b>	
Male	83.3	85.3	
Female	70.5	72.1	
<b>Unemployment rate (%)</b>	<b>2.9</b>	<b>2.6</b>	
Male	3.2	2.7	
Female	2.6	2.5	
<b>Actual hours worked (per week)</b>	<b>34.0</b>	<b>34.1</b>	

Sources: NSO; Eurostat.

<sup>(1)</sup> Labour force figures are based on averages for the first three quarters published by Eurostat and are rounded to the nearest 100 persons. Growth rates reported in this Table are derived from Eurostat period averages.

of 3.4% estimated since 2003 (see Chart 3.4). This is in line with the strong rate of economic growth and the recent increase in the activity rate.

In absolute terms, the rise in the number of employed persons during the first three quarters of the year was primarily driven by full-time jobs, which went up by around 13,400. Part-time employment also increased, with the number of such jobs rising by around 1,800. Over the same period, the number of unemployed persons fell by just under 500, to 8,000 persons – a decrease of almost 5.5%.



When looking at data on employment by occupation, the largest increases in absolute terms were recorded among persons interested in jobs relating to services and sales, and in craft and related trades.

When expressed as a share in total employment, those who work in services and sales, and in craft and related trades, experienced the largest increase in their relative share compared to 2022 (see Chart 3.5).

The share of persons employed in the operation and assembly of plant and machinery, and in skilled agriculture and fishing also increased, but to a lesser degree. Meanwhile, albeit being the highest, the share of persons employed in professional jobs decreased. Those employed in the roles of technician or associate professional declined by a slightly lower rate. Moreover, those in clerical, managerial, and elementary occupations declined marginally.

The overall employment rate rose by 1.8 percentage points to 79.1% in the first three quarters of 2023, (see Table 3.6), well above the 70.0% registered in the euro area.<sup>12</sup>

The male employment rate registered the strongest increase, gaining 2.0 percentage points, to reach 85.3%. This compares with 74.6% in the euro area. The female employment rate rose by 1.6 percentage point, to 72.1%, remaining also higher than the average rate of 65.5% recorded for the euro area.

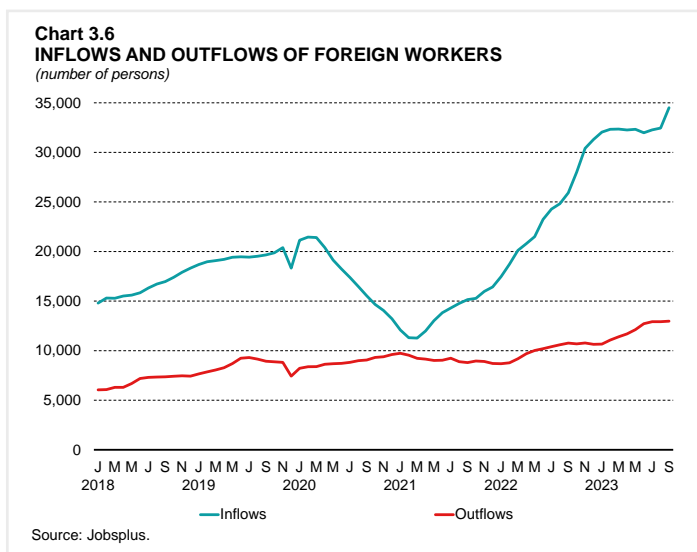
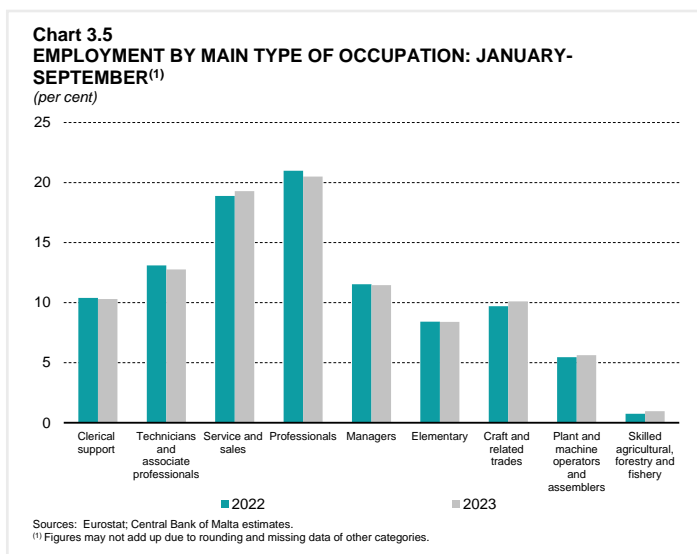
### Foreign employment grows

The stock of foreign workers in September 2023 stood at 111,030, up from 89,549 in September 2022.

In this period, the number of foreigners in employment rose for all types of occupation. The largest increases in absolute terms – amounting to just over half the total level increase – were recorded in elementary occupations and in services and sales jobs. These were also the two most prevalent jobs held by foreign employees.

When expressed as a share in total foreign employment, those who work in elementary occupations experienced the largest increase in their relative share compared to 2022. The share of persons employed in the operation and assembly of plant and machinery, and in services and sales also increased, but to a lesser extent. Meanwhile, the shares of persons employed in clerical, professional, and managerial jobs decreased. Those employed in the roles of craft and related trade also declined but by less.

Additional administrative data indicates that the number of foreign workers arriving in Malta increased strongly during 2023, rising by almost 8,600 workers, to exceed 34,500 by September 2023 (see Chart 3.6).<sup>13</sup> Outflows of foreign workers increased at a milder pace by almost 2,200 persons, to reach almost 13,000 persons by September 2023.



<sup>12</sup> The employment rate measures the number of persons aged 15-64 years, employed on a full-time or part-time basis as a proportion of the working-age population, which is defined as all those aged 15-64 years.

<sup>13</sup> Data on worker flows may not add up to the stock of workers, due to methodological differences in the administrative data.

### Unemployment rate falls to record lows

The LFS unemployment rate averaged 2.6% during the first three quarters of 2023, compared to 2.9% in the same period of 2022 (see Table 3.6).

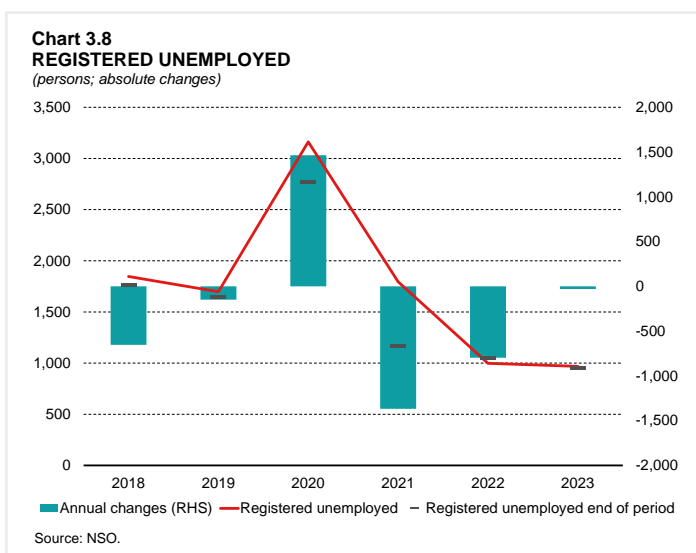
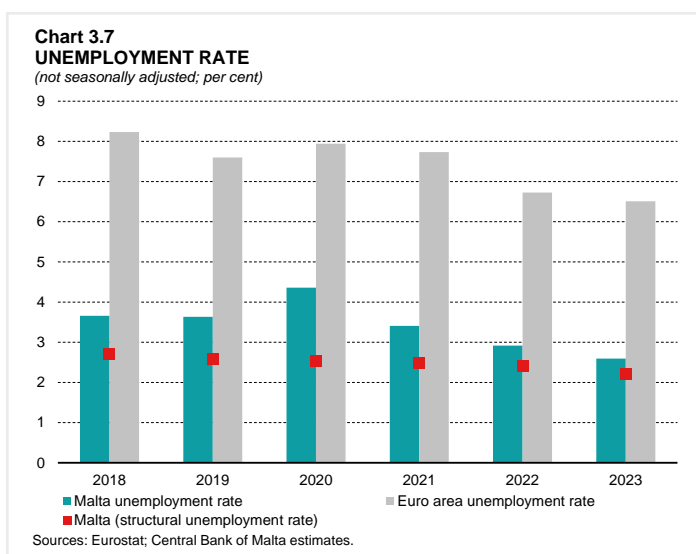
Monthly data up to December, which covers LFS data up to the third quarter as well as more recent administrative data, show that the unemployment rate averaged 2.6% in 2023, lower than the rate of 2.9% recorded in 2022 (see Chart 3.7). For most of the year, it stood at or near historic lows. The unemployment rate also remained well below that of 6.5% recorded in the euro area.

It also stood below the Bank's estimate of the structural unemployment measure of 3.4% for 2023.<sup>14</sup> This indicates a degree of labour market tightness, which is also confirmed by the Bank's Business Dialogue publication.

The decline in unemployment is confirmed by administrative sources. According to Jobsplus data, on average, the number of unemployed persons fell by 30 persons over 2023, to 968 (see Chart 3.8).<sup>15</sup>

This decrease was recorded in almost all age cohorts, with the largest drop being observed among those aged 45 years and over, which fell by 19 persons, to 450. This was followed by those aged between 25 and 29, which fell by eight persons to 71, and those aged between 20 and 24 which fell by six persons to 97. On the other hand, the unemployed aged under 20 increased by three persons to 70, and those aged between 30 to 44 remained unchanged at 281 persons.

In terms of duration, the decline in the number of unemployed reflected a fall in long-term unemployed (unemployed for more than a year), which declined by around 49 persons. This outweighed a rise in short-term unemployment (unemployed for less than a year). Those unemployed for less than 21 weeks increased by around 26



<sup>14</sup> The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on an unobserved components model as described in Ellul, R., (2019). "An Unobserved Components Model for potential output in Malta", Article published in the *Quarterly Review* 2019:2, pp. 17-21.

<sup>15</sup> The annual number of registered unemployed is based on the average of the total registered unemployed published by NSO on a monthly basis.

people, and those unemployed for a period of between 21 to 52 weeks, increased marginally by about three persons.

During the year under review, over a fourth of those on the unemployment register were looking for clerical support work. The second and third most sought-after occupation categories were those of service and sales workers, and technician or associate professionals. Together, these two categories accounted for just under a third of persons on the unemployment register.

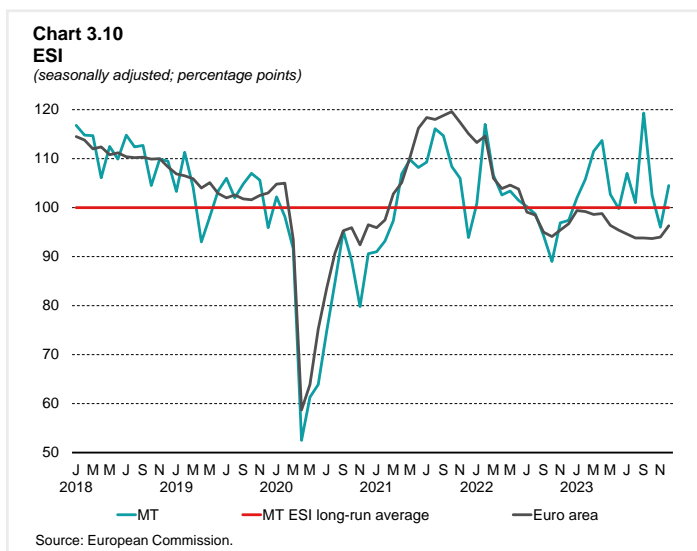
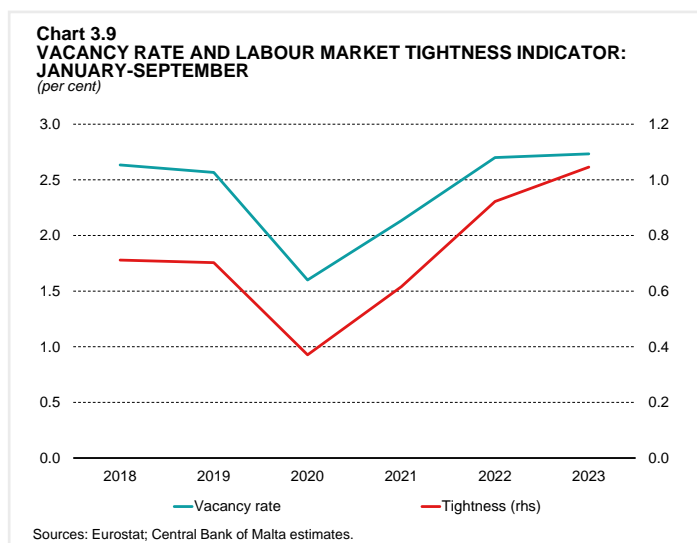
The job vacancy rate for industry, construction and services stood at elevated levels in the first three quarters of 2023, on a par with 2019 rates (see Chart 3.9). It stood at the same level of 2.7%, as recorded in the same period a year earlier.<sup>16</sup> The vacancy rate was highest in the other services sector (7.9%), which includes activities of membership organisations, the repair of computers and personal and household goods, and related activities. This is followed by the information and communication sector (4.2%).

The ratio of the job vacancy rate to the unemployment rate – an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness – also rose marginally. This is the result of a higher vacancy rate and a lower unemployment rate compared to last year. At 1.0, this indicator thus stands at elevated levels from a historical perspective.

## Business and Consumer Surveys

### *Economic sentiment rises and remains above its long-term average*

During 2023, the European Commission's ESI for Malta averaged 105.5, up from 100.7 in 2022 (see Table 3.7). Following this increase, the ESI rose further above its long-term average of around 100.0. This strongest increase was recorded in industry. Smaller gains were also registered in the services and retail sectors. By contrast, sentiment among consumers and in the construction sector decreased.<sup>17,18</sup>



<sup>16</sup> The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

<sup>17</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated since May 2011, when it was first published. The long-term average of the ESI is computed from November 2002.

<sup>18</sup> The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers).

**Table 3.7**  
**SENTIMENT INDICATOR BY SECTOR**

*Annual average; absolute change*

	2021	2022	2023	Change	2023			
					Mar.	June	Sep.	Dec.
<b>ESI</b>	<b>104.6</b>	<b>100.7</b>	<b>105.5</b>	<b>4.8</b>	<b>111.6</b>	<b>99.8</b>	<b>119.2</b>	<b>104.5</b>
Industrial confidence indicator	2.1	-9.4	2.4	11.9	6.8	-20.0	44.4	-2.8
Services confidence indicator	13.7	20.5	26.6	6.1	45.9	36.0	16.2	31.2
Retail trade confidence indicator	-8.4	6.0	9.8	3.8	23.3	-15.2	9.6	15.3
Consumer confidence indicator	3.4	-7.3	-10.9	-3.6	-10.9	-10.4	-9.9	-12.6
Construction confidence indicator	7.3	7.0	1.2	-5.8	-0.2	8.4	-2.7	-23.4
<b>Employment expectations indicator</b>	<b>102.8</b>	<b>105.7</b>	<b>107.2</b>	<b>1.5</b>	<b>122.1</b>	<b>106.1</b>	<b>95.8</b>	<b>111.9</b>
Industry	14.8	12.0	19.3	7.3	60.2	7.8	-1.2	19.8
Services	25.1	30.2	30.1	-0.2	46.0	38.3	12.1	42.9
Retail	4.4	15.8	17.2	1.4	38.9	4.4	8.6	21.8
Construction	13.2	5.4	12.2	6.8	15.5	0.7	-2.1	-3.2
<b>ESI demeaned</b>	<b>4.6</b>	<b>0.7</b>	<b>5.5</b>	<b>4.8</b>	<b>11.5</b>	<b>-0.2</b>	<b>19.2</b>	<b>4.5</b>
<b>EI demeaned</b>	<b>3.0</b>	<b>6.0</b>	<b>7.0</b>	<b>1.0</b>	<b>20.0</b>	<b>7.3</b>	<b>-4.0</b>	<b>12.4</b>

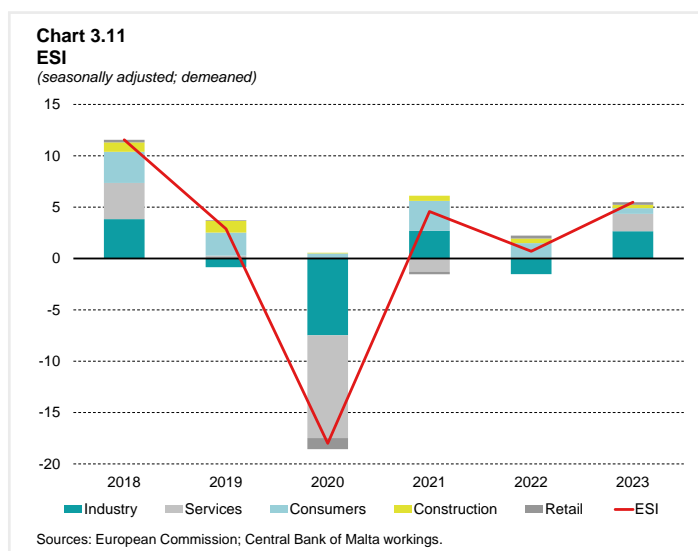
Source: European Commission.

The index rose from below 100 at the end of 2022 to 113.8 in April, before retreating towards its long-term average in June, driven by a sharp decline in the construction sector. Subsequently, the overall indicator recovered and reached an all-time high of 119.2 in September, largely reflecting a significant increase in industry. Sentiment moderated thereafter, closing the year at 104.5 (see Chart 3.10).

Malta's ESI indicator stood well above that of the euro area, which averaged 96.4. Confidence indicators exceeded those in the euro area across all sectors, although the largest differences stemmed from services firms and from the retail sector.

Table 3.7 presents the annual average reading for each sector included in the ESI and the absolute change relative to 2022. During 2023, positive sentiment was registered across all sectors, with the exception of consumers. The most positive reading was recorded in the services sector.

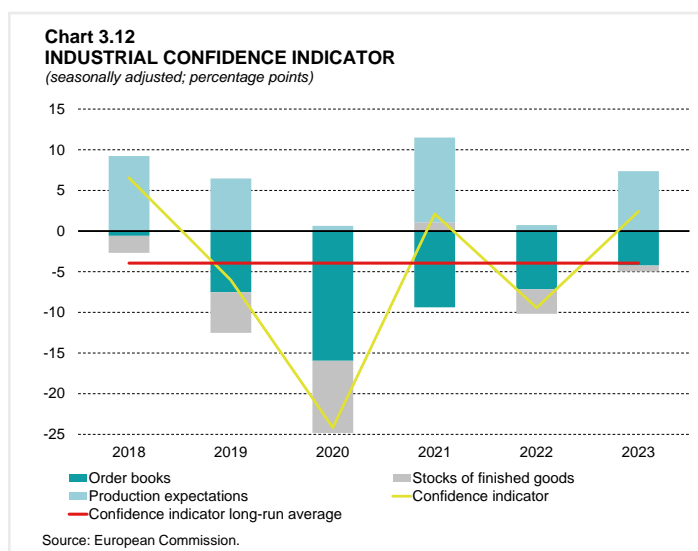
Demeaned data, which take into account the weights assigned to each sector, and the time variation of each sector, show that most of the increase was driven by developments in industry, and to a lesser extent, in services (see Chart 3.11).<sup>19</sup> These sectors also largely explain why the overall ESI stood above its long-term average during the year under review.



<sup>19</sup> Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

### Industrial confidence turns positive, rising above its long-term mean<sup>20</sup>

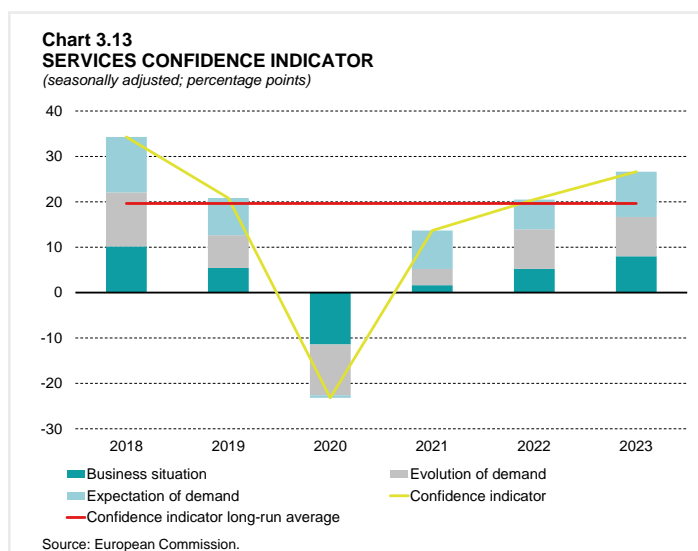
Sentiment among manufacturing firms increased to 2.4, from -9.4 in 2022, thus rising above its long-term mean of -3.9 (see Chart 3.12). The amelioration in sentiment largely reflected a strong increase in production expectations. At the same time, a smaller share of respondents deemed order book levels to be below normal. Furthermore, the net share of firms assessing their stocks of finished goods to be above normal levels, decreased.<sup>21</sup>



After reaching an all-time high of 44.4 in September, sentiment in industry fell below its long-term average in November and stood at -2.8 in December.

### Confidence in the services sector improves further<sup>22</sup>

The confidence indicator within the services sector reached 26.6, up from 20.5 in the preceding year (see Chart 3.13). This increase reflected higher positive expectations of demand over the next three months, and a more positive assessment of the business situation over the past three months. By contrast, respondents' assessment of demand edged down slightly but remained positive. Following this increase, confidence in the services sector stood well above its long-term average of 19.6.



Sentiment in services was positive during all of 2023, with the highest readings recorded in the first half of the year, notably in March and April when the confidence indicator crossed the 40 mark.

### Confidence in the retail sector continues to increase<sup>23</sup>

The retail confidence indicator stood at 9.8 in 2023, up from 6.0 a year earlier, rising further above its long-term average of 0.1 (see Chart 3.14). The rise in sentiment was driven by expectations of business

<sup>20</sup> The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, current levels of order books and stocks of finished goods (the last with inverted sign).

<sup>21</sup> A rise in the stock levels indicates lower turnover and affects the overall indicator in a negative way. Such decreases are thus represented by bars below the 0 mark in Chart 3.12.

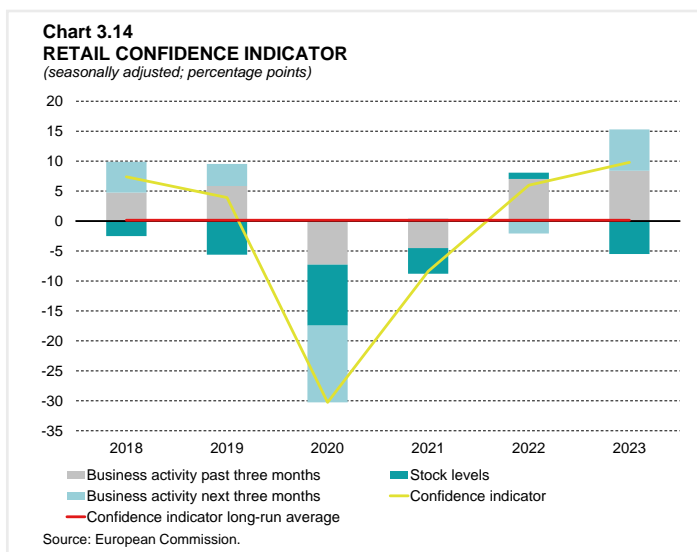
<sup>22</sup> The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

<sup>23</sup> The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

activity over the next three months, which turned positive in 2023. At the same time, respondents were more optimistic of sales over the past three months. However, in contrast to the previous year, participants assessed stock levels to be well above normal.

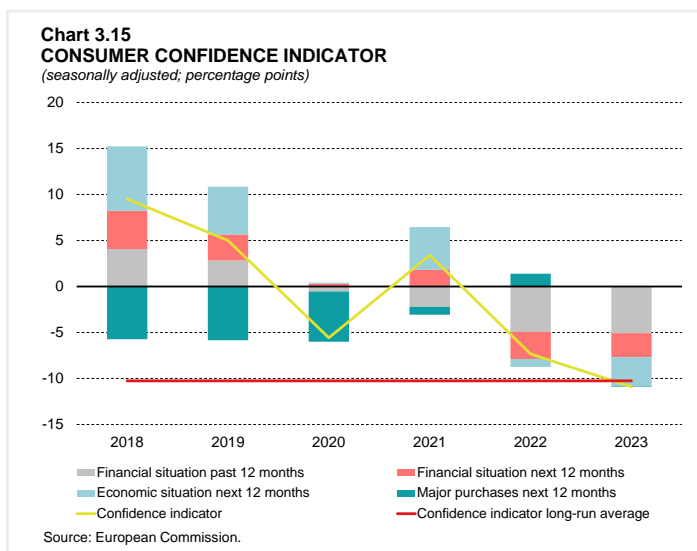
Sentiment in this sector was positive for most of the year. The best monthly reading was reached in April, when the index stood at 35.9.

Additional survey data indicate that, on balance, a smaller net share of retailers anticipated order book levels to stand above normal levels in 2023.



**Consumer confidence deteriorates further<sup>24</sup>**

Consumer confidence declined to -10.9, from -7.3 in 2022. Following this decrease, sentiment fell below its long-term average of -10.3 (see Chart 3.15).



The fall in sentiment, when compared to 2022, largely reflected a deterioration in consumers' expectations of the general economic situation over the next 12 months. At the same time, households, on balance, signalled that they did not intend to undertake major purchases in subsequent months. This contrasts with 2022, when expectations of major purchases stood positive.

Furthermore, while consumers assessment of their finances over the last 12 months worsened, expectations of their financial situation improved but remained negative.

Additional survey information suggests that in contrast to 2022, respondents expected unemployment to rise in the following 12 months. Meanwhile, savings expectations edged down compared to a year earlier, but remained positive. The survey also reveals that inflation perceptions increased, reaching unprecedented levels, while price expectations eased but remained elevated.

**Confidence in construction decreases but remains positive<sup>25</sup>**

The sentiment indicator for the construction sector averaged 1.2 during 2023, down from 7.0 in the preceding year. Notwithstanding this decrease, confidence remained firmly above its long-term average of

<sup>24</sup> The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the January 2019 release of the European Commission. [https://economy-finance.ec.europa.eu/system/files/2019-01/esi\\_2019\\_01\\_en.pdf](https://economy-finance.ec.europa.eu/system/files/2019-01/esi_2019_01_en.pdf).

<sup>25</sup> The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

-8.1 (see Chart 3.16). Respondents assessed order book levels to be below normal levels in 2023, compared with a positive assessment a year earlier. Meanwhile, employment expectations for the next three months stood more positive.

Additional survey data show that respondents' assessment of building activity over the past three months turned negative. Furthermore, insufficient demand and financial constraints were the most important impediment to production signalled by respondents during the year under review, followed by labour shortages.

### *Selling price expectations remain elevated*

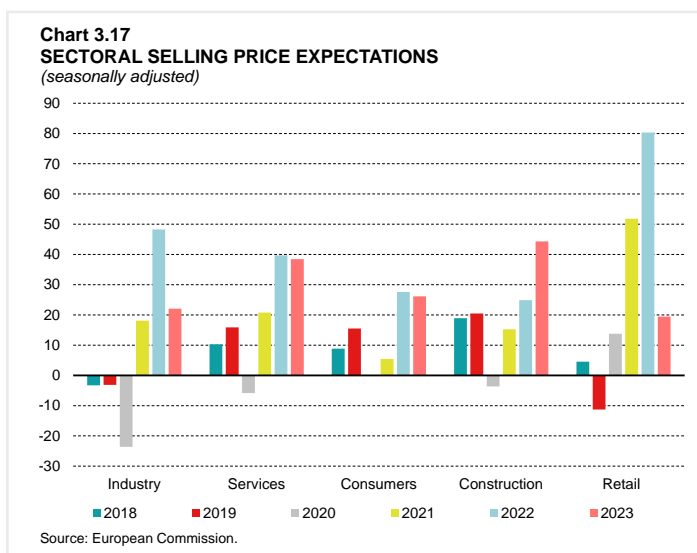
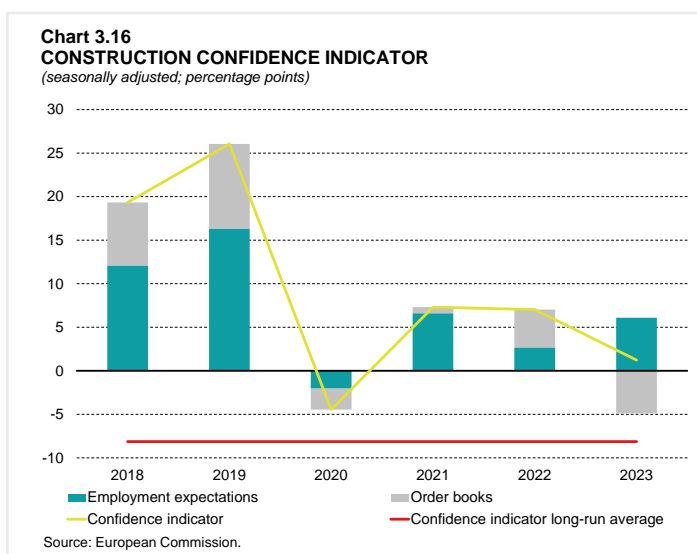
In 2023, selling price expectations decreased across all sectors, except in construction. The most significant decreases were recorded among retail firms and in industry (see Chart 3.17). Smaller declines were also recorded among services firms and consumers.

Differences across sectors remained wide – while the net share of firms signalling price increases hovered around 40% in the construction and services sectors, that in other sectors ranged between 19% and 26%.

### *Employment Expectations Indicator increased somewhat*

The Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased.<sup>26</sup> It reached 107.2, up from 105.7 a year earlier, and stood above its long-term average of around 100.0.

Employment expectations were positive across all sectors, with the most positive reading recorded in the services sector. When accounting for the variation in the weights assigned to each sector in the overall index, the increase in expectations relative to 2022 was largely driven by industry (see Chart 3.18). The construction and retail sectors also contributed to the increase in the EEI, but in a more limited way. Meanwhile,

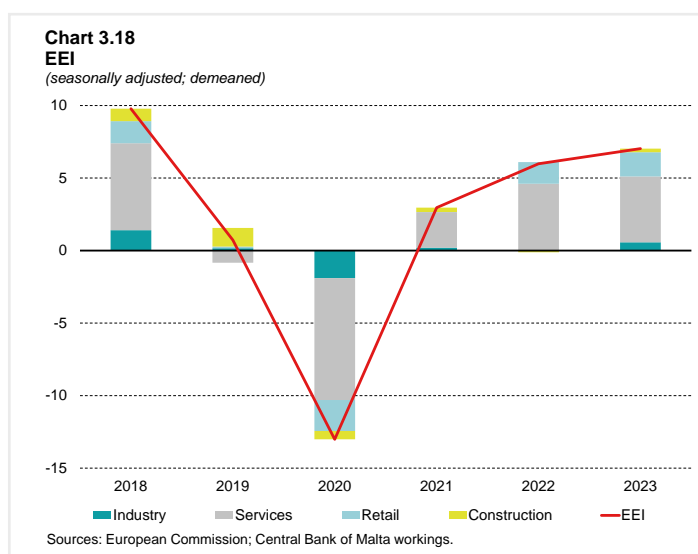


<sup>26</sup> The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in European Commission (2020). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

the contribution of the services sector eased slightly but remained positive. The latter largely explains why the overall EEI stood above its long-term average in 2023.

### Economic uncertainty decreases

The European Commission's Economic Uncertainty Indicator (EUI) for Malta averaged 12.1 in 2023, compared with 28.1 in the previous year, and stood well below the euro area average of 21.9.<sup>27,28</sup> During this period, uncertainty was below that in the euro area in all sectors, apart from construction and among consumers (see Table 3.8).



During 2023, on balance, uncertainty decreased most in the retail sector and in industry, with the former recording the lowest uncertainty for the year. The services sector also recorded lower uncertainty compared to 2022, albeit to a more limited extent. By contrast, uncertainty increased in the construction sector, and to a lesser degree, among consumers.

**Table 3.8**  
**EUI BY SECTOR**

Period average; absolute change

	2021	2022	2023	Change	2023			
	May-Dec. <sup>(1)</sup>				Mar.	June	Sep.	Dec.
<b>Euro area</b>	<b>15.5</b>	<b>25.0</b>	<b>21.9</b>	<b>-3.1</b>	<b>22.3</b>	<b>20.2</b>	<b>21.1</b>	<b>21.1</b>
Retail	32.3	40.4	35.8	-4.6	38.2	34.2	34.3	35.0
Services	17.1	20.5	16.5	-4.0	16.6	13.8	16.8	14.7
Industry	27.9	40.3	36.9	-3.4	36.7	36.0	36.3	37.1
Construction	14.4	24.9	23.3	-1.7	22.0	22.7	21.5	24.3
Consumers	-15.7	-2.8	-4.0	-1.1	-1.9	-5.9	-6.0	-5.7
<b>Malta</b>	<b>21.3</b>	<b>28.1</b>	<b>12.1</b>	<b>-16.1</b>	<b>5.5</b>	<b>11.0</b>	<b>27.9</b>	<b>4.2</b>
Retail	48.8	50.8	6.5	-44.3	9.0	22.0	4.1	-1.2
Services	32.2	20.3	15.2	-5.0	17.2	10.1	35.8	-7.5
Industry	21.0	39.4	7.6	-31.8	-10.8	6.3	32.6	6.9
Construction	30.1	19.5	24.9	5.5	36.6	10.1	32.5	34.0
Consumers	-3.5	13.7	14.4	0.7	11.9	19.2	11.6	10.4

Source: European Commission.

<sup>(1)</sup> Data for 2021 are estimated for the period May-Dec. 2021, as data for Malta is only available from May 2021.

<sup>27</sup> The EUI is made up of five balances (in percentage points) which summarise managers'/consumers' answers to a question asking them to indicate how difficult it is to make predictions about their future business/financial situation. The series are not seasonally adjusted. The five balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.

<sup>28</sup> Data on consumer uncertainty in Malta became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

## BOX 2: ECONOMIC PROJECTIONS

### Economic outlook

The Bank's latest economic projections had a cut-off date of 6 February 2024, and thus pre-date the latest release of the national accounts of 28 February 2024. Also, HICP projections precede the February 2024 flash estimate. As at the cut-off date, there was insufficient information to quantify the impact of government measures aimed at mitigating food price inflation that became effective on 1 February 2024. Such factors could have significant implications for the below projections, which will be updated in forthcoming forecast rounds.

Malta's GDP growth is projected to moderate from 5.6% in 2023, to 4.4% in 2024, and to ease further to 3.6% and 3.3% in 2025 and 2026, respectively (see Table 1).

Private consumption growth is set to slow down in 2024 following three years of elevated growth. It is expected to remain relatively robust despite the high-inflationary period. Indeed, growth in private consumption is projected to moderate from 7.7% in 2023 to 4.9% in 2024. Thus, in 2024 consumption

**Table 1**  
**PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA<sup>(1)</sup>**

	2023 <sup>(2)</sup>	2024	2025	2026
<b>Real economic activity (% change)</b>				
GDP	5.6	4.4	3.6	3.3
Private consumption expenditure	7.7	4.9	4.0	3.7
Government consumption expenditure	3.3	5.3	4.1	3.9
GFCF	-22.2	2.0	3.6	2.6
Exports of goods and services	8.7	3.8	3.0	3.0
Imports of goods and services	4.6	3.7	3.1	3.1
<b>Contribution to real GDP growth (in percentage pts)</b>				
Final domestic demand	-1.7	3.5	3.1	2.8
Net exports	7.3	0.9	0.5	0.5
Changes in inventories	0.0	0.0	0.0	0.0
<b>Labour market (% change)<sup>(2)</sup></b>				
Total employment	6.5	3.2	2.5	2.4
Unemployment rate (% of labour supply)	2.6	2.6	2.7	2.9
<b>Prices and costs (% change)</b>				
Overall HICP	5.6	2.9	2.2	1.9
<b>Public Finances(% of GDP)<sup>(3)</sup></b>				
General government balance	-4.5	-4.0	-3.5	-3.1
General government debt	50.7	52.7	53.5	54.3

<sup>(1)</sup> Data on GDP were sourced from NSO *News Release* 039/2024 published on 28 February 2024, while HICP was sourced from *News Release* 009/2024 published on 27 January 2024.

<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 LFS.

<sup>(3)</sup> Central Bank of Malta projections.

growth is set to outpace the Bank's estimate of real disposable income. For the rest of the projection horizon, growth in this GDP component is expected to embark on a normalisation path. In view of the strong decline in the saving ratio in 2023 and 2024, private consumption is foreseen to grow in line with the Bank's estimate of real disposable income in the last two years of the projection horizon. Thus, the saving ratio is envisaged to decline slightly in 2024 but stabilise at around its average seen in the last ten years by 2025.

Meanwhile, growth in government consumption is set to peak at 5.3% by 2024, and moderate slightly to 4.1% and 3.9% in 2025 and 2026, respectively. This profile is mainly driven by outlays on compensation of employees and intermediate consumption. The profile of intermediate consumption is mainly driven by operational expenses by extra budgetary units.

After a significant contraction in 2023, mainly due to a base effect in the aviation sector, investment is forecast to grow by 2.0% in 2024, 3.6% in 2025, and 2.6% in the outer year. Residential construction is set to decline marginally in 2024, as sentiment in this sector remains weak and labour shortages have become increasingly binding. Thereafter the outlook for this investment component and for non-residential construction is one of modest growth, while the remaining part of private investment is set to recover as the aforementioned base effect fades out.

After rising by 0.8% in 2023, government investment is expected to decline by 2.4% in 2024. Thereafter, it is projected to rise by 4.8% in 2025, and to decline by 0.6% in 2026. This profile is partly driven by the expected take up of EU funds, notably the base effect stemming from the full absorption of funds from the 2014-2020 financing framework by 2023. Work on projects financed by the 2021-2027 framework is expected to gather steam by the outer years of the forecast horizon. Meanwhile, the take up of grants from the Recovery and Resilience Facility (RRF) is envisaged to peak in 2024. Most RRF grants are expected to be utilised by 2025. The profile of domestically funded investment is set to remain at elevated levels throughout the projection horizon.

Following strong growth in both exports and imports in 2023, these are expected to decelerate in 2024. Export growth is set to moderate from 8.7% to 3.8% in 2024, largely driven by a moderation in services exports. This is then expected to decelerate further to just around 3.0% in the following two years and grow broadly in line with foreign demand. With regard to imports, growth is set to moderate to 3.7%, from 4.6% in 2022. It is expected to decelerate further to 3.1% in the following two years. Reflecting these developments, the net export contribution is set to remain positive but to decrease over the projection horizon.

The labour market is expected to remain robust, but activity is expected to slow down from 2024. Employment growth is set to broadly halve to 3.2% in 2024, which partly reflects the envisaged slow-down in economic activity in line with potential growth. Employment is set to expand by 2.5% and 2.4% in 2025 and 2026, respectively. The unemployment rate is expected to remain at 2.6% in 2024, before edging up gradually to 2.9% by 2026.

Annual HICP inflation is projected to moderate to 2.9% in 2024 from 5.6% in 2023, as international price pressures continue to ease. The fall in inflation in 2024 reflects a broad-based decrease across all sub-components of HICP, except for energy inflation, which is expected to remain unchanged as a result of government support measures. Services inflation is envisaged to be the main contributor to HICP inflation in 2024, although the contribution from overall food inflation is projected to follow closely. NEIG inflation is also projected to contribute somewhat to annual HICP inflation in 2024. HICP inflation is set to ease steadily in the following years, standing at 2.2% and 1.9% in 2025 and 2026.

The headline budget balance is expected to remain in deficit throughout the forecast horizon, but to improve over time. This is mainly due to the profile of government expenditure, which in turn is driven by outlays on price mitigation measures. It is set to decline to 4.0% of GDP in 2024, and to continue declining over the rest of the forecast horizon, reaching 3.1% of GDP by 2026. Meanwhile, the general government debt ratio is set to increase gradually throughout the forecast horizon, reaching 54.3% by 2026.

Risks to activity are tilted to the downside in 2024. In part this reflects the ongoing geopolitical tensions, which could weigh on international trade. In particular, an intensification or prolongation of disruptions to shipping around the Suez Canal, could give rise to some supply bottlenecks or longer waiting times, apart from higher costs. On the other hand, wage pressures could be stronger than expected in view of the ongoing tightness in the labour market. Risks are more balanced in the following years.

Risks to inflation are on the downside in 2024, especially following the February flash estimate for HICP. For 2025-2026, risks are balanced. Upside risks to inflation could stem from extreme weather events and effects of geopolitical developments (such as disruptions arising from the conflict near the Red Sea). Other upside risks to headline inflation include the potential impact of measures to combat climate change. Furthermore, if the abovementioned wage pressures materialise, these could slow the envisaged decline in inflation. On the other hand, if global demand proves weaker than expected, this should dampen import price pressures. A stronger pass-through from recent monetary tightening to domestic financial and real economic conditions could ease inflationary pressures in the medium-term.

On the fiscal side, risks are tilted to the downside (deficit-increasing). These mainly reflect the likelihood of higher-than-expected outlays on energy support measures, in the event that commodity prices are higher than envisaged. They also reflect the likelihood of additional increases in pensions and public sector wages. These risks are partly offset by the likelihood of a pick-up in the pace of fiscal consolidation in the outer years of the forecast horizon to comply with EU fiscal rules.



## 4. PRICES, COSTS AND COMPETITIVENESS

Annual inflation, based on the HICP, moderated to 5.6% in 2023, from 6.1% in 2022. Following the record highs reached during 2022, price pressures eased as supply conditions and certain import prices began to normalise. Indeed, HICP inflation eased from 6.8% in January 2023 to 3.7% by the end of the year. HICP inflation in Malta stood below that in the euro area in the initial months of 2023, but by the end of the year it was clearly above it. This mostly reflects a divergence in energy inflation. While energy prices in Malta remained unchanged, those in the euro area showed double-digit growth rates until February, before turning negative during most of the remaining months.

Similar to HICP inflation, the annual rate of inflation based on the Retail Price Index (RPI) also eased in 2023, reaching 5.1% from 6.2% a year earlier.

Furthermore, the annual average rate of change in the producer price index fell to 3.6% in 2023, from 5.5% in the previous year. Malta's real Harmonised Competitiveness Indicator (HCIs) points to a deterioration in international price competitiveness, on account of a stronger euro relative to the other currencies of trading partners. Meanwhile, Malta's ULC index (per person) rose by 2.4% in 2023 up from 1.0% in 2022.

### Inflation

#### Average rate of HICP inflation eases in 2023

The average rate of HICP inflation in Malta stood at 5.6% during 2023, down from 6.1% in 2022 (see Table 4.1).<sup>1</sup> Though still high by historical standards, HICP inflation was on a downward path since the second quarter of the year. Consequently, inflation eased from 6.8% in January to 3.7% by December (see Chart 4.1).

The decrease in inflation compared to 2022 was driven by slower growth in the prices of NEIG and services. By contrast, the contribution of food inflation to overall HICP rose slightly. Meanwhile, energy prices retained

**Table 4.1**  
**HICP INFLATION RATES**

*Average annual rate of change*

	2018	2019	2020	2021	2022	2023
Unprocessed food	1.1	3.5	2.9	5.5	12.1	8.5
Processed food including alcohol and tobacco	2.2	2.3	1.8	0.8	8.2	9.6
Energy	1.3	2.5	-0.6	-1.6	0.0	0.0
NEIG	0.3	0.0	-0.4	1.5	5.3	4.4
Services (overall index excluding goods)	2.2	1.8	1.0	0.7	6.0	5.1
<b>HICP (annual average inflation rate)</b>	<b>1.7</b>	<b>1.5</b>	<b>0.8</b>	<b>0.7</b>	<b>6.1</b>	<b>5.6</b>

Source: Eurostat.

<sup>1</sup> The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2023, the weight allocated to services stood at 44.3%, while that of NEIG was 27.9%. Food accounted for 21.4% of the index, while the share allocated to energy stood at 6.5%.

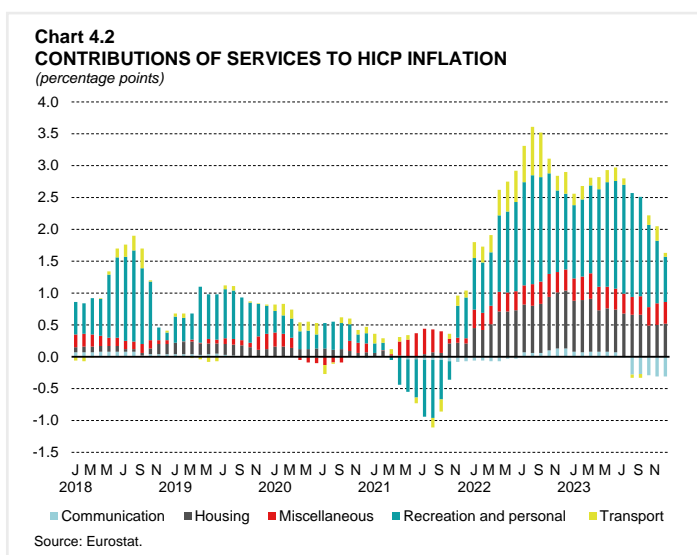
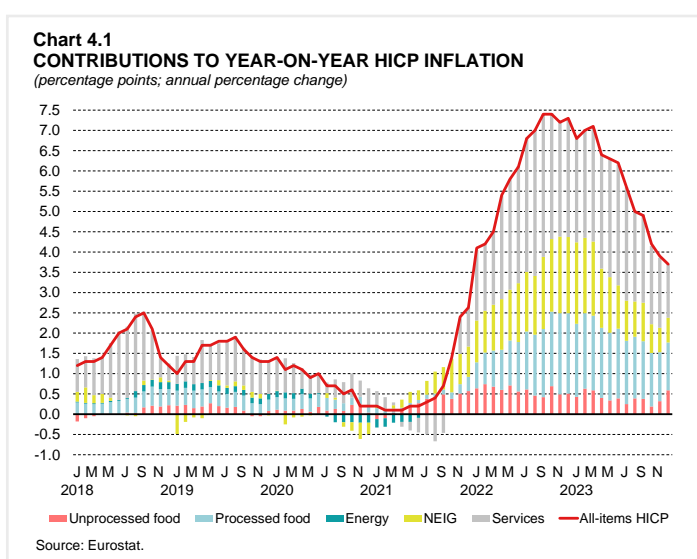
an unchanged contribution to overall inflation, reflecting Government measures aimed at containing the effects from international price pressures.

Services inflation was the main contributor to overall HICP during 2023, contributing an average of 2.4 percentage points to overall HICP inflation, down from 2.7 percentage points in 2022. Indeed, prices of services grew at an annual rate of 5.1% in 2023, from 6.0% in 2022. The decrease in services inflation during 2023 was mainly driven by transport services with the average contribution to overall HICP inflation reaching 0.1 percentage point, from 0.4 percentage point in 2022 (see Chart 4.2). This reflects the introduction of free public transport services in the last quarter of 2022. Moreover, charges for the repair of transport equipment increased at a slower rate during 2023.

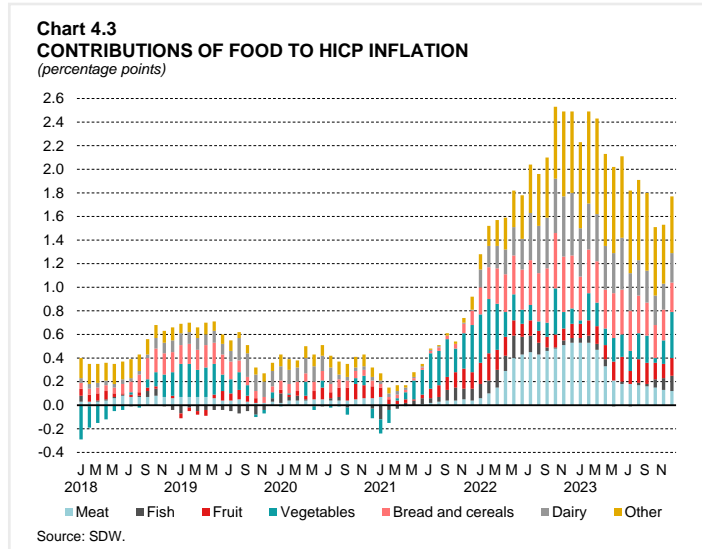
At the same time, lower prices of wireless telephone services swung the contribution of communications services to negative territory. While prices relating to housing services grew at a slightly slower rate compared to 2022, their contribution to HICP remained unchanged at 0.7 percentage point. On the other hand, recreational and personal care services inflation contributed an average of 1.4 percentage points to overall inflation, 0.1 percentage point more than in the previous year.

Meanwhile, NEIG inflation moderated to 4.4% in 2023, from 5.3% in 2022. It contributed 1.2 percentage points to overall HICP inflation, from 1.5 percentage points a year earlier. The fall in NEIG inflation reflects smaller increases in the prices of durable and semi-durable goods, including vehicles, household appliances and household textiles. On the other hand, the contribution of non-durable goods, particularly cleaning and maintenance products, increased marginally.

Food prices continued to show significant increases, though marginally lower than in the previous year. Indeed, food inflation declined to 11.0%, from 11.6% in the previous year. However, overall food inflation, which includes alcohol and tobacco, reached 9.3% from 9.1% in 2022, and added 2.0 percentage points to overall HICP inflation in 2023. Food inflation has been affected by persistently high imported inflation as the prices of fertiliser, animal feed and plastic materials used in agriculture remained high, possibly due to lagged effects of the previous year increases.



Processed food inflation reached 9.6%, from 8.2% in 2022, while its contribution to overall inflation rose to 1.6 percentage points. Strong dynamics were observed in all subcomponents. The increase in processed food inflation compared with 2022 mainly reflects a faster rate of increase in the prices of sugar and confectionery items, where inflation reached 16.0% from 8.7% in the previous year, as well as in the prices of beverages, reflecting the introduction of the beverage container refund scheme in the last quarter of 2022. On the other hand, the contribution from bread and cereals decreased marginally in 2023, following a strong increase in the previous year (see Chart 4.3).



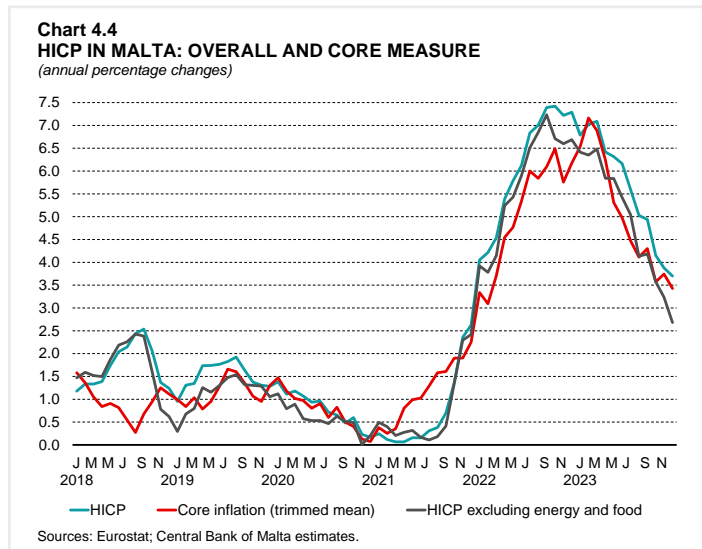
Unprocessed food inflation fell to 8.5%, from 12.1%, with its contribution to overall inflation broadly halving to 0.4 percentage point. This reflected a slower rate of increase in the prices of meat, fish and vegetables (see Chart 4.3).

The contribution of energy inflation remained unchanged at 0.0% in 2023, as electricity, gas and transport fuel prices were kept unchanged from their level a year earlier, through government support measures shielding the economy from rising international energy prices.

### Core HICP inflation moderates in the second half of the year

The core measure of HICP inflation, which is based on the Bank's 'trimmed mean' approach, averaged 5.1% in 2023. This was unchanged from the previous year.<sup>2</sup> By December, however, it had decreased to 3.4% (see Chart 4.4). This reflects the fact that the moderation in price pressures was broad-based across several components.

An alternative measure of underlying inflationary pressures – HICP excluding food and energy – eased during the year, reaching 4.9% from 5.8% in 2022. This measure stood at 2.7% in December.



<sup>2</sup> The Central Bank of Malta uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile components of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures for Malta", *Quarterly Review* 2014(3), p. 39-45, Central Bank of Malta.

Chart 4.5 shows a distribution of price changes whereby sub-components of HICP are categorised into four classes of inflation rates: i) annual rates below or equal to 0%; ii) between 0 and 2%; iii) between 2% and 5% and iv) over 5%.<sup>3</sup> This disaggregation indicates whether the relatively high inflation experienced in the recent past remains broad-based across HICP items or if it is driven only by selected components of the consumption basket.

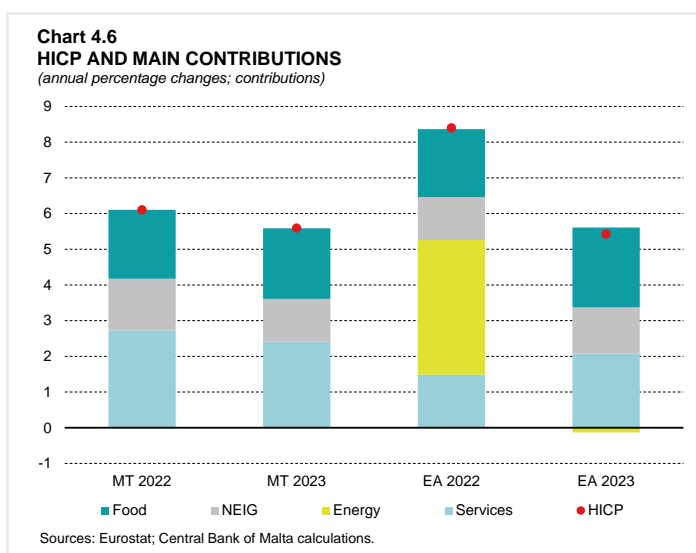
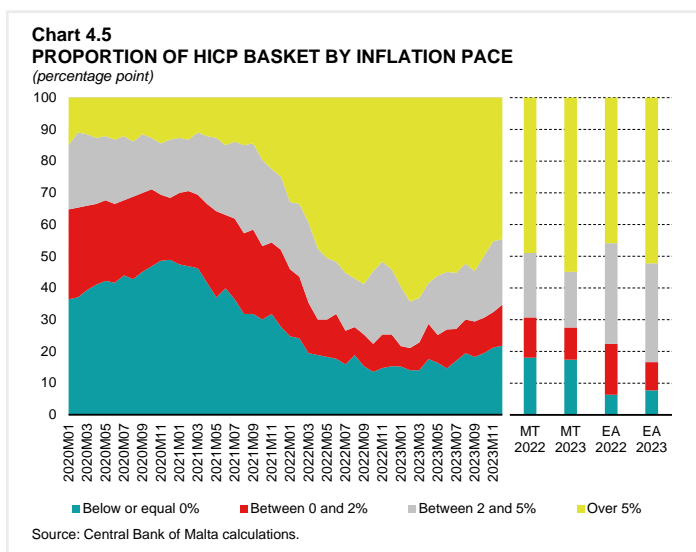
During the year under review, the share of sub-components registering inflation rates of less than 5% has declined further in both Malta and in the euro area. In Malta, the largest drops were recorded in the share of sub-components with inflation rates in the bands of between 0% and 2%, and between 2% and 5%, in almost equal shares.

The share of sub-components in each band stood at 10.1% and 17.6%, respectively. In case of the euro area, the largest drop was recorded in the share of sub-components falling in the 0% to 2% band, standing at 8.9%. By contrast, there has been a substantial rise in the share of sub-components with year-on-year price increases of more than 5%. Indeed in 2023, the latter category stood at 54.9% and 52.2% in Malta and the euro area respectively, from 49.0% and 45.9% in 2022.

Looking beyond annual averages, Chart 4.5 shows that the share of sub-components with price increases higher than 5% started to decline from around the second quarter of 2023, falling to around 45% by December from almost 60% in January.

### Comparison with the euro area

While Malta's inflation rate was below that of the euro area for the first months of the 2023, euro area inflation turned out lower during the last months of the year. Euro area inflation averaged 5.4% during 2023, 0.2 percentage points less than in Malta. This difference reflects developments in energy and services prices (see Chart 4.6). While energy inflation lowered euro area inflation by 0.1 percentage point in 2023, energy prices in Malta were kept unchanged from their level a year earlier, through government support measures.



<sup>3</sup> The calculation of the shares in this chart do not take into account the weights of individual HICP sub-components. This analysis includes 170 sub-indices of the HICP for Malta and 288 sub-indices for the euro area. On average since 2001, 30.6% of items in Malta's basket fell in the 0% or negative inflation rates interval, while this figure stood at 17.4% for the euro area. Around 47% of the Maltese basket fell in the 0-2% and 2-5% intervals – in almost equal parts. These shares stand at 40.0% and 32.4% respectively in the EA. While 22.2% of the Maltese basket fell in the over 5% interval, only 10.1% of the euro area basket falls in this interval.

At the same time, the contribution of services inflation in the euro area was lower than that of Malta. The contribution from services inflation stood at 2.1 percentage points in the euro area as opposed to 2.4 percentage points in Malta. The difference stemmed mainly from housing services inflation.

Conversely, prices of food and, to a lesser extent NEIG inflation, had a higher impact on the inflation rate in the euro area than in Malta. While food inflation contributed 2.2 percentage points to HICP inflation in the euro area, it contributed 2.0 percentage points to Maltese inflation. Meanwhile, NEIG inflation in the euro area accounted for 1.3 percentage points of overall inflation, while in Malta it contributed 1.2 percentage points.

### *RPI inflation decreases*

Similar to HICP inflation, annual inflation based on the RPI eased during 2023. The latter averaged 5.1%, down from 6.2% a year earlier. Most subcomponents contributed to the decline except for personal care and health and beverages and tobacco, where the contributions rose when compared to 2022.

Food inflation remained the main contributor to overall RPI inflation in 2023, adding 2.1 percentage points. This was marginally lower than 2022 (see Table 4.2). Indeed, food prices increased at a rate of 9.5% on average during 2023.

Housing services contributed 0.8 percentage point to overall RPI inflation during 2023, as prices rose by 9.6% during the year under review. The contribution of personal care and health, and household equipment and maintenance stood at 0.5 percentage point and 0.4 percentage point, respectively. On the other hand, the contributions from clothing and footwear, and transport and communication inflation were among the lowest recorded as prices of these subcomponents grew at a subdued rate.

The difference between HICP and RPI inflation in part reflects the different structure of weights applied to the two indices. RPI weights are derived from domestic consumption, whilst HICP weights also account for tourism related consumption. Moreover, the 2023 set of weights applied to the HICP index have been revised compared with the 2022 weights. The weights of the RPI are not updated annually and hence are not affected by such changes.

**Table 4.2**  
**CONTRIBUTIONS TO RPI INFLATION<sup>(1)</sup>**  
*Percentage points (annual averages)*

	2018	2019	2020	2021	2022	2023
Food	0.6	0.8	0.4	0.5	2.2	2.1
Beverages and tobacco	0.1	0.1	0.1	0.0	0.2	0.3
Clothing and footwear	-0.2	0.0	0.0	0.1	0.1	0.1
Housing	0.1	0.2	0.2	0.1	1.2	0.8
Water, electricity, gas and fuels	0.0	0.0	0.0	0.0	0.0	0.0
Household equipment and maintenance	0.1	0.0	-0.1	0.1	0.4	0.4
Transport and communications	0.2	0.3	-0.1	0.0	0.7	0.1
Personal care and health	0.1	0.1	0.2	0.1	0.3	0.5
Recreation and culture	0.0	0.2	-0.1	0.3	0.4	0.2
Other goods and services	0.0	0.1	0.1	0.1	0.4	0.5
<b>RPI (annual average inflation rate)</b>	<b>1.2</b>	<b>1.6</b>	<b>0.6</b>	<b>1.5</b>	<b>6.2</b>	<b>5.1</b>

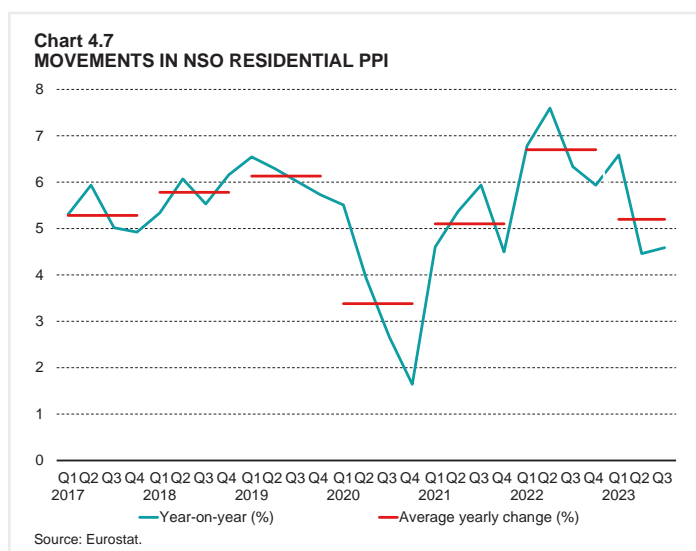
Source: NSO.

<sup>(1)</sup> Totals may not add up due to rounding.

## Residential property prices

### *Residential property prices grow at a slower pace*

Residential property prices continued to increase during the first three quarters of 2023. The NSO's Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – increased at an average annual rate of 5.2% during the first three quarters of the year, following a 6.7% increase recorded in 2022 as a whole (see Chart 4.7).<sup>4</sup> This contrasts with developments in the euro area, where house prices decreased by an annual rate of 1.1% in the first nine months of 2023.

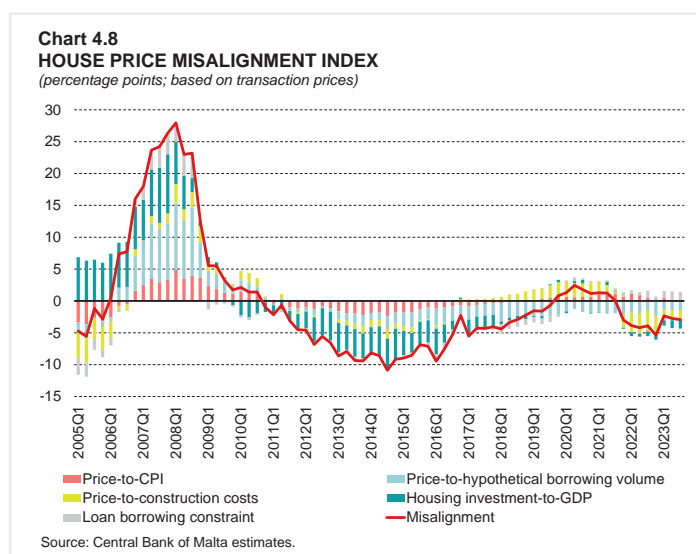


Residential property prices in Malta continued to be supported by several factors, including the limited pass through of ECB rate hikes to retail lending rates in 2023, as well as various government schemes supporting the property market.

### *Misalignment index suggests house prices were below fundamentals in 2023*

As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to provide an indication of the evolution of house prices against fundamentals.<sup>5,6</sup> This indicator consists of five sub-indices that represent household, investor, and system-wide factors, with the weights being derived using principal component analysis.

House prices, as measured by the NSO's PPI, were below the level consistent with fundamentals in the first three quarters of 2023 (see Chart 4.8).<sup>7</sup> The undervaluation



<sup>4</sup> 'Apartments' are defined as dwellings with self-contained rooms or a suite of rooms that have a separate entrance accessible from a common passageway, landing or stairway. This category includes penthouses. 'Maisonettes' have a separate entrance that is accessible from the street and are either at ground-floor level with overlying habitation, or at first-floor level with underlying habitation. 'Terraced houses' are dwellings with at least two floors, own access at street level and airspace and with no underlying structures that are not part of the house itself. They are attached to other structures on both sides. Further information is available in NSO News Release 115/2023.

<sup>5</sup> See Micallef, B. (2018), "Constructing an index to examine house price misalignment with fundamentals in Malta", *International Journal of Housing Markets and Analysis*, 11(2), pp. 315-334.

<sup>6</sup> The actual numerical results presented in this section should not be overstated given the limitations in the construction of this index. For example, relevant variables such as foreign capital inflows are not included, and the unavailability of an official rental index precludes the use of the price-to-rent ratio in the index.

<sup>7</sup> A separate assessment based on advertised house prices can be found in Gatt, W., Micallef, B. and Rapa, N. (2018), "A macro-economic model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

during this period was driven mainly by the house price-to-construction ratio, and the price-to-hypothetical borrowing ratio. The latter is an indicator of affordability. The housing investment-to-GDP ratio also contributed to the undervaluation. Conversely, the loan borrowing constraint contributed positively to the misalignment index, as it stood above its long-term average. The house price-to-inflation also contributed positively to the misalignment index, but its contribution was marginal.

### Final deeds for residential property decline, while promise of sale agreements increase<sup>8</sup>

NSO data on residential property transactions show that 12,179 final deeds of sale were concluded in 2023, around 15% less than a year earlier. This follows a marginal decline of 0.3% in 2022 (see Table 4.3). The number of final deeds of sale in 2023 was around a tenth below that of 2019. Over 90% of final deeds signed in 2023 involved purchases by individuals.

**Table 4.3**

### NSO RESIDENTIAL PROPERTY TRANSACTIONS

	2020	2021	2022	2023	Annual change	
					Absolute	%
<b>Residential transactions</b>						
Promise of sale	11,259	15,639	12,164	13,214	1,050	8.6
Final deeds of sale	11,057	14,368	14,331	12,179	-2,152	-15.0
<b>Transaction value (millions)</b>	2,126.6	3,162.0	3,299.6	3,229.0	-70.6	-2.1

Source: National Statistics Office.

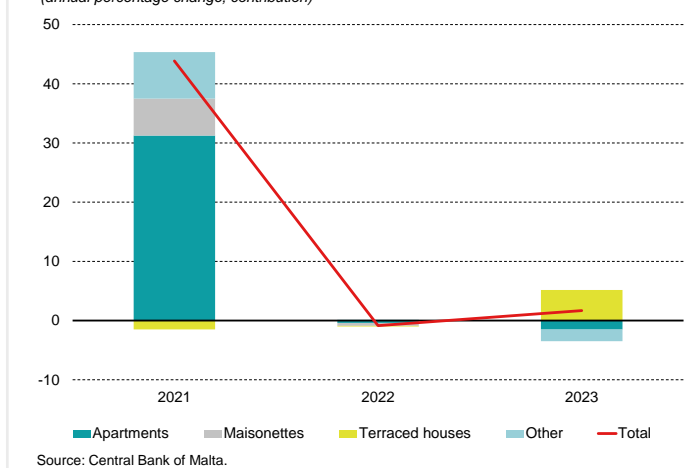
Conversely, at 13,214, the number of promise-of-sale agreements was 8.6% higher than the amount registered in 2022. This followed a decline of 22.2% in 2022.

The value of final deeds reached €3,229.0 million, a decrease of €70.6 million, or 2.1%, compared to the previous year.

### Mortgage transactions recover<sup>9</sup>

The number of mortgage contracts recovered from the previous year's decline. They rose by 1.7% in 2023, after decreasing by 0.9% in 2022 (see Chart 4.9). The increase was driven by terraced houses. By contrast, the number of mortgages financing houses of character and apartments decreased, while those for maisonettes were broadly stable.

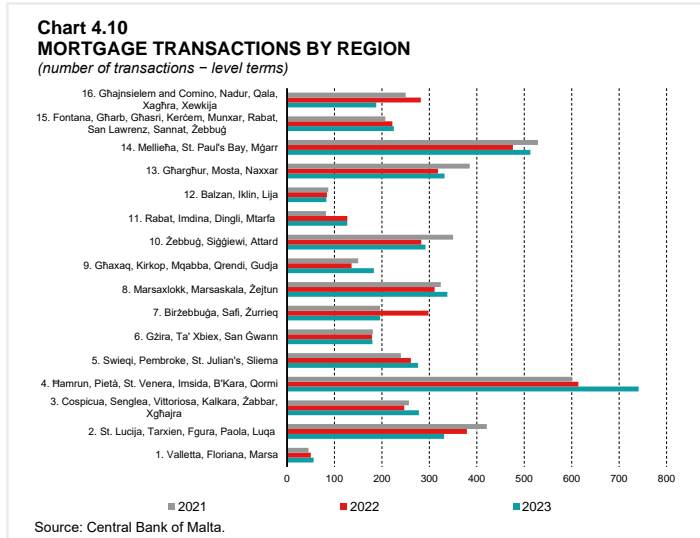
**Chart 4.9**  
MORTGAGE CONTRACTS  
(annual percentage change; contribution)



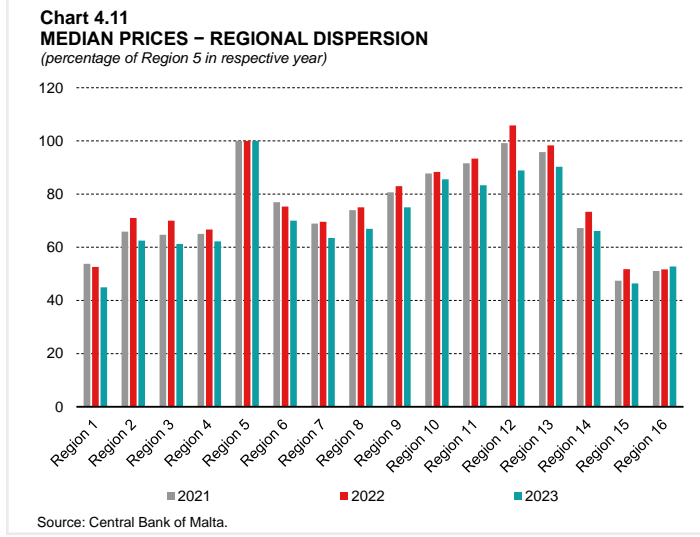
<sup>8</sup> This section is based on NSO News Release 024/2024. The data presented cover the following property types: airspace, boathouse, bungalow, farmhouse, flat/apartment, garage, garden, house, maisonette, penthouse, plot of land, semi-detached villa, terraced house, 'terran', urban tenement and villa.

<sup>9</sup> The data used in the section are collected by the Central Bank of Malta from four commercial banks and relate only to properties which have been purchased with a mortgage. These data exclude properties that have either been transacted using other means of financing, as well as mortgages that have been refinanced. The property types included are: flats, penthouses, maisonettes, terraced houses, town houses, house of character, farmhouses, bungalow, and villa. Other property types included in the previous section, such as garage, plot of land, etc. are excluded.

In 2023, the highest number of mortgage transactions related to properties located in region 4, followed by region 14. On the other hand, the lowest number of mortgage transactions involved properties located in region 1. In 2023 mortgage transactions increased in most locations, but selected locations showed significant declines (see Chart 4.10). The largest decrease in absolute terms occurred in regions 7 and region 16, followed by region 2. Region 4 showed the most growth, followed by regions 9 and 3.

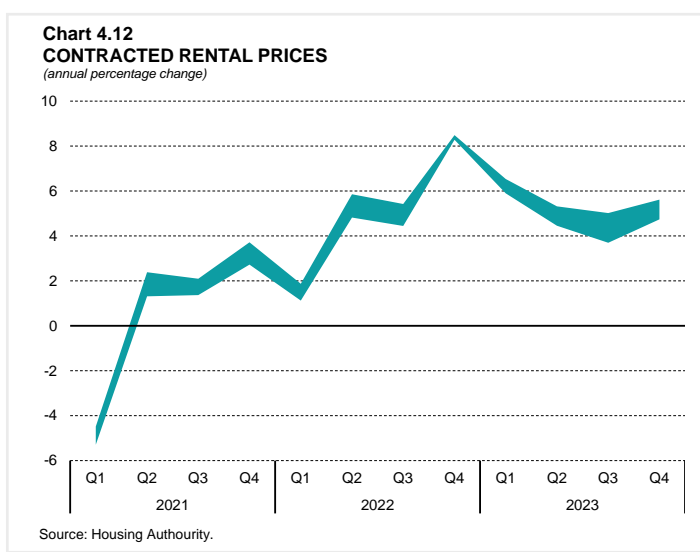


Region 5 has regained its position as the most expensive in terms of median prices in 2023 (see Chart 4.11). In 2023, the range between the maximum and minimum median price increased, signalling higher price dispersion across Malta.



*Contracted rental data grew marginally*

Data on rents based on contracts registered with the Housing Authority show a marginal pick up in the annual rate of change of rents in 2023 (see Chart 4.12).<sup>10</sup> The average range of estimates from various methods indicate that rents have increased at annual rates of between 4.7% and 5.6% in the year under review. This compared with a range of 4.7% - 5.4% in 2022. Such data include both new contracts as well as renewals of previous contracts. Thus, it is more extensive in its coverage than advertised rents collected by the Central Bank of Malta from internet sources, which exclude renewals.



The average range of estimates from various methods indicate that advertised rents collected by the

<sup>10</sup> This information is based on provisional data for 2023 provided by the Housing Authority. Further information is available in the Authority's periodic publications on registered rents, available at: <https://housingauthority.gov.mt/>.

Bank have increased at annual rates of between 13.2% and 15.0% in the year under review (see Chart 4.13).<sup>11</sup>

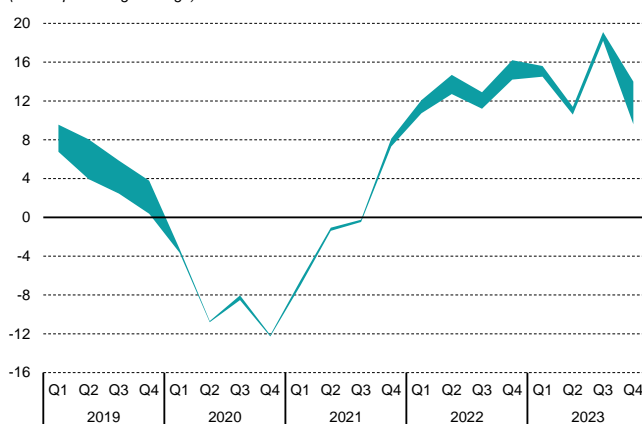
## Costs and competitiveness

### Producer price pressures ease

Growth in producers' output prices, as measured by the producer price index, decreased to 3.6% during 2023, from 5.5% a year earlier (see Chart 4.14).<sup>12</sup> While energy producer price inflation remained at zero, other producer prices continued to increase and thus had a positive contribution to overall producer price inflation. Producer prices for consumer goods showed the strongest increase of 8.5%, mostly reflecting developments in non-durable goods prices, while producer prices of capital goods rose by 5.7%. Both components recorded stronger increases compared to 2022. By contrast the annual rate of change of prices of intermediate goods eased markedly, from 6.9% in 2022 to 0.6% in 2023.

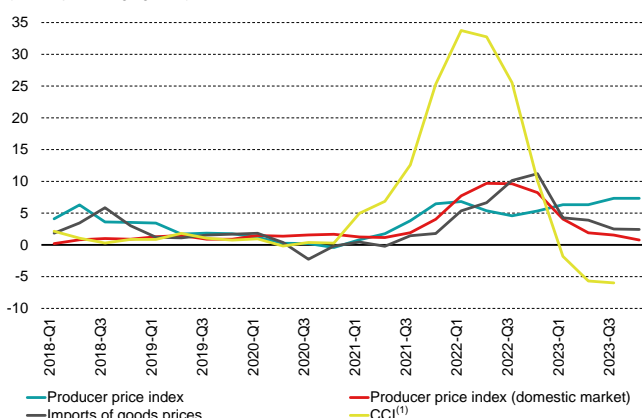
Other indicators affecting the domestic market also show easing cost pressures. The domestic producer price index was down to 2.0% when compared to its average reading of 8.8% in 2022. This moderation was broad-based across its components.<sup>13</sup> The imports of goods deflator also showed slower growth, as it rose by 3.1% down from 8.5% in 2022.<sup>14</sup> The construction cost index (CCI) for new residential buildings published by Eurostat declined by 4.5% in the first three quarters of 2023, after increasing by 25.5% in the previous year. Notwithstanding the recent decline, its level remains above that observed before 2020.

**Chart 4.13**  
**ADVERTISED RENTAL PRICES**  
(annual percentage change)



Source: Central Bank of Malta.

**Chart 4.14**  
**COST INDICATORS**  
(annual percentage growth)



Sources: Central Bank of Malta estimates; Eurostat; NSO.  
<sup>(1)</sup> CCI shows data up to Q3 2023.

<sup>11</sup> The empirical analysis is based on hedonic regression models as described in Debono et al., (2020) and different indices are constructed using alternative methodologies, namely the time dummy method, the rolling time dummy method with a window length of two periods (Q=2) and the average characteristics method chained using the Laspeyres, Paasche and Fisher methods. The properties considered in this analysis include apartments, maisonettes, and penthouses.

<sup>12</sup> The producer price index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>13</sup> The domestic producer price index refers to the producer prices relating to the domestic market only, whilst the producer price index relates to the total market, i.e., including both the domestic and non-domestic markets.

<sup>14</sup> This index is derived from national accounts data published by the NSO.

### Real HCI points to a deterioration in external competitiveness

In 2023, the nominal HCI, which is conditioned by developments in trade-weighted nominal exchange rates, was up by 3.3%, compared with its average reading for 2022 (see Chart 4.15).<sup>15</sup>

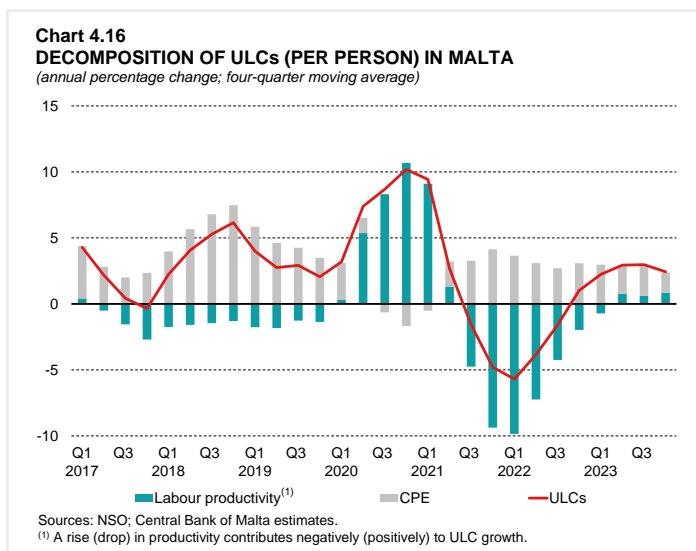
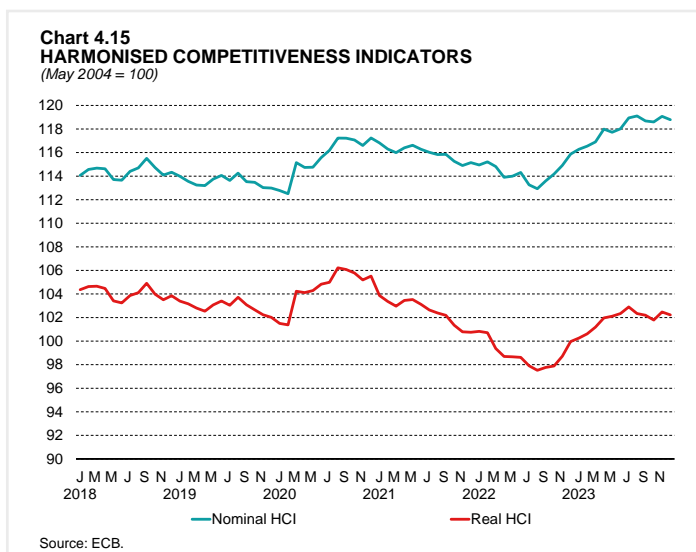
The real HCI, which also takes into account changes in price inflation relative to trading partners, was up by 3.0% over its 2022 average level. The smaller increase in the real HCI compared to the nominal measure reflects the fact that Malta's inflation rate was lower than of its trading partners during most of the year.

### ULCs increased at a stronger pace

Malta's ULC index, measured as the ratio of compensation per employee (CPE) to labour productivity, increased at a stronger pace in 2023, compared to 2022. When measured in headcount terms, ULCs in Malta rose by 2.4% in 2023, following an increase of 1.0% in the previous year (see Chart 4.16).

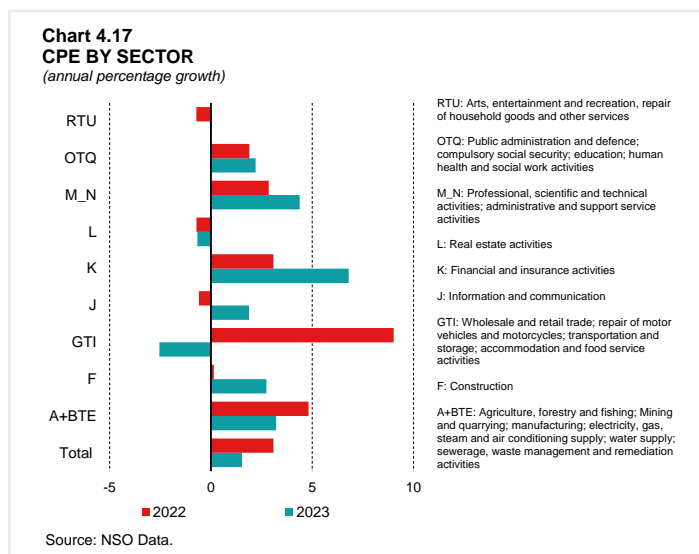
The acceleration in ULC was driven by unfavourable dynamics in productivity growth, which offset a moderation in average wage growth. Annual growth in CPE eased to 1.5%, from 3.1% in 2022, as the number of employees increased at a faster pace while total compensation grew at a slower pace when compared to 2022.

Meanwhile, labour productivity declined by 0.8% in 2023, following a 2.0% rise in the previous year. Productivity growth turned negative as employment rose at a faster pace compared to 2022, while GDP growth slowed down.



<sup>15</sup> HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

On average, during the year, growth in CPE was fastest in the financial and insurance activities sector, which had an average year-on-year growth rate of 6.8% (see Chart 4.17). Significant growth – at 4.4% – also occurred in the professional, scientific and administrative support sector. Most of the other sectors also show an increase in CPE. However, in the arts and entertainment sector CPE was broadly unchanged from 2022, while the real estate sector and the wholesale and retail sector show declines. Growth has picked up in most of the sectors when compared to the previous year.



### BOX 3: SECTORAL CONTRIBUTIONS TO AGGREGATE LABOUR PRODUCTIVITY AND ULC GROWTH<sup>1</sup>

This box looks at sectoral contributions to total labour productivity and real ULC growth during 2023, using national accounts data. To ensure the additivity of sectoral contributions, the analysis utilises the generalised exactly additive decomposition (GEAD) of productivity growth, first developed by Tang and Wang (2004).<sup>2</sup> This method was also applied in a separate analysis of labour productivity growth in Malta over the past two decades.<sup>3</sup>

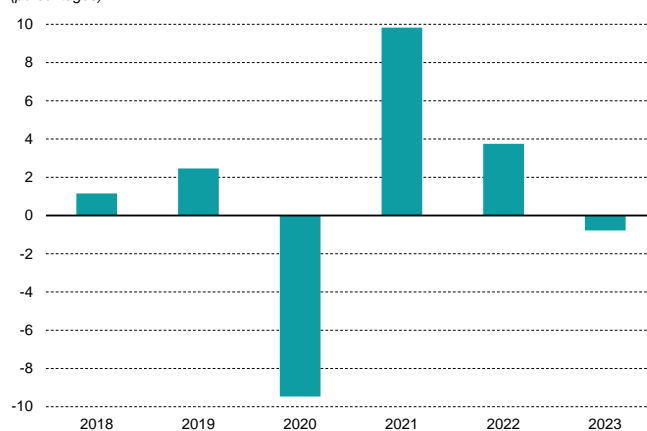
In the GEAD approach, aggregate labour productivity can be decomposed into three effects. The first is the *pure productivity effect*, which is the sector's contribution to aggregate productivity growth that is solely due to changes in its labour productivity, weighted by its share in nominal aggregate output.

There is also a *reallocation effect*, which measures a sector's contribution to aggregate productivity growth due to changes in its relative size. This reallocation effect is split into a static (level) effect and a dynamic (growth) effect. The *static reallocation level effect* measures the impact of absolute changes in labour shares and relative prices, scaled by the ratio of the respective sector's labour productivity level to the economy-wide productivity level. The *dynamic reallocation growth effect* takes into account whether these changes are occurring within a growing or a declining productivity industry.

#### Sectoral contributions to aggregate labour productivity growth

Both economic activity and employment levels continued to grow robustly in 2023, though at a slower rate than in 2022. Nevertheless, labour productivity declined as employment outpaced output. Indeed, employment rose by 6.5% in 2023, while chain-linked GVA rose by 5.7%, according to national accounts data. As a result, labour productivity – measured as chain-linked GVA per person employed – fell by 0.8% during the year under review, following an increase of 3.7% in 2022 (see Chart 1).<sup>4,5</sup>

Chart 1  
PRODUCTIVITY GROWTH  
(percentages)



Source: NSO.

<sup>1</sup> Prepared by Martina Cassar, Economist within the Economic Projections and Conjunctural Analysis Office. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the author's own.

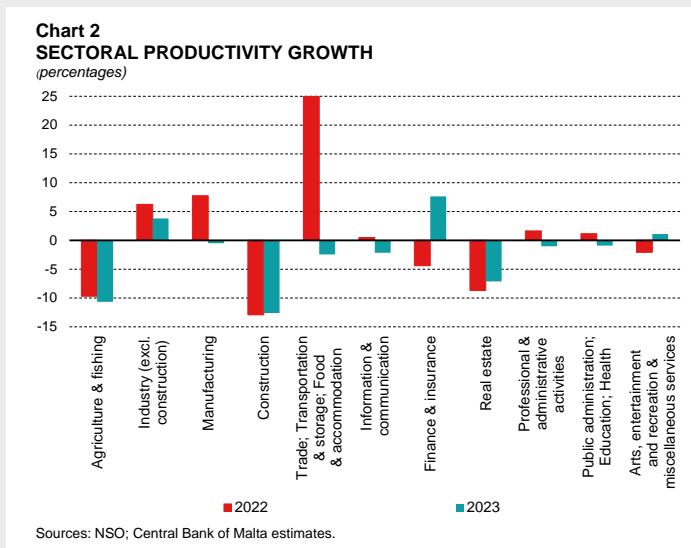
<sup>2</sup> Tang, J., & Wang, W. (2004). Sources of aggregate labour productivity growth in Canada and the United States, *Canadian Journal of Economics*, 37(2), pp. 421-444.

<sup>3</sup> Montebello R., & Darmanin J., (2021). Labour Productivity Growth in Malta: A sectoral decomposition analysis, *Working Paper 04/2021*, Central Bank of Malta.

<sup>4</sup> This analysis is based on GVA per person employed rather than GDP per person employed, as sectoral data are only available for GVA. Aggregate productivity and ULCs may thus deviate from those reported in the section of this Report on costs and competitiveness where aggregate productivity and ULCs are derived using GDP. Another difference stems from the treatment of CPE, which is in nominal terms in that section, but is deflated in this box. Employment figures are based on data from the NSO *News Release 039/2024* and therefore do not take into account revisions to LFS employment data made in light of the 2021 Census and published in NSO *News Release 044/2024*.

<sup>5</sup> Productivity developments would have been better measured using output per hour rather than output per person, particularly during periods in which average hours worked change significantly. However, this analysis could not be made due to the unavailability of sectoral hours worked in the national accounts for Malta. Furthermore, both measures may be affected by limitations in the measurement of output of new sectors.

Sectoral productivity mostly declined in 2023 (see Chart 2). The largest drop in productivity occurred in the construction sector. This decrease amounted to 12.6%. Although this sector registered a drop in its output of 8.2%, employment grew by 5.1%. The agricultural sector also suffered a decline in output with higher employment levels compared to 2022. Meanwhile, productivity growth in the real estate sector declined significantly, but unlike the above-mentioned sectors, GVA growth in 2023 was positive (3.4%). However, this was less than the growth in employment (11.4%). Similar developments occurred in the trade, transportation, the accommodation and food services sector, the information sector, the manufacturing sector, the professional sector, and the sector comprising public sector administration and related activities.



By contrast, sectors comprising industry (excluding construction), finance and insurance, as well as the arts and recreation sector registered higher productivity. The strongest gain is estimated for the sector comprising finance and insurance and amounted to 7.6%. This reflects very strong growth in GVA (11.8%), which offset a 3.9% increase in employment. Productivity developments in the financial and insurance sector must, however, be interpreted with caution, as movements in output might be affected markedly by financial market developments due to the strong shift in monetary policy. Any reversal of the recent tightening in monetary policy could have a negative impact on the value added, and thus productivity of this sector.

Table 1 shows the sectoral contributions to aggregate labour productivity growth derived using the GEAD decomposition. Most sectors have contributed to the decline in productivity growth in 2023. The largest negative contribution (-0.7 percentage point) was brought about by the sector comprising public administration. This reflects the fact that it has a large labour share, and hence, a small drop in its productivity would have a significant impact on total productivity growth.

The sector comprising the trade, transportation, accommodation and food services – which has the highest labour market share, contributed significantly to the drop in overall productivity growth, as did the information and communication sector. Similarly, despite the fact that the construction sector is relatively small, it has contributed significantly to the drop in overall productivity growth on account of its sharp drop in sectoral productivity. Moreover, despite registering some positive growth in productivity, the arts and entertainment contributed negatively to productivity growth, due to a small decline in its labour share and its relative prices in relation to the whole economy deflator.

In line with its rise in productivity, the sector comprising of the finance and insurance services had the largest positive contribution to aggregate productivity growth in 2023, contributing 1.1 percentage points. In addition, the sectors comprising real estate activities and professional services, also contributed positively to overall growth, despite their decline in productivity. This reflects an increase

**Table 1**  
**SECTORAL CONTRIBUTIONS TO AGGREGATE LABOUR PRODUCTIVITY GROWTH**

*Percentage points; Chainlinked*

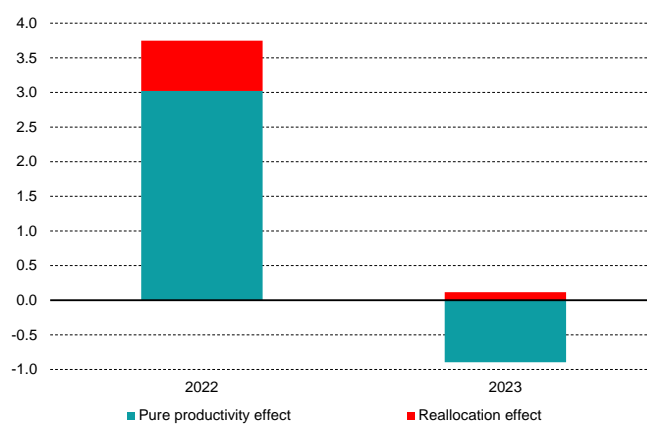
	2016	2017	2018	2019	2020	2021	2022	2023
Agriculture, forestry & fishing	0.0	-0.3	0.0	-0.2	0.2	0.2	-0.1	-0.1
Industry (excl. construction)	0.0	-0.7	0.1	-0.1	-0.4	0.3	0.3	0.0
of which: Manufacturing	-0.4	-0.2	0.0	0.0	-0.2	0.1	0.4	-0.3
Construction	-0.1	0.3	0.3	0.9	-0.1	0.0	-0.2	-0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	-1.6	1.1	-0.4	-0.4	-7.5	3.6	4.4	-0.6
Information & communication	0.9	0.3	0.4	0.7	-0.5	1.3	0.5	-0.5
Finance & insurance activities	0.4	0.2	0.2	0.1	0.5	-0.3	-0.4	1.1
Real estate activities	0.4	0.2	-0.1	0.1	-0.3	0.1	-0.2	0.3
Professional, scientific and technical activities; administrative and support service activities	1.7	1.8	0.0	1.2	-1.9	1.8	0.5	0.5
Public administration and defence; education, health and social work activities	0.2	-0.6	0.3	0.5	-0.1	1.2	-0.8	-0.7
Arts, entertainment and recreation, repair of household goods and other services	-3.0	0.4	0.4	-0.4	0.6	1.4	-0.3	-0.4
<b>Aggregate labour productivity growth (%; GVA-based)</b>	<b>-1.2</b>	<b>2.7</b>	<b>1.2</b>	<b>2.5</b>	<b>-9.5</b>	<b>9.8</b>	<b>3.7</b>	<b>-0.8</b>

Sources: NSO; Central Bank of Malta estimates.

in the labour share of these sectors, and in the case of real estate activities, also an increase in its relative price.

Using the GEAD approach, Chart 3 decomposes overall productivity growth into the pure productivity effect and the reallocation effect. The pure productivity effect – which captures the change in productivity within sectors – was the dominant contributor to the decline in overall productivity in 2023. The contribution of the reallocation effect – which represents the reallocation of resources among sectors – was marginally positive, and its impact was smaller than that in 2022.

**Chart 3**  
**DECOMPOSITION OF PRODUCTIVITY GROWTH**  
*(percentage contributions)*



Source: Central Bank of Malta estimates.

Table 2 elaborates further, by decomposing the contribution of each sector into the pure productivity effect, the reallocation level effect, as well as the reallocation growth effect. The drop in the pure productivity effect was mainly driven by construction, the sector comprising trade, transportation, accommodation and food services, and the real estate sector. Conversely, the sector comprising finance and insurance activities registered the largest positive contribution to the pure productivity effect.

**Table 2**  
**SECTORAL CONTRIBUTIONS TO PRODUCTIVITY GROWTH DECOMPOSED**

Percentage points; Chainlinked

	2023				
	Total contribution	Pure productivity effect	Total reallocation effect	Reallocation effect	
				Reallocation level effect	Reallocation growth effect
Agriculture, forestry & fishing	-0.1	-0.1	0.0	0.0	0.0
Industry (excl. construction)	0.0	0.3	-0.4	-0.3	0.0
of which: Manufacturing	-0.3	0.0	-0.2	-0.2	0.0
Construction	-0.4	-0.5	0.2	0.2	0.0
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	-0.6	-0.5	-0.1	-0.1	0.0
Information & communication	-0.5	-0.2	-0.3	-0.3	0.0
Finance & insurance activities	1.1	0.6	0.5	0.5	0.0
Real estate activities	0.3	-0.4	0.7	0.7	-0.1
Professional, scientific and technical activities; administrative and support service activities	0.5	-0.2	0.6	0.6	0.0
Public administration and defence; education, health and social work activities	-0.7	-0.1	-0.6	-0.6	0.0
Arts, entertainment and recreation, repair of household goods and other services	-0.4	0.1	-0.5	-0.5	0.0
<b>Total economy</b>	<b>-0.8</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>

Sources: NSO; Central Bank of Malta estimates.

Meanwhile, the improvement in the reallocation effect, which reflects changes in labour shares and relative prices, was primarily driven by the real estate sector, the professional and administrative sector, as well as the financial and insurance sector. These outweighed drops registered in other sectors, particularly in the public and administration sector, as well as the arts and entertainment sector.

### Sectoral contributions to growth in real CPE and real ULCs<sup>6</sup>

Real CPE fell by 3.9% in 2023, following a decline of 2.2% in 2022 (see Table 3).<sup>7</sup> Almost all sectors contributed to the decline in real CPE, except the finance and insurance sector.

The largest contributor to the decrease was the sector comprising trade, transportation, accommodation and food services. This was followed by the sector comprising public administration and related activities. Both sectors recorded minimal growth in nominal average wages (less than 1%). As inflation was significantly higher, this resulted in negative contributions to real compensation per person.

Conversely, real wages in the finance and insurance sector rose.

Real ULCs declined by 3.2% in 2023, following a decline of 5.7% in the previous year (see Table 4). The drop in overall real ULCs was due to the decrease in real wages, which surpassed the fall in productivity.

The main driver behind the drop in ULCs was the sector comprising trade, transportation, accommodation and food services activities. This sector experienced a larger drop in real wages than the decline in productivity. Meanwhile, the finance and insurance activities, and the professional and administrative sectors also contributed negatively, as they experienced a drop in real wages and an improvement in productivity.

<sup>6</sup> Using the GEAD decomposition of productivity, it is possible to calculate approximate sectoral contributions to real ULC growth as the log difference of sectoral contributions to CPE growth and aggregate productivity growth.

<sup>7</sup> In this box, real CPE is calculated as total CPE divided by the private consumption deflator.

**Table 3**  
**SECTORAL CONTRIBUTIONS TO GROWTH IN REAL CPE<sup>(1)</sup>**

*Percentage points*

	2016	2017	2018	2019	2020	2021	2022	2023
Agriculture, forestry & fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industry (excl. construction)	0.1	0.2	0.8	0.1	-0.3	0.3	-0.1	-0.3
of which: Manufacturing	0.1	0.2	0.8	0.1	-0.3	0.3	0.0	-0.3
Construction	0.2	-0.1	0.3	-0.3	-0.3	0.0	-0.4	-0.2
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	1.1	-0.9	0.4	-0.4	-1.8	0.5	0.2	-2.1
Information & communication	0.2	0.4	0.8	0.3	-0.2	0.0	-0.2	-0.1
Finance & insurance activities	0.5	-0.1	0.6	0.6	0.2	0.0	0.0	0.2
Real estate activities	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	-0.1
Professional, scientific and technical activities; administrative and support service activities	0.6	-0.5	1.5	-0.2	-0.7	0.3	-0.5	-0.4
Public administration and defence; education, health and social work activities	1.3	0.6	1.7	1.5	0.4	1.9	-0.9	-0.8
Arts, entertainment and recreation, repair of household goods and other services	0.3	1.7	0.8	0.2	-0.2	0.1	-0.3	-0.4
<b>Aggregate CPE growth (%)</b>	<b>4.2</b>	<b>1.3</b>	<b>6.5</b>	<b>1.6</b>	<b>-2.9</b>	<b>2.9</b>	<b>-2.2</b>	<b>-3.9</b>

Sources: NSO; Central Bank of Malta estimates.

<sup>(1)</sup> Sum of sectoral contributions may not exactly match aggregate CPE growth due to chainlinking.

**Table 4**  
**SECTORAL CONTRIBUTIONS TO GROWTH IN REAL ULCS<sup>(1)</sup>**

*Percentage points*

	2016	2017	2018	2019	2020	2021	2022	2023
Agriculture, forestry & fishing	0.0	0.3	0.0	0.2	-0.3	-0.3	0.0	0.1
Industry (excl. construction)	0.1	0.9	0.7	0.2	0.1	0.0	-0.4	-0.3
of which: Manufacturing	0.5	0.3	0.8	0.1	-0.1	0.2	-0.5	0.0
Construction	0.3	-0.4	0.0	-1.2	-0.1	-0.1	-0.1	0.1
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	2.7	-1.9	0.8	0.0	5.6	-3.1	-4.2	-1.5
Information & communication	-0.7	0.0	0.4	-0.4	0.4	-1.3	-0.6	0.3
Finance & insurance activities	0.1	-0.3	0.4	0.5	-0.3	0.3	0.4	-0.9
Real estate activities	-0.4	-0.2	0.2	-0.2	0.3	-0.2	0.1	-0.3
Professional, scientific and technical activities; administrative and support service activities	-1.0	-2.3	1.5	-1.4	1.1	-1.6	-1.1	-0.8
Public administration and defence; education, health and social work activities	1.2	1.2	1.3	1.1	0.6	0.7	-0.2	-0.1
Arts, entertainment and recreation, repair of household goods and other services	3.3	1.3	0.4	0.6	-0.8	-1.3	-0.1	0.0
<b>Annual ULC growth (%)</b>	<b>5.4</b>	<b>-1.4</b>	<b>5.3</b>	<b>-0.8</b>	<b>7.3</b>	<b>-6.3</b>	<b>-5.7</b>	<b>-3.2</b>

Sources: NSO; Central Bank of Malta estimates.

<sup>(1)</sup> Sum of sectoral contributions may not exactly match aggregate ULC growth due to chainlinking.



## 5. BALANCE OF PAYMENTS

During the first three quarters of 2023, the current account in the balance of payments (BOP) registered a surplus as opposed to a deficit in the corresponding period of 2022. This reflects a decline in the merchandise trade deficit, higher net receipts from services and lower outflows on the secondary income account.

Between January and September net inflows on the capital account increased compared to the corresponding period of 2022. On the financial account, net lending was recorded as opposed to net borrowing during the same period of 2022. Net errors and omissions turned positive.<sup>1</sup>

When measured over the four quarters to September 2023, the current account balance registered a surplus, equivalent to 1.3% of GDP. This compares with a current account surplus of 1.3% of GDP in the euro area.<sup>2</sup> The cyclically-adjusted current account balance was estimated to have recorded a surplus of 1.5% during the third quarter of 2023.

References to Malta in this chapter are based on the 2023Q3 vintage of the BOP available on Eurostat in January 2024, and therefore may not be consistent with the most recent trade data reported for 2023 in other chapters, which are based on the GDP release covering the full year. As BOP data are undergoing substantial revisions, readers are advised to exercise caution in interpreting changes over time.

### The current account

Between January and September 2023, the current account recorded a surplus of €295.6 million, an improvement from a deficit of €461.0 million a year earlier (see Table 5.1). This was driven by a decrease in the merchandise trade deficit, higher net receipts from services as well as lower net outflows on

**Table 5.1**  
**BALANCE OF PAYMENTS**

EUR millions

	2020	2021	2022	2022 Q1-Q3	2023 Q1-Q3
<b>Current account</b>	<b>293.5</b>	<b>184.5</b>	<b>-518.7</b>	<b>-461.0</b>	<b>295.6</b>
Goods	-1,222.5	-1,924.9	-3,184.6	-2,553.9	-1,922.0
Services	3,464.6	4,106.5	5,102.1	3,896.1	4,148.4
Primary income	-1,754.0	-1,725.1	-1,974.0	-1,428.9	-1,775.0
Secondary income	-194.4	-272.1	-462.1	-374.2	-155.9
<b>Capital account</b>	<b>84.2</b>	<b>151.7</b>	<b>266.7</b>	<b>170.7</b>	<b>269.7</b>
<b>Financial account<sup>(1)</sup></b>	<b>-272.1</b>	<b>636.5</b>	<b>-71.0</b>	<b>-1,401.8</b>	<b>3,003.1</b>
<b>Errors and omissions</b>	<b>-649.7</b>	<b>300.3</b>	<b>181.2</b>	<b>-1,111.3</b>	<b>2,437.8</b>

Source: Eurostat.

<sup>(1)</sup> Net lending (+) / net borrowing (-).

<sup>1</sup> Positive net errors and omissions indicate an underestimation of net inflows on the capital and current accounts and/or an overestimation of net lending on the financial account.

<sup>2</sup> BOP data for 2020-2022 for Malta and the euro area should be interpreted in the context of the unprecedented developments related to COVID-19 and the war in Ukraine.

the secondary income account. Together these offset an increase in net outflows on the primary income account.

When measured as a four-quarter moving sum, the balance on the current account showed a surplus of €237.9 million, from a deficit of €367.3 million a year earlier. The current account-to-GDP ratio reached 1.3%, from -2.2% a year earlier (see Charts 5.1 and 5.2).

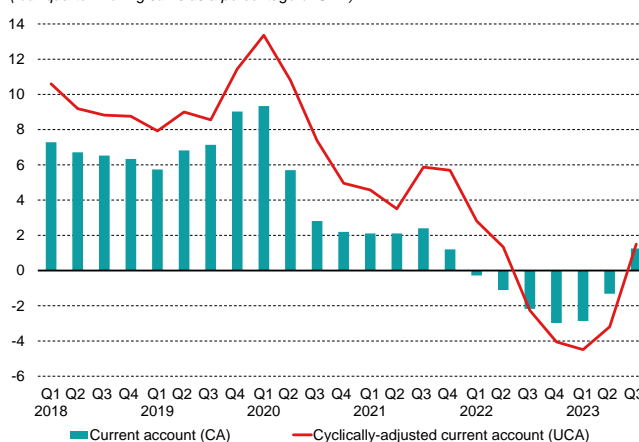
Malta's cyclically-adjusted current account balance is estimated to have stood at 1.5% of GDP in the year to September 2023. The cyclically-adjusted measure broadly exhibits similar developments to the unadjusted measure (see Chart 5.1). However, in the third quarter it stood slightly above the headline measure.<sup>3</sup>

### Goods deficit narrows

In the first three quarters of 2023, the merchandise trade gap narrowed by €631.9 million when compared with the corresponding period of 2022 and stood at €1,922.0 million. This was the result of a €858.7 million decline in imports, which offset a €226.6 million decline in exports. The decline in imports was mainly due to a decline in imports of machinery and transport equipment and fuels.

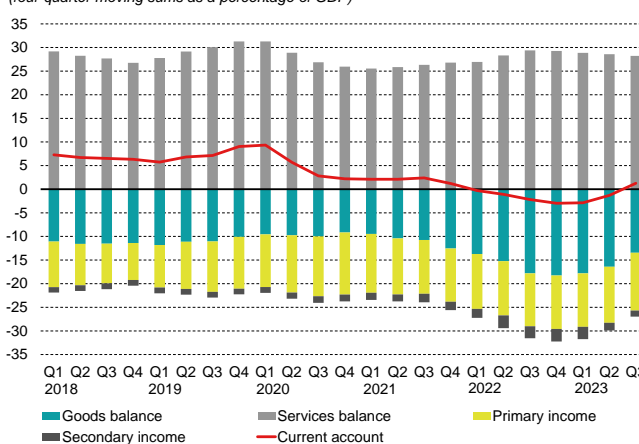
When measured on a four-quarter cumulative basis, the visible trade gap narrowed to €2,552.7 million, €457.1 million less than the deficit recorded a year earlier. This stemmed from a €359.9 million decline in goods imports, which outweighed a €97.4 million rise in goods exports. As a result, the share of the goods deficit in GDP declined to 13.5% in the year to September 2023, from 17.8% a year earlier (see Chart 5.3).

**Chart 5.1**  
**CURRENT ACCOUNT**  
(four-quarter moving sums as a percentage of GDP)



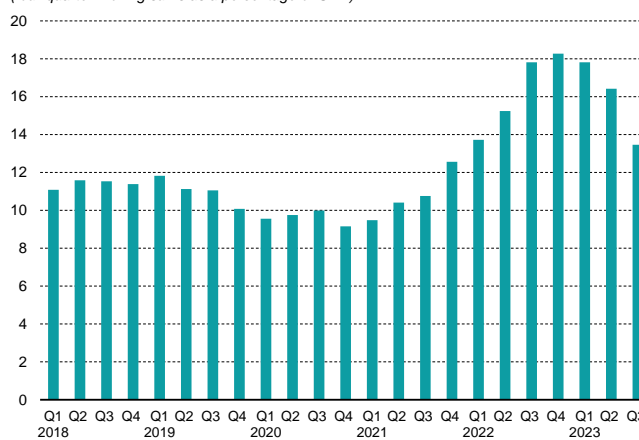
Sources: Eurostat; Central Bank of Malta.

**Chart 5.2**  
**COMPOSITION OF CURRENT ACCOUNT**  
(four-quarter moving sums as a percentage of GDP)



Source: Eurostat.

**Chart 5.3**  
**GOODS DEFICIT**  
(four-quarter moving sums as a percentage of GDP)



Sources: Eurostat; Central Bank of Malta.

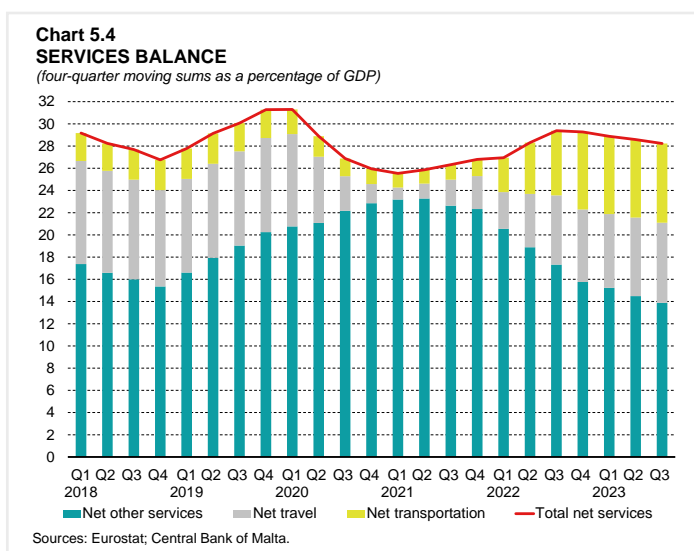
<sup>3</sup> For more information on Malta's cyclically-adjusted current account see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerfa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

### The surplus on services widens

Between January and September 2023, the surplus on services increased by €252.3 million on a year earlier, reaching €4,148.4 million, as the increase in services receipts was stronger than that in related payments. The transport and travel components drove the increase in the surplus from services. By contrast, net receipts on 'other services' decreased.

When measured over the year to September 2023, the overall surplus from services stood at €5,354.4 million, an increase of €390.1 million when compared with the corresponding period of 2022.

The main contributor to this increase in surplus were the transport and travel components. The share of net services receipts in GDP declined to 28.2%, from 29.4% over the same period last year (see Chart 5.4).



### Net outflows related to primary income increase<sup>4</sup>

Between January and September 2023, net outflows related to primary income rose to €1,775.0 million, €346.1 million more than in the first three quarters of 2022. This was due to higher net outflows related to income from direct investment and 'other investment'. These outweighed higher net interest and dividend income earned on portfolio investment. Movements on the primary income account continued to be strongly influenced by internationally oriented firms, including subsidiaries of foreign banks, which transact predominantly with non-residents.

When measured on a four-quarter cumulative basis, net outflows on this component also increased. Their share in GDP stood at 12.2%, 1.0 percentage point more than in the four quarters to September 2022.

### Net outflows from secondary income decrease<sup>5</sup>

During the first nine months of 2023, net outflows on the secondary income account amounted to €155.9 million, less than half the amount recorded in the corresponding period of 2022.

Net outflows also decreased when measured over four quarters, reaching €243.8 million. These were equivalent to 1.3% of GDP, down from 2.5% in the four quarters to September 2022.

## Tourism

During 2023, the tourism sector reached new highs as almost three million tourists visited Malta. Nights stayed and tourist expenditure in Malta also rose significantly compared with 2022, and surpassed pre-pandemic levels.

The number of tourists visiting Malta increased by almost a third in 2023, reaching 2,975,670, up from 2,286,597 in 2022 (see Chart 5.5). Tourist arrivals surpassed 2019 levels across most source markets, with the exception of the United Kingdom, Sweden, Ireland, Belgium and Spain.

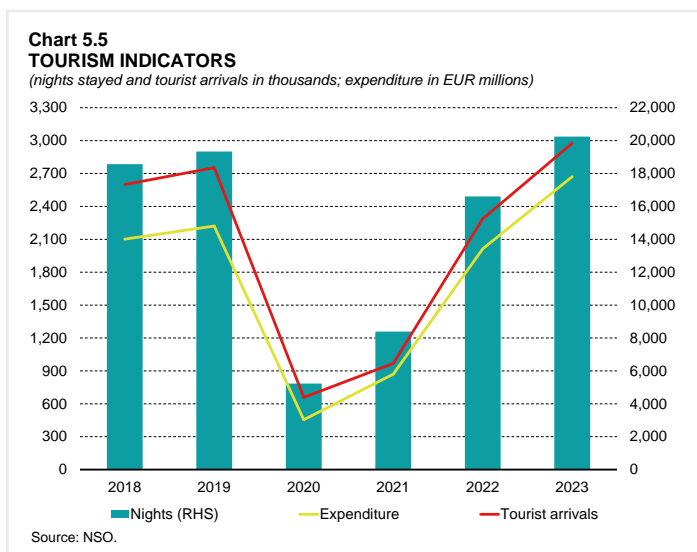
Tourists visiting Malta for leisure purposes accounted for most of the increase in arrivals in absolute terms. This segment recorded 2,705,845 visitors, a 32.6% increase over 2022, and accounted for most of the

<sup>4</sup> The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

<sup>5</sup> The secondary income account shows current transfers between residents and non-residents.

increase in overall arrivals. Those visiting for business and other reasons also increased, but these segments accounted for around 3% of the total increase.

Double-digit growth in arrivals was reported from all major source markets, except the Netherlands, where the increase was smaller. Italy and the United Kingdom registered the largest increases in absolute terms. These two countries were the most important markets in 2023, each accounting for around 18% of total tourist arrivals. They were followed by France and Germany which made up 9.6% and 7.3% of arrivals, respectively. Poland was next, with a share of 5.6%.



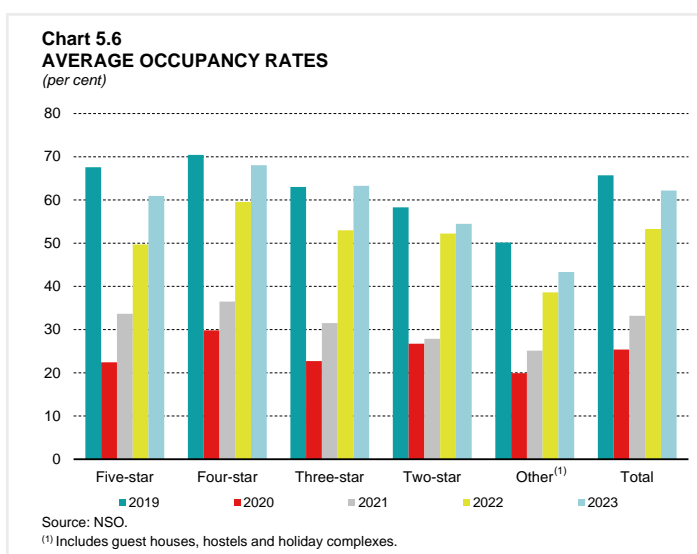
The number of nights that tourists spent in Malta increased to 20.2 million in 2023, 21.9% more than the number of nights stayed in 2022. This was mainly attributable to a rise in nights stayed in collective accommodation, followed by other rented accommodation. The increase in nights stayed in non-rented accommodation was much more muted. Nights stayed, surpassed pre-pandemic levels by 4.7%.

The total average occupancy rate in collective accommodation establishments rose to 62.2% in 2023, up from 53.3% a year earlier, but still short of that recorded in 2019 when it reached 65.6% (see Chart 5.6). Higher occupancy rates were registered across all accommodation categories compared to 2022.

During 2023, the share of non-residents in the total number of guests using collective accommodation increased relative to a year earlier, to reach 88.4%, and stood only slightly below that of 90.1% recorded in 2019.

Tourist expenditure increased by almost a third over 2022, to reach €2,671.4 million. The largest increase in absolute terms was in the non-package expenditure category, followed by package expenditure, and 'other' expenditure.

Since tourism expenditure increased at a faster pace compared with arrivals, expenditure per capita rose to €897.8, from €880.1 in 2022 – an increase of 2.0%. This increase occurred despite a further reduction in the average length of stay from 7.3 nights in 2022 to 6.8 nights in the year under review and reflects an increase of almost 9% in per person spending per night.



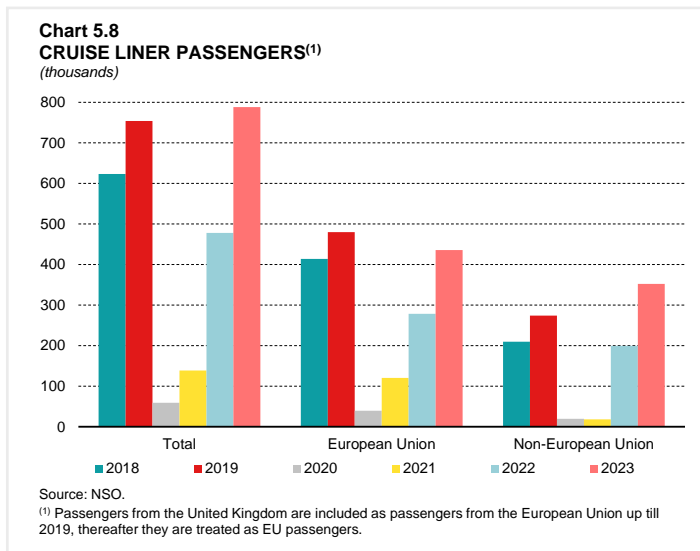
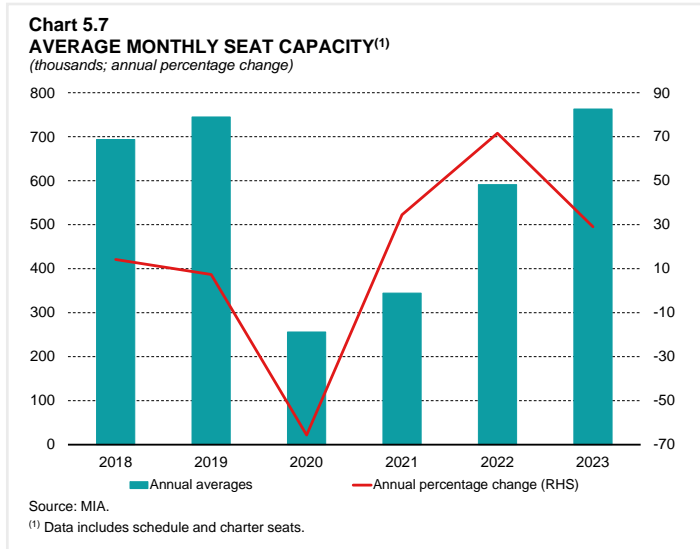
According to Malta International Airport (MIA) data, seat capacity increased by almost 30% in 2023, compared with a year earlier, reaching an average of 762,915 seats per month (see Chart 5.7). This was 2.4% above its 2019 level.

A total of 309 cruise liners visited Malta during 2023, up from 283 a year earlier, but still less than in 2019, when the number of cruise liner calls totalled 359. Foreign passengers reached 788,100 persons, almost two-thirds more than the number that visited in 2022, and 4.5% above the number recorded in 2019 (see Chart 5.8). Visitors from Italy made up the largest share of cruise passengers during 2023, followed by those from the United Kingdom, and the United States. These nationalities together accounted for over half of all cruise passengers in 2023.

### The capital and financial accounts

The capital account recorded net inflows of €269.7 million in the first three quarters of 2023, an increase of €99.0 million on a year earlier (see Table 5.1). Similar developments were observed on a four-quarter moving sum basis, although in this case the increase was larger at €130.1 million.

Meanwhile, the financial account showed net lending of €3,003.1 million in the first nine months of 2023. This contrasts with net borrowing of €1,401.8 million in the same period of 2022. The shift to net lending reflected transactions in the 'other investment' account. When measured on a four-quarter sum basis, the financial account also shows a net lending balance from a net borrowing balance a year earlier.



## 6. GOVERNMENT FINANCE

In the first three quarters of 2023, the general government deficit declined significantly when compared to that recorded in the corresponding period of 2022. When measured on a four-quarter moving sum basis, the deficit-to-GDP ratio narrowed from 5.6% as at end-2022 to 3.4% in the third quarter of 2023.

Meanwhile, general government debt as a share of GDP declined, from 51.6% at end-2022 to 49.6% as at end-September 2023. The general government net financial worth also improved. Meanwhile, the cyclically-adjusted deficit narrowed in the four quarters up to September 2023.

### Quarterly developments

#### General government deficit narrows significantly

In the first three quarters of 2023, the general government registered a deficit of €295.9 million, €337.2 million lower when compared to the deficit recorded in the corresponding period of 2022 (see Table 6.1). This was due to government revenue increasing much more significantly than government expenditure. As a result, the primary deficit more than halved, narrowing from €512.5 million in the first three quarters of 2022 to €151.4 million in the corresponding period of 2023.

**Table 6.1**  
**REVENUE, EXPENDITURE AND DEBT**

EUR millions

	2018	2019	2020	2021	2022	Q1 - Q3		Change Q1-Q3	
						2022	2023	Amount	%
<b>Revenue</b>	<b>4,947.3</b>	<b>5,173.2</b>	<b>4,763.2</b>	<b>5,437.9</b>	<b>5,884.1</b>	<b>4,268.3</b>	<b>4,780.2</b>	<b>512.0</b>	<b>12.0</b>
Taxes on production and imports	1,569.3	1,615.1	1,393.4	1,568.4	1,789.4	1,324.1	1,431.6	107.4	8.1
Current taxes on income and wealth	1,676.7	1,855.8	1,700.7	2,052.7	2,249.1	1,626.5	1,842.0	215.5	13.2
Social contributions	764.8	800.1	838.2	914.8	990.6	725.4	765.9	40.5	5.6
Capital and current transfers receivable	287.2	277.6	291.6	270.3	275.5	185.3	186.9	1.7	0.9
Other <sup>(1)</sup>	649.2	624.6	539.4	631.7	579.5	406.9	553.8	146.9	36.1
<b>Expenditure</b>	<b>4,692.5</b>	<b>5,099.9</b>	<b>6,047.8</b>	<b>6,578.6</b>	<b>6,866.2</b>	<b>4,901.4</b>	<b>5,076.1</b>	<b>174.7</b>	<b>3.6</b>
Compensation of employees	1,395.9	1,510.5	1,589.2	1,772.5	1,834.5	1,374.9	1,448.8	73.9	5.4
Intermediate consumption	830.4	968.4	1,189.7	1,311.0	1,341.0	960.3	1,062.7	102.4	10.7
Social benefits	1,181.0	1,244.9	1,342.6	1,389.1	1,486.7	1,100.6	1,206.8	106.2	9.6
Subsidies	179.0	195.1	684.4	707.4	834.8	567.1	465.0	-102.1	-18.0
Interest	194.0	183.6	170.9	168.0	164.2	120.7	144.5	23.9	19.8
Other current transfers payable	266.3	291.8	304.1	445.4	463.3	276.5	240.0	-36.6	-13.2
GFCF	441.9	543.6	555.9	585.4	589.3	410.8	385.0	-25.8	-6.3
Capital transfers payable	207.5	151.4	191.3	178.6	138.2	79.7	106.9	27.2	34.2
Other <sup>(2)</sup>	-3.4	10.7	19.6	21.2	14.4	10.8	16.3	5.5	-
<b>Primary balance</b>	<b>448.8</b>	<b>256.9</b>	<b>-1,113.6</b>	<b>-972.7</b>	<b>-818.0</b>	<b>-512.5</b>	<b>-151.4</b>	<b>361.1</b>	<b>-</b>
<b>General government balance</b>	<b>254.8</b>	<b>73.3</b>	<b>-1,284.6</b>	<b>-1,140.7</b>	<b>-982.2</b>	<b>-633.1</b>	<b>-295.9</b>	<b>337.2</b>	<b>-</b>
<b>General government debt</b>	<b>5,662.1</b>	<b>5,720.3</b>	<b>6,974.7</b>	<b>8,263.9</b>	<b>9,000.5</b>	<b>8,695.0</b>	<b>9,409.8</b>		

Source: NSO.

<sup>(1)</sup> "Other" revenue includes market output as well as income derived from property and investments.

<sup>(2)</sup> "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

### *Higher tax receipts underpin revenue growth*

During the period under review, general government revenue increased by €512.0 million, or 12.0% in annual terms. This was largely due to higher inflows from current taxes on income and wealth, which increased by €215.5 million. This reflects higher income tax receipts paid by both companies and households. Furthermore, receipts from production and imports increased by €107.4 million, due to higher VAT receipts and, to a lower extent, higher inflows from stamp duty. Furthermore, social contributions went up by €40.5 million, reflecting favourable labour market conditions.

Non-tax revenue also increased during the period under review. This was mostly driven by a €146.9 million rise in the 'other' component of government revenue, reflecting an increase in income from sales.

### *Current outlays support expenditure growth*

During the period under review, growth in government expenditure was relatively muted, as spending on energy price support measures was offset by the termination of COVID-related support measures. Overall, government expenditure increased by €174.7 million, or 3.6% when compared to the corresponding period a year earlier, with recurrent expenditure contributing the most to the increase.

Outlays on social benefits increased by €106.2 million, mainly due to higher outlays on retirement pensions and contributory bonuses. Similarly, intermediate consumption grew by €102.4 million, partly on the back of higher expenditure within the public administration sector. Moreover, spending on compensation of employees increased by €73.9 million, driven by higher wages in the public administration and, to a lower extent, in the education sector. Interest payments increased by €23.9 million, reflecting higher financing requirements in recent years, coupled with an increase in the cost of borrowing. Moreover, the 'other' component of government expenditure increased by €5.5 million.

On the other hand, spending on subsidies fell by €102.1 million, due to the aforementioned base effect from pandemic related assistance, and the timing of spending on energy support measures. Other current transfers payable declined by €36.6 million in the period under review, reflecting a one-time refund from the European Union.

Meanwhile, capital expenditure rose slightly in the period under consideration. This is due to a €27.2 million increase in capital transfers, which offset a €25.8 million decrease in GFCF. The latter mainly reflects a decline in spending on locally financed projects.

### *Debt increases in level terms*

In September 2023, the stock of general government debt stood at €9,409.8 million, an increase of €409.3 million from its level as at end-2022. The stock of long-term debt securities (composed of MGS) increased by €820.4 million, as new MGS issues outweighed the value of redeemed securities. Moreover, in level terms, the share of long-term securities in total government debt increased by 5.4 percentage points, to 81.6%. On the other hand, the stock of short-term securities outstanding (composed of Treasury bills) decreased by €394.4 million, and their share in total debt broadly halved to 4.3%.

Meanwhile, the stock of loans outstanding increased slightly by €1.8 million. Notwithstanding this increase, the share of long-term loans in total debt fell by 0.4 percentage point, to 9.2%. Furthermore, the level of currency and deposits outstanding declined by €18.5 million, bringing down their share in total debt by 0.4 percentage point to 4.8%. This reflects a lower level of outstanding 62+ Malta Government Savings Bonds, which are classified as deposits according to European System of Accounts (ESA) methodology.

## **Headline and cyclically-adjusted developments**

### *Headline deficit and debt ratios decline*

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio declined from 5.6% at end-2022, to 3.4% in the third quarter of 2023.

During this period, the ratio of total revenue in GDP remained broadly unchanged (see Chart 6.1). On the other hand, the ratio of total expenditure in GDP declined by 2.3 percentage points, with this drop being mostly due to a lower share of current expenditure. Since 2021, the decline in the share of current outlays in GDP has been the primary force behind the improvement in the fiscal balance.

Meanwhile, the government debt-to-GDP ratio fell by 2.0 percentage points when compared to December 2022, reaching 49.6% of GDP (see Chart 6.2). As GDP growth remained strong, the interest-growth differential exerted a debt-decreasing effect in the period reviewed. The impact of sustained primary deficits and debt-increasing deficit-debt transactions was relatively muted.

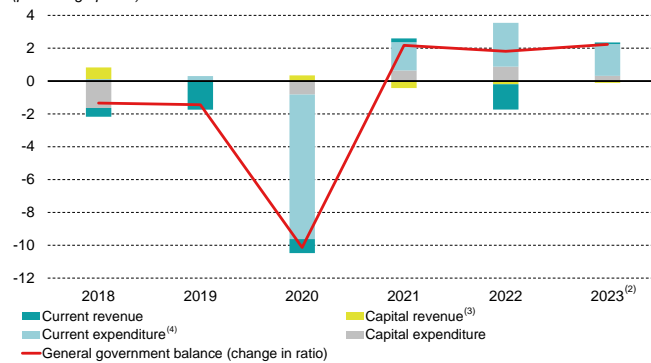
### Net financial worth improves

The market value of financial assets as at end-September 2023 stood at €5,485.5 million, an increase of €578.3 million when compared with December 2022.<sup>1</sup> This was mainly due to higher government deposits held at banks. The share of financial assets in GDP rose by 0.8 percentage point to 28.9%, as at end-September 2023 (see Chart 6.3).

Meanwhile, the market value of financial liabilities increased by €799.9 million, ending the third quarter of 2023 at €11,136.1 million. This is mainly due to a strong increase in accounts payable and in the value of debt securities. Despite this substantial increase, the share of financial liabilities in GDP declined by 0.6 percentage point, to 58.7%.

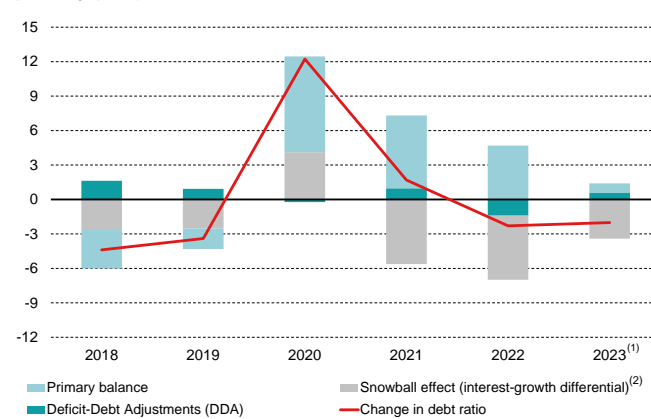
The resulting net financial worth of general government as a share of GDP improved by 1.3 percentage

**Chart 6.1**  
**IMPACT ON GENERAL GOVERNMENT BALANCE<sup>(1)</sup>**  
(percentage points)



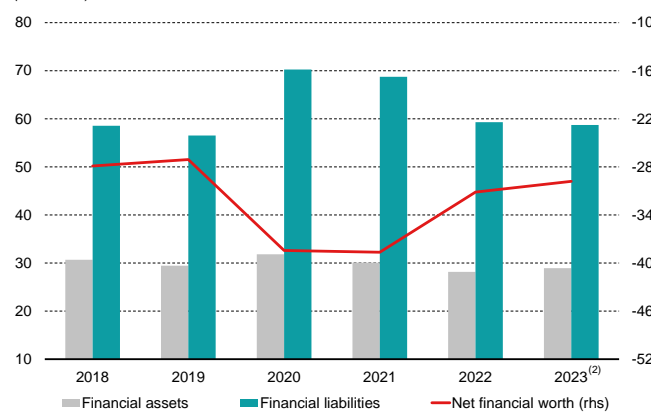
Sources: NSO; Central Bank of Malta.  
<sup>(1)</sup> Revenue items: +ve sign represents higher revenue and vice versa. Expenditure items: +ve sign represents lower expenditure and vice versa.  
<sup>(2)</sup> Four-quarter moving sums up to Q3.  
<sup>(3)</sup> The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.  
<sup>(4)</sup> The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

**Chart 6.2**  
**CONTRIBUTION TO CHANGE IN DEBT**  
(percentage points)



Sources: NSO; Central Bank of Malta.  
<sup>(1)</sup> Period ending September 2023.  
<sup>(2)</sup> Difference between effective interest rate (interest payments at year t relative to debt outstanding at year (t-1) and GDP growth.

**Chart 6.3**  
**GENERAL GOVERNMENT NET FINANCIAL WORTH**  
(% of GDP)<sup>(1)</sup>



Sources: Eurostat; NSO.  
<sup>(1)</sup> GDP data are four-quarter moving sums.  
<sup>(2)</sup> Period ending September 2023.

<sup>1</sup> According to the ESA 2010 methodology the stock of financial assets and liabilities are measured at market value. For further details see [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Net\\_financial\\_worth&stable=1](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Net_financial_worth&stable=1)

points and closed the third quarter of the year at -29.8%, from -31.1% as at end 2022. Consequently, the net financial worth of the Maltese Government continued to compare favourably with the euro area average. The latter stood at -54.9% of GDP in September 2023, compared with -56.3% registered in December 2022.

### *Maltese public finances improve at a faster pace than the euro area average*

In September, the euro area general government deficit stood at 3.5% of GDP when measured on a four-quarter moving sum basis, slightly narrower than the deficit recorded in 2022 (see Chart 6.4). Moreover, over the same period, the euro area debt ratio decreased from 90.9% to 89.9% of GDP.

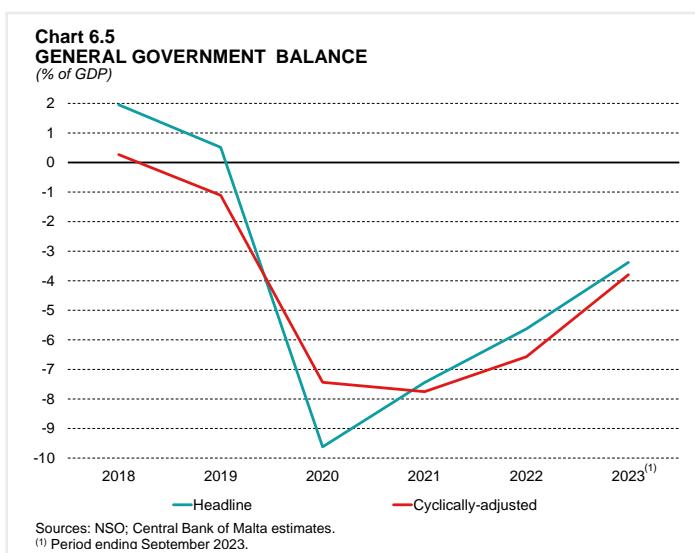
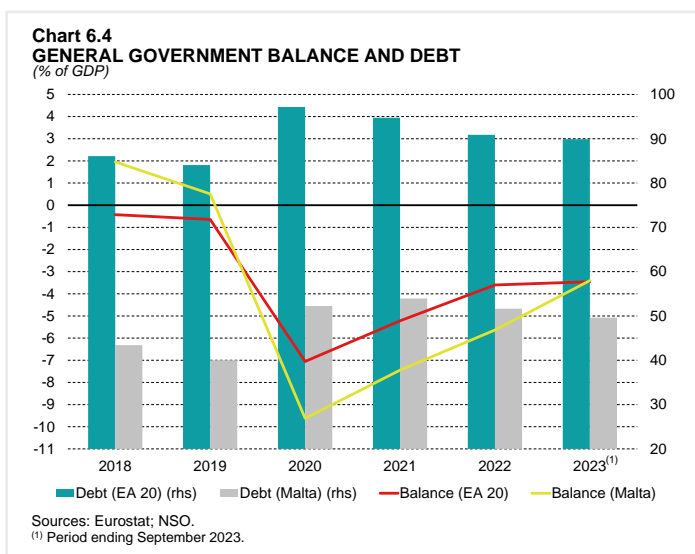
In the period under review, there has been a greater improvement in the Maltese general government deficit ratio than the euro area average. Moreover, the headline balance is now broadly in line with the euro area average, while the Maltese government debt-to-GDP ratio remained well below the corresponding ratio for the euro area.

### *Cyclically-adjusted balance improves<sup>2</sup>*

On a four-quarter moving sum basis, the cyclically-adjusted deficit stood at 3.8% of GDP in September 2023, 2.8 percentage points lower than the deficit posted at the end of 2022 (see Chart 6.5). This improvement is mostly in line with the change in the headline balance during the same period.

The improvement in the cyclically-adjusted balance since December 2022 mainly reflects a fall of 3.0 percentage points in the share of cyclically-adjusted expenditure in GDP (see Table 6.2). This reflects the abovementioned declines in subsidies, and in current transfers, which form part of 'other expenditure' in the table. At the same time, the share of compensation of employees and social benefits fell by 0.7 and 0.3 percentage points, respectively.

The share of cyclically-adjusted revenue fell by 0.3 percentage point. This was mainly due to a 0.3



<sup>2</sup> The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Moure, G., C. Astarita, and S. Princen (2014): "Adjusting the budget balance for the business cycle: the EU methodology," *European Economy – Economic Papers* 536, (DG ECFIN), European Commission.

**Table 6.2**  
**YEAR-ON-YEAR CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS**

*Percentage points of GDP*

	2018	2019	2020	2021	2022	2023 <sup>(1)</sup>
<b>Revenue</b>	<b>0.1</b>	<b>-1.8</b>	<b>-1.3</b>	<b>0.8</b>	<b>-2.1</b>	<b>-0.3</b>
Current taxes on income and wealth	-0.3	0.1	1.2	-0.4	-0.7	0.2
Taxes on production and imports	0.3	-0.7	-0.9	-0.2	0.0	-0.3
Social contributions	-0.1	-0.3	0.3	0.2	-0.5	-0.3
Other <sup>(2)</sup>	0.2	-0.9	-2.0	1.1	-0.9	0.1
<b>Expenditure</b>	<b>1.6</b>	<b>-0.4</b>	<b>5.0</b>	<b>1.1</b>	<b>-3.2</b>	<b>-3.0</b>
Compensation of employees	-0.2	-0.2	0.2	0.5	-1.0	-0.7
Intermediate consumption	0.4	0.4	1.3	0.3	-0.8	-0.2
Social benefits	-0.5	-0.4	0.0	0.0	-0.4	-0.3
Interest payments	-0.3	-0.2	-0.1	-0.1	-0.2	0.0
GFCF	1.0	0.4	-0.1	0.0	-0.4	-0.5
Other <sup>(3)</sup>	1.1	-0.5	3.7	0.5	-0.4	-1.4
<b>Primary balance</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-6.5</b>	<b>-0.4</b>	<b>1.0</b>	<b>2.8</b>
<b>General government balance</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-6.3</b>	<b>-0.3</b>	<b>1.2</b>	<b>2.8</b>

Sources: NSO; Central Bank of Malta estimates.

<sup>(1)</sup> Four-quarter period up to September 2023.

<sup>(2)</sup> Includes market output, income derived from property and investments and current and capital transfers received.

<sup>(3)</sup> Mainly includes subsidies, current and capital transfers.

percentage point fall in both the share of indirect tax and social contribution revenue in GDP. These declines offset a 0.2 percentage increase in the share of direct taxes. At the same time, the share of 'other revenue' rose marginally, mainly due to the above-mentioned rise in sales.

## BOX 4: THE SUSTAINABILITY OF MALTESE GOVERNMENT DEBT<sup>1</sup>

*This box assesses the sustainability of Maltese general government debt over different time horizons and evaluates risks stemming from macro-financial linkages. It updates previous debt sustainability analyses published by the Bank.<sup>2,3</sup> The term ‘sustainability’ used in this analysis is in line with the IMF’s definition that ‘sovereign debt is sustainable if the country is able to finance its policy objectives and service the resulting debt, without resorting to unduly large adjustments, which could otherwise compromise its stability’.*

### Main messages

The main messages can be summed up as follows:

- According to a heatmap of relevant indicators, in 2022 risks related to the structure and financing of debt, and risks related to contingent liabilities, are considered to be medium to moderate.
- This box presents two scenarios which serve as a preliminary assessment of the impact of the EU fiscal framework reform. The debt ratio is not expected to embark on an explosive path, even in the event of adverse shocks. However, depending on the pace of fiscal consolidation, the expected decline in the debt-to-GDP ratio could be insufficient to comply with the revised rules.
- There exist risks which could not be quantified and incorporated in the scenario analysis. In the immediate term, these mainly reflect the Government’s commitment to maintain stability in energy prices to consumers. Medium to long-term risks reflect the reform in the international corporate tax framework and the introduction of new EU-wide revenue raising measures. While these risks may be substantial, the resulting changing structure of the Maltese economy, including those as a result of reforms implemented in the context of the national Recovery and Resilience Plan, may bring both positive and adverse impacts on debt sustainability.

### Scenario analyses

The scenarios in this Box serve as a preliminary assessment of the impact of the EU fiscal framework reform. In December 2023, the Council of the EU agreed on a set of reforms to the Stability and Growth Pact, which affect both the preventive arm and the Excessive Deficit Procedure (EDP).<sup>4</sup> The Council then reached a provisional political agreement on the preventive arm with European Parliament negotiators in February 2024.<sup>5</sup> The new rules, which will be applied from 2025, need to be approved in a formal vote in both the Council and the EU Parliament before being adopted.

Under the proposed framework, which provides for greater differentiation across countries based on their fiscal positions, the European Commission will set a “technical trajectory” for Member States with government debt-to-GDP ratios above 60% and/or deficit-to-GDP ratios higher than 3%. This trajectory seeks to ensure that sufficient fiscal adjustment is carried out over an agreed period. The trajectory is agreed with Member States on the basis of multi-year national plans, which will cover a period of four years, extendible by a further maximum of three years if underpinned by credible commitments to investment and reforms. Although fiscal adjustment is expressed in terms of the

<sup>1</sup> Prepared by John Farrugia, Manager Fiscal Issues and Reports Office within the Economic Analysis Department of the Central Bank of Malta. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the author’s own.

<sup>2</sup> For further details on government debt dynamics and fiscal sustainability, see Farrugia, J. and Grech, O., “The Sustainability of Maltese Government Debt Revisited”, in Grech, A.G., and Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

<sup>3</sup> This study uses the national accounts vintage up to the fourth quarter of 2023, published in February 2024 and the general government data vintage up to the third quarter of 2023, published in January 2024. The cut-off date for projections is 6 February 2024.

<sup>4</sup> See <https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules>.

<sup>5</sup> See <https://www.consilium.europa.eu/en/press/press-releases/2024/02/10/economic-governance-review-council-and-parliament-strike-deal-on-reform-of-fiscal-rules>

structural primary balance (SPB), it will be monitored via growth in a defined measure of nationally-funded government expenditure.

The new rules require countries to adhere to minimum annual changes in the SPB, depending on their deficit and debt level (see section at the end of the box). However, the pace of annual fiscal adjustment needs to ensure that the debt-to-GDP ratio is on a plausibly declining path or stays at prudent levels even after accounting for adverse scenarios.

The below scenarios explore the profile of the Maltese general government debt if different fiscal adjustment paths are targeted. Given that the new fiscal rules have not yet been formally adopted, and since Member States had not yet submitted national plans when this exercise was conducted, the forecast consolidation paths in this box are based on a number of assumptions.

Up until 2026, assumptions for GDP growth, inflation and Government's borrowing costs in both scenarios are in line with the Bank's latest forecast exercise.<sup>6</sup> Thereafter, a series of common assumptions govern the path of macro variables, prices and interest rates. Shocks to the scenarios are in line with those proposed under the new fiscal rules (see section at the end of this box).

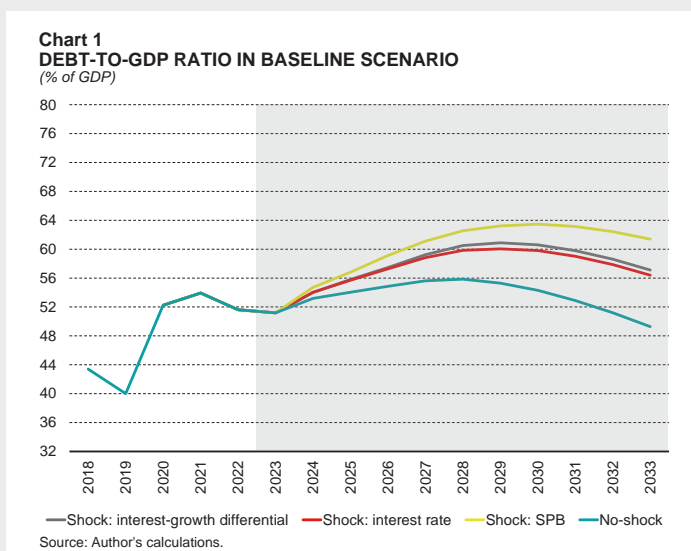
### Scenario 1 – Baseline Scenario

In this scenario, the SPB path between 2024 and 2026 is in line with the Bank's latest projections. On average, the annual rate of adjustment amounts to 0.7% of GDP – more than the minimum rate of adjustment required by the newly proposed fiscal rules. Thereafter, the mandated minimum annual change in the SPB is pursued. In this scenario, Government reaches a structural deficit ratio of 1.5% (the safety margin included in the preventive arm's deficit safeguard) by 2030. However, it continues to target fiscal consolidation even in subsequent years, such that the structural balance is only slightly in deficit by 2033.

On the basis of these assumptions, and excluding the impact of any shocks, the general government debt is expected to peak at just under 56.0% in 2028 before declining to around 50.0% of GDP by 2033 (see Chart 1).

In this scenario, the debt-to-GDP ratio remains on a downward path even when shocks are applied.

Owing to the different magnitude of shocks, a less favourable interest-growth differential and higher interest rates have a broadly similar effect on the debt ratio. Between 2028 and 2030, the debt ratio is set to be around 60% of GDP as a result of these shocks. However, by 2033 debt is expected to decline to around 57% of GDP.



<sup>6</sup> This exercise is available here: <https://www.centralbankmalta.org/economic-projections>

A shock to the SPB exerts the largest impact on the debt profile. Although the debt-to-GDP ratio is expected to decline from around 2030 onwards, it is still expected to remain above 60% by 2033.

According to this scenario, if no shocks occur, the debt-to-GDP ratio declines to below 2023 levels by the end of the projection horizon. On the basis of the mechanical shocks applied to this scenario, the debt ratio remains above 2023 levels. Moreover, the year in which the debt ratio reaches its peak is pushed back from 2028 in a no-shock scenario, to 2030 in the event of a SPB shock. A more aggressive fiscal consolidation path than that assumed in the no-shock path, aimed at bringing the debt ratio to a lower peak earlier on in the projection horizon, would be necessary to ensure that public finances are less susceptible to adverse economic developments.

### Scenario 2 – Alternative Scenario

In this scenario, it is assumed that fiscal consolidation is not pursued as aggressively as in the baseline scenario. Between 2024 and 2026, the mandated minimum annual change in the SPB is pursued – which is smaller than the adjustment forecast in the latest CBM projections. Thereafter, the required minimum pace of consolidation is carried out, such that a structural deficit of 1.5% of GDP is posted by 2033. The SPB is slightly in surplus by the end of the projection horizon.

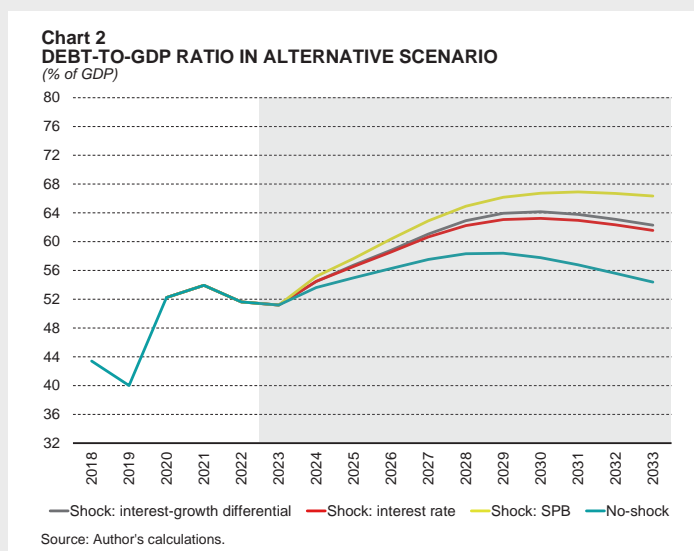
Excluding the impact of any shocks, general government debt is set to peak in 2029 at around 58% before decreasing to just below 55.0% of GDP by 2033 (see Chart 2).

Shocks to the interest-growth differential and to interest rates are set to push the debt ratio above 60%. However, debt is still forecast to decline to around 62.0% of GDP by 2033, from a peak of around 64.0% in 2030. A shock to the SPB is set to push the debt-to-GDP ratio to around 66% from 2029 onwards. Although the debt profile is still expected to decline over time, the year-on-year decrease in the ratio is very small.

This scenario highlights the importance of frontloaded fiscal consolidation and continuous adherence to the targets. Despite ensuring the minimum required rate of fiscal adjustment, the debt ratio in this scenario may not be brought on a strong downward path in the event of unexpected shocks. Thus, even though the debt ratio is not expected to embark on an explosive path, government debt under this adverse scenario may not comply with the EU's proposed new fiscal rules.

### Heat map of indicators

This section assesses a number of indicators which, according to the literature, are highly relevant for debt sustainability in the short and long term. The thresholds used to grade these indicators are mainly sourced from the European Commission's *Debt Sustainability Monitor* series. The threat that each indicator poses to the



debt ratio is colour coded – red indicates a high threat, yellow indicates a medium threat and green signals a low threat to sustainability. The heat map is presented in Table 1.

This is a backward-looking analysis using information up to 2022. At the time this exercise was completed, data at end-2023 was not available for most indicators.

Risks surrounding the structure of debt and availability of liquidity are considered to be relatively low. Although the share of short-term debt in total debt is considered to be a medium threat, it declined from around 16% in 2020 to around 14% by end-2022.<sup>7</sup> Short-term debt also includes holdings of Malta Government Retail Savings Bonds, which are classified as deposits in the ESA methodology.

Risks related to gross financing needs have decreased compared with 2020, as the general government deficit declined. Consequently, they are now considered as low risk. However, net financing needs after accounting for government deposits remain substantial and continue to be classified as medium risk.

From a macro-financial perspective, the main risks to debt sustainability stem from the elevated share of non-performing loans in the total loans extended by the core domestic banks, when compared with the applicable threshold. This metric has however improved significantly over time and is currently at historic lows.<sup>8</sup>

**Table 1**  
**HEAT MAP**

	2018	2019	2020	2021	2022
<b>Structure of debt</b>					
Share of short-term debt	Yellow				
Change in share of short-term debt (y-o-y)	Red	Green	Red	Green	Green
Share of foreign currency denominated debt	Green				
Share of debt with variable interest rate in GDP	Green				
Share of debt held by non-residents	Green				
<b>Liquidity risks</b>					
Gross financing needs (% of GDP)	Green				
Net financing needs (% of GDP)	Yellow				
Ten year government bond spread over German Bund	Green				
<b>Macro-financial risks</b>					
Private sector debt (% of GDP)	Green				
Private credit flow (% of GDP)	Red				
Net international investment position (% of GDP)	Green				
Share of non-performing loans to gross loans: core banks	Red				
Change in share of non-performing loans (core banks) (y-o-y)	Green				
Bank loans-to-deposits ratio (core banks)	Green				
Change in nominal house prices (y-o-y)	Green				
<b>Competitiveness risks (High/Low risk)</b>					
ULCs (% change over three years)	Red				
Real effective exchange rate (% change over three years)	Green				
Current account balance (three yr average as % of GDP)	Green				
Export market shares (% change over five yrs)	Green				
<b>Implicit/ contingent risks</b>					
Commission Ageing Report: 2019-2070 ageing costs (pp of GDP)	Red				
General government guarantees (% of GDP)	Red	Yellow	Red	Yellow	Yellow

Sources: Author's calculations; Eurostat.

<sup>7</sup> The medium and high-risk thresholds applied in this study respectively have a value of 8.2% and 16%.

<sup>8</sup> The high-risk threshold applied in this study has a value of 2.3%. This metric amounted to 2.5% by end-2023.

Implicit liabilities in the form of ageing costs (pensions, healthcare and long-term care) as a share in GDP form another significant risk to sustainability. According to the Commission's 2021 *Ageing Report* projections, at 8.0 points, Malta is set to have the fourth highest increase in age-related spending in the euro area between 2019 and 2070. However, ageing costs are set to remain below the euro area average by 2070.

Government-guaranteed debt as a share of GDP continued to decline in 2022. At 6.6% of GDP, this ratio stood lower than the euro area average, and is more than half the peak ratios observed in 2012 and 2014. Consequently, the risk of guarantees being called is considered as medium, bordering on low. However, there still remain substantial pandemic-related guarantees outstanding. These form the fourth largest source of guarantees after those in the energy and logistics sectors.<sup>9</sup>

### Non-quantifiable risks

This section outlines other debt sustainability risks which are likely to materialise but cannot be quantified at present.

In the short-to-medium term, sustainability risks reflect the Government's commitment to retain stable energy prices to consumers. If commodity prices remain at a higher level than estimated, Government will require higher subsidies than planned. This will also directly impact the Commission's assessment of the pace of fiscal consolidation. Both the Commission (in its assessment of the 2024 Draft Budgetary Plan) and the IMF (in its 2023 Article IV consultation) called for the Maltese Government to embark on a plan to gradually scale back the size and scope of energy support measures.

Medium-to-long term sustainability risks reflect the impact of a reform in the international corporate tax framework, as agreed by members of the Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework. The reforms affect large multinational companies and seek the partial re-allocation of taxing rights from their home countries to markets where they also earn turnover. The reforms also introduce a 15% global minimum effective corporate tax rate. In December 2022, the Council of the EU reached unanimously an agreement to implement the EU Minimum Tax Directive (Directive 2022/2523). Member States were required to transpose the rules into domestic law by 31 December 2023. However, Member States in which no more than 12 ultimate parent entities of multinational enterprise groups are located, are allowed to apply a derogation for up to end-2029. The Maltese Government is eligible to apply this derogation. The impact of these proposals on government finances is thus hard to quantify at this stage.

Other medium-to-long terms risks reflect the impact of new EU-wide revenue raising measures, which Member States in principle agreed to introduce in order to repay financing of the Next Generation EU rescue package. These include the extension of the EU Emissions Trading System as from 2024, the introduction of a carbon border adjustment mechanism, and an own resource requirement from the above mentioned international corporate taxation framework.<sup>10</sup> Such measures have the potential to significantly affect the Maltese economy and public debt sustainability. On the one hand, the introduction of new taxation systems may disrupt existing industries and negatively affect inflows from corporate taxes. On the other hand, the shift towards new industries may boost competitiveness and productivity, leading to increased investment. The long-run impact of structural reforms being implemented as part of the national Recovery and Resilience Plan – which ought to reduce sustainability risks – is also difficult to gauge.

<sup>9</sup> See National Audit Office Malta (2023). "Annual Audit Report: Public Accounts 2022" for further details.

<sup>10</sup> See [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_7025](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_7025).

## Assumptions and technical information

### Numerical targets proposed in the reform of the Stability and Growth Pact

Member States under the preventive arm of the fiscal rules will be subject to two safeguards. Under the debt sustainability safeguard, countries with debt ratios higher than 90% of GDP are required to bring down their debt ratio by a minimum annual average of 1 percentage point of GDP over the national plan's horizon. The minimum annual average of debt reduction for countries with ratios of between 60% and 90% is 0.5 percentage point of GDP. Under the deficit resilience safeguard, countries need to bring their structural deficit down to 1.5% of GDP to ensure a safety margin to the 3% of GDP Treaty-based threshold. To this end, the annual change in the SPB will be 0.4 percentage point of GDP for a four-year adjustment plan, and 0.25 percentage point for a seven-year plan.

Countries which breach the 3% deficit ratio threshold and enter into an EDP are required to make a minimum annual adjustment of 0.5 percentage point of GDP in the SPB for the transitional period 2025-2027, and in terms of the structural balance thereafter.

### Scenario analyses: common assumptions (from 2027 onwards)

Potential output growth is determined exogenously in this framework. Real GDP growth is set to grow in line with the forecast SPB and potential output growth. The growth is therefore determined by the fiscal multiplier – i.e. the degree to which fiscal policy affects economic growth – and the output gap, which eventually closes. For further details, refer to the 2018 *Annual Report Box*.

Inflation, which in this box is measured by growth in the GDP deflator, is assumed to revert to around 2.0%, in line with the ECB's target for inflation over the medium term. Meanwhile, the level of the deficit-debt adjustment is assumed to revert to its long-run average. No temporary fiscal measures are assumed to take place.

Government debt is forecasted on the basis of different types of maturity. The share of each category of debt is assumed to revert to its long-run average. Interest payment projections are based on separate interest rate estimates applied to each maturity category.

The forecast path of interest rates is based on ECB assumptions for the EURIBOR (used to determine interest payments on short-term debt) and the ten-year yield on Malta Government Bonds (used to determine interest payments on rolled-over, long-term debt).<sup>11</sup> Interest rates on non-maturing debt are based on the maturity profile of outstanding MGS.

The forecast path for the main determinants of debt is shown in Table 2.

**Table 2**  
**SCENARIO ASSUMPTIONS: MAIN DETERMINANTS OF DEBT**

*Per cent; averages over simulation period*

	Baseline scenario				Alternative scenario			
	2024-2033 average	Shock: interest growth differential	Shock: interest rate	Shock: SPB	2024-2033 average	Shock: interest growth differential	Shock: interest rate	Shock: SPB
Real GDP growth rate	3.5	3.0	3.5	3.5	3.5	3.0	3.5	3.5
Inflation (GDP deflator growth rate)	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Implicit interest rate	3.0	3.4	3.8	3.1	3.1	3.5	3.9	3.2
Deficit-debt adjustments (% of GDP)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
SPB (% of GDP)	-0.6	-0.7	-0.7	-1.6	-1.2	-1.2	-1.2	-2.2
<i>Memo: SPB in 2033 (% of GDP)</i>	<i>1.1</i>	<i>1.2</i>	<i>1.2</i>	<i>0.1</i>	<i>0.2</i>	<i>0.4</i>	<i>0.4</i>	<i>-0.8</i>

Source: Author's calculations.

<sup>11</sup> The euro area interest rate projections were sourced from the ECB's technical assumptions.

### *Scenario analyses: shocks (applied from 2024 onwards)*

Shocks are assumed to be permanent in nature, and to target three main determinants of the debt-to-GDP path. Shocks to the interest-growth differential assume a 0.5 percentage point lower GDP growth path and 0.5 percentage point higher interest rate path. The interest rate shock scenario assumes a 1.0 percentage point higher path of interest rates. The SPB scenario assumes a 1.0 percentage point lower SPB path.

For shocks which impose an increase in interest rates, a gradual increase in the interest rate on non-maturing debt is being assumed, such that the full impact of the shock is felt by the end of the forecast horizon. The impact of the shock to interest rates applied to maturing and new debt is felt immediately.



Qbajjar Salt Pans, Marsalforn Gozo

## **II. BANK POLICIES, OPERATIONS AND ACTIVITIES**



## 1. MONETARY POLICY AND FINANCIAL MARKET OPERATIONS

### Monetary policy operations

As part of the Eurosystem, the Central Bank of Malta implements the monetary policy decisions of the ECB in Malta.<sup>1</sup> Thus, the Central Bank of Malta regularly conducts open market operations with credit institutions established in Malta, offers standing facilities and administers the minimum reserve requirement system. During 2023, the Central Bank of Malta also participated in the Asset Purchase Programme (APP) and the PEPP.

### Open market operations

Open market operations are aimed at managing the level of liquidity in the financial market, steering short-term market interest rates close to the official ECB rates and signalling the stance of monetary policy. The Eurosystem has various types of open market operations at its disposal.

MROs are short-term liquidity-providing reverse transactions, which are executed according to a pre-specified calendar. They take place on a weekly basis with a maturity of one week. The Eurosystem also conducts longer-term refinancing operations (LTROs), which consist of liquidity-providing reverse transactions at a monthly frequency and with a maturity of three months.

During 2023, the Eurosystem continued to offer liquidity to eligible credit institutions via fixed-rate tender procedures with full allotment, through both MROs and LTROs.

More specifically, during 2023, the ECB conducted 52 MROs. Credit institutions established in Malta participated in these operations with a total cumulative amount of €65.0 million, €120.0 million lower when compared to 2022 (see Table 1.1).

**Table 1.1**  
**PARTICIPATION OF ELIGIBLE MALTESE CREDIT INSTITUTIONS IN**  
**EUROSYSTEM OPEN MARKET OPERATIONS**

Type of operation <sup>(1)</sup>	2022	2023
MROs (EUR millions)	185.0	65.0
Three-month LTROs (EUR millions)	159.0	102.0
TLTRO-IIIIs (EUR millions)		
Early repayments	513.5	-
Maturities	40.0	50.0
US dollar collateralised operations (USD millions)		
- Seven-day	8,027.6	11,013.9

Source: Central Bank of Malta.

<sup>(1)</sup> In these Eurosystem operations, the figures shown are the allotted ones which are equivalent to the amounts bid, due to the full allotment policy.

<sup>1</sup> For a description of the monetary policy decisions taken by the Governing Council, please refer to Box 1 "Chronology of ECB monetary policy decisions in 2023", which can be found in Part 1 of this Report.

The ECB also conducted 12 regular three-month LTROs with full allotment and at a fixed rate equal to the average MRO rate during the life of the operations. Credit institutions established in Malta participated with an aggregate amount of €102.0 million in these operations, €57.0 million less when compared to 2022 (see Table 1.1).

As from September 2021 and one year after the settlement of each TLTROs, credit institutions, on a quarterly basis,<sup>2</sup> have the possibility to partially or fully repay the amounts allotted in such operations. During 2023, Maltese credit institutions with outstanding TLTROs did not participate in these early repayments. However, the outstanding balance in such operations decreased by €50.0 million due to maturing amounts.

During 2023, the ECB continued to conduct weekly liquidity-providing operations of US dollars with a one-week tenor through collateralised lending in conjunction with the US Federal Reserve. Between 20 March and end April, the seven-day USD operation was performed on a daily basis, to enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements. During the year under review, credit institutions established in Malta participated regularly, for a total cumulative amount of USD 11,013.9 million, higher than the USD 8,027.6 million taken up in the previous year.

During 2023, the Central Bank of Malta purchased a bidding system that allowed eligible credit institutions in Malta to participate in Eurosystem open market operations in an automated manner. The automated tender bidding system went live at the end of September. The system was acquired from *Oesterreichische Nationalbank*.

### *Standing facilities*

Eligible counterparties may utilise two standing facilities on their own initiative, either to obtain overnight liquidity against eligible collateral or to place overnight deposits with the Eurosystem.

Recourse to the overnight deposit facility by Maltese credit institutions amounted to a daily average of €5,517.9 million, an increase of €3,819.9 million compared to the 2022 average. This increase results from credit institutions established in Malta utilising the overnight deposit facility instead of the current accounts given the positive overnight deposit facility rate throughout the year. Similar to 2022, Maltese credit institutions did not resort to the marginal lending facility in 2023.

The interest rates on the MROs, the marginal lending facility and the overnight deposit facility increased six times throughout the year standing at 4.50%, 4.75% and 4.00% respectively as at end-2023. The increase in the policy rates amounted to a total of 200 basis points throughout the year. The first increase of 50 basis points was effective as from the 8 February, followed by another 50 basis points increase as from 22 March. This was followed by four consecutive rate hikes of 25 basis points each effective as from 10 May, 21 June, 2 August, and 20 September.

### *Reserve requirements*

The ECB requires credit institutions established in the euro area to hold reserve deposits with their respective national central bank (NCB). The objective of the Eurosystem's minimum reserve system is to contribute to the stability of money market interest rates and to help ensure the efficient operation of the Eurosystem as a liquidity supplier. Each credit institution established in Malta is accordingly obliged to hold minimum reserve deposits with the Central Bank of Malta, equivalent to a fraction of certain liabilities, mainly deposits. During 2023, this reserve requirement ratio remained unchanged at 1.0%. The average balance required as minimum reserve deposits by credit institutions established in Malta amounted to €300.2 million in 2023, compared to €305.9 million in 2022. The average daily balances held in the current accounts with the Central Bank of Malta amounted to €435.5 million in 2023, compared to €5,074.7 million in 2022. As explained, credit institutions established in Malta utilised the overnight deposit facility, thereby decreasing their current account balances with the Central Bank of Malta as excess reserves in the current account balances were not remunerated.

<sup>2</sup> During 2023, there were two additional voluntary early repayment dates with settlement on 25 January and 22 February 2023.

On 27 July 2023, the Governing Council decided to set the remuneration of minimum reserves at 0%, effective as of the beginning of the reserve maintenance period starting on 20 September 2023.

### *Asset purchase programme*

During the first half of the year, the Central Bank of Malta continued to participate in the Public Sector Purchase Programme (PSPP), which is part of the APP.

On 2 February 2023, the Governing Council confirmed its communication of December 2022, that from the beginning of March 2023, the APP portfolio will be declining at a measured and predictable pace, as the Eurosystem will not reinvest all the principal payments from maturing securities. The decline amounted to €15.0 billion per month on average until the end of June 2023.

On 15 June 2023, the Governing Council announced that it will discontinue the reinvestments under the APP as of July 2023.

During 2023, the Central Bank of Malta purchased €18.9 million worth of Maltese sovereign bonds under the PSPP. Since inception, the total securities purchased by the Central Bank of Malta for its PSPP portfolio amounted to €1,534.5 million at the end of 2023.<sup>3</sup> The Central Bank of Malta's PSPP holdings had a weighted average remaining maturity of 10.10 years as at last trading day for December 2023.

During the year, the Central Bank of Malta also purchased €1.0 million worth of Maltese sovereign bonds that were transferred to the ECB's own PSPP portfolio, with total securities bought since inception in this portfolio amounting to €277.2 million.<sup>4</sup>

The Central Bank of Malta did not participate in the private-sector programmes, which also form part of the APP, owing to the lack of eligible securities in the domestic markets.

### *Pandemic emergency purchase programme*

The Central Bank of Malta also continued its participation in the PEPP, announced on 18 March 2020 by the Governing Council as one of the ECB's responses to the economic and financial market fallout from the COVID-19 pandemic.

During the year, the Governing Council confirmed the intention to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024 and the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance. Subsequently, on 14 December 2023, the Governing Council announced the intention to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of 2024, it intends to reduce the PEPP portfolio by €7.5 billion per month on average and intends to discontinue reinvestments under the PEPP at the end of 2024.

During 2023, the Central Bank of Malta purchased €1.1 million worth of Maltese sovereign securities under the PEPP. Since the inception of this programme, the Central Bank of Malta bought €549.7 million worth of Maltese sovereign securities.<sup>5</sup> The Central Bank of Malta's PEPP holdings had a weighted average remaining maturity of 9.99 years as at the last trading day for December 2023.

During the same period, the Central Bank of Malta did not transfer any Maltese sovereign bonds to the ECB's own PEPP portfolio, with total securities bought since inception in this portfolio remaining at €79.2 million.<sup>6</sup>

Similar to the APP, the Central Bank of Malta participated only in the public sector purchases under the PEPP.

<sup>3</sup> This figure does not reflect the amortisation of securities held under the PSPP portfolio. Purchases of securities which matured until 2023 are also included in this figure.

<sup>4</sup> See footnote 3.

<sup>5</sup> See footnote 3.

<sup>6</sup> This figure does not reflect the amortisation of securities held under the PEPP portfolio. There were no maturities in this portfolio during 2023.

### *Transmission Protection Instrument*

The Transmission Protection Instrument remained available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to deliver on its price stability mandate more effectively. However, this instrument was not used throughout 2023.

### *Collateral management*

All Eurosystem credit operations take place against eligible collateral. The Central Bank of Malta is responsible for assessing the eligibility of domestic marketable securities which can be used as collateral in Eurosystem monetary operations and for reporting them to the ECB. As at end-December 2023, the nominal outstanding value of eligible domestic marketable securities amounted to €9,016.0 million, compared with €8,153.9 million a year earlier.

At the end of the year, the market value after haircuts of securities pledged with the Central Bank of Malta by credit institutions established in Malta stood at €1,459.5 million. This consisted of both domestic and foreign assets, with the share of debt instruments issued by the Maltese government accounting for around 66.6% of the securities pledged.

On 2 November 2023, the Governing Council decided to accept the credit rating agency Scope Ratings GmbH as a new external credit assessment institution for the purposes of the Eurosystem Credit Assessment Framework. The go-live date of Scope Ratings' usability for monetary policy purposes will be pre-announced on the ECB's website.

Additionally, on the 30 November 2023, the Governing Council decided to reschedule the launch of the Eurosystem Collateral Management System (ECMS) from 8 April 2024 to 18 November 2024. The ECMS will be a unified system for managing assets used as collateral in Eurosystem credit operations.

### *Liquidity management*

The Central Bank of Malta continued to provide the ECB with forecasts of items on its balance sheet unrelated to monetary policy instruments, such as banknotes in circulation, government deposits, net foreign assets and net assets denominated in euro. This information enables the Eurosystem to determine liquidity needs even if the current full allotment policy ensures ample liquidity.

### *Remuneration of government deposits*

On 7 February 2023, the ECB Governing Council decided to adjust the ceiling for the remuneration of euro area government deposits held with the Eurosystem, to provide incentives for a gradual and orderly reduction of those holdings, thereby minimising the risk of adverse effects on market functioning and ensuring the smooth transmission of monetary policy. This decision reflects the intention to encourage market intermediation, with the changes to the remuneration regime providing incentives for depositors to gradually phase out their holdings with the Eurosystem. Accordingly, as from 1 May 2023, the ceiling for the remuneration of government deposits was equivalent to the €STR minus 20 basis points. The remuneration of deposits held under the Eurosystem Reserve Management Services framework was adjusted accordingly.

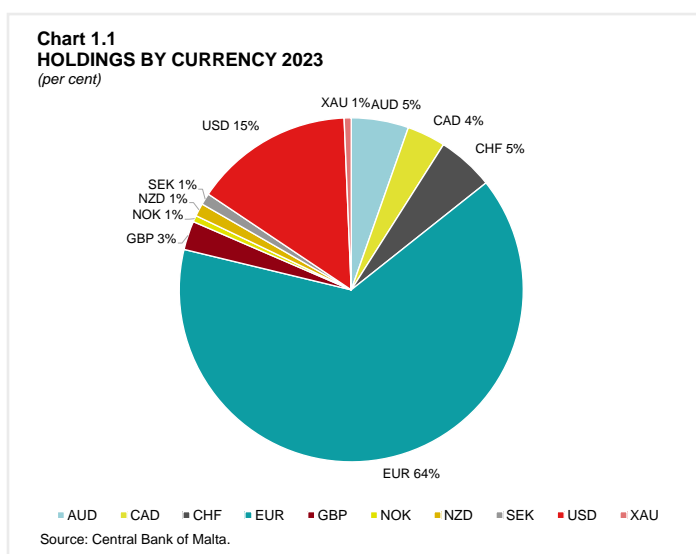
### *Euro money market statistics and the €STR*

On the 21 April 2023, the ECB decided to expand the reporting population for Money Market Statistics Reporting (MMSR) by adding 24 new banks to the 47 banks currently reporting as from 1 July 2024. The ECB, as the administrator of €STR, decided that the inclusion of the MMSR data from the new reporting agents in the calculation of the €STR will take place at a later stage to ensure that the newly reported data is of sufficiently good quality. The increase in the reporting population will further support the robustness and reliability of the benchmark.

## Non-monetary policy operations

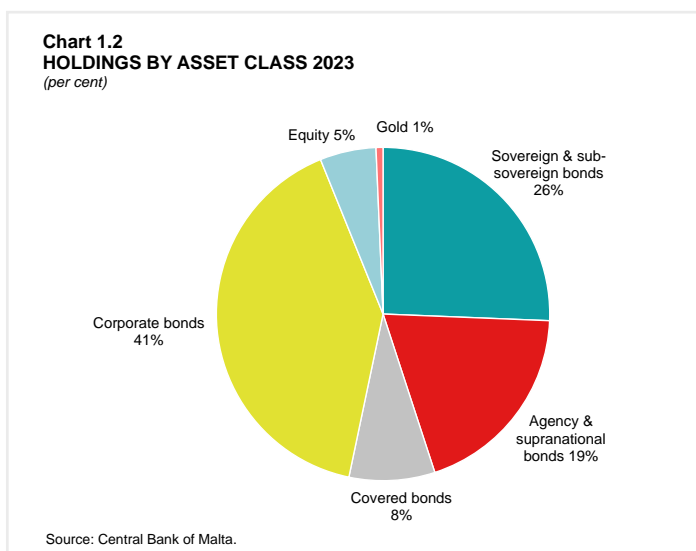
### Management of the Bank's financial assets

The Central Bank of Malta's own investment portfolio amounts to circa EUR 2,600 million<sup>7</sup> and holds financial assets denominated in both euro and foreign currency. The currency composition of the internally managed portfolios was kept close to last year's, whereas the continued investment in externally managed funds resulted in 64.0% of assets under management denominated in EUR (see Chart 1.1).<sup>8</sup> The remaining 34.0% are predominantly invested in the other G10 currencies, with the largest allocation to the USD. The Bank seeks to limit its foreign exchange (FX) risk by hedging the foreign currency holdings in the internally and externally managed portfolios and giving preference, where possible, to funds that hedge the foreign currency exposure back to euro.



The Bank's asset holdings are determined through a Strategic Asset Allocation exercise which is carried out annually and approved by the Board of Directors. During 2023, the investment portfolio continued to be spread across several asset classes including fixed income securities, equities, derivatives and gold (see Chart 1.2). The fixed income asset classes include sovereign bonds, securities issued by supranational and national government agencies, bank covered bonds and senior bonds of banks and financial institutions. The majority of the Bank's assets are internally managed through held-to-maturity fixed income portfolios as well as fixed income portfolios that are actively managed against internally constructed benchmarks. A relatively smaller part of the Bank's financial assets is managed by external asset managers either through a mandate, or investments in funds.

The Bank's Investment Policy Committee (IPC) is chaired by the Governor and includes the Deputy Governors and senior Bank officials. Its mandate is to set the investment strategy upon which the management of the Bank's financial assets will be based, as well to monitor the performance of such assets. When defining its investment policy, the Bank aims at optimising returns, preserving capital and ensuring sufficient liquidity in line with pre-set financial risk parameters which stipulate acceptable interest rate, credit and market risks, amongst others. The Bank



<sup>7</sup> Amount shown in nominal terms as at end of December 2023. These exclude monetary policy portfolios and the Malta Government securities market-making portfolio.

<sup>8</sup> The EUR holdings include some exchange-traded funds (ETFs) and mutual funds which have underlying foreign currency holdings which are converted to EUR.

has also approved sustainability as a fourth investment pillar, and thus climate and sustainability implications are considered when defining the Bank's strategic asset allocation. The IPC subsequently evaluates the implementation of investment strategies, reviews reserve-management practices and assesses the overall investment policy. The Committee is also responsible to set on a monthly basis the Tactical Benchmark for the internally active managed portfolios. During 2023, the Committee continued to meet every month, with additional meetings held to address the strategic asset allocation as well as climate-related financial considerations and disclosures where the recommendations of the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosures were discussed.

During 2023, given the generally higher global bond yields compared to previous years, the Bank increased the size of its internally managed euro and foreign currency fixed income mark-to-market portfolios. In addition, the Bank continued to reinvest in its held-to-maturity portfolio and benefited from the higher yields available during the year. The Bank liquidated part of its externally managed global equity fund and gradually switched to other equity portfolios with sustainable and responsible investment (SRI) metrics that better align with the Bank's NMPPs long-term climate neutrality objective. The strategic exposure to equities and other diversified fixed income assets continued during the year to benefit from regional differences in fixed income markets whilst ensuring that such investments remain predominantly invested in high-quality financial assets.

In 2023, portfolios regained the lost ground of 2022, as even though the fixed income allocations suffered from elevated volatility and steeper yield curves, re-investments in fixed income securities took place at more attractive yields compared to previous years. In addition, the equity portions provided support to the value of these portfolios. Moreover, in contrast to last year's sell-off in virtually all the asset classes, the portfolios benefited from diversification among the different asset classes in 2023.

The Bank will continue to gradually invest in several asset classes approved by the Board of Directors to maintain an adequate level of diversification and thus risk adjusted returns. The diversified investment strategy is expected to strengthen the Bank's capital over the longer term, which, in turn, would contribute to the Bank's ability to maintain financial independence. Sustainability and climate considerations would increasingly become an integral part of the Bank's investment decisions. As part of the Eurosystem, the Bank will keep on complying with the common stance adopted for climate-related disclosures of the NMPPs and thus will be also guided by any developments at Eurosystem level in this regard.

In 2023, the Bank organised a virtual dealing room experience in FX and fixed income for university students with interest to start a career in investments and related areas. The students were engaged to implement their simulated investment strategies while benefiting from daily mentoring by the Bank's portfolio managers, traders and other professionals.

#### *Joint management of the ECB's Foreign Reserves*

Upon the introduction of the euro in 2008, the Bank transferred its share in the ECB's foreign reserves according to the country's capital key in line with Article 30 of the Treaty on the Functioning of the European Union. The ECB foreign reserves ensure an adequate level of liquidity for the Eurosystem foreign currency interventions. The Bank has a pooling arrangement with the Central Bank of Ireland to manage the foreign reserves on behalf of the ECB. During the year, the Bank worked closely with the Central Bank of Ireland to review the investment strategy, discuss trades and analyse the portfolio's performance. In addition, the Bank's portfolio managers paid an official visit to the Central Bank of Ireland to discuss the management of the pooling portfolio and other reserve management practices being adopted by both NCBs.

#### *Foreign Exchange and Money Markets*

The Bank continued to enter spot/outright foreign currency transactions with the activity being higher during 2023 compared to the previous year. Activity in FX swap purchases and sales as part of the management of its own FX positions decreased when compared to 2022. The Central Bank of Malta pursued the repoing out of fixed income holdings, mainly in the general collateral pooling repo market and the special repo

market. This activity level was similar to previous years and continued to enhance the return of the Bank's fixed income portfolios.

### *Third-party portfolios*

The Bank continued to manage the Investor Compensation Scheme (ICS) and Depositor Compensation Scheme (DCS) on behalf of the Management Committee of the Schemes. During the year, the Bank's portfolio managers gave periodic updates on the management of the portfolios to the Management Committee.

The Bank also continued to fulfil its obligations related to the administration of part of the National Development and Social Fund's financial assets. In addition to the portfolio that is administered by the Bank since 2018, last year two additional portfolios, namely an international equity and a local multi-asset portfolio, were added to the Bank's responsibility. Multiple meetings were held between the relevant stakeholders during the year to discuss the positioning, performance and investment strategies of the respective portfolios.

### *Treasury Management System*

Since November 2022, the Bank has been using Market Activities Processing System (MAPS) which is the treasury management system for central banks, developed by *Banque de France* and *Banco de España*. MAPS integrates with the main trading platforms, offering a straight through process spanning from front to back-office, risk management, accounting and financial reporting functions. The participation of the Central Bank of Malta broadened further the MAPS user community, putting MAPS as a common treasury management solution within the community of Eurosystem central banks.

### **Malta Government Securities market-making operations**

The Bank is the only market-maker for the Malta Government Securities in Malta. During 2023, the Bank continued to quote daily indicative bid and offer prices and provided two-way trading for all listed Malta Government Securities on the MSE. Additionally, the Bank also acted as an agent on behalf of public institutional clients.

In 2023, the Bank purchased a total of €80.5 million worth of nominal MGS on the on-exchange market. This amount includes trades performed on behalf of public entities. Purchases were higher by €16.1 million than those recorded in 2022. On the other hand, sales were considerably lower, as the bank sold only €5,000 during 2023 in comparison to the €7.8 million effected in 2022. As a percentage of the total market turnover, the Bank was accountable for 59.6% of the trades, when taking into consideration deals executed for public institutional clients. The amount is lower when compared to the percentage recorded in 2022 where turnover by the Bank alone reached around 73.8%. This is mainly due to an overall increase in market turnover, whereas the Bank's participation remained relatively stable. Nevertheless, the Central Bank of Malta was a main counterparty in the local market, active in more than half of the transacted volumes.

Total on-exchange turnover in MGSs rose to €135.1 million by the end of 2023, from €97.7 million recorded in 2022. This halted a downward trend persisting in the previous three years, yet volumes were still below those seen before 2020. The Treasury of Malta tapped the capital market four times throughout the year, whilst also rolling over the maturing 62+ Malta Government Savings Bond for a total amount of €1.5 billion. Three of the issuances were offered to both the retail and wholesale sectors, whereas the last auction was reserved only to the wholesale sector. The retail sector funded around 31.6% of the total debt borrowing through MGSs in 2023, which is approximately equivalent to the participation by the same sector in 2022. This increase in holdings by retail investors might be a primary reason behind the pick-up in total turnover for 2023.

In the treasury bills on-exchange market, total turnover remained relatively low, with total nominal trades amounting to €36.9 million. Unlike the previous year, there was inter-broker trading in this security during 2023, amounting to around 16.2% of total turnover. The remaining 83.8% of the trades involved the Bank.

The Bank also offered advisory services to the Treasury Department relating to primary issuances throughout the year. Such advice centres around the annual funding needs of the Government and the appeal of these issuances for the domestic investor, both retail and wholesale. Market expectations until the third quarter of the year were bolstered by monetary policy paths taken by global central banks and economic data, pushing yields higher. This backdrop supported the allure of government bonds as these securities were being offered at higher coupons. The Bank provided the Treasury Department with the latest market fixed income movements, auction data of other euro area countries, assistance in selecting the suitable maturities and coupons, as well as various pricing scenarios.

During the year under review, the Bank continued to improve its operational systems and processes. In fact, the Bank finalised the second phase of the Front Office System launched in 2022, with the aim to perform the unique market-making role more efficiently and effectively.

As part of the effort to inform and educate the public, the Bank published research on financial matters during the year. In the second half of the year, an article highlighting developments in sovereign bond markets was published on an online portal of a local media house. The article analysed the increased volatility in yield movements and the main drivers behind such moves.



## 2. FINANCIAL STABILITY

The Central Bank of Malta is the national macroprudential authority responsible for maintaining the stability of the domestic financial system. The Bank monitors and assesses systemic risk and carries out macroprudential research. In addition, the Bank develops and maintains stress testing frameworks and sensitivity analyses, as well as introduces new macroprudential tools as the need arises.

### Main developments

Following the publication of the *Financial Stability Report (FSR) 2022*, the Bank presented the key messages of this Report in a seminar, entitled *Stability in a Changing Financial Landscape*. Staff highlighted the main takeaways of the Report in the form of a Strength, Weaknesses, Opportunities and Threats analysis for the sector and participated in a panel discussion titled *The Role of Macroprudential Policy in a Tighter Monetary Policy Environment*. The panel discussion included officials from the Bank, the Head of the Macroprudential Policy and Financial Stability Division of the ECB and a representative from the banking industry. Discussions revolved around the interaction of these policy frameworks and the way authorities balance the two to minimise unintended consequences. In the last quarter of the year, the Bank also published the Interim FSR 2023 which gave an update of the developments for the first half of the year.

These publications contained several special features and articles on various topics of interest, including additional indicators of cyclical risk, namely a domestic cyclical systemic risk indicator and a semi-structural credit gap. During the year, the Bank published a refined assessment of the financial sector exposure to climate-sensitive sectors and a box on climate change experimental indicators for Malta in line with research conducted by the ECB. The Bank enhanced further its suite of stress testing models particularly its macro stress testing framework. The amended framework's credit risk module now facilitates the projection of loan loss provisions in accordance with the IFRS9 three-stage provisioning, as well as in alignment with both baseline and adverse macroeconomic scenario. Furthermore, the Bank refined the Interest Rate Risk in the Banking Book (IRRBB) framework and liquidity risk stress tests to address specific shocks. Similarly, the Bank improved the vulnerability assessment framework of Maltese indebted households to inflation and interest rate shocks based on the fourth wave of the Household Finance and Consumption Survey (HFCS).

The Bank organised a series of internal research seminars focused on macroprudential research where staff presented their research to colleagues to share expertise and solicit feedback. Staff also presented their research in international conferences. One staff member published research on macroprudential policy in two international peer-reviewed journals, and an additional paper in the Bank's Working Paper series. The Bank also hosted an online research seminar delivered by an external speaker and a staff member provided training on econometrics to some of the Bank's economists.

The annual Forum for Financial Stability was held on the 6 December 2023 where the Governor, in his opening remarks, highlighted the need to keep an open dialogue with stakeholders and the cross fertilization of ideas for the benefit of our industry. Discussions focused on the Bank's new measure of a semi-structural credit gap for Malta, central bank digital currencies and the banking sector's journey towards Environmental, Social, and Governance (ESG) compliance.

### Macroprudential Policy developments

As per the European Systemic Risk Board's (ESRB) recommendation on the assessment of cross-border effects of, and voluntary reciprocity, for macroprudential measures, the Bank reviews macroprudential policy

measures recommended for reciprocity by other European Union Member States. Sweden and Belgium recommended measures for reciprocity during 2023. The Bank did not reciprocate based on the lack of materiality of exposures in the local banking sector and/or inapplicability of the policy measure to the domestic financial system. The Bank also maintained its non-reciprocity stance unchanged, in relation to the previously activated measures recommended for reciprocity by other Member States.<sup>1</sup>

In addition, the Bank carried out its annual exercise for the identification of material third countries to which the Bank is exposed, in line with the ESRB recommendation (ESRB/2015/1), on recognising and setting countercyclical capital buffer (CCyB) rates for exposures to third countries. The material countries identified during 2023 remained the same as those identified in the previous year, namely, the United States of America, United Kingdom and United Arab Emirates.

In line with Article 19 of Directive No. 16 on borrower-based measures, lenders are required to submit internal audit reports on an annual basis, as a verification of compliance with the Directive. In 2023, the Bank analysed the reports for the financial year 2022 where all banks were deemed compliant with the requirements of the Directive.

During 2023, the CCyB was kept unchanged at 0%, with the credit-to-GDP gap remaining in negative territory. However, drawing from the assessment of supplementary indicators and other metrics, the Bank identified budding cyclical risks driven by the real estate and household sectors. For this reason, the Central Bank of Malta, in consultation with the Malta Financial Services Authority (MFSA) and following recommendation by the Joint FSB, introduced a sectoral systemic risk buffer on domestic residential real estate (RRE) mortgage exposures to natural persons, secured by RRE, in Malta. The buffer is a macroprudential tool emanating from Article 133 of the Capital Requirements Directive (CRD) framework and has the aim of preventing and mitigating systemic risks that may potentially have serious adverse repercussions on the financial system and the real economy. The buffer became effective in March 2023 and is applicable from end September 2023 at a rate of 1.0%, with a fully phased-in rate of 1.5% applicable at the end of March 2024.

The Bank together with the MFSA carried out the yearly exercise on the identification of the Other Systemically Important Institutions (O-SIIs) and the related applicable capital buffer rates; whereby the same O-SIIs identified during 2022 continued to be classified as such during 2023.

During 2023, the Bank continued to carry out quarterly rounds of the BLS among the larger four core domestic banks. The aim is to gather qualitative information on developments in lending standards and credit demand from households and NFCs. The BLS results were published in a dedicated box in the Bank's FSR 2022, highlighting how domestic developments compared to the euro area.

### Committee meetings at domestic and European levels

The Bank's Financial Stability Committee continued to discuss ongoing matters related to financial stability as well as the content of the FSR and its Interim. In addition, other important topics considered included the construction of a domestic cyclical systemic risk indicator and a semi-structural credit gap, the setting up of a framework to assess the adequacy of risk-weights in line with CRR Article 124 and the results of the 2023 O-SII capital buffer exercise. During these meetings, the members also considered a new methodology for the classification of domestically-relevant insurance companies and a revised methodology underpinning the Bank's dashboard for the banking sector. The Bank remained active in the Joint FSB as well as the Domestic Standing Committee and its Crisis Management Task Force. The Bank held bilateral discussions with the Ministry for Finance on matters related to the Crisis Management Deposit Insurance.

At a European level, senior Bank officials participated in several meetings of the ESRB, the European Banking Authority, the Economic and Financial Committee (EFC), the Single Supervisory Mechanism and the

<sup>1</sup> Central Bank of Malta note on reciprocity: <https://www.centralbankmalta.org/reciprocity>.

ECB. Furthermore, meetings on financial stability matters were held with the IMF in terms of its Article IV Mission, the European Commission and with credit rating agencies.

### **Future developments**

The Bank endeavours to further its efforts on maintaining its internal system-wide risk dashboards and its suite of stress testing frameworks. In addition, it will keep abreast of developments relating to financial stability matters with a specific focus on emerging risks such as climate change. The Bank will also conduct further research on topics related to financial stability and macroprudential policy. Together with the MFSA, the Bank will keep up with cyber-resilience related analyses and work conducted by the ECB particularly on the design of a cyber-resilience stress test. The exercise will be launched in early 2024 to assess participating banks' ability to respond to and recover from cyberattacks.



### 3. ECONOMIC ANALYSIS AND RESEARCH

The Central Bank of Malta monitors and assesses economic developments and prospects in support of its key policy-making function. The Bank also carries out economic research and develops and maintains a suite of econometric models.

The Bank conducted four projection exercises in 2023, two of which form part of the Eurosystem's Broad Macroeconomic Projection Exercise. Staff carried out further work to enhance the tools used in the forecasting processes, including a review of Basic Model Elasticities. The latter represent the model-based responses of key economic variables to several hypothetical economic shocks agreed at the Eurosystem level. The collection of information on fiscal measures with relevance to climate change was improved. The commentary on the Bank's projections continued to feature boxes on specific aspects of the forecasts. In 2023, these boxes explored issues related to the passthrough of higher interest rates to retail lending rates, labour market tightness, profits and inflation persistence. Other boxes focused on the composition of government subsidies and an assessment of measures announced in the 2024 Budget. As in previous years, staff held meetings with officials from the European Commission, the IMF and major credit rating agencies to discuss the local economic situation and outlook.

The Bank maintained its regular dialogue with business firms' representatives and public sector institutions to obtain timelier information on the economic situation and prospects. The Bank published the main results of this exercise on a quarterly basis in the Bank's Business Dialogue publication. As part of an effort to improve the accessibility of this data, the Bank launched a website dashboard specifically focused on this exercise. The Bank carried out an ad-hoc survey on the impact of climate change on Maltese firms. Results will be published in 2024.

The Bank also communicated its analysis of domestic and foreign economic and financial developments in its *Quarterly Review* and *Annual Report*. Moreover, the Bank continued to publish a monthly *Economic Update*. Apart from commenting on official statistics, these publications included commentaries on several internally developed indicators, such as the Bank's estimate of potential output and structural unemployment, a BCI, the FCI and cyclically adjusted fiscal and current account balances. The regular economic publications began to report on indicators of labour market tightness, while the analysis of prices started to feature information on a broader set of cost indicators as well as a short commentary on wage developments by sector. In addition, the *Economic Update* included for the first time information on the level of engagements and terminations in the labour market based on administrative sources.

The Central Bank of Malta continued to collaborate with statistical compilers in other institutions and participated in the work of the ECB's Statistics Committee in relation to government finance statistics and general macroeconomic statistics. Staff finalised the validation of the fourth wave of the HFCS. The Bank published the relevant data, together with papers and articles documenting the results for Malta and comparisons with the euro area. Staff also initiated work on a dashboard covering HFCS data which is at its final stages. In addition, the Bank continued to collaborate with the ECB on an experimental set of distributional wealth statistics. This dataset, still under development, links distributional information collected from the HFCS at three-year intervals with quarterly financial accounts data. In 2023, the dataset was updated to reflect the results of the HFCS fourth wave. Once available, this dataset could be used to better assess the heterogeneous effects of economic and policy shocks on different households. The Bank also collaborated with the

NSO to produce additional fiscal data, following Malta's adherence to the IMF's Special Data Dissemination Standard (SDDS) Plus.

Bank staff undertook specialised research which resulted in six working papers, two policy notes, 31 boxes and two articles that featured in the Bank's regular publications. Two working papers covered the latest HFCS results, while another paper looked at possible unintended long run effects from macroprudential policy, and whether these effects are affected by wealth inequality. The other working papers focused on the effects of oil price shocks on the Maltese economy, the development of a new Computable General Equilibrium model and household debt dynamics and the housing market in Malta.

The policy notes dealt with the extent of labour turnover in Malta and the effects of the pandemic on labour and skill shortages in Malta. The articles focused on the logistics sector in Malta and the role of women in the labour market.

Staff continued to participate in the Rental Observatory, set up by the Housing Authority. In 2023, the emphasis of the Observatory was the design of a questionnaire aiming at understanding the extent of knowledge, the experience and satisfaction with the new residential rent regime following the introduction of The Private Residential Leases Act of 2020. In addition, staff also provided input to several ECB working groups and task forces and presented research results in local and external virtual conferences or webinars on a diverse range of topics.

In 2023, the Bank organised its sixth Annual Research Workshop. The keynote speech by Dr Hannes Muel-ler from the Barcelona School of Economics focused on predictive textual analysis by using a dynamic early warning and action model. It was followed by a presentation from two Bank's economists on the recently developed Economic Policy Uncertainty index. During the workshop, the Bank launched the sixth edition of the Research Bulletin. The five articles of the Bulletin dealt with the compilation of a new dataset covering rental prices as advertised on Facebook's Marketplace, the estimation of the time-varying impact of global oil shocks on the Maltese economy, the use of a data revisions to improve our understanding of real-time economic data, the development of a rich energy block in the Bank's dynamic stochastic general equilibrium (DSGE) model and the development of a new euro area-rest of the world DSGE model.

The Bank continued working on the upkeep of its existing models as well as the development of new model-ling tools to be used in future policy and research work. During this year, Bank staff together with economists from the University of Macerata finalised the development a new Computable General Equilibrium model for the Maltese economy named MaCGE-MOD. MaCGE-MOD will complement the current model suite by expanding the Bank's ability to analyse the complex interactions in the economy arising from the sectoral links that exist in the production process of the economy. Moreover, during this year, staff re-estimated the Bank's macroeconomic model, STREAM, ensuring that it remained a faithful representation of the way the Maltese economy works. The Bank continued to develop its structural models with climate and environmental features allowing the study of policy questions related to the physical and transitional climate change costs.

The Bank organised regular internal seminars to stimulate economic discussion and debate on its studies prior to their publication. Staff members kept regular contact with academia, both locally and abroad. In this regard, during this year, the Bank hosted the 17<sup>th</sup> Annual Dynare Conference. In addition, the Bank sought assistance from external institutions for the peer-review of technical studies. The Bank remained active in domestic fora, such as the National Productivity Board, the Building Industry Consultative Council and the Rental Observatory.

Research plans for 2024 relate to studies on long-term structural trends in the Maltese economy, focusing primarily on the physical and transitional impacts of climate change. Fiscal policies, inflationary pressures and monetary policy transmission topics are also expected to feature in future work, together with analysis on sectoral linkages, labour skills shortages and other issues affecting the labour market. In addition, the Bank will continue to assess the impact of the recent commodity price shock on the economy. Efforts to aug-ment the research capacity of the Bank's econometric and structural models will also be pursued.



## 4. STATISTICS

The Bank is primarily responsible for the processing of a wide range of financial data and statistics, collected from credit and financial institutions licensed in Malta. Data and statistics cover the areas of monetary, financial, payments, granular loans and securities. They also relate to financial accounts, financial markets data, real estate and financial institutions. The Bank also collects various other statistics for internal policy-making purposes. In addition, the Bank contributes to the compilation of Malta's BOP/international investment position (IIP) statistics, compiled by the NSO. Moreover, the Bank fulfils various international statistical reporting obligations, mainly to the ECB and to the IMF.

During this year, the joint efforts of the NSO and the Central Bank of Malta resulted in Malta's adherence to the IMF's SDDS Plus, which is the highest tier of the Fund's Data Standards Initiatives.

Participation in Eurosystem-related work continued. The Bank, in conjunction with the ECB, continued its work on the update of the ECB's regulation concerning statistics on the assets and liabilities of investment funds, which is targeted to come in force in 2025. A euro-area wide public consultation with the investment funds was launched in November 2023.

Bank staff continued to participate in the ECB expert group on climate change statistical indicators, leading to the first analytical and experimental climate change indicators for Malta, which were published in the Bank's *FSR 2022*. Work also proceeded on the operational phase of the Anacredit database, aimed at providing a harmonised set of credit and credit risk data across participating euro-area countries. Moreover, the Bank continued to enhance the quality of the securities data held within the ECB's Centralised Securities Database while collecting a range of securities holding statistics by institutional sector.

The Bank continued to actively participate in the ESCB's Integrated Reporting Framework (IREF) project which primarily aims to integrate in the medium-term various ECB statistical regulations addressed to credit institutions into one common reporting framework. The IREF project hence strives to increase the efficiency of reporting and robustness of such data at the euro area level, while at the same time reducing the reporting burden on credit institutions. Several meetings were held with the local banking industry. The Bank continued to populate the ECB's Register of Institutions and Affiliates Database (RIAD) with reference data of all newly licenced institutions. RIAD is nowadays considered to be the primary reference database for statistical and supervisory processes.

During the year, the Bank organised various meetings with reporting credit institutions to ensure the correctness of the reported real estate data in line with the ESRB's *Recommendation on closing real estate data gaps* (ESRB/2019/3). The collected data also enables the Bank to monitor developments as per Central Bank of Malta Directive No. 16 on the borrower-based measures and fulfils the Bank's requirements on the hedonic PPI and bank lending standards.

The Bank continued to collaborate with the NSO to enhance the quality of the BOP, IIP and other external statistics and to follow-up on the recommendations of the ECB and Eurostat on this dataset within the framework of the Macroeconomic Imbalances Procedure. Bank officials also contributed to the NSO's major revisions in Malta's BOP/IIP statistics released in June. The Bank and the NSO completed the migration of the whole NSO legacy BOP/IIP database to its own infrastructure.

In the area of financial accounts statistics, the Bank effected the necessary amendments to meet the requirements set by the ECB Guideline in this area of statistics (ECB/2021/20). Staff also contributed to the ECB work related to the compilation of a new set of experimental data on households' distributional wealth accounts. The Bank and the NSO continued to adhere to the revised memorandum of understanding signed between them in 2021.

Statistics from other financial institutions' (OFIs) sector continued to be collected. In addition, the Bank took steps to share the business register with certain respondents to improve their statistical reporting to the Bank.

Collaboration with Banca d'Italia on the Bank's statistical platform – INFOSTAT – continued to expand to new joint initiatives. Moreover, in its efforts to continuously improve data and statistical robustness, the Bank increased data vetting and use of business intelligence tools. Moreover, the Bank enhanced its research on the use of advanced techniques in the statistical production. The latter was also discussed within the Bank's *Big Data and Machine Learning Network*.

The Bank continued to operate its Central Credit Register (CCR) to provide borrowers' credit risk information to both credit institutions as well as natural and legal borrowers. This is in line with Central Bank of Malta Directive No. 14, which empowers the Bank to operate the Register in pursuit of its objectives regarding financial system stability, monetary policy analysis and the processing of statistical information. The searches on prospective and existing clients by credit institutions continued to increase, from 41,610 in 2022 to 53,216 in 2023, while searches on behalf of counterparties that avail themselves of the right to request an extract increased from 804 in 2022 to 906 in 2023. During 2023, the Bank carried out a consultation with the credit institutions on an enhanced CCR solution.

Meanwhile, the Bank, as the supervisory authority for credit reference agencies (CRA) in Malta, recommended the approval of a license of Malta Credit Bureau Limited. Subsequently, Malta Credit Bureau Limited was approved by the Commerce Department to operate as a CRA in terms of Regulation 47A of the Trading Licences Regulations. The Bank publishes a register of the CRAs licensed in Malta.

Cooperation with the MFSA continued to evolve through the *Joint Data Coordination Group* which aims to recommend policy actions on common data management. This also led to the first data sharing in respect of virtual financial assets. The *Forum for Central Bank of Malta Statistics*, which is chaired by the Bank and includes representatives from credit institutions, MFSA, NSO and the Malta Bankers Association, continued to promote dialogue on financial statistics, data, metadata and data formats among stakeholders. Concurrently, Bank officials participated in the *Statistics Committee* in both ESCB and in SSM composition and in its various sub-structures. The Bank's internal Statistics Committee and its sub-structure continued to meet to define and implement the policy on statistical information within the Bank.



## 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 (SSSs) in Malta.

### Currency operations

The Central Bank of Malta maintains 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/European Commission (EC) accredited machines. Counterfeit banknotes and coins are withdrawn while those found to be unfit for circulation are destroyed. Currency stocks and flows data are reported to the ECB through the Currency Information System on a daily and monthly basis.

In terms of the obligations laid down under Central Bank of Malta Directive No. 10, the Bank monitors recycling activities performed by credit institutions and other professional cash handlers. The Bank also performs annual monitoring on banknote handling machines and coin processing machines to ensure that they detect all counterfeit currency. Other monitoring checks are carried out on an ad hoc basis at branches and cash centres of commercial banks or cash-in-transit companies.

The Bank 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 2023, the number of notes inspected by the Bank totalled 29.6 million compared with 53.4 million in 2022. The inspected notes had a value of €681.2 million, €675.0 million lower than in 2022. When compared to 2022, there was a decrease of 49.8% in volume of notes inspected by the Bank. This is attributed to the significant increase in re-circulation activities by commercial banks during 2023. A total of 22.5 million banknotes with a value of €497.3 million were found suitable for re-issue, while 7.4 million banknotes with a value of €241.7 million were destroyed. The share of destroyed banknotes between 2022 and 2023 decreased by 2.1% in volume terms and 13.5% in value terms.

In 2023, the value of euro banknotes in circulation grew by 2.8%. At the end of the year, the total value of banknotes in circulation was €2,366.4 million (see Table 5.1). No new series of notes were issued during 2023.

In 2023, the outstanding volume of euro coins increased by 4.8%. By the end of the year, there were 422.1 million coins issued and outstanding, equivalent to €110.4 million (see Table 5.2)

During 2023, the Bank processed 34.1 million coins, equivalent to €19.6 million. Between 2022 and 2023, the number of coins examined decreased from 36.2 million to 34.1 million, a decrease of 5.8%. No coins were demonetised or ceased to be exchangeable during 2023.

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

*EUR millions*

Total	Issued	Withdrawn	Net issue	Issued and outstanding
2022	1,503.8	1,332.9	170.1	2,301.6
2023	735.1	670.3	64.8	2,366.4

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
2022	24.4	20.3	4.1	105.9
2023	25.2	20.7	4.5	110.4

Source: Central Bank of Malta.

In 2023, the Bank implemented an upgrade of the Cash Single Shared Platform system for stock management of banknotes and coins.

During 2023, the Bank continued to certify professional cash handlers using its dedicated online platform. Staff 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 2023, there were 1,598 certified professional cash handlers enrolled.

The Bank intensified its educational campaign intended to increase public awareness on counterfeit banknotes. In addition, an educational campaign was also launched on the Bank's Facebook page.

***Anti-counterfeit measures***

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, staff performed monitoring tests on banknote handling machines and coin processing machines. The Bank collected and analysed data on recirculation and subsequently sent to the ECB. Quarterly meetings on currency matters and counterfeit developments with credit institutions continued to be held. The Bank also provided assistance to cash handlers with the upgrading of their banknote handling machines.

During 2023, 845 pieces of banknotes and 756 pieces of coins were examined, and findings were uploaded into the ECB's Counterfeit Monitoring System. When compared to the previous year, the number of counterfeits detected increased by 13.2%. 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.

## BOX 5: NUMISMATIC RELEASES 2023

### The Malta Band Clubs Association

An issue of gold and silver coins commemorated the Malta Band Clubs Association, which is an organisation that incorporates around ninety band clubs in Malta. The Association was set in 1947 and works to the benefit of Maltese band clubs which uphold music traditions and offer music teaching to a wide spectrum of the Maltese society. Band clubs are intrinsically associated with the Maltese 'festa' which has recently been added to the UNESCO list of intangible cultural heritage.



The coins were designed and engraved 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 representation of a Maltese village band.

### The Death of Juan Bautista Azopardo – 175<sup>th</sup> Anniversary

The Bank issued a silver coin to mark the 175<sup>th</sup> anniversary of the death of Juan Bautista Azopardo. Azopardo was born in Senglea in 1772. At a young age he travelled to France and served an apprenticeship at the naval arsenal at Toulon. He joined various sea captains involved in privateering activities. This took him to South America where he distinguished himself in the Spanish service during a British attack on Buenos Aires in 1806/1807. Azopardo settled in South America and was involved in the wars for Argentinian independence. He helped form the first Argentinian naval squadron, which in 1811 he led to battle against royalist forces. Azopardo is one of the founding fathers of the Argentinian navy and over the years, a number of ships were named after him.



The coin was designed by Antonella Napolione and was minted at the Royal Dutch Mint. The coin obverse features the coat of arms of Malta. The reverse carries a portrait of Azopardo together with a representation of one of the ships he led to battle in 1811.

### Dr John Borg (1873-1945)

The Central Bank of Malta marked the 150 years since the birth of Dr John Borg with an issue of silver and gold coins. Dr Borg was born in Balzan. He studied medicine at the University of Malta. Although a doctor by profession, in 1900 Borg assumed the responsibilities of Superintendent of Public Gardens and in 1919, was appointed Superintendent of Agriculture. He established a plant pathology unit and set experimental farming on good



foundations. He was also a pioneer in the field of natural conservation in the Maltese islands. For many years, Dr Borg held the chair of Natural History at the University of Malta. He was a prolific writer and his books about the flora of the Maltese islands and about cactus and succulents are still considered as classics. Dr Borg was a public-spirited person and before his death donated his extensive collection of around 4,000 cactus plants to the Argotti Botanic Garden. He created a scholarship fund to enable university students to pursue studies abroad.

The coins were designed 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 portrait of Dr John Borg.

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### Nicolaus Copernicus

During the year the Central Bank of Malta also issued two commemorative €2 coins. One of the coins depicts the birth of Nicolaus Copernicus, a student of Canon Law, a mathematician and astronomer. He was active in many fields but is best remembered for his heliocentric theory of the universe which was based on scientific observations and contradicted the widely accepted theory which placed the earth as the centre of the universe. The coin, which depicts a stylized profile of Copernicus and a model of his theory of the universe, was designed by Daniela Fusco and was minted at the Royal Dutch Mint.



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### Napoleon Bonaparte and the French in Malta

The second coin issue commemorated the 225<sup>th</sup> anniversary from the arrival of Napoleon Bonaparte in Malta in 1798. Napoleon conquered the Maltese islands and banished the Order of Saint John from Malta. During his seven-day stay in Malta, Napoleon abolished slavery and the privileges of nobility, he curbed the power of the Roman Catholic Church and abolished the court of the Inquisition. However, the French administration irked many Maltese who burst in rebellion in September 1798. The coin depicts an allegorical representation of republican France based on that used on official French Government stationery in 1798. The coin was designed by Noel Galea Bason and was 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 2023, the NHPAB was chaired by the Governor of the Central Bank of Malta, with the Chief Officer Banking Operations, Mr Benoit Waelkens, Professor John Chircop, Dr Lillian Sciberras and Dr Mario Brincat as members. The Board secretary is Mr Kevin Cassar, Curator of the Central Bank of Malta's Museum.*

### **Payment and securities settlement systems**

The Central Bank of Malta is responsible for the regulation and oversight of the payment and SSSs in Malta. The Bank contributes to the relevant regulatory developments and carries out oversight assessments on entities to promote an effective and efficient payments landscape in Malta.

#### *Oversight assessment on MTEUROPAY*

The Bank conducted the first oversight assessment on MTEUROPAY during 2023, following its approval as a payment system in 2021. The outcome of this assessment shall be discussed with the operator of MTEUROPAY in 2024.

#### *Cyber Resilience Survey on Financial Market Infrastructures*

A Cyber Resilience Survey was conducted on the national FMIs, namely MTEUROPAY and the MSE, to evaluate the current cyber resilience position. A report with the outcome of the exercise shall be drawn in 2024 for presentation to the operator of MTEUROPAY and the MSE.

#### *Critical Service Providers Survey on FMIs*

The ECB launched a revised *Critical Service Providers Survey* during the last quarter of 2023. This survey will be finalised in 2024.

#### *Monitoring of a national card scheme under the Payment Instruments, Schemes and Arrangements Framework*

Based on the Payments Instruments, Schemes and Arrangements Framework, which was adopted by the Eurosystem during 2023, the Bank conducted a monitoring exercise on a national card payment scheme.

#### *Follow-up on MSE's open findings on previous review and evaluation assessments*

The Bank is responsible for continuous review and evaluation of the MSE under the Central Securities Depository Regulation (CSDR). To this effect, a follow-up by the Bank and the MFSA was conducted, aiming to address open findings stemming from previous assessments. Communication with the ECB in this respect is ongoing.

#### *The Digital Operational Resilience Act and TIBER-EU framework*

Given the increasing risk of cyber-attacks, the European Union intends to strengthen IT security of financial entities. In preparation for the implementation of the Digital Operational Resilience Act (DORA), envisaged by January 2025, the Bank and the MFSA held regular meetings to discuss any updates and aspects within DORA, in particular highlighting obligations for the competent and relevant authorities. Furthermore, discussions on the implementation of Threat Intelligence-based Ethical Red Teaming (TIBER-EU) Framework were conducted. Together with the MFSA, the Bank is participating as an observer in regular TIBER Knowledge Centre meetings to gather views from other jurisdiction on the status of the TIBER-EU implementation.

#### *Annex 3 of Central Bank of Malta Directive No. 1*

Annex 3 of the Bank's Directive No. 1 requires that credit and financial institutions submit an annual report on the ICT and security risk management of their operations.

#### *Analysis on the use of Payment Instruments*

The Bank conducts statistical analysis on the transactions effected through different payment instruments and compiles several reports in this regard, such as the ATM Cash Withdrawal report, whereby an abridged version of the latter report was published in the Bank's *Quarterly Review*.

### *Merchants' data to the National Statistics Office*

As agreed with the NSO, the Bank collects from local acquirers, monthly card payment data per merchant which were effected through physical Point of Sales and online.

### *Interchange Fee Regulation*

The Bank assessed the adherence to the Interchange Fee Regulation by requesting data from local acquirers on the merchant service charges applied.

Furthermore, in 2023, a study was initiated to evaluate the fees charged by international card schemes, as well as any remuneration provided by such card schemes to local acquirers. The Bank is currently evaluating the data gathered and is expected to finalize the outcome in 2024.

### *Central Bank of Malta Directive No. 20*

In September 2009, the European Parliament issued the [Regulation \(EC\) No 924/2009](#),<sup>1</sup> with the aim of facilitating cross-border transactions within the European Union. The Bank was appointed as competent authority for such Regulation. [Regulation \(EC\) No 924/2009](#) was substantially amended several times and, in the interests of clarity and rationality, such Regulation was codified into [Regulation \(EU\) 2021/1230](#).<sup>2</sup>

On 10 October 2023, the Bank issued Directive No. 20 on Cross-Border Payments which stipulates that the Bank remains the competent authority for the purpose of [Regulation \(EU\) 2021/1230](#).

### *Revision of the Payment Services Directive*

On 28 June 2023, the European Commission launched a proposal to amend and modernise the revised Payment Service Directive (PSD2). The Bank provided input to consultations regarding the proposed text. Moreover, staff members attended several working parties organised by the European Presidency to discuss the legislative proposal. A Joint Working Group was set up together with the Malta Bankers' Association and the Financial Institutions Malta Association to discuss the proposed provisions and voice the concerns of the local market at a European level.

### *Single Euro Payments Area (SEPA) Regulation*

Article 9 of the SEPA Regulation states that a payer or payee shall not specify the Member State in which the account to be debited or credited is located. Some companies, however, still refuse to make or receive payments from foreign accounts, despite being in breach of the SEPA Regulation. During 2023, the Bank assessed complaints against Maltese merchants and payment service providers.

### *Legislative Proposal on Instant Payments*

On 26 October 2022, the European Commission published a legislative proposal on instant payments. During 2023, the Bank contributed to consultations regarding the legislative proposal. Furthermore, the Bank updated the local banking community on the outcome of the final text.

### **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. As at the end of 2023, the MCH comprised ten members including the Central Bank of Malta.

The number of cheques issued during 2023 continued to decrease when compared to 2022 (see Table 5.3). The latter may be also partly attributed to Central Bank of Malta Directive No. 19 on the use of cheques and bank drafts.

<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32009R0924>

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R1230>

**Table 5.3**  
**NUMBER AND VALUE OF CHEQUES PROCESSED BY THE MCH, 2022 AND 2023**

	Number of cheques	Value (EUR millions)
2022	2,774,534	7,563.9
2023	2,233,245	7,807.0
Change	-541,289	243.1
Percentage change	-19.5%	3.2%

Source: Central Bank of Malta.

### TARGET2-Malta

In 2023, the ECB launched the Eurosystem Single Market Infrastructure Gateway consolidating all the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET) services, namely, TARGET2 (T2), TARGET2-Securities (T2S) and TARGET instant payment settlement (TIPS). During 2023, the number of direct participants on a local level remained unchanged at 13. The total volume of payments processed during 2023 was 236,455 for a total value of €284.3 billion. The T2-Malta payments traffic in 2023 registered a 187.5% increase in terms of volume and a decrease of 70% in terms of value when compared to 2022. The volume of customer payments was 181,131 for a total value of €25.6 billion, leading to an increase in volume of 220.9% and an increase in value of 148.5% when compared to 2022. The volume of inter-bank payments was 53,324 for a total value of €258.7 billion, indicating an increase of 106.8% in terms of volume and a decrease of 72% in terms of value (see Table 5.4).

**Table 5.4**  
**TARGET2 PAYMENTS<sup>(1)</sup>**

	Total volume of payments	Total value of payments (EUR billions)	Total volume of retail payments	Total value of retail payments (EUR billions)	Total volume of wholesale payments	Total value of wholesale payments (EUR billions)
2022	82,234	934.2	56,449	10.3	25,785	923.9
2023	236,455	284.3	181,131	25.6	53,324	258.7
Change	154,221	-649.9	124,682	15.3	27,539	-665.2
Percentage change	187.5%	-70%	220.9%	148.5%	106.8%	-72%

Source: Central Bank of Malta.

<sup>(1)</sup> Due to the consolidation of the TARGET services, the reporting tool used to compile data for the Annual Report was also changed, from an in-house developed report to a report which is provided by the Eurosystem. To this effect, the Bank does not have any visibility and access to the previous reporting tool used for the 2022 data compilation, therefore cannot ascertain that the same type of data is being compared. The new reporting tool used for 2023 (which is being used for the first time) provides a more comprehensive and detailed view of all T2 payments.

### Banker to the Government

The banking services provided to the Government remained the same as the ones offered in the previous year. The latter comprise the opening and maintenance of various euro and foreign denominated accounts, the encashment of cheques drawn on the Bank and issued by government departments, deposits of cash and cheques, safe deposit facility, safe custody, processing of payment instructions through T2, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and SEPA Credit Transfers.

The number of cheques drawn on the Bank decreased during 2023 when compared to 2022, since in 2023, the Government did not issue cheques related to a budgetary measure as it did in 2022 (see Table 5.5).

**Table 5.5  
NUMBER AND VALUE OF CHEQUES DRAWN ON THE CENTRAL BANK OF  
MALTA BY THE GOVERNMENT**

	Number of cheques	Value (EUR millions)
2022	706,972	200.0
2023	372,942	152.5
Change	-334,030	-47.5
Percentage change	-47.2%	-23.8%

Source: Central Bank of Malta.

During 2023, the Bank continued servicing the Government's external debt through periodic payments. In 2022, €128,025.50 worth of capital repayments were settled as opposed to €127,953 in 2023. The associated interest paid in 2023 amounted to €5,373, which represents 83% of last year's amount of €6,471. The Bank also paid €891,000 of interest during 2023 related to SURE loans.

The total value of funds transferred to external debt sinking funds by debit of the Government account during 2023 amounted to €50,000.

In 2023, the Bank processed 3.2 million SEPA Credit Transfers for a total value of €8.3 billion on behalf of its customers. When compared to the previous year, there was a decrease of 3% in the volume whilst registering an increase of 3.75% in the value of SEPA Credit Transfers.

### Banker to the banking system

The Bank acts as banker 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 also hold accounts pledged in favour of the ICS and DCS.

### Digital euro

On 28 June 2023, the European Commission published a legislative proposal on a possible digital euro and legal tender of euro banknotes and coins. The proposed legislative text establishes a framework to facilitate the possible introduction of a digital euro. The Bank provided input to consultations regarding the legislative proposal. Moreover, staff attended several working parties organised by the European Presidency to discuss the legislative proposal.

In October 2023, the ECB Governing Council decided to proceed with the digital euro project and initiated the digital euro preparation phase. The Bank is assisting the developments in the preparation phase.



## 6. CORPORATE GOVERNANCE

### Governance

#### *Board of directors*

The Board of Directors of the Central Bank of Malta is responsible for the policy making and the general administration of the Bank, except for functions relating to the Treaty on the Functioning of the ECB, or the protocol of the ESCB, or functions which are conferred exclusively on the Governor in terms of the Central Bank of Malta Act (Cap. 204).

During 2023, the Board of Directors was composed of Professor Edward Scicluna as Governor and Chairman, Mr Alexander Demarco and Mr Oliver Bonello as Deputy Governors responsible for Monetary Policy and Financial Stability, respectively and Professor Peter J. Baldacchino, Professor Frank Bezzina, Dr Romina Borg and Dr Lauren Ellul as non-executive Directors. There were no changes to the Board composition during 2023. The terms of office of Deputy Governor Alexander Demarco ended on 31 December 2023. The President of Malta, acting on the advice of the Cabinet of Ministers reappointed Mr Alexander Demarco for a period of five years with effect from 1 January 2024. The terms of office of Professor Bezzina, Professor Baldacchino and Dr Borg as non-executive Directors ended on 31 December 2022, 13 April 2023 and 16 December 2023, respectively. The Prime Minister, acting on the advice of the Cabinet of Ministers, in accordance with the provisions of the Central Bank of Malta Act (Cap. 204), reappointed Professor Bezzina, Professor Baldacchino and Dr Borg as non-executive Directors of the Central Bank of Malta for a period of five years with effect from 1 January 2023, 14 April 2023 and 17 December 2023, respectively. All members of the Board are appointed for a statutory term of five years and are eligible for reappointment. Mr Francis Bugeja continued to act as Secretary to the Board. The Board of Directors met 12 times in 2023.

#### *Management and internal organisation*

In January, the Board of Directors of the Central Bank of Malta agreed to upgrade the post of Manager Security Control to the grade of Senior Executive and in this regard, approved the issue of a call for applications, both internally and externally.

In March, the Board approved the issue of three vacancies related to the restructuring of the Monetary Operations & Government Securities Office. During the same month, the Board approved that structurally, International Asset Management Office would be composed of three different sections namely: Multi Assets and Repos; Multi Asset and Sustainable & Responsible Investment Desk; and Foreign Exchange & Money Market, Local Service Desk and Projects. Each section would be managed by a Manager in the Senior Executive grade. In June, the Board revised the interest rates applicable to staff house loans. In July, the Board approved the Bank's Equality, Diversity and Inclusion Strategy. In October, the Board approved further restructuring within the Financial Markets Division by shifting Market Analysis Office from the Financial Asset Management Department to the Monetary Operations & Government Securities Department. In October, the Board also approved the setting up of a database of the Bank's decisions relating to procurement.

In December, the Board of Directors approved the 2024 Corporate Strategic Plan and Projects Report of the Bank. The annual budget of the Bank for a three-year period was concurrently approved.

In October 2022, the Central Bank of Malta had established a Financial Crimes Compliance Department with a view to overseeing all financial crime compliance issues and concerns for the Bank. Accordingly, the

Bank ensures that due diligence is performed on all new accounts opened at the Bank and also caters for any due diligence requests being received from correspondents and counterparties. The Bank takes steps to ensure that any international sanctions imposed by the United Nations Security Council and the Council of the European Union are adhered to. This is mainly performed by screening the Bank's client base against the respective sanctions lists daily. SWIFT and other payments are also screened against the sanctions lists. In addition, the Bank prepared an internal *Anti-Money Laundering/Counter Financing of Terrorism* training session, launched in the first quarter of 2024.

### Audit Committee

The Bank's Audit Committee, chaired by Professor Peter J. Baldacchino and including Professor Frank Bezzina, Dr Lauren Ellul and Dr Romina Borg, convened ten times during the year. During such meetings, the Chief Officer Internal Audit continued to brief Committee members on matters relating to governance, risk management, and the adequacy and effectiveness of the design and deployment of controls across the Bank. Updates on the completion of the Annual Audit Plan, comprising both local and ESCB audits, were also provided. The Bank completed the Annual Audit Plan by the end of 2023. Furthermore, the Chief Officer Internal Audit regularly informed Committee members on progress in addressing outstanding audit findings, whilst tendering regular bank-wide, divisional and individual business area audit opinions. During the October meeting, the Chief Officer Internal Audit once again reported on the Department's annual review of its five-year rolling strategic plan. The report provided a detailed account of the Department's progress towards full attainment of its strategic goals.

The Audit Committee was also briefed on operational and business continuity aspects.

### External auditors

The Bank's external auditors, Deloitte Audit Limited, carried out the statutory audit for the financial year ending 31 December 2023, expressing their opinion on the financial statements and presenting their Management Letter to the Board.

### Internal Audit Department

The Internal Audit Department continued to provide assurance through the conduct of risk-based audits in line with the approved 2023 Annual Audit Plan. The Department completed 20 local audit engagements, the vast majority of which assessed the effectiveness of governance, risk management and control processes implemented across several business areas. In line with methodological developments previously introduced, the Department provided for each of these audits an opinion on the level of efficiency demonstrated in the use and deployment of resources. Staff conducted a smaller number of audits focusing specifically on areas inherently deemed more susceptible to fraud. Furthermore, several asset spot checks were also performed throughout the year.

As a member of the ESCB Internal Auditors Committee (IAC) in the Eurosystem, ESCB and SSM compositions, the Internal Audit Department provided the necessary assurances to the ESCB decision-making bodies through the conduct of five IAC audits and on-going participation in IAC meetings. The Department also actively engaged in the Audit Task Force on Monetary Policy, Financial Stability and Market Operations through its representation on this IAC substructure.

During the year, the Internal Audit function also underwent an External Quality Assessment by Ernst and Young which confirmed that the function "generally conforms" to all Institute of Internal Auditors Standards and Code of Ethics. The Assessment attested that all requirements established by the ESCB/SSM and the Bank's Internal Audit Charters and the IAC's and Bank's Internal Audit Manuals were fully met. The outcome of this assessment was presented to the Board of Directors prior to submission to the IAC.

Throughout the year, the internal audit function was involved in the review of several of the Bank's Policies and Procedures. The internal auditors continued to be involved in the work of the Compliance Committee, mostly in the capacity of observers, to preserve their independence and objectivity.

## Risk Management

The Risk Committee met six times during 2023. The Committee members focussed on risks related to the Bank's operations and financial assets on the bank's balance sheet. The Committee discussed various risks together with any arising incidents, agreed on appropriate mitigation measures and monitored the implementation thereof.

The operational risk status of the various business areas was reported on a regular basis to the Risk Committee. The Bank finalised the fifth cycle of the annual Operational Risk Management (ORM) exercise which was presented to the Risk Committee and Audit Committee. The report will also be tendered to the Board of Directors in the first quarter of 2024.

During 2023, business areas updated their existing Business Impact Analysis and created new ones where necessary. Each business area reviewed the business continuity plans of its critical operations and regular resilience testing was carried out. The Risk Committee and the Audit Committee were informed about the results of the Business Continuity Management (BCM) fourth cycle. The latter report will also be presented to the Board of Directors in the first quarter of 2024.

In 2023, the Bank reconducted a consolidation exercise with all business areas to ensure that the existing policies and processes are covered in the ORM and BCM cycles. Managers and Operational Risk Coordinators of all business areas were given training on the ORM and BCM frameworks, incident reporting, and roles and responsibilities.

The Bank updated several Policies and Frameworks relating to operational risk and business continuity which were presented to the Risk Committee. The Audit Committee and the Board of Directors will also be updated on the matter in the first quarter of 2024.

As part of its information security responsibilities, several risk assessments were carried out by the ORM office on various Bank initiatives. The section responsible for information security is in the final stages of developing a new policy in this area and updating the associated framework and standards.

Staff participated in the monthly IPC meetings. In addition, the Bank analysed the performance of assets under management and compared it to the tactical and strategic benchmarks. The Bank also closely monitored the performance of the investments managed by the Bank's external asset managers. Moreover, the Board of Directors approved the Strategic Asset Allocation exercise for 2024-2026.

In March 2023, the Bank published its first annual climate related disclosures for its euro denominated NMPPs. Disclosures focussed on governance, strategy, risk management aspects and the calculation of various metrics and setting of targets. The various climate-related metrics of the Bank's individual holdings were estimated. This included the weighted average carbon intensity, total carbon emissions and carbon footprint amongst others.

## Legal issues

In 2023, the Bank issued and amended the following Central Bank of Malta Directives:

1. Directive No. 1 on the Provision and Use of Payment Services was amended to stipulate that any complaints were to be submitted directly to the Bank as the competent authority in the event of infringements or suspected infringements of the provisions of this Directive.
2. Directive No. 6 on Harmonised Conditions for Opening and Operating Payments Module Accounts, T2S Dedicated Cash Accounts in T2-Malta, and TIPS Dedicated Cash Accounts on T2-Malta and Directive No. 7 on the Provision of Intraday Credit and Auto-Collateralisation were repealed in their entirety by means of Guideline ECB/2022/8 on a new-generation TARGET system.

Subsequent to the above, the Bank implemented Guideline ECB/2022/8 in a newly published Directive No. 6 on New Generation TARGET, divided into three sections, namely:

- a) Harmonised Conditions for Participation in TARGET (Annex I),
- b) TARGET Governance Arrangements (Annex II) and
- c) Definitions (Annex III).

The effective date of this new Directive was 20 March 2023 and participants to TARGET-Malta were to adhere to its provisions as from such date.

3. Directive No. 8 on Monetary Policy Instruments and Procedures was amended following the annual update of the Eurosystem monetary policy framework.
4. Directive No. 20 on Cross-Border Payments was amended to specify that the Bank shall remain the competent authority for the purposes of Regulation (EU) 2021/1230 on cross-border payments in the European Union.

The Bank's in-house legal team continued to advise on diverse legal, contractual and operational matters. Business areas were assisted in revising several of the Bank's policies and procedures and in vetting contracts, agreements and memoranda of understanding entered into by the Bank. Legislative developments impacting the Bank were also thoroughly assessed.

The Bank was also involved in drafting other legislative measures as follows:

1. Malta is a member of the IMF in terms of the Malta Membership of the IMF Act (Cap. 209 of the Laws of Malta, referred to as the 'principal Act'). The Articles of Agreement of the IMF (being the Articles of Agreement adopted at the United Nations Monetary and Financial Conference on the 22 July 1944) are set out in the Schedule to the principal Act. Changes in the Articles of Agreement were agreed upon by the IMF's members and were affected by the IMF itself. By means of Act No. VII of 2023, published on 14 March 2023, the Schedule to the principal Act was amended to reflect the changes affected to the Articles of Agreement and to also correct drafting errors in the principal Act.
2. Legal Notice 211 of 2023 titled *Malta Membership of the International Monetary Fund (2023 Contribution Agreement) Order, 2023* was published on 7 September 2023. This Legal Notice concerns the agreement entered into by the Bank and the IMF in relation to the Resilience and Sustainability Facility of the Trust with a view to lend to the IMF a Special Drawing Right denominated amount.
3. Legal Notice 265 of 2023 titled *Malta Membership of the European Bank for Reconstruction and Development Act (Amendment of Schedule) Regulations, 2023* was published on 14 November 2023. This Legal Notice aligns the text of the provisions of the Agreement of the European Bank for Reconstruction and Development (EBRD) with the updated version of the Agreement, more specifically, by implementing the changes within Article 1 and sub-article 1 of Article 12 of the Agreement as approved to by the Board of Governors of the EBRD.

The Bank's responsibilities in the area of compliance include the conduct of periodic exercises, such as the annual Bank-wide data protection stocktake exercise and the bi-annual prevention of abuse of insider information compliance exercise. The Bank amended its Code of Conduct and Policy on the Prevention of Abuse of Insider Information in order to align them with the ECB Guideline 2021/2253 laying down the principles of the Eurosystem Ethics framework, which had to be implemented by 1 June 2023.

Staff participated in various internal committees and continued to participate in the ESCB's Legal Committee and its sub-structures.



### Governor's activities (local and international)

As a member of the Governing Council and the General Council of the ECB, the Governor of the Central Bank of Malta, Professor Edward Scicluna, attended, in 2023, the regular ECB Governing Council and General Council meetings. He also took part in board meetings of several international institutions, of which he is a Board Member, Governor or Alternate Governor. These include the International Monetary Fund, the World Bank Group, the Asian Infrastructure Investment Bank and the European Bank for Reconstruction and Development. The Governor of the Central Bank of Malta, as a member of the ESRB, also attended its meetings in 2023.

During 2023 the Governor served as Deputy Chairman of the Board of Governors of the MFSA and Member of the National Coordinating Committee on Combating Money Laundering and the Funding of Terrorism. He also attended the meetings of the Malta Council for Economic and Social Development (MCESD) and the Research, Innovation and Development Trust (RIDT) of the University of Malta, of which he is a trustee.

In addition, the Governor, welcomed local and overseas distinguished guests, including Ministers, Ambassadors and foreign diplomatic representatives and academics. In 2023, the Governor was a keynote speaker at high level conferences and seminars. Several local and foreign media houses interviewed Professor Scicluna in 2023.

- Launch of the Governor's video Blog, 9 January.
- Meeting with Chairperson of the MCESD, Malta, 17 January.
- Meeting with Malta Association of Small Shareholders Chairperson, Malta, 18 January.
- Speech to a group of Malta College of Arts, Science and Technology (MCAST) visiting lecturers at the Central Bank of Malta, Malta, 3 February.
- Meeting with U.S. Treasury senior official delegation, Malta, 15 February.
- Participation in a Governing Council Retreat, Lapland, Finland, 20-24 February.
- Virtual address and participation in the EBRD constituency meeting, Astana, Kazakhstan, 2 March.
- Speech at the House of Representatives' Family Affairs Committee, Malta, 7 March.
- Participation in the IMF and the WBG constituency meeting, San Marino, 10 March.
- Interview by Econostream Media, *We strongly believe in the robustness and resilience of our system, Malta*, 21 March.
- Keynote speaker at the Conference *Women and Finance*, organised by the Malta Bankers Association and National Council for Women, Central Bank of Malta, Malta, 24 March.
- Participation in the ECB Institutional Investor Dialogue meeting, Frankfurt, Germany, 29 March.
- Participation in the 2023 Spring Meetings of the Boards of Governors of the WBG and the IMF, Washington D.C., USA, 10-16 April.
- Interview by CNBC International TV, *Still some way to go*, Washington D.C., USA, 13 April.
- Opening speech at the Central Bank of Malta 2022 *Annual Report* Launch, Malta, 20 April.
- Meeting with Professor Inna Steinbuka, Chair of Latvia's Fiscal Discipline Council, Malta, 26 April.
- Participation in informal ECOFIN meetings, Stockholm, Sweden, 28-29 April.
- Participation in current affairs TV programme *Insights*, Malta, 11 May.

- Participation in Jacob's Coffee Run initiative, Malta, 12 May.
- Participation in the ECB's 25<sup>th</sup> anniversary gathering, Frankfurt, Germany, 24 May.
- Interview by Politico, Frankfurt, Germany, 15 June.
- Interview and article by businessnow.mt, Malta, 22 June.
- Participation in the ECB Forum on Central Banking, Sintra, Portugal, 26-28 June.
- Interview by Francine Lacqua, Bloomberg TV, Sintra, Portugal, 28 June.
- Interview by businessnow.mt, Malta, 1 July.
- Interview for EU-Startups.com, Spain, 20 July.
- Meeting with the University of Macerata on joint modelling project, Malta, 28 July.
- Courtesy visit by H.E. Gloria Gangte, India's High Commissioner to Malta, Malta, 11 September.
- Participation in informal ECOFIN meeting, Santiago de Compostela, Spain, 16 September.
- Participation in the AIIB Annual Meeting, Sharm El Sheikh, Egypt, 25-26 September.
- Courtesy visit by Dame Diana Buchanan Crossan, former New Zealand's Retirement Commissioner, Malta, 28 September.
- Meeting with the local Single Resolution Board, Malta, 29 September.
- Participation in the 2023 Annual Meetings of the Boards of Governors of the WBG and the IMF, Marrakesh, Morocco, 9-15 October.
- Interview by CNBC International TV, *It's time to start mopping up in a serious way and without upsetting the markets*, Marrakesh, Morocco, 13 October.
- Keynote speech at the Central Bank of Malta Dynare conference, Malta, 20 October.
- Opening of an exhibition at the MCAST, entitled *The History of Coins*, followed by a lecture to students, Malta, 3 November.
- Inauguration ceremony of the House of the Euro, Brussels, Belgium, 9 November.
- Introductory and Concluding meetings with the visiting IMF Article IV mission, Malta, 13 and 22 November.
- Meeting with the Managing Director, Mr Pierre Gramegna, and senior official delegation from the European Stability Mechanism, Malta, 22 November.
- Keynote speech at the Annual Dinner of the Institute of Financial Services Malta, Malta, 24 November.
- Opening speech at the Financial Stability Forum, Malta, 6 December.
- Speaker in a panel discussion on the Digital Euro, Central Bank of Slovenia, Ljubljana, Slovenia, 15 December.





## 7. RESOURCES MANAGEMENT

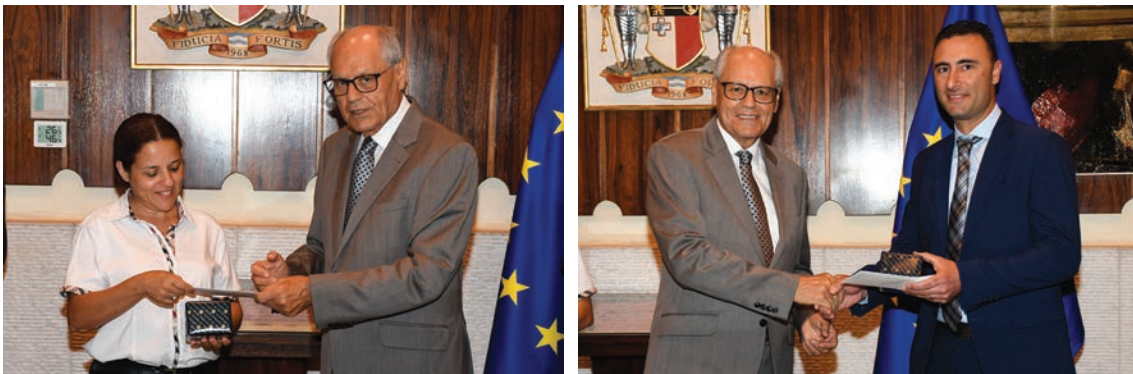
### Human resources

The Bank's staff complement as at the end of 2023 stood at 386, including seven employees on a part-time basis. The full-time equivalent as at end 2023 numbered 356.8 employees.

During 2023, the Bank recruited 36 employees, among which, one Chief Officer, two Executives, 11 Assistant Executives, 20 Officers II and two Officers I. Some 26 employees resigned, two employees had their contracts terminated and six staff members retired during 2023. At the end of 2023, there were nine employees seconded to offices within the public sector.

During the year, 12 university students were offered temporary summer work experience between mid-July and mid-September, while another six university students gained hands-on experience in an investment portfolio simulation environment. The Bank offered part-time work placements to 15 university students on a nine-month internship basis starting in October 2023. During their engagement, these students will pursue their academic studies and undertake supervised practical work related to their line of study with a flexible work arrangement.

Furthermore, six Central Bank of Malta employees celebrated their 25 years of service at the Bank, while 12 staff members celebrated 30 years.



*Governor Edward Scicluna with Kathleen Cutajar and Antoine Scicluna on the occasion of their 25 years of service at the Bank.*

### Equality, Diversity and Inclusion Committee

In line with the Central Bank's commitment to foster a more equal, diverse and inclusive workplace, the Bank's Equality, Diversity and Inclusion (EDI) Committee presented its EDI strategy to the Board of Directors in July.

This is a first for the Bank. This strategy listed the Bank's achievements to date, the Bank's EDI profile and the four main action areas which circle around two key principles, namely, to foster a culture of integrity and

respect; and to tackle potential unconscious bias at the workplace. In this respect, the four key action areas included awareness-raising campaigns, training, recruitment and inclusive language recommendations guide.

In January 2024, the Bank was awarded the Equality Mark by the National Commission for the Promotion of Equality.

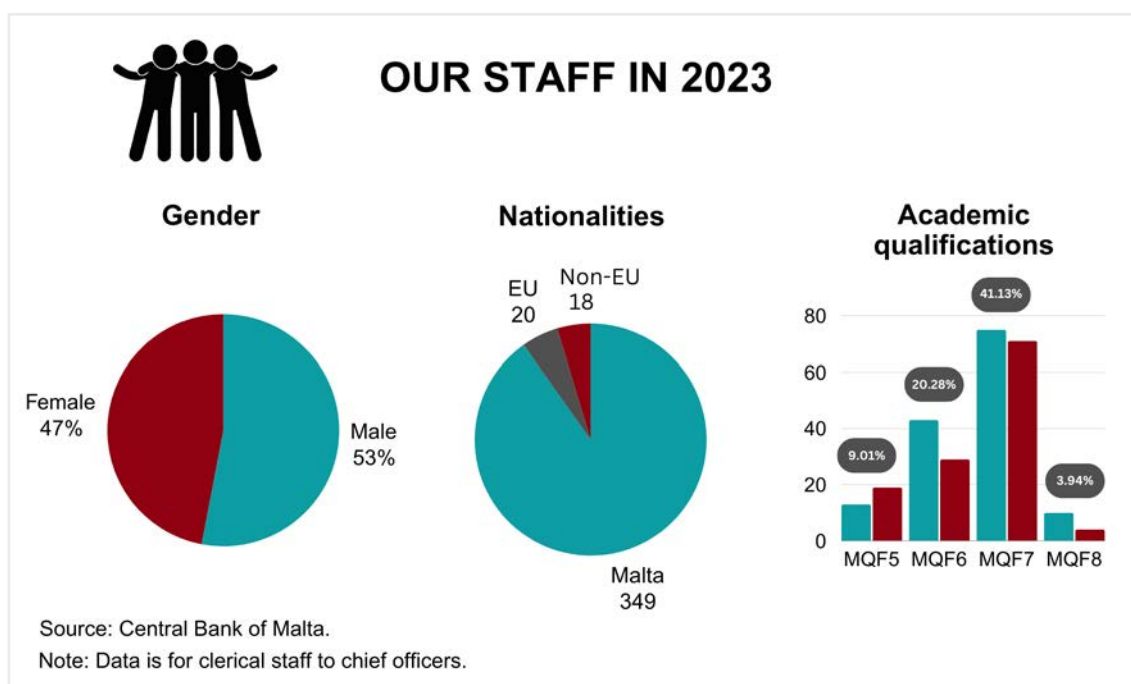


### Gender Balance

The Central Bank of Malta continued to make modest but important progress with respect to gender balance at the top levels of its executive structure. Currently, 50% of the non-executive Board members are females. Furthermore, in April, the first female Chief Officer was appointed to lead the Financial Control and Risk Division of the Bank. By the end of 2023, 25% of the staff in the top three grades at the Bank – comprising Senior Executives, Heads and Chief Officers – were females, while in 2013, these stood at just 16%.

The gender distribution of clerical staff below Senior Executive grade is more balanced, with 57% of all staff in these grades being females as at end 2023, compared to 47% a decade ago.

In this respect, the Central Bank of Malta has several family-friendly measures among which reduced hours, child-friendly measures, flexitime, teleworking and pay equality.



### Nationality Statistics

The Central Bank of Malta is an inclusive employer and as such it employs both indigenous and non-Maltese persons as indicated in Table 7.1. In 2023, 5.2% of all staff originated from EU countries, 4.6% from non-EU countries and 90.2% were Maltese. The nationalities staff profile in 2013 indicates that 1.9% of staff were EU citizens and 98.1% Maltese citizens, while there were no non-EU citizens. Moreover, in 2023, unlike in 2013, staff members originating from other countries were part of the executive grades of the Bank, representing 6.3% of all executive staff with non-Maltese females being represented at executive levels too.

**Table 7.1**  
**NATIONALITY STATISTICS, 2013 VERSUS 2023**

Nationality	Number of employees		Per cent of all staff		Per cent of Executive staff (top three grades)	
	2013	2023	2013	2023	2013	2023
EU countries	7	20	1.9	5.2	0	6.3
Non-EU countries	0	18	0	4.6	0	0
Malta	352	349	98.1	90.2	100	93.7

Source: Central Bank of Malta.

### *Training and development*

As in previous years, the Bank allocated significant resources to staff training, both internally and externally.

A total of 828 participants attended 30 in-house courses. These were mainly induction programmes organised for all new employees, courses on the concepts of Metadata and data dictionary in InfoStat, management development, DSGE, econometrics and programming in EViews, financial reporting, health and safety, and programming with Python and R. In 2023, the Bank launched two online training sessions on two major Bank policies, namely, harassment and bullying policy, and General Data Protection Regulation.

As shown in Table 7.2, 418 staff members participated in external training programmes in 2023, offered by local and foreign institutions. These courses were in the majority facilitated online and provided by local training organisations and professional institutions, the ECB, other central banks and financial institutions. The areas covered included legal aspects, data science and machine learning, economics, counterfeiting, accounting, investments, payment systems, operational resilience and risk management, and management development.

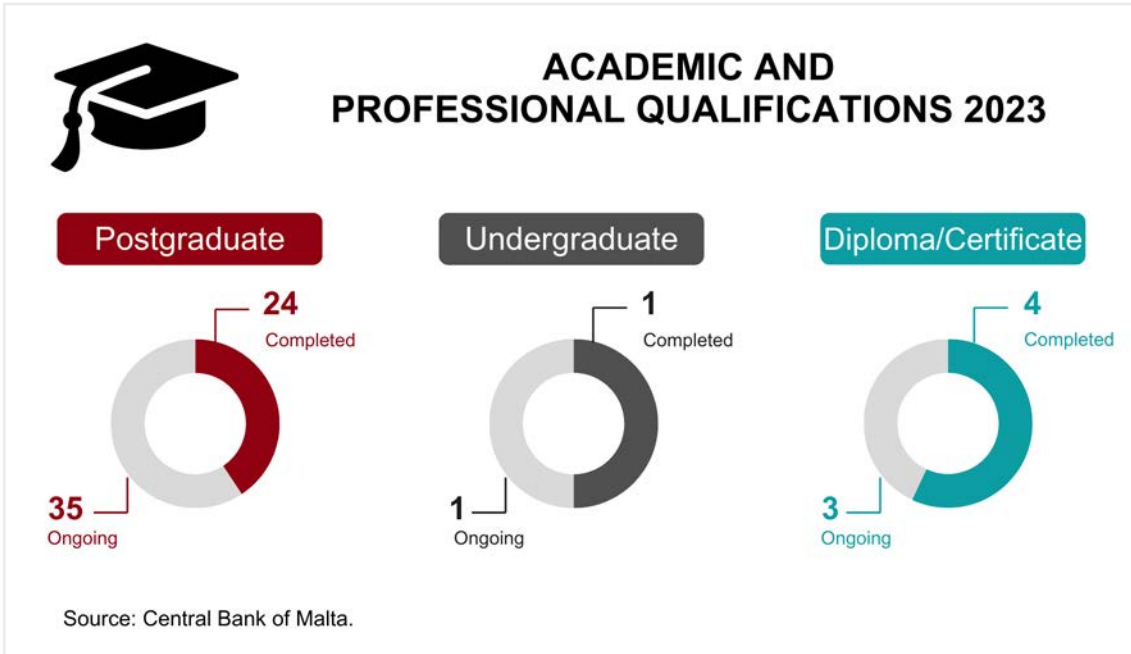
During 2023, several employees completed or continued their programme of studies. There were 24 staff members who completed their postgraduate education, one of whom was fully supported by the Bank to read a full-time postgraduate course in Economics and Finance under the Learning, Research and Development Study Programme at the Barcelona School of Economics. A total of 35 employees continued their enrolment in postgraduate degree programmes while four employees were reading qualifications at undergraduate level.

Another employee supported by the Bank under the Learning, Research and Development Study Programme, finalised his doctorate studies in social policy on a part-time basis with the University of Bristol.

**Table 7.2**  
**STAFF TRAINING DURING 2023**

Type of training	Number of courses/seminars	Number of participants
<b>Internal</b>		
Internal physical	25	229
Internal online	5	599
<b>External</b>		
Local physical	45	104
Local online	76	145
<b>Foreign</b>		
Foreign physical	33	34
Foreign online	57	135

Source: Central Bank of Malta.



In 2023, three staff members finalised their studies and successfully completed the Higher Diploma in Computer Studies. This programme was specifically designed by the MCAST to meet the Bank’s needs.

In 2023, several employees attended online training programmes organised by the ECB in areas of leadership, processing credit databases with R, and on Data Science Using Coursera. In 2023, some employees attended Hackathons also organised by the ECB.



Sarah Spiteri (front row, second from left) and her team won the Beat the Heat Climate Change Hackathon – with President Lagarde.

### *Schuman Programme*

In March 2023, the ECB launched another edition of the Schuman Programme. The Bank supported this initiative and an executive was attached with the *Banca d'Italia* to undertake an assignment between September 2023 and February 2024. The Bank also hosted an employee from the *Deutsche Bundesbank* to work on a statistical assignment between October and March 2024.

## **Innovation, Technology and Knowledge Services**

### *Innovation and technology*

The Bank continued to contribute to the European System of Central Banks (ESCB) and other international fora towards the improvement of the operational cybersecurity and collaboration in the financial sector. In 2023, the Bank implemented several projects to enhance the security monitoring, the threat intelligence and the incident response capabilities. The Bank upgraded its firewall and network security architecture, adopted a cloud framework and assessed the security aspects of other projects such as the Bidding System and the InfoStat DataBank. Further developments will include the advancement of security orchestration and automation capabilities, the improvement of email security and website defacement solutions, the reinforcement of its endpoint security, the update of the web toolkit for the Information Risk Management Framework and an assessment of its cybersecurity maturity on the technology roadmap.

The Bank successfully delivered a new platform that facilitates data exchange between partner NCBs. In addition to the data exchange, the platform also automates the extraction and provision of data to the MFSA.

The Bank was involved in various operational activities to help sustain the overall operational effectiveness of its core applications. Discussions were underway with key stakeholders to extend the knowledge base and help support the business, in line with the Bank's IT Strategy.

### *The Library*

The Central Bank of Malta Library continued to be one of Malta's principal facilitators of financial, economic and social research, supporting and promoting scholarly debate and the dissemination of scientific knowledge in these fields. Since the Library's establishment in 1968, a substantial collection of standard works on economics and finance was gathered. The Library collection presently contains more than 13,000 volumes.

The Bank increased the number of electronic subscriptions to include other specialised academic journals. Moreover, it continued to leverage on the Business Source Complete platform, which provides premium full-text content and peer-reviewed business journals. The Business Book Summaries is another tool used to access comprehensive summaries of the best business books.

The Bank's Knowledge Vault serves as the virtual platform for staff to access the various electronic information sources available on the platform, including *the Financial Times*, *Business Source Complete* and *Central Banking*. The Bank organised various training sessions to familiarise staff with the use of these tools. In addition, the Bank provided dissemination services including local and foreign media daily digest, daily selection of scholarly journal articles called *the Librarian's Choice* and monthly acquisitions' list. Staff was also informed about bills, acts and legal notices issued during the previous month. Staff members continued to ensure their effective contribution to ESCB meetings.

### *Survey of Euro Bank Notes Redesign*

The Bank worked in collaboration with the ECB to promote an online survey on the new themes for the next series of euro banknotes. European citizens were asked for their views on the proposed euro banknotes' themes. The Bank promoted the survey via its social media channels, newspaper articles and national TV.

### Publications

The Bank enhanced its flagship publications, particularly the *Annual Report*, the *Quarterly Review* and the *FSR* with new features and additional information. The introduction of visuals and dashboards for publications such as the *Business Dialogue*, *Economic Projections* every quarter and the monthly *Economic Update*, enhanced readability. In 2023, the Bank introduced a new annual digital publication *Climate-related disclosures of the Central Bank of Malta* for NMPPs in line with the recommendations by the ECB's High Level Task Force for Climate-Related Financial Disclosures.

As part of an organisation-wide effort to reduce its ecological footprint, the Bank continued to decrease the number of the paper copies of the Bank's publications, thus promoting publications in digital format.

### Social Media

The emergence of social media over a decade ago has equipped institutions with powerful tools for informing and engaging with the public. Many central banks now recognize social media as a crucial and effective communication channel not only for experts, who have traditionally been the primary target group for central banks' communication but also for a broader audience. The Central Bank of Malta has an established presence across various social media platforms, including Facebook, Instagram, X (formerly known as Twitter), LinkedIn and YouTube. The Bank witnessed a growing number of users and increased traffic on these platforms.

On Facebook, the Bank utilises its presence to disseminate updates on events, publications and other noteworthy news, along with providing educational content on topics such as financial literacy. LinkedIn is dedicated to professional content and recruitment initiatives. X serves as a real-time platform for sharing updates and actively engaging with followers. Additionally, the Bank maintains a YouTube channel and an Instagram page, leveraging these platforms to share videos covering a diverse range of subjects, including economic reports, press conferences and educational content.

Furthermore, the Bank engaged in several social media campaigns to enhance financial literacy and promote awareness about scams. The Bank used its social media platforms for collaborative campaigns initiated by the ECB across different regions. Staff also took part in the ESCB/SSM Working Group on Digital Communications.

### Knowledge Services

The Bank captures, manages, preserves, stores and delivers in a timely manner relevant information to those that require it. The scanning, uploading and cataloguing of policy documents on a new knowledge management system continued to ensure a key service to all staff members.

### Corporate Strategic Planning

During 2023, the Bank continued to carry out its corporate strategic planning process, which consisted of five phases: strategy definition; identification of objectives and key performance indicators; creation of the objectives database and of the project portfolio; budgeting; and prioritisation and approval of the strategic plan and the project portfolio.

The Bank prioritized its projects according to a prioritisation framework that takes into consideration several variables, such as costs, revenue, risk mitigation, improvement of business processes, and employees' wellbeing enhancement.

The main objective of the Corporate Strategic Plan is to provide strategic direction to all the Bank's staff and to ensure that the Central Bank fulfils its mandate in an efficient and effective way. The Plan ensures that the strategic goals are translated into divisional, departmental and office goals in accordance with the Bank's organisational structure. The eight pillars of the strategic plan are:

1. To ensure effective contribution to the European System of Central Banks, supporting its primary objective of price stability, while participating in its fora and activities.
2. To foster financial stability by strengthening the resilience of the domestic financial sector.
3. To ensure a smooth functioning payment system and a secure provision of cash.
4. To continue to be a reference for economic and financial analysis, research and statistics in Malta.
5. To optimize return on the Bank's financial assets while contributing positively to the environment.
6. To enhance risk mitigation and security measures, especially to fully safeguard the systems' integrity.
7. To maintain strong internal governance, in full compliance with the law.
8. To enhance overall efficiency and effectiveness, while actively promoting environmental awareness, corporate social responsibility (CSR), inclusiveness and diversity.

During 2023, the Bank monitored closely the progress of the objectives and the implementation of its project portfolio. The Plan remained on track and the Bank successfully achieved its main targets.

### Property and procurement

The Bank is committed to maintaining a safe, effective and efficient management and maintenance of its premises, project administration and the procurement of goods, services and insurance coverage, with an emphasis on transparency, accountability and cost optimisation in the use of public funds.

During 2023, the Bank continued with its programme of maintenance, upgrading and embellishment works. Several areas within the Bank's buildings were restructured to create new workspaces, or else were converted to fulfil new functions. The Bank also continued to upgrade its lifts to comply with the latest legislative requirements. As the reliance on physical and hybrid meetings increased considerably the Bank continued to invest in more advanced audio visual and video conferencing equipment for use in its conference centre and meeting rooms.

The Bank continued to actively participate in initiatives coordinated by the Eurosystem Procurement Coordination Office, which enables NCBs within the Eurosystem and the European System of Central Banks to benefit from efficiencies in joint procurement exercises, primarily in the areas of hardware, software, rating agency services and market data provision.

The Bank issued 15 calls for quotations and ten calls for tenders. The tenders were related to the procurement of external quality assurance, architectural and engineering consultancy services, health screening services, leasing of vehicles, security services, coin processing machinery and SWIFT attestation. In its procurement practices, the Bank always seeks to adopt fair and competitive bidding processes to obtain the optimal value for money. Moreover, during the year, the Bank signed or renewed a significant number of maintenance agreements.

The Bank continued to participate to the ESCB Heads of Administration Conference.



## 8. CORPORATE, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

### Climate change and sustainability

#### *Climate change considerations in monetary policy framework*

On 2 February 2023, the Governing Council decided to implement stronger tilting of the corporate bond purchases during partial reinvestment including in the primary market towards issuers with better climate performance.

On 23 March 2023, the ECB published its first climate-related financial disclosures, which provide information on its portfolios' carbon footprint and exposure to climate risks, as well as on climate-related governance, strategy and risk management. Presented in two reports, the disclosures cover the Eurosystem's corporate security holdings under the CSPP and the PEPP, as well as the ECB's euro-denominated NMPPs, including its own funds portfolio and its staff pension fund. The disclosures show that the corporate bonds held under the CSPP and PEPP are on a decarbonisation path. Although the portfolios' absolute greenhouse gas emissions have increased in recent years because the Eurosystem has purchased more securities for monetary policy purposes, issuers' carbon intensity has gradually declined. This is partly because the companies in the Eurosystem's portfolio have lowered their emissions for every euro of revenue they earn, reflecting their efforts to significantly reduce their emissions and boost carbon efficiency. A second factor, which is responsible for the reduction of the relative emissions associated with corporate sector purchases since October 2022, is the ECB's decision to tilt its holdings towards issuers with a better climate performance.

The ECB is committed to disclosing climate-related information on these portfolios every year, while continuously improving the disclosures as the quality and availability of data progress. Over time, it will expand the scope of the disclosures to cover other monetary policy portfolios. The ECB also aims to set interim decarbonisation targets for its own-funds portfolio and staff pension fund to stay on track with Paris Agreement goals. Similarly, the Governing Council of the ECB will consider setting such targets for corporate sector portfolios.

#### *Climate change considerations in non-monetary policy portfolios*

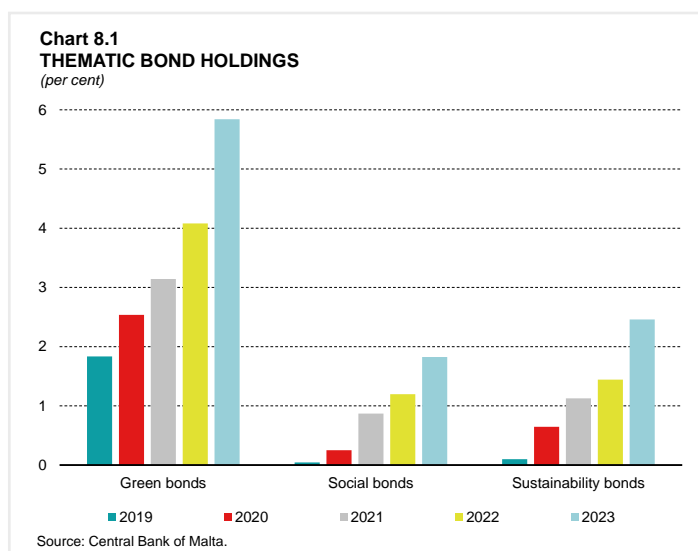
The transition to a low carbon economy has become an increasingly important and urgent objective. According to the International Panel on Climate Change, climate change is widespread, rapid and intensifying. Countries would need to ensure a sustained reduction in greenhouse gas emissions. This transition presents both risks and opportunities for the Central Bank of Malta's NMPPs. The Bank has remained committed to incorporate climate and sustainability considerations in the design and implementation of its Strategic Asset Allocation.

In March 2023, the Bank, published its first [climate-related financial disclosures report](#) based on its end of 2022 holdings in line with the Eurosystem commitment and common disclosure framework.<sup>1</sup> To enhance transparency related to climate-related risks and opportunities pertaining to its NMPPs, the Central Bank of Malta reported on all four categories recommended by the Task Force for Climate-related Financial Disclosures, namely governance, strategy, risk management as well as metrics and targets. The Bank has reported backward-looking and forward-looking climate metrics relating to both its euro and foreign currency holdings in its NMPPs, also including three years of historical data. These metrics are regularly monitored and updated. They are used to compare climate-related risks between the Bank's different portfolios and across time. The Bank has committed to achieve carbon neutrality of its NMPPs by 2050 in line with the European Union (EU)

<sup>1</sup> Climate-related financial disclosures March 2023 – <https://www.centralbankmalta.org/site/Publications/Climate-related-disclosures-march-2023.pdf>.

Climate Law. Therefore, the Bank aims to improve the climate-related metrics of its NMPPs over time while adhering to its other objectives of capital preservation, liquidity and return.

To this effect, during 2023, the Bank ensured that most of its equity holdings are invested in exchange-traded funds which track indices of companies with strong sustainability profiles and are aligned with the minimum requirements of the EU Paris Aligned Benchmarks (EU PAB). Through its equity holdings, the Bank remained invested in renewable energy companies as well as companies that are engaged in climate transition.



In addition to the negative screening based on the Norges Bank Investment Management exclusion list applied to its externally managed corporate bond portfolio, during 2023 the Bank started the process to implement the EU Paris-aligned benchmark exclusions to this portfolio too. The latter is expected to result in lower allocations to high polluting issuers.

The Bank continued to actively increase its thematic bond holdings, whose proceeds are aimed to fund environmental and social projects (see Chart 8.1).

The share of assets under management which include ESG considerations has thus increased from 17.7% in 2022 to 23.4% in 2023.

The Bank has continued to be a member of the Network for Greening the Financial System, as well as several climate-change related Eurosystem task forces and fora.

### *Climate change considerations in financial stability*

Climate change can pose significant challenges to the economy and the financial system. In this spirit, the Bank carried out a study to address one of the key limitations highlighted in the [Special Feature](#) published in the Interim FSR 2021.<sup>2</sup> This impediment stems from the potential bias on results towards the low CO<sub>2</sub> intensive sectors which could arise from the lack of visibility of holding companies' exposures captured within the financial sector. Following the reclassification, the concentration in the low CO<sub>2</sub> intensive sectors was re-confirmed.<sup>3</sup>

## Environmental initiatives

### *European Central Bank*

The Eurosystem, aware of its social responsibility, also aims to ensure that euro banknotes are as environmentally sustainable as possible. To this end, a [Product Environmental Footprint \(PEF\) study](#) was conducted to determine the environmental impact of paying with euro banknotes and how this impact can be further

<sup>2</sup> Special Feature: The Maltese financial sector's exposure to climate-sensitive sectors – Central Bank of Malta *Interim FSR 2021*, <https://www.centralbankmalta.org/site/Publications/Economic%20Research/2021/FSR-Interim-2021-Special-Feature.pdf>.

<sup>3</sup> Revisiting climate-sensitive exposures of holding companies – Central Bank of Malta *Interim FSR 2023*, <https://www.centralbankmalta.org/site/Financial-Stability/WP-Other-Studies/Interim-FSR-2023-Box-1.pdf>.

reduced in the future. The study, based on 2019 data, was published in 2023.<sup>4</sup> The study measures the potential environmental impact of all activities in a full cycle of euro banknotes, from raw material acquisition, manufacturing, distribution and circulation to disposal by euro area NCBs.

One key finding of the study indicated that the average environmental footprint for payments with banknotes was very low at 101 micropoints per euro area citizen in 2019, which is equivalent to driving a car for 8 km, or 0.01% of the total environmental impact of a European citizen's annual consumption activities. The main factors contributing to the environmental footprint of euro banknotes as a means of payment are the energy consumption of automated teller machines (ATMs) and transportation, followed by processing by NCBs, paper manufacturing and the authentication of banknotes in shops. The study also showed that improvements in the energy efficiency of ATMs contributed to a 35% decrease in their environmental footprint between 2004 and 2019.

Since 2004, the Eurosystem has made efforts to reduce the environmental footprint of euro banknotes, for example by using only 100% sustainable cotton and banning the disposal of banknote waste in landfills. The Eurosystem is also exploring alternative waste disposal methods for banknotes such as recycling, reusing of waste material and possible improvements to material and components used in the printing process.

### Network of Central Banks and Supervisors for Greening the Financial System

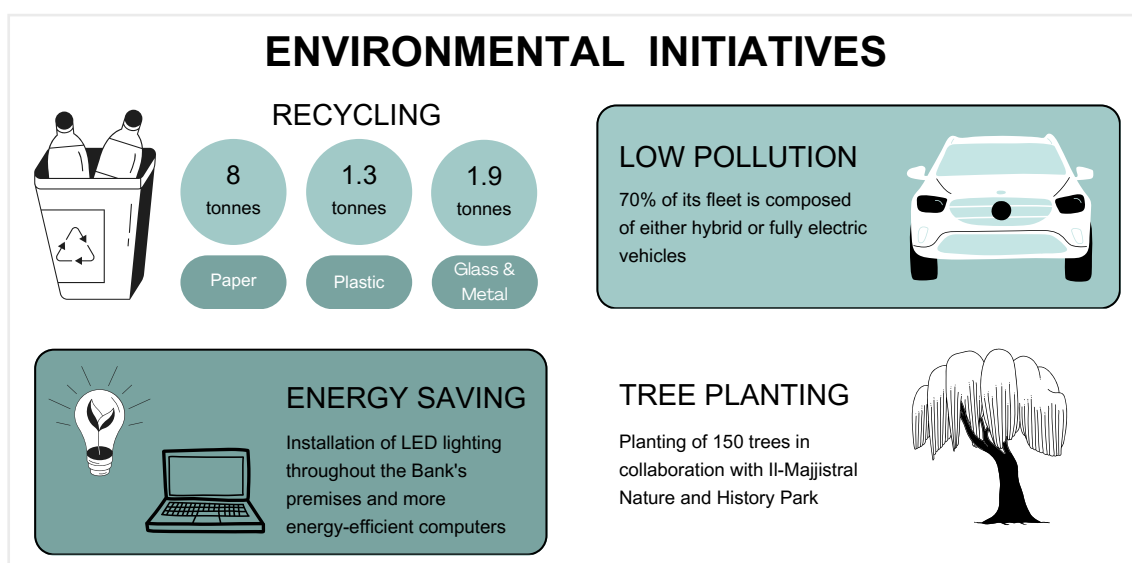
The Bank continued with its participation in the Network of Central Banks and Supervisors for Greening the Financial System. Staff also participated in workstreams related to monetary policy and net zero for central banks. During the year, the Bank contributed to several surveys related to the Central Bank of Malta's operations in a bid to green corporate activities, promote responsible investing and on capacity building.

### Eurosystem Climate Change Forum

During 2023, the Bank continued to participate actively in the discussions of the Eurosystem Climate Change Forum, with the aim of improving cooperation and foster knowledge-sharing. Two senior officials represent the Central Bank of Malta on this Forum.

### Central Bank of Malta

The Bank stepped up its initiatives to further reduce its ecological footprint. During the year, the Bank increased its recycling efforts and separated for recycling almost eight tonnes of paper and 1.3 tonnes of plastic. Another 1.9 tonnes of glass and metal was also separated and recycled.



<sup>4</sup> PEF study of euro banknotes as a payment instrument – ECB 2023, [https://www.ecb.europa.eu/pub/pubbydate/2023/html/ecb\\_pefreport202312-81e945e7aa.en.html](https://www.ecb.europa.eu/pub/pubbydate/2023/html/ecb_pefreport202312-81e945e7aa.en.html).

The Bank also continued to streamline several processes with the aim of achieving further efficiencies, particularly in reducing the consumption of paper. During the year, the Bank leased its second plug-in hybrid and first fully electric vehicles. At the time of writing, over 70 per cent of its fleet was composed of either hybrid or fully electric vehicles. The conversion effort will continue over the next years, with the replacement of the remaining leased diesel vehicles with hybrid or fully electric vehicles.

More energy efficient LED lighting continued to be installed, while various items of old equipment, including computers and servers, were replaced with more energy efficient models. Further progress was also registered in relation to the planned installation of solar panels and more efficient standby generators.

The Bank continued to partially offset its carbon footprint and, in 2023, collaborated with *Il-Majjistral Nature and History Park* to plant 150 trees, including olive trees, pomegranate trees, almond trees, oak trees and Malta's national tree, the *għargħar* tree.

### Corporate Social Responsibility

The Central Bank of Malta has embedded CSR in all aspects of its central banking tasks which include a broad spectrum of stakeholders, ranging from its employees to the wider community. In this regard, the Bank's CSR efforts reflect the ever-increasing emphasis on the Bank's activities, all of which receive the highest levels of support across management and employees.

#### Central Bank of Malta Anniversary Concert

The Central Bank of Malta commemorated its 55<sup>th</sup> anniversary with a concert at the Mediterranean Conference Centre under the distinguished patronage of His Excellency the President of Malta, Dr George Vella, where guests were entertained by the Malta Philharmonic Orchestra under the theme *A night at the movies*.



Carmine Lauri, the Malta Philharmonic Orchestra leader during the 55<sup>th</sup> anniversary concert

#### Philanthropy and Outreach

The Staff Social Club also organised several campaigns throughout the year where staff made donations to help entities including Hospice Malta through the Pink October and the *Movember* Campaigns. Jacob's Pay It Forward Coffee Van prepared coffee for staff with profits used to fund Jacob's Coffee Run initiative. Free sandwiches and coffee to families in the Intensive Care Unit waiting area at Mater Dei Hospital were delivered via the latter initiative.

The Committee also organised Dress Down Days to collect funds for the Malta Community Chest Fund and Hospice Malta. It also coordinated Blood Drive events during 2023 and sponsored staff members to participate in the President's Solidarity Fun Run. The Social Club made a donation to the Sisters of Mother Theresa using the proceeds from the sale of various paintings by a staff member and other staff contributions.



Central Bank of Malta Governor Professor Edward Scicluna and staff members with Jacob Cachia of Jacob's Pay It Forward Coffee Van

#### Staff

The Staff Social Club which is composed of three sub-committees, namely the Sports Committee, the Cultural Committee and the Religious Committee, contributed to staff's well-being by organising several events which included a Pizza Making Event, Quiz Night, the Bank's Summer Party, a Karaoke Night, a Bowling



Pizza making



Quiz night



Karaoke night



Eurofest participants

Event, the Christmas Staff Gathering and the Children's Christmas Party. To commemorate the 25-year Anniversary of the ECB, staff participated in Eurofest in Frankfurt where they took part in football, biking, cross country running, hiking, table tennis and badminton.

### Financial literacy

In 2023, the Central Bank of Malta continued its efforts to promote financial literacy and raise awareness about the euro. The Bank issued weekly informative posts about euro banknotes and coins on its social media platforms, where 124 information sessions were held. Sessions with retailers were held directly with cash handlers in retail outlets. The Bank also organised educational tours at its premises where an information session was held followed by a tour at the Currency Museum. During 2023, 17 sessions were physically held at the Bank and 502 students participated. Moreover, another 21 sessions were held at school premises covering another 1,028 children. The Bank also collaborated with the Ministry for Active Ageing to deliver 22 financial literacy sessions to 735 elderly in various centres around Malta and Gozo. Other collaborations in 2023 involved the partnership programme with *Skola Sajf*, the European Money Week organized by the Malta Bankers' Association, the Home Economics Centre for the Be Money Smart Programme, the Malta Police, Jobsplus and the programme *Gemma – Know, Plan, Act*.



Students from St Catherine's High School during an information session

### Notte Bianca

The Central Bank of Malta once again opened its doors to the public on *Notte Bianca*, a highlight event in Malta's cultural calendar. Embodying the theme, *The Guardian of Our Financial System*, the Bank provided a unique opportunity for visitors to delve into the intricacies of our financial system. The event featured a variety of attractions, including an exclusive tour of the Bank's Currency Museum, where visitors could explore a splendid selection of coins and banknotes. Two counterfeit experts provided valuable insights and training.

The Bank also exhibited *Coinage in Malta: 2,500 years of history*, a fascinating display of the different coin periods in Malta's history. The Bank's gardens, which were open only for this special night, hosted various

attractions, such as jazz music and a demonstration by Żekkin, the famous Labrador sponsored by the Bank, and other sniffer-dogs, who showed how they detect money-related crime. Żekkin and his canine colleagues performed simulation exercises at the Upper Garden, in collaboration with the Customs Department.

Visitors were also given a virtual tour of the Bank Library's vast and prestigious collection of books, journals and publications. Moreover, lectures about financial literacy were delivered.



Visitors at the Currency Museum during Notte Bianca

### *Central Bank of Malta Fund*

The Central Bank of Malta Fund's Advisory Board is mandated by the Board of Directors to identify projects of a national stature with lasting visibility worthy of support by the Bank, through funds set aside for non-business-related purposes. The areas pursued by the Fund relate to education, culture, scientific research, preservation of Maltese national heritage and social causes.



Central Bank of Malta Governor, Professor Edward Scicluna with the artist Joseph Barbara during the launch of the Skart Ghani exhibition

The members of the Fund's Advisory Board are Mr Nancy Calamatta, who acts as Chair, Professor Yosanne Vella, Professor Marvin Formosa, Marquis Nicholas de Piro and Dr Pauline Lanzon.

Amongst the projects pursued by the Fund during 2023 was the launch of a sustainable art exhibition at the Bank with works of art by artist Joseph Barbara, in honour of Reverend Dr Marius Zerafa, Founding Chairperson of the Fund (previously Foundation), who sadly passed away in October 2022.

Some of the beneficiaries who received financial support were: Beating Hearts Malta and Save and Support Trust through a publication by Professor Victor Grech, named *A Tale of Four Cities*; the Canine Search and Rescue Team of the Order of Malta through the purchase of full urban search and rescue kits; the Archconfraternity of Saint Joseph towards the performance of a composition by Maestro Paolo Nani's (1814-1904) during the feast of Saint Joseph in March 2023; the Birzebbuga Aquatic and Sports Club towards an overseas training camp for youths in the under-17 category; and the Senglea Historical Society towards its annual publication on the history of Senglea.

Other meritorious projects to which the Bank pledged support upon their completion included the publication of a book by *Fondazzjoni Patrimonju Malti* on the history of film and cinema in Malta; the purchase of equipment to be placed in a new rehabilitation centre for Inspire Foundation; and restoration works on the medieval chapel of Saint Catherine in Zejtun, as pursued by *Wirt iż-Żejtun*.



## 9. INTERNATIONAL RELATIONS

### Eurosystem and European System of Central Banks

The Governor of the Central Bank of Malta is a member of the Governing Council of the ECB, which is the highest decision-making body of the ECB. The Governing Council consists of the members of the ECB's Executive Board and the NCB governors of the euro area Member States. The Governing Council is responsible for monetary policy in the euro area and decides on the implementation of tasks entrusted to the Eurosystem, which comprises the ECB and the euro area NCBs.

During the year, the Governing Council held 17 meetings, with eight being focused on monetary policy. Furthermore, the Governing Council took several decisions through written procedures. In addition, in connection with the ECB's responsibilities in banking supervision, the Governing Council approved numerous draft supervisory decisions prepared by the ECB's Supervisory Board. A retreat for the Governing Council also took place in February, allowing the members to discuss policy issues in an informal setting. The 25<sup>th</sup> anniversary of the ECB was celebrated in May 2023.

Following decisions taken by the Governing Council during 2023, the Governor signed several agreements on behalf of the Bank. More specifically, these agreements covered aspects related to TARGET, the TARGET Analytical Environment, the update of the T2S contractual framework, and the ECMS.



Group photo of the Governing Council in Athens, Greece – October 2023.



*Start of the Governing Council Meeting in Athens, Greece – October 2023.*

The Governor is also a member of the General Council of the ECB, which meets on a quarterly basis. The General Council, which is composed of the President and Vice-President of the ECB, and the NCB governors of all Member States of the European Union (EU), mainly performs an advisory role.

The Governor or, in his absence, a Deputy Governor, also participated in the two sessions dedicated to the Macroprudential Forum held jointly by the Governing Council and the ECB's Supervisory Board during 2023.

Furthermore, the Deputy Governor for Financial Stability sits on the ECB's Supervisory Board together with a senior official of the MFSA.

The Governing Council and the General Council are supported by several committees, working groups and other structures, in which various Bank officials participated actively throughout the year. These officials play a key role in briefing the Governor on issues to be discussed ahead of meetings of both the Governing Council and the General Council. They also give feedback on written procedures addressed to the Governing Council and the General Council.

### **House of the Euro**

In November 2023, the Governor, together with the President of the ECB and the Governors of another six euro area NCBs, inaugurated the House of the Euro in Brussels. The House of the Euro brings representatives of the ECB and euro area central banks together under one roof. The purpose behind the new office is to foster greater collaboration with counterparts in the central banking community, to gather intelligence and reach out to EU institutions and bring visibility to the Eurosystem in Brussels. This is the Bank's first manned office overseas.

### **European Systemic Risk Board**

The Bank is also a participant in the ESRB where the Governor is a voting member of the General Board. In 2023, the Governor and the Deputy Governor for Financial Stability took part in the meetings of the ESRB's General Board where various issues on potential vulnerabilities and risks within the EU financial system and policy measures were discussed. Senior officials of the Bank also participated in the meetings of the ESRB's Advisory Technical Committee and its substructures.

### Other EU institutions

During 2023, the Deputy Governor for Monetary Policy regularly participated in meetings of the EFC when issues relevant to central banks were discussed. The Deputy Governor for Financial Stability also participated in the EFC-Alternates meetings.

Throughout the year, the Bank engaged in EFC discussions on various matters related to the developments in financial markets and the regular monitoring of risks to financial stability in the EU prior to the formulation of appropriate policy responses.

The most prominent topics discussed included the ongoing conflict in Ukraine – both in terms of its continued impact on the European economy along with stocktaking of the impact of sanctions on Russia and Belarus – as well as the implementation of the RRF. Other items of interest included assessments of the latest economic and financial stability developments within the EU, climate and green financing and the preparation of common European positions at the G20 meetings and other international fora, such as the IMF and the FSB. Other Bank officials also participated in meetings of several EFC sub-committees, where matters of relevance to central banks, such as the economic and financial impacts of the war in Ukraine, sovereign debt and the recovery from the COVID-19 pandemic and the IMF's 16<sup>th</sup> General Review of Quotas (GRQ) were discussed.

### International Monetary Fund

In the IMF, Malta forms part of a constituency headed by Italy, together with Albania, Greece, Portugal and San Marino. With the Governor of the Central Bank of Malta occupying the position of Malta's Governor on the Board of Governors of the Fund, the Bank upheld its leading role in maintaining Malta's relationship with the Fund. The Governor, accompanied by the Deputy Governor for Monetary Policy, participated in the Spring IMF and WBG Meetings in April and the Annual Meetings in October. During the year, the Governor voted on several resolutions proposed by the Fund's Executive Board, including that pertaining to the 16<sup>th</sup> GRQ. The 16<sup>th</sup> GRQ approved by the IMF's Board of Governors will bring in 2024 a 50% equiproportional increase in quotas while rolling back the membership's current commitments to the Fund under the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Agreements (BBAs).

Having previously pledged a contribution to the Fund's Resilience and Sustainability Trust (RST), in 2023, the Central Bank of Malta – in conjunction with the Ministry for Finance and Employment – finalised a contribution agreement with the Fund. Following the signing of the agreement, the Central Bank of Malta contributed an SDR-denominated amount equivalent to €5 million to the Deposit Account while the Ministry for Finance and Employment contributed €0.5 million to the trust's Reserve Account.

During the year, the Central Bank of Malta provided advice and guidance to the Ministry for Finance and Employment when the latter was approached by the Fund with a request for a subsidy contribution of SDR1 million to the Poverty Reduction and Growth Trust (PRGT). The contribution was successfully carried out.

Following an Article IV mission earlier in the year, including a visit by Fund staff, the IMF published the main results of the consultation. The Fund's mission held meetings with senior officials of the Bank, the Government and the MFSA, among other authorities and stakeholders.

### World Bank Group

Although Malta is represented in the WBG by the Minister for Finance and Employment, throughout the year the Bank continued to assist the Ministry in monitoring developments and providing advice on initiatives from the Group. During 2023, the Bank provided the Ministry with background documentation and recommendations on resolutions that had to be voted upon.

### European Bank for Reconstruction and Development

In view that the Governor of the Central Bank of Malta was Governor for Malta on the Board of Governors of the EBRD in 2023, the Bank continued to take the lead on issues related to Malta's membership in this

institution. In particular, the Governor voted on several EBRD resolutions and Bank officials attended the 2023 EBRD Annual Meeting.

Due to its steadfast support for Ukraine since the commencement of the war, as well as the increased general demand for multilateral development banks' finances, in 2023 the EBRD pursued additional measures to maximise the efficient use of its resources. To this end, in December, the EBRD's Board of Governors sanctioned a capital increase of €4 billion, the third one in the EBRD's history, thereby increasing the EBRD's capital base to €34 billion. An amendment to the EBRD's Articles of Agreement to allow for more efficient use of its financial resources was also approved.

In keeping with Malta's commitments as a member of the EBRD, the Bank contributed to the preparation of a legal notice reflecting the amendments to the EBRD's Articles of Agreement and Malta's membership.

### **Asian Infrastructure Investment Bank**

Throughout 2023, Malta was represented on the AIIB's Board of Governors by the Governor of the Central Bank of Malta, with the Minister for Finance and Employment as the Alternate Governor. Malta forms part of the euro area constituency which also includes Austria, Belgium, Croatia, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. During the year, the Governor also voted on several AIIB resolutions. The Bank, together with the Ministry for Finance and Employment, continued monitoring developments in the AIIB. In 2023, Bank and Ministry officials represented Malta during several constituency meetings. At the eighth Annual Meeting of the AIIB, Malta was represented by the Governor.

### **Commonwealth**

The Bank continued to support efforts to establish a trade finance facility for the small states of the Commonwealth by providing banking services. The Commonwealth Small States Trade Finance Facility was set up to enhance trade and investment finance particularly for small Commonwealth States with limited access to international trade finance. No transactions involving the Bank took place during 2023.

### **Other international relations developments**

Given the ongoing war in Ukraine, triggered by the Russian invasion in 2022, international financial institutions maintained sanctions against Russia and Belarus and to approve financial packages aimed at providing aid to Ukraine. Officials from the Central Bank of Malta closely monitored the economic impact of the war and its effects on the global economy. The Bank has continuously supported the common EU position in this respect.

In addition, Bank staff regularly briefed the Governor and senior management regarding trade in goods and services between Malta and the United Kingdom. A box on merchandise trade flows between Malta, the EU and the UK was published in the Bank's *Quarterly Review*.

# Meet Our People



## **Maryanne Attard**

### *Financial Control and Risk Division*

In April 2023, I was appointed Chief Officer Financial Control and Risk, responsible for the Financial Control Department as well as the Financial and Operational Risk Departments. I am also the Bank's Chief Risk Officer. An accountant by profession, I have cultivated years of knowledge and experience at the Bank, especially in the area of finance. In 2008, I was a key player in the euro changeover project which entailed adopting new accounting rules as outlined in the ECB guideline on the legal framework for accounting and financial reporting in the ESCB. Over the years, I built on my academic foundation and was instrumental in major IT implementations of Accounting and Treasury systems. In 2014, I had a rewarding three-year experience in a multi-cultural environment at the ECB in the Directorate General Finance. Furthermore, I represent the Bank in ESCB meetings on accounting matters, budgeting and controlling on a regular basis. I embrace a feminine leadership style and am happy to act as mentor to the younger employees. I am also a firm believer that a work-life balance, teamwork and cross-collaboration are key to accomplishing the Division's objectives.



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## **Amy Camilleri**

### *Financial Control Department*

I joined the Financial Control Department in 2014 and have recently been appointed Head of Department. My work at the Bank has enabled me to grow professionally and gain expertise in the applicability of the Eurosystem Accounting Framework. Through my participation in ESCB working group and committee meetings, I had the opportunity to share experiences with colleagues working in other Central Banks and further strengthen my technical knowledge on the functioning of the Eurosystem. An accountant by profession, I have lectured accounting modules at the University of Malta and co-authored and published research papers in international peer-reviewed journals. In my current role, I aim to promote team collaboration and knowledge sharing within the Department.



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## **Yana Camilleri**

### *Legal Department*

The year 2023 marks my tenth work anniversary at the Bank. My career progressed from that of a Legal Officer to my current role of Principal Legal Officer within the Legal Department. My career path at the Bank led me to specialise in the field of regulatory compliance. This area of specialisation is an ever-evolving area which encompasses several fields of law including data protection, freedom of information, ethics, legal risk management and procurement-related matters amongst others. I also act as the Bank's Data Protection Officer and serve as the Bank's main contact point for the Office of the Information and Data Protection Commissioner. I am also the Bank's representative on the ECB's Ethics and Compliance Committee and form part of the Network of ESCB Experts on Data Protection. Throughout these years, the Bank offered me the opportunity to deliver training sessions to all staff members on data protection and compliance related issues. In my role of Principal Legal Officer, I am constantly involved in the provision of legal advice to management on various other matters related to banking and financial services. In 2023, I was directly involved in the drafting and issuance of a number of legislative documents related to the IMF and the EBRD, respectively.



## John Caruana

### *Monetary Policy and Eurosystem Relations Department*

As an economist with over 30 years' experience and a long-standing interest in monetary economics, my primary role is to prepare the Governor and Deputy Governors of the Bank ahead of meetings of the Governing Council of the ECB, especially on monetary policy issues. This involves reviewing economic reports and projections prepared by ECB staff, as well as inputs provided by the Bank's own experts.



During 2023, I was one of the Bank's members on the ECB's MPC. I also chaired the ESCB's Working Group on Public Finance, a sub-structure of the MPC, which brings together fiscal experts from the ECB and the NCBs of the EU Member States. The Working Group monitors fiscal developments in the EU, prepares fiscal projections and carries out analytical work related to public finances.

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## Kane Cortis

### *International Asset Management Office Financial Asset Management Department*

The Central Bank of Malta has been instrumental in my development. Together with my team, I am entrusted with the management of multiple portfolios which make up a significant size of the assets under management of the Bank. I also manage the third-party portfolios and co-manage the ECB's reserves with the Central Bank of Ireland. My role extends to overseeing triparty and bilateral repo activities, as well as managing the Bank's non-traditional fixed income exposures. Navigating the ever-evolving market landscape brings forth challenges in portfolio management, yet it concurrently offers an exciting environment.



The Bank's *Learning Research and Development Study Programme* helped advance my skillset as I went on to read for an M.Sc. in Investment Banking and Finance at the University of Glasgow. The Bank also offers me opportunities to expand my experience beyond portfolio management. In 2023 I was heavily involved in the student dealing room programme. This project aimed to introduce university students to fixed income and FX trading, via a portfolio simulation programme. I was tasked with coordinating the fixed-income section, delivering lectures, as well as carrying out the final assessment on each student. The project was a success with 83% of the enrolled students being selected to work with the Bank as interns. I also had the pleasure to work on other important projects such as the new Treasury Management System and the publication of two papers titled *An Introductory Overview of the Bond Market* and *Bond Performance Measures and Valuations*, aimed at enhancing financial market literacy.

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## Glenn Formosa

### *International Asset Management Office Financial Asset Management Department*

I joined the Bank in 2015 as a Market Analyst within the Market Analysis Office, and after five years moved to International Asset Management Office, where together with my colleagues, I was responsible to manage various fixed income portfolios.



In the past two years I got more involved in Sustainable Responsible Investment (SRI) and subsequently formed part of the newly established SRI Desk. This area is close to my heart as I believe that climate change is one of the most significant existential threats of current and future generations and

unless immediate action is taken the increasingly extreme weather events are expected to negatively impact economies, social conditions, and biodiversity. Being part of the SRI desk, allows me to make a more tangible impact, as I help in the Bank's efforts to transition the NMPPs to be managed in a more sustainable manner to reach our climate and ESG targets whilst minimising climate-related risks. In recent years, SRI considerations are playing a more significant role in the Bank's Strategic Asset Allocation whereby the climate impact of any investment allocation is thoroughly assessed whilst new funds are also being scrutinised from a climate's perspective along with the more traditional risk-return considerations. In addition, months of work and preparation culminated into the Bank's first Climate-Related Financial Disclosure report of its NMPPs in March 2023 as part of the ECB and Eurosystem's efforts to lead by example in this increasingly important area.

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### **Paul Giordmaina**

*Policy & Crisis Management Office*

*Policy, Crisis Management and Stress Testing Department*

I joined the Bank back in 2016, first, as an intern and subsequently, as a full-timer. I have been working ever since at the Policy and Crisis Management Office within the Financial Stability Department. Along these years, I have worked on a number of policy initiatives designed to safeguard the stability of the financial system. In addition, working at the Bank has given me the opportunity to participate in a number of working groups and task forces along with colleagues from other institutions both at a domestic level and EU level. In this regard, I am a member of the domestic crisis management task force which is composed of representatives from the Bank, MFSA and the Ministry for Finance. Furthermore, I also form part of the Single Supervisory Mechanism Coordinators group which is composed of representatives of national competent authorities and NCBs coordinating the SSM decision-making processes and the ECB's SSM Secretariats.



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### **Fabio Pisano**

*Monetary and Financial Statistics and CCR Office*

*Statistics Department*

Since I joined the Bank I always worked in the Statistics Department, initially on the AnaCredit project, from 2022, on Monetary Statistics. Such information serves various stakeholders, within the Bank and other National and International Institutions.

Since such statistics are used for policy making of the Bank and of this Country, I find very remarkable that the Bank provides the opportunity to work in a position of such responsibility also to foreigners such as myself.

Finally, this December I successfully defended my Ph.D. thesis which analyses, from an academic point of view, the development of the Maltese Central Credit Register and through the development and of an algorithm for an automatic credit risk assessment. Coherently with that, during this year I have also tried to use these competencies to draft some algorithms used internally, which can automate checks and processes for smoothening the working process and for reducing errors.



### **Kurt Sant**

*Fiscal Affairs & Reports Office  
Economic Analysis Department*

As a member of the Bank's forecasting team, my primary role includes the maintenance of fiscal databases, the production of fiscal forecasts and conducting comprehensive economic analyses pertinent to fiscal matters. Throughout 2023, my colleagues and I encountered several challenges in this regard, particularly navigating the uncertainties stemming from elevated energy prices and a high-inflation environment, which significantly impacted our forecasting efforts.



In addition to these core responsibilities, I actively contribute to the division's research initiatives. In 2023, apart from authoring some boxes featured in the Bank's quarterly review and projections, I published a working paper on Malta's Tapering of Benefits scheme, updated previous work on Malta's air connectivity and presented collaborative research on the development of Malta's Economic Policy Uncertainty Indicator at the Bank's annual research workshop.

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### **Michael Sant**

*Financial Crime Compliance Department*

I joined the Financial Crime Compliance Unit within Payments & Banking Operations Office at the Bank back in February 2022. The journey since then has been challenging yet rewarding, especially now forming part of the Financial Crime Compliance Department which reports directly to the Board of Directors.



Since joining the Bank, I have gained knowledge and experience within the field of Anti-Money Laundering & Combatting Terrorist Financing, besides other financial crime risks which include Sanctions and Anti-Bribery & Corruption. The primary ongoing challenge as a Financial Crime Compliance Officer is the continuous developments in both local and foreign regulations and legislations. To this end I have assisted the Money Laundering Reporting Officer (MLRO) in formulating a new template for sanctions alerts reporting, in order that any decisions can be conducted in a timely manner.

All the above has helped me shape my achievements for 2023, while also working closely with the MLRO.

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### **Antonella Sciberras**

*Monetary Operations & Government Securities Office  
Monetary Operations & Government Securities Department*

I joined the Central Bank of Malta in 2016 and since then, I have been assigned in the Monetary Operations area which is responsible for the monetary policy implementation. I have been actively involved in the conduct of the Eurosystem operations, collateral management and liquidity management. Throughout the years, I have been involved in several important dossiers such as annual reports, quarterly reviews and the weekly money market reports. During the years, there were some challenging episodes including the coronavirus pandemic, where the monetary operations area had to implement in a short time-span decisions taken by the Governing Council of the ECB.



However, with the efforts and cooperation of my colleagues and superiors all the necessary requirements were successfully implemented in a timely manner. These episodes were without any doubt instrumental in enhancing my knowledge in this area along with assisting in my professional development. Throughout

my seven years at the Bank, I worked closely with exceptional colleagues, forging close bonds that not only developed into cherished friendships but also enriched me with profound professional and personal lessons.

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### **Andre Vella**

*Application Development and Project Delivery Office  
Innovation, Technology and Knowledge Services Department*

Throughout the past year, as a software developer at the Bank my focus has been on developing, maintaining and testing applications with the aim of optimizing the Bank's processes and improving user experience. In close collaboration with various departments at the Central Bank of Malta, I have identified tedious and time-consuming processes and together with the rest of the development team automated these processes and minimized inefficiencies. While undertaking these projects, I have conducted research to explore new technologies, seeking opportunities to further improve our processes and align our work with the needs of the bank's departments.



### **Sarah Vella**

*Financial Stability Research Office  
Financial Stability Surveillance and Research Department*

I joined the Bank as an intern in 2020. Since then, I have obtained a BCom (Honours) in Economics from the University of Malta and a MSc in Economics from the University of Exeter. I am a Senior Research Economist within the Financial Stability Research Office, where I conduct research on financial stability issues related to the risk assessment and the macroprudential policy framework. During 2023, I was tasked with the construction of the cyclical systemic risk indicator, which is an indicator that is used by the Bank to track the build-up of cyclical risks in Malta. During this year, I have also conducted research on developing risk thresholds to signal the cyclical systemic risk level present in Malta and the impact of macroprudential policies on the household and credit markets. I am particularly intrigued by and like to continuously learn about econometric methods and advancements in the literature. I like the challenge that comes with their application in my work. It gives me great satisfaction to disseminate my research findings to the wider audience.





## **III. FINANCIAL STATEMENTS**

## Directors' report

The Directors present their report and the audited financial statements of the Central Bank of Malta (the Bank) for the year ended 31 December 2023.

### Presentation of the financial statements

These financial statements have been prepared so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2023, and of its profit and loss account for the year then ended. The financial statements have been prepared in accordance with the provisions established by the Governing Council of the European Central Bank under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank and in accordance with the requirements of the Central Bank of Malta Act (Cap. 204). The provisions established by the Governing Council of the European Central Bank are outlined in the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34) as amended by the Guideline of 28 November 2019 (ECB/2019/34) and Guideline of 11 November 2021 (ECB/2021/51).

### Financial results

The Bank's financial statements for the year ended 31 December 2023 are set out on pages A-4 to A-37. During the year under review, the Bank registered a zero financial result consequent to a transfer of €18.72 million from the provision for financial risks to the profit and loss account.

### Board of Directors

The members of the Board of Directors during the year ended 31 December 2023 and up to the date of authorisation for issue of the financial statements were:

Professor Edward Scicluna – Governor  
Mr Alexander Demarco – Deputy Governor Monetary Policy  
Mr Oliver Bonello – Deputy Governor Financial Stability  
Professor Peter J. Baldacchino  
Dr Romina Borg  
Professor Frank Bezzina  
Dr Lauren Ellul

During the financial year, Mr Francis Bugeja was secretary to the Board.

### Statement of Directors' responsibilities in respect of the financial statements

The Board of Directors is responsible for ensuring that the financial statements are drawn up in accordance with the requirements of the Central Bank of Malta Act (Chapter 204, Laws of Malta). The Bank is required to prepare financial statements in accordance with the requirements of the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34) as amended by the Guideline of 28 November 2019 (ECB/2019/34) and Guideline of 11 November 2021 (ECB/2021/51).

The Board of Directors is responsible for ensuring that these financial statements give a true and fair view of the state of affairs of the Bank as at 31 December 2023 and of the profit and loss account for the year then ended.

In preparing the financial statements, the Directors are responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

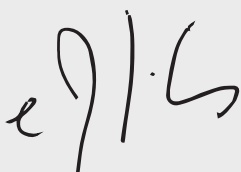
The Directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the requirements set out above. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Bank for the year ended 31 December 2023 are included in the Annual Report 2023, which is published in printed form and is made available on the Bank's website.\* The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

### Auditors

Deloitte Audit Limited were appointed as the auditors of the Bank with effect from this financial year and signify their willingness to continue in office.


By order of the Board.



Professor Edward Scicluna  
Governor



Mr Alexander Demarco  
Deputy Governor



Mr Oliver Bonello  
Deputy Governor

Central Bank of Malta  
Pjazza Kastilja  
Valletta VLT 1060  
Malta

18 March 2024

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\* [www.centralbankmalta.org/annual-reports](http://www.centralbankmalta.org/annual-reports)

## Balance Sheet as at 31 December 2023

	2023	2022
Assets	€000	€000
<b>A 1 Gold and gold receivables</b>	<b>17,438</b>	<b>3,412</b>
<b>A 2 Claims on non-euro area residents denominated in foreign currency</b>	<b>1,119,419</b>	<b>1,149,501</b>
A 2.1 Receivables from the IMF	377,720	368,789
A 2.2 Balances with banks and security investments, external loans and other external assets	741,699	780,712
<b>A 3 Claims on euro area residents denominated in foreign currency</b>	<b>375,275</b>	<b>226,005</b>
<b>A 4 Claims on non-euro area residents denominated in euro</b>	<b>740,612</b>	<b>683,118</b>
A 4.1 Balances with banks, security investments and loans	740,612	683,118
A 4.2 Claims arising from the credit facility under ERM II	-	-
<b>A 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>57,000</b>	<b>130,000</b>
A 5.1 Main refinancing operations	20,000	-
A 5.2 Longer-term refinancing operations	37,000	130,000
A 5.3 Fine-tuning reverse operations	-	-
A 5.4 Structural reverse operations	-	-
A 5.5 Marginal lending facility	-	-
A 5.6 Credits related to margin calls	-	-
<b>A 6 Other claims on euro area credit institutions denominated in euro</b>	<b>585</b>	<b>5,121</b>
<b>A 7 Securities of euro area residents denominated in euro</b>	<b>2,457,230</b>	<b>2,339,793</b>
A 7.1 Securities held for monetary policy purposes	1,552,289	1,577,180
A 7.2 Other securities	904,941	762,613
<b>A 8 General government debt denominated in euro</b>	<b>-</b>	<b>-</b>
<b>A 9 Intra-Eurosystem claims</b>	<b>5,462,840</b>	<b>5,520,588</b>
A 9.1 Participating interest in ECB	22,234	22,234
A 9.2 Claims equivalent to the transfer of foreign reserves	42,314	42,314
A 9.3 Claims related to the issuance of ECB debt certificates*	-	-
A 9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	-	-
A 9.5 Other claims within the Eurosystem (net)	5,398,292	5,456,040
<b>A 10 Items in course of settlement</b>	<b>7,348</b>	<b>6,303</b>
<b>A 11 Other assets</b>	<b>461,813</b>	<b>406,010</b>
A 11.1 Coins of euro area	7	10
A 11.2 Tangible and intangible fixed assets	38,728	42,069
A 11.3 Other financial assets	311,811	227,503
A 11.4 Off-balance sheet instruments revaluation differences	1,086	4,630
A 11.5 Accruals and prepaid expenses	51,562	33,936
A 11.6 Sundry	58,619	97,862
<b>Total Assets</b>	<b>10,699,560</b>	<b>10,469,851</b>

\* Only an ECB balance sheet item

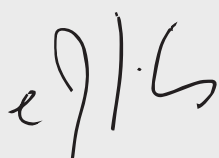
	2023	2022
Liabilities	€'000	€000
<b>L 1 Banknotes in circulation</b>	<b>1,504,538</b>	<b>1,517,012</b>
<b>L 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>5,609,247</b>	<b>5,844,345</b>
L 2.1 Current accounts (covering the minimum reserve system)	302,533	867,727
L 2.2 Deposit facility	5,306,714	4,976,618
L 2.3 Fixed-term deposits	-	-
L 2.4 Fine-tuning reverse operations	-	-
L 2.5 Deposits related to margin calls	-	-
<b>L 3 Other liabilities to euro area credit institutions denominated in euro</b>	<b>6,208</b>	<b>6,795</b>
<b>L 4 Debt certificates issued*</b>	<b>-</b>	<b>-</b>
<b>L 5 Liabilities to other euro area residents denominated in euro</b>	<b>1,432,262</b>	<b>1,100,478</b>
L 5.1 General government	800,343	573,062
L 5.2 Other liabilities	631,919	527,416
<b>L 6 Liabilities to non-euro area residents denominated in euro</b>	<b>24,227</b>	<b>67,616</b>
<b>L 7 Liabilities to euro area residents denominated in foreign currency</b>	<b>420,898</b>	<b>310,609</b>
<b>L 8 Liabilities to non-euro area residents denominated in foreign currency</b>	<b>-</b>	<b>-</b>
L 8.1 Deposits, balances and other liabilities	-	-
L 8.2 Liabilities arising from the credit facility under ERM II	-	-
<b>L 9 Counterpart of special drawing rights allocated by the IMF</b>	<b>312,082</b>	<b>321,324</b>
<b>L 10 Intra-Eurosystem liabilities</b>	<b>861,846</b>	<b>784,634</b>
L 10.1 Liabilities equivalent to the transfer of foreign reserves*	-	-
L 10.2 Liabilities related to the issuance of ECB debt certificates	-	-
L 10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	861,846	784,634
L 10.4 Other liabilities within the Eurosystem (net)	-	-
<b>L 11 Items in course of settlement</b>	<b>-</b>	<b>-</b>
<b>L 12 Other liabilities</b>	<b>34,161</b>	<b>26,376</b>
L 12.1 Off-balance sheet instruments revaluation differences	5,426	715
L 12.2 Accruals and income collected in advance	15,130	12,458
L 12.3 Sundry	13,605	13,203
<b>L 13 Provisions</b>	<b>89,225</b>	<b>107,901</b>
<b>L 14 Revaluation accounts</b>	<b>18,833</b>	<b>665</b>
<b>L 15 Capital and reserves</b>	<b>386,033</b>	<b>382,096</b>
L 15.1 Capital	20,000	20,000
L 15.2 Reserves	366,033	362,096
<b>L 16 Profit for the year</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>10,699,560</b>	<b>10,469,851</b>

\* Only an ECB balance sheet item

## Profit and Loss account for the year ended 31 December 2023

	2023	2022
	€000	€'000
1.1 Interest income	301,646	98,099
1.2 Interest expense	(242,694)	(33,180)
<b>1 Net interest income</b>	<b>58,952</b>	<b>64,919</b>
2.1 Realised gains/losses arising from financial operations	8,562	4,499
2.2 Write-downs on financial assets and positions	(3,260)	(37,388)
2.3 Transfer to/from provisions for financial risks	18,720	20,908
<b>2 Net result of financial operations, write-downs and risk provisions</b>	<b>24,022</b>	<b>(11,981)</b>
3.1 Fees and commissions income	794	686
3.2 Fees and commissions expense	(1,613)	(1,661)
<b>3 Net income/expense from fees and commissions</b>	<b>(819)</b>	<b>(975)</b>
<b>4 Income from equity shares and participating interests</b>	<b>-</b>	<b>44</b>
<b>5 Net result of pooling of monetary income</b>	<b>(53,920)</b>	<b>(26,806)</b>
<b>6 Other income</b>	<b>4,369</b>	<b>3,088</b>
<b>Total net income</b>	<b>32,604</b>	<b>28,289</b>
<b>7 Staff costs</b>	<b>(15,718)</b>	<b>(14,933)</b>
<b>8 Administrative expenses</b>	<b>(12,683)</b>	<b>(10,582)</b>
<b>9 Depreciation of tangible and intangible fixed assets</b>	<b>(3,641)</b>	<b>(2,394)</b>
<b>10 Banknote production services</b>	<b>(164)</b>	<b>(376)</b>
<b>11 Other expenses</b>	<b>(398)</b>	<b>(4)</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>
<b>Transfer to reserves for risks and contingencies</b>	<b>-</b>	<b>-</b>
<b>Payable to the Government of Malta in terms of article 22(2) of the Central Bank of Malta Act (Cap. 204)</b>	<b>-</b>	<b>-</b>

The financial statements on pages A-4 to A-37 were approved for issue by the Board of Directors on 18 March 2024 and are signed on its behalf by:



Professor Edward Scicluna  
Governor



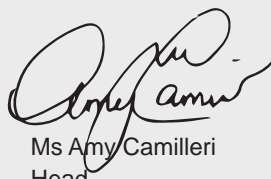
Mr Alexander Demarco  
Deputy Governor



Mr Oliver Bonello  
Deputy Governor



Ms Maryanne Attard  
Chief Officer  
Financial Control and Risk



Ms Amy Camilleri  
Head  
Financial Control

## Notes to the financial statements for the year ended 31 December 2023

### General notes to the financial statements

#### 1 The Eurosystem

The Central Bank of Malta (the Bank) is a participating member of the Eurosystem and has joint responsibility for monetary policy and for exercising the common strategic goals of the European System of Central Banks (ESCB).<sup>1</sup>

#### 2 Basis of preparation

As established by the Central Bank of Malta Act (Chapter 204, Laws of Malta) (the Act), the Bank is required to prepare its financial statements in accordance with the guideline on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) ECB/2016/34 issued on 3 November 2016 as amended by subsequent ECB guidelines (the Guideline).<sup>2</sup>

In line with the requirements of the Guideline, in cases where the latter does not provide specific direction, the requirements of generally accepted accounting principles are applied. In the case of the Bank, reference is made to International Financial Reporting Standards (IFRS) as adopted by the EU.

These financial statements have been drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2023 and of its profit and loss account for the year then ended. The accounts have been prepared on a historical cost basis, modified to include the revaluation of gold, foreign currency instruments, securities (other than securities classified as held-to-maturity and securities held for monetary policy purposes that are accounted for at amortised cost), as well as other financial instruments, both on-balance sheet and off-balance sheet, at mid-market rates and prices.

#### 3 Accounting policies

##### Basic accounting principles

The basic accounting principles applied by the Bank in the preparation of these financial statements are:

- economic reality and transparency;
- prudence;
- materiality;
- consistency and comparability;
- going concern;
- accruals principle;
- post-balance sheet events.

##### Recognition of assets and liabilities

An asset or liability is only recognised in the balance sheet when it is probable that any associated future economic benefit will flow to or from the Bank, substantially all of the associated risks and rewards have been transferred to or from the Bank, and the cost or value of the asset or liability can be measured reliably.

<sup>1</sup> The European Central Bank (ECB), together with national central banks (NCBs), shall constitute the ESCB. The ECB together with the NCBs of the Member States whose currency is the euro, constitute the Eurosystem and shall conduct the monetary policy of the Union, as per Article 282.1 of the Treaty of the Functioning of the European Union. The Eurosystem and the ESCB will co-exist as long as there are European Union (EU) Member States outside the euro area.

<sup>2</sup> Guideline ECB/2019/34 entered into force on 31 December 2019 and Guideline ECB/2021/51 entered into force on 31 December 2021.

## Foreign currency transactions

Foreign exchange transactions, comprising spot and forward deals in gold and foreign currencies, are recorded as off-balance sheet commitments on trade date at the prevailing spot exchange rate of the forward transaction. All security transactions in foreign currencies are recorded on-balance sheet on settlement date at the applicable exchange rate. All other transactions are recorded in the balance sheet at market exchange rates prevailing on the day of the transaction.

The average cost method is used on a daily basis for calculating the acquisition cost of assets and liabilities that are subject to price and/or exchange rate movements.

Financial assets and liabilities denominated in foreign currency, including off-balance sheet positions, are revalued at the prevailing mid-market exchange rates at the balance sheet date. Gold balances are revalued at market prices prevailing at the year end. No distinction is made between price and currency revaluation differences for gold, but a single gold revaluation difference is accounted for on the basis of the euro price per defined unit of weight of gold derived from the euro/US dollar exchange rate at the balance sheet date.

Foreign currency positions (including off-balance sheet transactions) are revalued on a currency-by-currency basis. In the case of securities, revaluation is carried out on a code-by-code basis (same ISIN number/type) and is treated separately from exchange rate revaluation.

In the case of foreign currency or gold positions, inflows and outflows are compared against each other to determine any realised gains or losses. Where a long position exists, net inflows of currencies and gold made during the day shall be added, at the average rate or the average price of gold, to the previous day's holding, to produce a new weighted average cost. In the case of net outflows, the calculation of a second realised gain or loss shall be based on the average cost of the respective currency or gold holding for the preceding day so that the average cost remains unchanged. For short positions, the reverse accounting treatment is applied.

## Securities

All securities are initially recorded at transaction price. The average cost method is used on a daily basis for the purpose of calculating the acquisition cost of a security that is sold.

Debt securities held for monetary policy purposes and marketable debt securities classified as held-to-maturity are measured at amortised cost and subject to impairment.

Held-to-maturity securities have fixed or determinable payments and a fixed maturity date, which the Bank intends to hold until maturity. Securities classified as held-to-maturity may be sold before their maturity in any of the following instances:<sup>3</sup>

- if the quantity sold is considered not significant in comparison with the total amount of the held-to-maturity securities portfolio;
- if the securities are sold during the month of the maturity date;
- under exceptional circumstances, such as a significant deterioration of the issuer's creditworthiness.

Marketable securities (other than those held-to-maturity) are valued at the mid-market prices at the balance sheet date, on a security-by-security basis.

Marketable investment fund units held for investment purposes without the Bank intervening in the decisions on the purchase or sale of the underlying assets, are valued at market prices on a net fund basis at year end. Gains and losses arising on measurement of these investment funds are accounted for in accordance

<sup>3</sup> Refer to article 9(6) of the Guideline of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34), OJ L 347, 20.12.2016, p. 37.

with the Guideline (see 'Recognition of income and expenses' in 3 'Accounting policies' in the general notes to the financial statements).

Malta Government Stocks (MGS) and Treasury bills purchased on the secondary market in the Bank's role as a market maker are designated as part of an earmarked portfolio. Financial instruments forming part of this earmarked portfolio are measured at mid-market prices prevailing at the balance sheet date. Unrealised gains are reflected on-balance sheet under L 12.3 'Sundry', while unrealised losses are recognised under A 11.6 'Sundry'.

### Off-balance sheet instruments

Spot and forward foreign exchange contracts and daily changes in the variation margins of future contracts are included in the net foreign currency position for the purpose of calculating the average cost of currencies and determining realised foreign exchange gains and losses. Futures are accounted for and revalued on an item-by-item basis. Daily changes in the variation margins of open futures contracts, representing realised gains and losses, are recognised in the profit and loss account.

Gains and losses arising from off-balance sheet instruments are recognised and treated in a similar manner to on-balance sheet instruments. Realised and unrealised gains and losses are measured and accounted for as outlined in 'Recognition of income and expenses' in 3 'Accounting policies' in the general notes to the financial statements.

### Sale and repurchase agreements and lending of securities

Securities sold subject to repurchase agreements (repos) are retained in the financial statements in the appropriate classification on the assets side of the balance sheet while the counterparty liability is included as a collateralised inward deposit on the liabilities side of the balance sheet, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as a collateralised outward loan on the assets side of the balance sheet, as appropriate. The difference between the sale and repurchase price is treated as interest and is accrued in the profit and loss account over the term of the agreement on a straight-line basis. Securities lent to counterparties are also retained in the financial statements.

### Recognition of income and expenses

Income and expenses are recognised in the period in which they are earned or incurred.

#### *Interest income and expense*

Interest income and expense are recognised in the profit and loss account for all interest-bearing assets and liabilities.

Interest income and interest expense arising from monetary policy operations are reported on a net basis on a balance sheet sub-item level under either 'interest income' or 'interest expense', depending on whether the net amount generated or incurred is positive or negative.

Premiums or discounts, arising from the difference between the average acquisition cost and the redemption price of all securities, are amortised over the remaining term of the security on a discounted basis. These are presented as part of interest income, together with coupons earned. Accrued interest and premiums and discounts related to financial instruments denominated in foreign currency are converted at the mid-market rate on each business day and are included in the respective foreign currency position.

In respect of forward exchange contracts, the difference between the deemed spot exchange rate of the forward contract and the deal rate is considered as interest income or expense and is amortised on a straight-line basis from the trade date to settlement date.

### *Gains and losses arising from foreign exchange, gold and securities*

Realised gains and realised losses can only arise in the case of transactions leading to a reduction in foreign currency positions or on the sale of securities. In the case of securities, realised gains or losses are derived by comparing the transaction value with the average cost of the respective security. All realised gains and losses are taken to the profit and loss account.

Unrealised revaluation gains and losses arise as a result of the revaluation of assets and liabilities by comparing the market value with the average book value. Unrealised gains are not recognised as income but are transferred directly to a revaluation account. Unrealised losses, with the exception of those relating to the MGS and Treasury bills earmarked portfolio, are taken to the profit and loss account when they exceed previous unrealised gains registered in the corresponding revaluation account. Unrealised losses recorded in the profit and loss account in previous years are not reversed against unrealised gains in subsequent years. Unrealised losses in any one security or in any foreign currency, including gold, are not netted against unrealised gains in other securities or other foreign currencies.

### **Claims on the International Monetary Fund (IMF)**

The IMF reserve tranche position, SDR and other claims on the IMF are translated into euro at the year end ECB euro to SDR exchange rate.

The IMF reserve tranche position is presented on a net basis representing the difference between the national quota and the holdings in euro at the disposal of the IMF. The IMF euro holdings are revalued against the SDR at the prevailing representative rate for the euro as quoted by the IMF on its last working day of the year. The euro current account for administrative expenses is included under L 6 'Liabilities to non-euro area residents denominated in euro'.

### **Euro coins**

Subsequent to the agency agreement between the Bank and the Government of Malta, euro coins issued by the Bank give rise to a reserve in the form of a capital contribution by the Government. Deposits of euro coins with the Bank constitute a reversal of the capital contribution.

### **Tangible and intangible fixed assets**

Tangible and intangible fixed assets are stated at historical cost less depreciation and amortisation respectively, with the exception of land and works of art which are stated at historical cost and not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the carrying amount of the asset or are recognised as a separate asset, as appropriate, only when they are a present economic resource controlled by the Bank as a result of past events. All repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Freehold buildings	2%
Leasehold property	over the remaining term of the lease
Computer hardware and software, equipment and other fixed assets	10% to 25%

Tangible and intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down to its recoverable amount if that carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses arising on derecognition are determined by comparing sale proceeds with the carrying amount. These are included in the profit and loss account in the year when the asset is derecognised.

## Leases

For lease agreements, the related right-of-use asset and lease liability are recognised in the balance sheet at the lease commencement date under A 11.2 'Tangible and intangible fixed assets' and L 12.3 'Sundry' respectively.

The right-of-use asset is valued at cost less depreciation and impairment (see 'Tangible and intangible fixed assets' in 3 'Accounting policies' in the general notes to the financial statements). Depreciation is calculated on a straight-line basis from the commencement date to either the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier.

The lease liability is initially measured at the present value of the future lease payments, discounted at the Bank's incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost using the effective interest method. The related interest expense is recorded in the profit and loss account under 1.2 'Interest expense'.

Short-term leases with a duration of twelve months or less and leases of low-value assets are recorded in the profit and loss account under 8 'Administrative expenses'.

## Provisions

Provisions are recognised by the Bank in accordance with the Guideline. The general risk provision covers all financial risks, defined as market, liquidity and credit risks. Taking into due consideration the nature of its activities, the Bank has established a provision for all financial risks within its balance sheet. The Bank decides on the size and use of the provision on the basis of a reasoned estimate of its risk exposure.

## 4 Capital key

The capital key determines the allocation of the ECB's share capital to the NCBs on the basis of population and gross domestic product in equal share. It is adjusted every five years and whenever there is a change in the composition of the EU in accordance with the requirements of the Statute. Pursuant to Council Decision 2022/1211/EU of 12 July 2022, taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Croatia adopted the single currency on 1 January 2023. Following Hrvatska Narodna Banka's entry in the Eurosystem, the Bank's capital key as at 31 December 2023, remained unchanged at 0.0853% when compared to the capital key as at 31 December 2022.

The Eurosystem capital key, which is the respective NCB's share of the total share capital held by euro area NCBs, is used as the basis for the allocation of monetary income and the financial results of the ECB among the Eurosystem NCBs. Consequent to the entry of Hrvatska Narodna Banka in the Eurosystem, the Bank's Eurosystem capital key declined from 0.1049% as at 31 December 2022 to 0.1040% as at 1 January 2023 and remained unchanged until the end of the year.

## 5 Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation is allocated to the Eurosystem NCBs on the last working day of each month in accordance with the banknote allocation key. The ECB has been allocated an 8% share of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs

according to their weightings in the capital of the ECB.<sup>4</sup> The share of banknotes allocated to each NCB is disclosed in the balance sheet under L 1 'Banknotes in circulation'.

Following the entry of Hrvatska Narodna Banka into the Eurosystem, the Bank's share in euro banknotes decreased from 0.0965% as at 31 December 2022 to 0.0960% as at 1 January 2023 and remained unchanged until the end of the year.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation, as reduced by banknotes withdrawn from circulation, gives rise to intra-Eurosystem balances remunerated<sup>5</sup> on a daily basis at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (MROs). If the value of the euro banknotes actually put into circulation is greater than the value according to the banknote allocation key, the excess is recognised as a liability in the balance sheet under L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'. If the value of the euro banknotes actually put into circulation is less than the value according to the banknote allocation key, the shortfall is recognised as an asset in the balance sheet under A 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

In the cash changeover year<sup>6</sup> and in the subsequent five years, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted to avoid significant changes in the NCB's relative income positions as compared to previous years. The adjustments are affected by taking into account the differences between the average value of the banknotes which the NCB had in circulation in the reference period,<sup>7</sup> and the average value of banknotes which would have been allocated to it during that period in accordance with its capital key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year, when income on banknotes are allocated fully in proportion to the NCB's paid-up shares in the ECB's capital. The adjustments that resulted from the accession of Hrvatska Narodna Banka commenced during the year under review and will terminate at the end of 2028.

Any interest income or expense on these balances is cleared through the accounts of the ECB and is recognised in the profit and loss account under 1 'Net interest income'.

## 6 ECB profit distribution

The Governing Council of the European Central Bank (the Governing Council) has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as income arising from the securities held under the securities markets programme (SMP), the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.<sup>8</sup> Any such decision shall be taken where, on the basis of a reasoned estimate prepared by the Executive Board, the Governing Council expects that the ECB will have an overall annual loss or will make an annual net profit that is less than this income. The Governing Council may also decide to transfer all or part of this income to a provision for financial risks. Furthermore, the Governing Council may decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

<sup>4</sup> ECB decision of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26 as amended by ECB Decision of 22 January 2020 (ECB/2020/7), OJ L 271, 1.2.2020, p. 21, ECB Decision of 16 December 2022 (ECB/2022/46), OJ L 328, 22.12.2022, p. 136 and ECB Decision of 7 December 2023 (ECB/2023/35), OJ L 2023/2815, 18.12.2023.

<sup>5</sup> ECB Decision of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26 as amended by ECB Decision of 12 November 2020 (ECB/2020/55), OJ L 390, 20.11.2020, p. 60.

<sup>6</sup> Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender in the respective Member State.

<sup>7</sup> The reference period refers to a 24-month period commencing 30 months prior to the day on which euro banknotes become legal tender in the respective Member State.

<sup>8</sup> ECB Decision of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24 as amended by ECB Decision of 2 July 2015 (ECB/2015/25), OJ L 193, 21.7.2015, p. 133, ECB decision of 28 November 2019 (ECB/2019/36) OJ L 332, 23.12.2019, p. 183 and ECB decision of 12 November 2020 (ECB/2020/56) OJ L 390, 20.11.2020, p. 63.

The amount distributed to the Bank is recognised in the profit and loss account under 4 'Income from equity shares and participating interests'.

## 7 Intra-Eurosystem balances/Intra-ESCB balances

Intra-Eurosystem balances result mostly from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) and give rise to bilateral balances in the TARGET accounts of EU NCBs. Payments conducted by the ECB and the NCBs also affect these accounts. All settlements are automatically aggregated and adjusted to form part of a single position of each NCB vis-à-vis the ECB. The movements in TARGET accounts are reflected in the accounting records of the ECB and the NCBs on a daily basis. Intra-Eurosystem balances of the Bank vis-à-vis the ECB arising from TARGET, as well as other intra-Eurosystem balances denominated in euro (e.g. interim ECB profit distributions to NCBs, if any, and monetary income results), are presented on the balance sheet of the Bank as a single net asset or liability position under A 9.5 'Other claims within the Eurosystem (net)' or L 10.4 'Other liabilities within the Eurosystem (net)'. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET are disclosed either under A 4 'Claims on non-euro area residents denominated in euro' or L 6 'Liabilities to non-euro area residents denominated in euro'.

Intra-Eurosystem claims arising from the Bank's participating interest in the ECB are reported under A 9.1 'Participating interest in ECB'. In particular, this balance sheet item includes: (i) the Bank's paid-up share in the ECB's subscribed capital, (ii) any net amount paid by the Bank due to the increase in its shares in the ECB's equity value<sup>9</sup> resulting from all previous ECB capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB with respect to central banks of Member States whose derogations have been abrogated.

Intra-Eurosystem claims arising from the transfer of foreign reserve assets by the Bank to the ECB are denominated in euro and reported under A 9.2 'Claims equivalent to the transfer of foreign reserves'.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are reported as a single net asset or liability under A 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem' or L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem' as appropriate (see 5 'Banknotes in circulation' in the general notes to the financial statements).

## 8 Post-balance sheet events

The values of assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the Board of Directors if they affect the condition of assets or liabilities at the balance sheet date. No adjustment shall be made for assets and liabilities, but disclosure shall be made of those events occurring after the balance sheet date if they do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

Pursuant to Article 29 of the Statute, the weightings assigned to the NCBs in the key for subscription to the ECB's capital are adjusted every five years. On 1 January 2024, the ESCB experienced the most recent quinquennial change which resulted in an increase in the Bank's share in the subscribed capital of the ECB from 0.0853% to 0.1053%. Consequent to its increased capital key share, the Bank's capital contribution as from 1 January 2024 increased from €9,233,731 to €11,398,732. Pursuant to Article 30.2 of the Statute, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following the increase in the weighting of the Bank in the ECB's subscribed capital, the claim equivalent to this transfer also increased from €42,313,997 to €52,235,216. As a result of the quinquennial capital key change, the Bank's Eurosystem capital key as at 1 January 2024 increased to 0.1288% and the banknote allocation key increased to 0.1190%.

<sup>9</sup> Equity value consists of the total ECB's reserves, revaluation accounts and provisions equivalent to reserves, less any losses carried forward from previous periods. In the event of capital key changes, the equity value also includes the ECB's accumulated net profit or net loss until the date of the adjustment.

## Notes to the balance sheet

### Assets

#### A 1 Gold and gold receivables

The Bank's gold balances consist of correspondent accounts with foreign banks and holdings with counterparties. On 31 December 2023, gold was revalued at €1,867.828 (2022: €1,706.075) per fine troy ounce and unrealised valuation gains as at that date amounted to €416,358 with a corresponding amount disclosed under L 14 'Revaluation accounts'. As at 31 December 2022, realised valuation losses recorded in the profit and loss account amounted to €81,800.

	€'000	Fine troy ounces
Balance as at 31 December 2022	3,412	2,000
Net effect of transactions during the year	13,610	7,336
Valuation movements during the year	416	-
<b>Balance as at 31 December 2023</b>	<b>17,438</b>	<b>9,336</b>

#### A 2 Claims on non-euro area residents denominated in foreign currency

These claims consist of receivables from the IMF and other claims on counterparties resident outside the euro area denominated in foreign currency as follows:

	2023 €'000	2022 €000	Change €000
Special drawing rights	377,939	368,802	9,137
US dollar	332,371	332,772	(401)
Australian dollar	114,325	105,797	8,528
Canadian dollar	91,764	124,482	(32,718)
Swiss franc	73,172	44,345	28,827
Great British pound	48,728	52,016	(3,288)
New Zealand dollar	31,648	33,159	(1,511)
Swedish krona	28,128	52,409	(24,281)
Norwegian krone	21,263	35,627	(14,364)
Others	81	92	(11)
<b>Total</b>	<b>1,119,419</b>	<b>1,149,501</b>	<b>(30,082)</b>

#### A 2.1 Receivables from the IMF

	2023 €'000	2022 €'000	Change €'000
Reserve tranche position (net)	54,287	55,894	(1,607)
SDR holdings	318,476	312,895	5,581
Resilience and Sustainability Trust (RST)	4,957	-	4,957
<b>Total</b>	<b>377,720</b>	<b>368,789</b>	<b>8,931</b>

Malta's quota as a membership subscription to the IMF as at 31 December 2022 and 2023 was SDR168,300,000. Up to 25% of the quota is paid in SDR (IMF's unit of account) or foreign currencies acceptable to the IMF, while the remainder of the membership subscription is paid in the member's own currency. The former portion constitutes the reserve tranche as a claim on the IMF, while the residual represents balances in euro at the disposal of the Fund. Hence, the net reserve tranche position represents the difference between the quota of SDR168,300,000 and the balance in euro at the disposal of the IMF. As at 31 December 2022 and 2023, the net reserve tranche position amounted to SDR44,654,776, which in 2023 was equivalent to €54,286,874.

Upon membership, a member's SDR holdings amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of various transactions. As at 31 December 2022 and 2023, the SDR allocated to Malta amounted to SDR256,709,738. This is reported under L 9 'Counterpart of special drawing rights allocated by the IMF'. SDR allocated to Malta cannot be withdrawn unless such advice is received from the IMF.

During 2023, the Bank entered into arrangements with the IMF resulting in net purchases of SDR14,456,000. As at 31 December 2023, Malta's SDR holdings, net of transfer to the RST and including interest received thereon, amounted to SDR261,969,321 (2022: SDR249,976,029) equivalent to €318,476,104 (2022: €312,895,183). The net reserve tranche position, SDR holdings and the SDR allocation are subject to SDR interest rates quoted by the IMF on a weekly basis.

During 2023, the Bank, in conjunction with the Ministry for Finance, concluded the RST contribution agreement with the IMF to make available an SDR equivalent of up to €30,000,000 until 2030. As at 31 December 2023, an amount of SDR4,077,590 equivalent to €4,957,126 was deposited under this agreement by the Bank.

In 2021, the Bank entered into a bilateral SDR-denominated loan agreement with the Fund for €112,000,000. No drawings were affected under this agreement during 2022 and 2023.

## A 2.2 Balances with banks and security investments, external loans and other external assets

These assets consist of security investments issued by non-euro area residents and balances with banks.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Marketable debt securities other than those held-to-maturity	<b>109,579</b>	50,422	59,157
Held-to-maturity debt securities	<b>615,282</b>	674,599	(59,317)
Current accounts and overnight deposits with banks	<b>16,838</b>	55,691	(38,853)
<b>Total</b>	<b>741,699</b>	780,712	(39,013)

## A 3 Claims on euro area residents denominated in foreign currency

These foreign currency assets comprise investments in marketable debt securities issued by euro area residents, claims arising from reverse operations with euro area counterparties and balances with banks.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Marketable debt securities other than those held-to-maturity	<b>19,376</b>	4,595	14,781
Held-to-maturity debt securities	<b>140,520</b>	74,936	65,584
US dollar liquidity-providing operations	<b>214,480</b>	142,696	71,784
Current accounts and overnight deposits with banks	<b>899</b>	3,778	(2,879)
<b>Total</b>	<b>375,275</b>	226,005	149,270

During 2023, credit institutions established in Malta participated for a total amount of US\$11,013,900,000 in US dollar liquidity-providing operations. The outstanding amount as at 31 December 2023 stood at US\$237,000,000 (2022: US\$152,200,000). Under this programme, the US dollar was provided by the Federal Reserve Bank of New York to the ECB by means of a swap line with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with euro area NCBs, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties in the form of reverse transactions.

Claims on euro area residents were denominated in foreign currency as follows:

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
US dollar	<b>273,454</b>	192,859	80,595
Swiss franc	<b>58,239</b>	9,174	49,065
Great British pound	<b>20,376</b>	7,850	12,526
Australian dollar	<b>19,623</b>	10,256	9,367
Canadian dollar	<b>3,512</b>	3,628	(116)
Others	<b>71</b>	2,238	(2,167)
<b>Total</b>	<b>375,275</b>	226,005	149,270

#### A 4 Claims on non-euro area residents denominated in euro

These claims consist of marketable debt securities issued by non-euro area residents, a fixed income investment fund managed by external asset managers and balances with banks outside the euro area.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Marketable debt securities other than those held-to-maturity	<b>76,420</b>	32,630	43,790
Held-to-maturity debt securities	<b>616,707</b>	605,374	11,333
Fixed income investment fund	<b>47,476</b>	45,106	2,370
Current accounts and overnight deposits with banks	<b>9</b>	8	1
<b>Total</b>	<b>740,612</b>	683,118	57,494

## A 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item consists of operations carried out by the Bank within the framework of the single monetary policy of the Eurosystem.

On 31 December 2023, the total Eurosystem holding of monetary policy assets amounted to €410 billion (2022: €1,324 billion) of which the Bank held €57,000,000 (2022: €130,000,000). In accordance with Article 32.4 of the Statute, losses from monetary policy operations, if they were to materialise, may be shared, by decision of the Governing Council, in full by the Eurosystem NCBs in proportion to the prevailing ECB capital key shares.

Losses can only materialise if the counterparty fails and the funds recovered from the resolution of the collateral provided by the counterparty are not sufficient. In relation to specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council.

### A 5.1 Main refinancing operations

MROs are executed through regular liquidity-providing reverse transactions carried out by the Eurosystem NCBs with a weekly frequency and a maturity of normally one week, on the basis of standard tenders. Since October 2008, these operations are conducted as fixed rate tender procedures. MROs play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

During 2023, MROs carried out with the Bank amounted to €65,000,000 of which an amount of €20,000,000 remained outstanding as at the end of the year. There were no outstanding amounts of these operations as at 31 December 2022.

During 2022, the MRO rate increased from 0.00% to 2.50% by the end of the year. Throughout the financial year ended 31 December 2023, the Governing Council decided to further increase this interest rate as shown in the following table.

With effect from:	Changes in basis points (bps)	MRO rate (%)
8 February	+50 bps	3.00
22 March	+50 bps	3.50
10 May	+25 bps	3.75
21 June	+25 bps	4.00
2 August	+25 bps	4.25
20 September	+25 bps	4.50

### A 5.2 Longer-term refinancing operations

Longer-term refinancing operations (LTROs) are regular liquidity-providing reverse transactions aimed at providing counterparties with additional longer-term refinancing liquidity. Participation in LTROs requires the availability of eligible collateral.

During 2023, credit institutions established in Malta participated in three-month LTROs with an aggregate amount of €102,000,000. These operations were conducted through fixed rate tender procedures with full allotment, at the average rate of the MROs prevailing over the life of the respective operation. As at 31 December 2023, outstanding LTROs stood at €17,000,000 (2022: €50,000,000).

In addition to the series of seven quarterly targeted longer-term refinancing operations (TLTRO III) introduced in 2019, the Governing Council added three further operations to this series in 2020, which were conducted between June and December 2021. These operations have a three-year maturity. For all TLTRO III, starting 12 months after the settlement of each operation, participants have the option on a quarterly basis of terminating or reducing the amount of the TLTRO III concerned before maturity.

Interest rates on these operations can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the period from 24 June 2020 to 23 June 2022, but in any case, may not become less negative than -1% and as low as the average interest rate on the deposit facility, calculated over the relevant period, during the rest of the life of the same operation.<sup>10</sup> The actual interest rates will only be known at the maturity or early repayment of each operation, and until that time, a reliable estimate is used for calculating the TLTRO III interest accruals. For the financial year ended 31 December 2023, the interest rate for accruals was indexed to the average applicable key ECB interest rate from 23 November 2022, which was the first day of the last interest period of these operations.

No new participations in TLTRO III were carried out with the Bank during the financial year ended 31 December 2023 and the outstanding amount of these operations as at year end amounted to €20,000,000 (2022: €70,000,000). During 2023, credit institutions established in Malta with outstanding TLTRO III, did not participate in the early repayments of these operations.

Furthermore in the course of 2023, the last operation of the pandemic emergency longer-term refinancing operations (PELTROs) allotted in 2021 matured. These operations provided a liquidity backstop to the euro area banking system and contributed to preserving the smooth functioning of the money market during the extended pandemic period. The PELTROs were conducted as fixed rate tender procedures with full allotment and a tenor of approximately one year. The interest rate was 25 basis points below the average rate applied on the Eurosystem's MROs over the life of the respective PELTRO. There were no outstanding PELTROs with the Bank as at 31 December 2023 (2022: €10,000,000).

### **A 5.3 Fine-tuning reverse operations**

Fine-tuning reverse operations aim to regulate the market liquidity situation and steer interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, they are executed on an ad hoc basis. No fine-tuning reverse operations were conducted by the ECB during the years ended 31 December 2022 and 2023.

### **A 5.4 Structural reverse operations**

These are reverse open-market transactions through standard tenders to enable the Eurosystem to adjust its structural liquidity position vis-à-vis the financial sector. No structural operations were conducted by the ECB during the years ended 31 December 2022 and 2023.

### **A 5.5 Marginal lending facility**

Marginal lending facilities may be used by counterparties to obtain overnight liquidity from Eurosystem NCBs at a pre-specified interest rate against eligible assets. During the years ended 31 December 2022 and 31 December 2023, there was no participation in the marginal lending facility by credit institutions established in Malta.

During 2022, the marginal lending facility rate increased from 0.25% to 2.75% by the end of the year. Throughout the financial year ended 31 December 2023, the Governing Council decided to continue increasing this interest rate as shown in the following table.

<sup>10</sup> On 27 October 2022, the Governing Council decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period.

With effect from:	Changes in basis points (bps)	Marginal lending facility rate (%)
8 February	+50 bps	3.25
22 March	+50 bps	3.75
10 May	+25 bps	4.00
21 June	+25 bps	4.25
2 August	+25 bps	4.50
20 September	+25 bps	4.75

### A 5.6 Credits related to margin calls

This sub-item refers to cash paid to counterparties in those instances where the market value of the collateral exceeds an established trigger point implying an excess of collateral with respect to outstanding monetary policy operations.

Since the Bank operates a general pooling system, no payments to counterparties are affected.

### A 6 Other claims on euro area credit institutions denominated in euro

This item consists of claims on credit institutions within the euro area not relating to monetary policy operations, mainly current accounts and overnight deposits with banks.

### A 7 Securities of euro area residents denominated in euro

This item consists of debt securities held for monetary policy purposes, other debt securities and investment funds.

#### A 7.1 Securities held for monetary policy purposes

As at 31 December 2023, this sub-item consisted of securities acquired by the Bank within the scope of the SMP,<sup>11</sup> the PSPP<sup>12</sup> and the PEPP.<sup>13</sup> The Bank's PSPP and PEPP related purchases comprised MGS from the secondary market. The amortised cost of the securities under these programmes as well as their market values,<sup>14</sup> are as follows:

	2023		2022		Change	
	Amortised cost €000	Market value €000	Amortised cost €000	Market value €000	Amortised cost €000	Market value €000
Securities markets programme	9,949	10,216	9,753	10,314	196	(98)
Public sector purchase programme	1,038,185	919,080	1,053,843	877,736	(15,658)	41,344
Pandemic emergency purchase programme	504,155	421,468	513,584	402,308	(9,429)	19,160
<b>Total</b>	<b>1,552,289</b>	<b>1,350,764</b>	<b>1,577,180</b>	<b>1,290,358</b>	<b>(24,891)</b>	<b>60,406</b>

<sup>11</sup> ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

<sup>12</sup> ECB Decision of 3 February 2020 on a secondary markets public sector asset purchase programme (ECB/2020/9), OJ L 39, 12.2.2020, p. 12. Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.

<sup>13</sup> ECB Decision of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.03.2020, p. 1 as amended by ECB Decision of 28 July 2020 (ECB/2020/36), OJ L 248, 31.7.2020, p. 24 and ECB Decision of 10 February 2021 (ECB/2021/6), OJ L 50, 15.2.2021, p. 29.

<sup>14</sup> Market values are indicative and derived on the basis of market quotes. When market quotes are not available, market prices are estimated using internal Eurosystem models.

The Governing Council decided to cease further SMP purchases on 6 September 2012.

Until the end of February 2023,<sup>15</sup> the Eurosystem continued reinvesting, in full, the principal payments from maturing securities under the asset purchase programme (APP).<sup>16</sup> Subsequently, the APP portfolio declined at a measured and predictable pace. Until the end of June 2023, the decline amounted to an average of €15 billion per month as the Eurosystem did not reinvest all of the principal payments from maturing securities. In June 2023, the Governing Council decided to discontinue the reinvestments under the APP as of July 2023.<sup>17</sup> Thereafter, the APP portfolio declined due to maturities.

During 2023, the Eurosystem continued reinvesting, in full, the principal payments from maturing securities purchased under the PEPP. The Governing Council intends<sup>18</sup> to continue the reinvestments during the first half of 2024. It also intends to reduce the PEPP portfolio by an average of €7.5 billion per month over the second half of 2024 and to discontinue reinvestments under the PEPP at the end of the same year. The Governing Council will continue applying flexibility in reinvesting redemptions from the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

The Governing Council assesses on a regular basis the financial risks associated with the securities held for monetary policy purposes. Impairment tests are conducted on an annual basis, using data as at the end of the year and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. In those instances where impairment indicators are observed, further analysis is performed to confirm that the cash flows of the underlying securities have not been affected by an impairment event. The total Eurosystem NCBs' holding of such securities amounts to €4,269 billion (2022: €4,480 billion).

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, losses from holdings of SMP, CBPP3,<sup>19</sup> ABSPP,<sup>20</sup> PSPP supranational securities, PEPP securities other than public sector securities and CSPP,<sup>21</sup> if they were to materialise, are to be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. As a result of the impairment tests carried out as at 31 December 2023 on securities purchased under all the programmes, except for those purchased under the PEPP-Corporate purchase, the Governing Council decided that all future cash flows on these securities are expected to be received. In the context of the impairment test conducted on securities purchased under the PEPP-Corporate purchase, the Governing Council has deemed it appropriate to establish a provision against credit risks in monetary policy operations during 2023 (see L 13 'Provisions' in the notes to the balance sheet).

<sup>15</sup> See the press release of 15 December 2022 of the Governing Council's decisions.

<sup>16</sup> The APP consists of the CBPP3, the ABSPP, the PSPP and the corporate sector purchase programme (CSPP).

<sup>17</sup> See the press release of 15 June 2023 of the Governing Council's decisions.

<sup>18</sup> See the press release of 14 December 2023 of the Governing Council's decisions.

<sup>19</sup> ECB Decision of 3 February 2020 on the implementation of the third covered bond purchase programme (recast) (ECB/2020/8), OJ L 39, 12.2.2020, p. 6, as amended by ECB Decision of 25 September 2020 (ECB/2020/48), OJ L 379, 13.11.2020, p. 58.

<sup>20</sup> ECB Decision of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45), OJ L 1, 6.1.2015, p. 4, as amended by ECB Decision of 10 September 2015 (ECB/2015/31), OJ L 249, 25.9.2015, p. 28, ECB Decision of 11 January 2017 (ECB/2017/3), OJ L 16, 20.1.2017, p. 55 and ECB Decision of 18 May 2017 (ECB/2017/15), OJ L 190, 21.7.2017, p. 24.

<sup>21</sup> ECB Decision of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16), OJ L 157, 15.6.2016, p. 28 as amended by ECB Decision of 11 January 2017 (ECB/2017/4), OJ L 16, 20.1.2017, p. 57, ECB Decision of 18 May 2017 (ECB/2017/13), OJ L 190, 21.7.2017, p. 20, ECB Decision of 24 March 2020 (ECB/2020/18), OJ L 91, 25.3.2020, p. 5, ECB Decision of 9 September 2022 (ECB/2022/29), OJ L 241, 19.9.2022, p.13 and ECB Decision of 15 December 2023 (ECB/2023/38) OJ L 2024/190, 05.01.2024. Under this programme, the NCBs may purchase investment grade euro denominated bonds issued by non-bank corporations established in the euro area.

## A 7.2 Other securities

This sub-item comprises all the Bank's investments in non-monetary policy debt securities and marketable investment funds with euro area residents.

	2023	2022	Change
	€'000	€'000	€'000
Marketable debt securities other than those held-to-maturity	52,392	11,263	41,129
Held-to-maturity debt securities	365,281	372,701	(7,420)
Marketable investment funds	487,268	378,649	108,619
<b>Total</b>	<b>904,941</b>	<b>762,613</b>	<b>142,328</b>

## A 9 Intra-Eurosystem claims

This item consists of claims arising from the Bank's participating interest in ECB, claims equivalent to the transfer of foreign reserves to the ECB and other net claims within the Eurosystem.

### A 9.1 Participating interest in ECB

Pursuant to Article 28 of the Statute, the ESCB NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are determined in accordance with Article 29 of the Statute and are subject to adjustment every five years or whenever there is a change in the composition of the ESCB NCBs.

As at 31 December 2023, the share that the Bank held in the subscribed capital of the ECB, remained unchanged from 31 December 2022 at 0.0853%. As at 31 December 2023 and 2022, the share that the Bank held in the subscribed capital of the ECB amounted to €9,233,731.

This sub-item also includes the participating interest in the rest of the ECB equity. As at 31 December 2023, this amounted to €13,000,376, with no change from the previous year.

### A 9.2 Claims equivalent to the transfer of foreign reserves

This asset represents the Bank's claims arising from the transfer of foreign reserve assets to the ECB when the Bank joined the Eurosystem. As at 31 December 2022 and 2023 these claims amounted to €42,313,997. The remuneration of these claims is calculated daily at the latest available interest rate used by the Eurosystem in its tenders for MROs, adjusted to reflect a zero return on the gold component.

### A 9.4 Net claims related to the allocation of euro banknotes within the Eurosystem

This sub-item reflects claims which would arise from application of the banknote allocation key. As at the end of 2022 and 2023, the Bank had no claims in this respect but had a liability which is presented in L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

### A 9.5 Other claims within the Eurosystem (net)

As at 31 December 2023, the balance of €5,398,291,609 (2022: €5,456,040,418) included three main components, namely; (i) the claim of the Bank vis-à-vis the ECB in respect of the transfers issued and received through TARGET by the ESCB NCBs, including the ECB, plus the balances held with the Eurosystem NCBs through correspondent accounts, (ii) balances resulting from the pooling and allocation of monetary income within the Eurosystem pending settlement (see 5 'Net result of pooling of monetary income' in the notes to the profit and loss account), and (iii) balances with the ECB in respect of any amounts receivable or refundable.

For the years 2022 and 2023, the Governing Council, in view of the ECB's overall financial result for the year, decided to retain the full amount of income derived from banknotes in circulation, as well as income earned on securities purchased under the SMP, APP and PEPP (see 6 'ECB profit distribution' in the general notes to the financial statements). Therefore, no related amounts were due at the end of 2022 and 2023.

The remuneration of the TARGET balance, with the exception of reverse transactions in connection with US dollar liquidity-providing operations, is calculated daily at the latest available interest rate used by the Eurosystem in its tenders for MROs.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€000	€000
TARGET balance	<b>5,451,643</b>	5,482,321	(30,678)
Net result from pooling of monetary income	<b>(53,876)</b>	(26,806)	(27,070)
Other claims within the Eurosystem	<b>525</b>	525	-
<b>Total</b>	<b>5,398,292</b>	5,456,040	(57,748)

## A 10 Items in course of settlement

These assets comprise transactions which were not yet settled as at the end of the financial year.

## A 11 Other assets

### A 11.1 Coins of euro area

This sub-item represents the Bank's holdings of euro coins issued by euro area countries.

## A 11.2 Tangible and intangible fixed assets

Tangible and intangible fixed assets comprise the Bank's premises and other assets, which include computer hardware and software and equipment.

	<b>Land and buildings</b>	<b>Other assets</b>	<b>Total</b>
	€000	€000	€000
<b>Cost</b>			
As at 31 December 2022	35,875	19,189	55,064
Additions	61	738	799
Derecognition of assets	(6)	(1,069)	(1,075)
<b>As at 31 December 2023</b>	<b>35,930</b>	<b>18,858</b>	<b>54,788</b>
<b>Accumulated depreciation</b>			
As at 31 December 2022	5,576	8,083	13,659
Charge for the year	510	3,036	3,546
Derecognition of assets	-	(484)	(484)
<b>As at 31 December 2023</b>	<b>6,086</b>	<b>10,635</b>	<b>16,721</b>
<b>Net book value</b>			
As at 31 December 2022	30,299	11,106	41,405
<b>As at 31 December 2023</b>	<b>29,844</b>	<b>8,223</b>	<b>38,067</b>
	<b>Land and buildings</b>	<b>Other assets</b>	<b>Total</b>
	€000	€000	€000
<b>Right-of-use assets</b>			
As at 31 December 2022	417	247	664
Additions	3	89	92
Depreciation charge for the year	(10)	(85)	(95)
<b>As at 31 December 2023</b>	<b>410</b>	<b>251</b>	<b>661</b>
<b>Total net book value</b>			
As at 31 December 2022	30,716	11,353	42,069
<b>As at 31 December 2023</b>	<b>30,254</b>	<b>8,474</b>	<b>38,728</b>

As at 31 December 2023, the net book value included an amount of €394,945 (2022: €1,412,505) which related to assets not yet available for use and not depreciated.

## A 11.3 Other financial assets

The Bank holds an earmarked portfolio comprising MGS and Treasury bills purchased on the secondary market by the Bank in its role as market maker amounting to €311,810,991 (2022: €227,502,533) (see 'Securities' in 3 'Accounting policies' in the general notes to the financial statements).

#### **A 11.4 Off-balance sheet instruments revaluation differences**

This sub-item reflects revaluation gains arising on off-balance sheet positions, mainly foreign exchange forward transactions outstanding as at the balance sheet date.

#### **A 11.5 Accruals and prepaid expenses**

As at 31 December 2023, this sub-item consists of accrued interest income of €51,561,801 (2022: €33,935,641) of which, €22,940,531 (2022: €11,464,234) relates to interest attributable to intra-Eurosystem claims.

#### **A 11.6 Sundry**

Sundry assets mainly consisted of unrealised losses attributable to the earmarked portfolio amounting to €31,632,513 (2022: €47,374,819) and loans amounting to €13,450,664 (2022: €13,444,455). These assets also included realised gains attributable to off-balance sheet positions, principally foreign exchange forward transactions outstanding at the year end, amounting to €8,262,469 (2022: €32,827,352).

## Liabilities

### L 1 Banknotes in circulation

This item consists of the Bank's share of the total euro banknotes in circulation (see 5 'Banknotes in circulation' in the general notes to the financial statements).

During 2023, the total value of banknotes in circulation within the Eurosystem decreased by 0.32% from €1,572 billion at 31 December 2022 to €1,567 billion at 31 December 2023. According to the banknote allocation key, the Bank had an amount of euro banknotes in circulation of €1,504,537,920 at the end of the year (2022: €1,517,011,845).

The value of the euro banknotes actually issued by the Bank in 2023 increased by 2.81% from €2,301,645,630 to €2,366,383,630 at year end. As this exceeds the allocated amount, the difference of €861,845,710 (2022: €784,633,785) is shown under L 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

### L 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

These interest-bearing liabilities arise from the monetary policy operations conducted by the Bank on behalf of the Eurosystem.

#### L 2.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances of credit institutions that are required to hold minimum reserves, excluding funds of credit institutions that are not freely disposable and accounts of credit institutions exempt from minimum reserve requirements, which are disclosed separately under L3 'Other liabilities to euro area credit institutions denominated in euro'.

The minimum reserve requirements must be met on average over the reserve maintenance period in accordance with the schedule published by the ECB. These minimum reserve balances were remunerated at the latest available interest rate used by the Eurosystem in its tenders for MROs until 20 December 2022, and at the Eurosystem's deposit facility rate between 21 December 2022 and 19 September 2023. On 27 July 2023, the Governing Council decided that starting from 20 September 2023, these balances will be remunerated at zero per cent.

During 2022, the deposit facility rate increased from -0.50% to 2.00% by the end of the year. Throughout the financial year ended 31 December 2023, the Governing Council decided to continue increasing this interest rate as shown in the following table.

With effect from:	Changes in basis points (bps)	Deposit facility rate (%)
8 February	+50bps	2.50
22 March	+50bps	3.00
10 May	+25bps	3.25
21 June	+25bps	3.50
2 August	+25bps	3.75
20 September	+25bps	4.00

As for the reserve holdings exceeding the required minimum reserves, since June 2014, these have been remunerated at zero per cent or the deposit facility rate, whichever is lower. As from 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration consisting of exempt and non-exempt tiers. The exempt tier, which was determined as a multiple of six<sup>22</sup> on an institution's minimum reserve requirements, was remunerated at zero per cent. The non-exempt tier of excess liquidity holdings continued to be remunerated at zero per cent or the deposit facility rate, whichever was lower. Following the Governing Council's decision of 14 September 2022 to increase the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves was deemed to no longer be necessary and was thus suspended by setting the multiplier equal to zero.

Current accounts amounting to €302,533,151 remained outstanding as at 31 December 2023 (2022: €867,726,908).

### **L 2.2 Deposit facility**

This facility is available to eligible counterparties to make overnight deposits with Eurosystem NCBs at the pre-specified rate. During 2023, the aggregate volume of such deposits with the Bank amounted to €1,405,487,722,031. As at 31 December 2023, outstanding deposits amounted to €5,306,713,698 (2022: €4,976,618,544).

### **L 2.3 Fixed-term deposits**

These liabilities relate to liquidity absorbing fine-tuning operations for a fixed-term at variable rate tenders. No liquidity absorbing fine-tuning operations were conducted by the ECB during the years ended 31 December 2022 and 2023.

### **L 2.4 Fine-tuning reverse operations**

These operations are executed on an ad hoc basis through bilateral procedures with the purpose of managing the liquidity situation in the market and setting interest rates. Their frequency and maturity are not standardised. No fine-tuning absorption reverse operations were conducted during the years ended 31 December 2022 and 2023.

### **L 2.5 Deposits related to margin calls**

This sub-item refers to cash received from counterparties in those instances where the market value of the collateral pledged has fallen below an established trigger point, implying a shortfall of collateral to cover the outstanding monetary policy operations. During 2023, the aggregate volume of deposits related to margin calls with the Bank amounted to €487,241. There were no outstanding deposits related to margin calls as at 31 December 2022 and 2023.

## **L 3 Other liabilities to euro area credit institutions denominated in euro**

As at 31 December 2023, this item consisted of funds of credit institutions that were not freely disposable amounting to €6,207,938 (2022: €6,794,925).

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<sup>22</sup> The multiplier may be adjusted by the Governing Council over time in line with changing levels of excess liquidity holdings.

## L 5 Liabilities to other euro area residents denominated in euro

### L 5.1 General government

This liability consists of current and sinking fund accounts denominated in euro held by the Government of Malta. These balances are repayable on demand and remunerated in accordance with the provisions established by the Governing Council.<sup>23</sup>

	2023	2022	Change
	€'000	€'000	€'000
Current accounts	652,752	454,817	197,935
Sinking fund accounts	147,591	118,245	29,346
<b>Total</b>	<b>800,343</b>	<b>573,062</b>	<b>227,281</b>

### L 5.2 Other liabilities

This sub-item includes current accounts in euro which are repayable on demand amounting to €149,260,067 (2022: €192,416,450), of which €10,141,935 (2022: €42,932,360) related to balances of former credit institutions. These balances are remunerated in accordance with the provisions established by the Governing Council.<sup>24</sup>

Collateralised inward deposits, which as at 31 December 2023 amounted to €482,658,788 (2022: €335,000,000), are also included in this sub-item. These liabilities are attributable to securities sold subject to repurchase agreements entered into by the Bank (see 'Sale and repurchase agreements and lending of securities' in 3 'Accounting policies' in the general notes to the financial statements).

## L 6 Liabilities to non-euro area residents denominated in euro

This item consists of balances denominated in euro held by international and supranational organisations and by non-Eurosystem central banks, including the IMF current account for administrative expenses. As at 31 December 2023, balances with such organisations amounted to €24,226,879 (2022: €67,616,138). Whereas the IMF account is non-interest bearing, the other balances are remunerated in accordance with the provisions established by the Governing Council.<sup>25</sup>

## L 7 Liabilities to euro area residents denominated in foreign currency

Foreign currency balances held by the Government of Malta which are repayable on demand and other customer deposits are included in this item. Deposits by banks are subject to fixed interest rates. All other balances are remunerated in accordance with the provisions established by the Governing Council.<sup>26</sup> Other current accounts included balances of former credit institutions amounting to €65,285,765 (2022: €71,035,200).

<sup>23</sup> ECB Decision of 20 February 2014 on the prohibition of monetary financing and the remuneration of government deposits by national central banks (ECB/2014/8), OJ L 159, 28.5.2014, p. 54 as amended by ECB Decision of 4 September 2015 (ECB/2015/29), OJ L 245, 22.9.2015, p. 12 and ECB Decision of 9 April 2019 (ECB/2019/8), OJ L 113, 29.04.2019, p. 9; the Guideline of 9 April 2019 on domestic assets and liability management operations by the national central banks (recast) (ECB/2019/7), OJ L 113, 29.4.2019, p. 11; as amended by the Guideline of 5 April 2023 (ECB/2023/8), OJ L 102, 17.4.2023, p. 59 and ECB Decision of 15 October 2019 on the remuneration of holdings of excess reserves and of certain deposits (recast) (ECB/2019/31), OJ L 267, 21.10.2019, p. 12 as amended by ECB Decision of 8 September 2020 (ECB/2020/38), OJ L 297, 11.9.2020, p. 5, ECB Decision of 26 May 2021 (ECB/2021/25), OJ L 191, 31.5.2021, p.43, ECB Decision of 17 February 2022 (ECB/2022/5), OJ L 46, 25.2.2022, p. 140, ECB Decision of 16 December 2022 (ECB/2022/47), OJ L 3 5.1.2023, p. 16 and ECB Decision of 5 April 2023 (ECB/2023/9), OJ L 102, 17.4.2021, p.56.

<sup>24</sup> See footnote 23.

<sup>25</sup> See footnote 23.

<sup>26</sup> See footnote 23.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Government of Malta current accounts	<b>160,167</b>	100,316	59,851
Government of Malta sinking fund accounts	<b>9</b>	25	(16)
Liabilities to banks	<b>185,192</b>	128,246	56,946
Other current accounts	<b>75,530</b>	82,022	(6,492)
<b>Total</b>	<b>420,898</b>	310,609	110,289

### L 9 Counterpart of special drawing rights allocated by the IMF

This item represents the counterpart of SDR allocated by the IMF to Malta (see A 2.1 'Receivables from the IMF' in the notes to the balance sheet).

### L 10 Intra-Eurosystem liabilities

This item represents the Bank's liabilities to the ECB and to the other Eurosystem NCBs.

#### L 10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This sub-item consists of the liability of the Bank vis-à-vis the Eurosystem relating to the euro banknotes put into circulation by the Bank in excess of the amount allocated to the Bank by the ECB in accordance with the banknote allocation key (see L 1 'Banknotes in circulation' in the notes to the balance sheet). This balance is remunerated on a daily basis at the latest available marginal interest rate used by the Eurosystem in its tenders for MROs.

#### L 10.4 Other liabilities within the Eurosystem (net)

As at 31 December 2022 and 2023, the Bank had a net claim within the Eurosystem as reported under A 9.5 'Other claims within the Eurosystem (net)'.

### L 12 Other liabilities

#### L 12.1 Off-balance sheet instruments revaluation differences

This sub-item reflects revaluation losses arising on off-balance sheet positions, mainly foreign exchange forward transactions outstanding as at the balance sheet date.

#### L 12.2 Accruals and income collected in advance

This sub-item includes accrued interest expense on interest-bearing liabilities, and other accrued expenses.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Accrued interest payable	<b>15,030</b>	12,180	2,850
Others	<b>100</b>	278	(178)
<b>Total</b>	<b>15,130</b>	12,458	2,672

### L 12.3 Sundry

Sundry liabilities include unrealised revaluation gains attributable to MGS and Treasury bills held as part of the earmarked portfolio amounting to €3,007,975. On 31 December 2022, there were no unrealised revaluation gains recorded on this portfolio.

This sub-item also includes accrued operating expenses of which €663,762 (2022: €663,646) relates to the lease liability.

## L 13 Provisions

### *Provision for financial risks*

This item comprises a provision for financial risks, which is used to the extent as deemed necessary by the Board of Directors. The size and continuing requirement for this provision is reviewed annually, based on the Bank's assessment of its exposure to financial risks. The Bank's financial risks are fully covered with the provision and the capital and reserves.

As at end of 2023, an amount of €18,720,404 was released from this provision due to the materialisation of financial risks. Consequently, the Bank's financial result for the year amounted to zero. Following the release from provision to the profit and loss account, as at 31 December 2023, the provision amounted to €89,180,150 (2022: €107,900,554).

### *Provision for credit risks in monetary policy operations*

As a result of an impairment test conducted on PEPP-Corporate purchase securities, the Governing Council has deemed it appropriate to establish a total provision of €42.9 million against credit risks in monetary policy operations during 2023. In accordance with Article 32.4 of the Statute, this provision was funded by NCBs in proportion to their capital key shares in the ECB prevailing in 2023. As a result, the Bank recorded a provision of €44,651 equivalent to 0.1040% of the total provision (see 5 'Net result of pooling of monetary income' in the notes to the profit and loss account).

## L 14 Revaluation accounts

The revaluation accounts consist of unrealised revaluation gains arising from the valuation of foreign currency on and off-balance sheet positions, gold, marketable debt securities and investment funds at year end.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Gold	<b>416</b>	-	416
Foreign currency positions	<b>8</b>	7	1
Marketable instruments	<b>18,409</b>	658	17,751
<b>Total</b>	<b>18,833</b>	665	18,168

## L 15 Capital and reserves

The following table analyses the movement in capital and reserves of the Bank:

	Capital €'000	General reserve fund €'000	Reserve for risks and contingencies €'000	Capital contribution €'000	Total €'000
Balance as at 31 December 2022	20,000	75,505	187,776	98,815	382,096
Net issuance of euro coins	-	-	-	3,937	3,937
<b>Balance as at 31 December 2023</b>	<b>20,000</b>	<b>75,505</b>	<b>187,776</b>	<b>102,752</b>	<b>386,033</b>

### L 15.1 Capital

In terms of article 19(1) of the Act, the Bank shall have an authorised capital of €20,000,000. This is fully paid-up and is held exclusively by the Government of Malta.

### L 15.2 Reserves

#### *General reserve fund*

In terms of article 19(2) of the Act, the Bank shall also maintain a general reserve fund which shall be of not less than €20,000,000 and which shall be available for any purpose as may be determined by the Board of Directors. Whenever amounts are drawn from the general reserve fund, these shall be replaced as may be decided by the Board.

#### *Reserve for risks and contingencies*

The reserve for risks and contingencies is maintained in terms of article 22(1) of the Act to cover the broad range of risks to which the Bank is exposed. The major risks in this regard arise from potential movements in market values of the Bank's holdings of domestic and foreign securities and other investments, losses which could arise from support of the financial system in the Bank's role as a lender of last resort and other non-insured losses.

#### *Capital contribution*

This reserve represents the capital contribution made by the Government of Malta to the Bank in respect of the agency agreement between the Bank and the Government relating to the issuance of euro coins. The Bank shall act as agent of the Government and shall retain full responsibility for procurement, storage and issuance of euro coins. This reserve represents seigniorage revenue arising from the issue of euro coins. In terms of the agency agreement, the Government has agreed not to withdraw such revenue and retain these amounts in a reserve account held at the Bank. Allocation of revenue to the reserve account shall be deemed as a capital contribution to the Bank by the Government.

## Notes to the profit and loss account

### 1 Net interest income

This item represents the net result of interest income and interest expense. Interest income or expense on monetary policy operations are netted on a balance sheet sub-item level. In 2022, certain financial assets gave rise to interest expense and certain financial liabilities gave rise to interest income, owing to the negative interest rates which prevailed until 26 July of that year. From thereon, the Governing Council continued increasing the key ECB interest rates.

#### 1.1 Interest income

Interest income includes income on foreign reserve assets and euro-denominated portfolios, as well as interest income on monetary policy operations and intra-Eurosystem claims.

	2023 €'000	2022 €000	Change €000
Marketable debt securities			
- In euro	20,713	10,247	10,466
- In foreign currency	22,382	15,925	6,457
Fixed-term deposits			
- In foreign currency	23	-	23
Current accounts and overnight deposits			
- In euro	(2)	(4)	2
- In foreign currency	709	109	600
IMF	2,233	457	1,776
Monetary policy operations			
- Main refinancing operations	52	60	(8)
- Longer-term refinancing operations	2,865	-	2,865
- Minimum reserves	-	14,231	(14,231)
- Deposits related to margin calls	-	1	(1)
- Securities acquired under the SMP	664	672	(8)
- Securities acquired under the PSPP	16,707	14,260	2,447
- Securities acquired under the PEPP	3,614	3,165	449
Intra-Eurosystem claims			
- TARGET Balances	225,074	35,613	189,461
- Claims arising from the transfer of foreign reserves	1,389	211	1,178
Forward foreign exchange contracts	(7,962)	(5,435)	(2,527)
Marketable investment funds	12,980	8,521	4,459
Other interest income	205	66	139
<b>Total</b>	<b>301,646</b>	<b>98,099</b>	<b>203,547</b>

#### 1.2 Interest expense

Interest expense mainly arises from liabilities to euro area credit institutions related to monetary policy operations, intra-Eurosystem liabilities, the Government of Malta and other customer accounts.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Government accounts			
- In euro	<b>1,762</b>	(463)	2,225
- In foreign currency	<b>446</b>	1,156	(710)
Other customer accounts			
- In euro	<b>426</b>	(141)	567
- In foreign currency	<b>7,952</b>	4,457	3,495
Monetary policy operations			
- Longer-term refinancing operations	-	3,239	(3,239)
- Minimum reserves	<b>6,673</b>	-	6,673
- Overnight deposits	<b>183,903</b>	20,662	163,241
Intra-Eurosystem liabilities			
- Net liabilities related to the allocation of banknotes within the Eurosystem	<b>31,311</b>	4,331	26,980
Other interest expense	<b>10,221</b>	(61)	10,282
<b>Total</b>	<b>242,694</b>	33,180	209,514

## 2 Net result of financial operations, write-downs and risk provisions

### 2.1 Realised gains/losses arising from financial operations

This sub-item consists of net realised results arising from the disposal of financial instruments, mainly marketable instruments, and reductions in foreign currency positions.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Net gains on disposal of financial instruments	<b>7,017</b>	4,184	2,833
Net gains on foreign currency positions	<b>1,545</b>	315	1,230
<b>Total</b>	<b>8,562</b>	4,499	4,063

### 2.2 Write-downs on financial assets and positions

This sub-item comprises unrealised revaluation losses arising from the price revaluation of marketable debt securities and investment funds and the exchange rate revaluation of foreign currency assets and liabilities, including off-balance sheet positions, by comparing the market value at balance sheet date with the average cost.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Write-downs on marketable instruments	<b>3,238</b>	37,273	(34,035)
Write-downs on foreign currency positions	<b>22</b>	115	(93)
<b>Total</b>	<b>3,260</b>	37,388	(34,128)

### 2.3 Transfer to/from provision for financial risks

This sub-item consists of movements in provisions (see L 13 'Provisions' in the notes to the balance sheet).

### 3 Net income/expense from fees and commissions

Fees and commissions receivable mainly arise from banking services provided by the Bank. Fees and commissions payable include custody fees and correspondent account charges.

### 4 Income from equity shares and participating interests

During 2022, the Bank received an amount of €43,750 representing its relative share of the ECB's distributable remaining profits for 2021, in proportion to the Bank's Eurosystem capital key. As outlined in A 9.5 'Other claims within the Eurosystem (net)' in the notes to the balance sheet, there were no related amounts for 2023.

### 5 Net result of pooling of monetary income

This item principally includes the net result of pooling of monetary income for 2023 amounting to an expense of €53,866,997 (2022: €26,815,518). In 2023, an expense of €8,664 was paid in relation to adjustments for previous years as against a net income of €9,650 received in 2022.

This item further includes the Bank's share of the net result of the provisioning against credit risks in monetary policy operations of the Eurosystem amounting to an expense of €44,651 (see L 13, 'Provisions' in the notes to the balance sheet).

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that is derived from the earmarkable assets held against the liability base. The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem, accrued interest recorded at quarter-end by each NCB on monetary policy liabilities with a maturity of one year or longer; liabilities vis-à-vis the ECB backing the claim in relation to swap agreements that earn net income for the Eurosystem; and deposit liabilities to defaulted Eurosystem counterparties which have been reclassified from L 2.1 'Current accounts (covering the minimum reserve system)'. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; claims on euro area counterparties related to swap agreements between the ECB and non-Eurosystem central banks that earn net income for the Eurosystem; accrued interest recorded at quarter-end by each NCB on monetary policy assets with a maturity of one year or longer; and a limited amount of each NCB's gold holdings in proportion to each NCB's capital key share.

The amount of each NCB's monetary income shall be determined by measuring the actual income that is derived from the earmarkable assets recorded in its books. As an exception to this, gold is considered to generate no income and the following are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for MROs: debt instruments issued by central, regional and local governments and recognised agencies and substitute debt instruments issued by public non-financial corporations under the PSPP and PEPP.

The net income derived from the earmarkable assets held and the liability base shall be offset by applying, on a daily basis, the latest applicable rate for the Eurosystem MROs to the difference between the value of the NCB's earmarkable assets and the value of the liability base.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the Eurosystem capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and the liability base deviates from its share in the subscribed capital of the ECB. The net result arising from the calculation of monetary income for 2023 was a payment by the Bank of €53,866,997 (2022: €26,815,518). This net result is the difference between the net monetary income pooled by the Bank amounting to €96,273,043 (2022: €34,300,039) and the reallocated amount of €42,406,046 (2022: €7,484,520).

## 6 Other income

This item mainly includes the income from the issuance of numismatic coins.

## 7 Staff costs

Staff costs consist of salaries and other ancillary costs.

	<b>2023</b>	2022	Change
	<b>€'000</b>	€'000	€'000
Staff salaries	<b>13,559</b>	12,752	807
Other staff costs	<b>1,234</b>	1,161	73
Training, welfare and other related expenditure	<b>925</b>	1,020	(95)
<b>Total</b>	<b>15,718</b>	14,933	785

The full-time equivalent average number of staff employed by the Bank during the year was as follows:

	<b>2023</b>	2022	Change
	<b>Number</b>	Number	Number
Governors	<b>3</b>	3	-
Chief Officers	<b>8</b>	8	-
Heads and executives	<b>204</b>	192	12
Officers II and I	<b>113</b>	113	-
Non-clerical staff	<b>30</b>	30	-
<b>Total</b>	<b>358</b>	346	12

## 8 Administrative expenses

This item consists of operating expenditure incurred by the Bank.

Administrative expenses of €12,683,403 (2022: €10,581,822) comprised maintenance expenditure, professional fees, travelling costs and other expense items which were incurred in the course of the Bank's

operations. Auditors' remuneration, for the year ended 31 December 2023 amounted to €129,800 (2022: €162,660).

Compensation to the members of the Board of Directors for the financial year ended 31 December 2023 amounted to €413,317 (2022: €407,625). The Governor, Deputy Governors and the other members of the Board of Directors are entitled to benefits and refund of certain other expenses.

## **9 Depreciation of tangible and intangible fixed assets**

Depreciation of buildings, computer hardware and software, equipment and other assets, and right-of-use assets was charged to the Bank's profit and loss account according to the depreciation rates disclosed in 'Tangible and intangible fixed assets' and 'Leases' in 3 'Accounting policies' in the general notes to the financial statements.

## **10 Banknote production services**

This item consists of expenditure relating to the procurement and transportation of euro banknotes and other ancillary costs.

## Other notes

### Off-balance sheet instruments

As at 31 December 2023, the Bank had outstanding net foreign exchange forward and swap contracts of €766,652,984 (2022: €778,181,024) against other currencies. Unsettled net spot transactions as at 31 December 2023 amounted to €6,120,000. There were no unsettled spot transactions as at 31 December 2022.

At the balance sheet date, the Bank had outstanding interest rate futures contracts linked to German government securities (net short position with a notional amount of €13,700,000) and US treasury notes (net long position with a notional amount of US\$9,600,000).

### Contingent liabilities and commitments

As at the end of the year, the Bank had commitments in respect of tangible and intangible fixed assets which extended beyond the balance sheet date. Capital commitments, which amount to €4,686,700 (2022: €5,480,500), are expected to be incurred during the forthcoming financial year and relate mainly to capital expenditure attributable to buildings and investment in IT.

### Transactions with Government

In the course of its operations, the Bank conducts banking transactions with, and provides several banking services to, the Government of Malta, government departments, public sector corporations and other entities owned by the Government. The Bank holds the principal accounts of the Government and maintains accounts for the other entities. Balances held with the Bank by the Government and the other entities as at the balance sheet date, together with the terms of such instruments, are disclosed in L 5 'Liabilities to other euro area residents denominated in euro' and L 7 'Liabilities to euro area residents denominated in foreign currency' in the notes to the balance sheet. The net interest on deposits arising from these banking transactions is recognised in 1.2 'Interest expense' in the Bank's profit and loss account. The Bank provides these entities with foreign exchange and related services, which do not have a significant impact on the Bank's profit and loss account.

### Market maker in Malta Government securities

The Bank acts as market maker in MGS and Treasury bills and ensures their liquidity in the secondary market by being ready to trade in such securities on the initiative of the market (see A 11.3 'Other financial assets' in the notes to the balance sheet). Income earned by the Bank from these assets, amounting to €6,334,834 (2022: €3,054,949), is included in 1.1 'Interest income' in the notes to the profit and loss account and presented within income from euro marketable debt securities.

### Investment securities pledged as collateral

As at 31 December 2023, investment securities were pledged as collateral against the provision of credit lines by a counterparty up to an amount of US\$65,000,000 or approximately €58,824,000 (2022: US\$65,000,000 or approximately €60,941,000). No amounts were borrowed under these facilities at the balance sheet dates.

### Assets held in custody

As at 31 December 2023, assets held in custody by the Bank in terms of the Insurance Business Act (Cap. 403) amounted to the equivalent of €14,033,269 (2022: €13,612,896).

### Management of funds belonging to the Investor and Depositor Compensation Schemes

The Bank is an investment manager in respect of funds belonging to the Investor and Depositor Compensation Schemes. These funds are managed on a discretionary basis in accordance with the investment parameters set by the Management Committees of the respective Schemes. As at 31 December 2023, the Investor and Depositor Compensation Schemes had deposits of €785,618 (2022: €547,645) and €8,830,851 (2022: €12,167,168) respectively, with the Bank.

### Statement of the Bank's investments as at 31 December 2023

	EUR €'000	USD €'000	Others €'000	Total €'000
<b>Cash and balances with banks</b>				<b>21,269</b>
<b>Gold balances</b>				<b>17,438</b>
<b>Debt securities by issuer category:</b>				
Government	2,183,475	91,013	132,750	<b>2,407,238</b>
Monetary financial institutions	516,991	198,991	278,987	<b>994,969</b>
Other financial institutions	177,335	42,964	56,600	<b>276,899</b>
Non-financial institutions	14,914	7,397	-	<b>22,311</b>
Supranational	82,187	41,014	35,039	<b>158,240</b>
	<b>2,974,902</b>	<b>381,379</b>	<b>503,376</b>	<b>3,859,657</b>
<b>Claims on the IMF</b>				<b>377,720</b>
<b>Participating interest in the ECB</b>				<b>22,234</b>
<b>Transfer of foreign reserves to the ECB</b>				<b>42,314</b>
<b>Investment funds</b>				<b>534,744</b>
<b>Total investments</b>				<b>4,875,376</b>

## Independent auditor's report to the Directors of the Central Bank of Malta

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Central Bank of Malta ('the Bank') set out on pages A-4 to A-37, which comprise the balance sheet as at 31 December 2023 and the profit and loss account for the year then ended, and notes to the financial statements, which include a summary of accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance for the year then ended in accordance with the basis of accounting described in the guideline of the European Central Bank (ECB/2016/34) on the legal framework for accounting and financial reporting in the European System of Central Banks (recast), issued on 3 November 2016 and as amended by subsequent European Central Bank guidelines (the "Guideline") as established by the Central Bank of Malta Act (Cap. 204) and, where the Guideline is silent, IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS) as adopted by the EU.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code)* together with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive (Maltese Code)* that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**Independent auditor's report (continued)  
to the Directors of  
the Central Bank of Malta**

*Other Matter*

The financial statements of Central Bank of Malta for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2023.

*Information Other than the Financial Statements and the Auditor's Report Thereon*

The directors are responsible for the other information. The other information comprises:

- (i) the Statement of Directors' Responsibilities on pages A-2 to A-3 and the Directors' Report on pages A-2 to A-3, and
- (ii) the 'Governor's Foreword', the 'At a Glance', the 'Financial and Economic Developments'; and the 'Bank Policies, Operations and Activities', which are expected to be made available to us after the date of this audit report.

However, the other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report and set out in paragraph (i) above, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information expected to be made available to us after the date of this audit report and set out in paragraphs (ii) above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and, if necessary, to take appropriate action, considering our legal rights and obligations, to seek to have an uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

*Responsibilities of the Directors for the Financial Statements*

As explained more fully in the Statement of Directors' responsibilities on pages A-2 to A-3, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Guideline, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for using the going concern basis of accounting in accordance with the Guidelines.

The directors are also responsible for overseeing the financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent auditor's report (continued) to the Directors of the Central Bank of Malta

### *Auditor's Responsibilities for the Audit of the Financial Statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern. Accordingly, in terms of generally accepted auditing standards, the absence of any reference to a material uncertainty about the Bank's ability to continue as a going concern in our auditor's report should not be viewed as a guarantee as to the Bank's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The audit was drawn up on 18 March 2024 and signed by:



Sarah Curmi as Director  
in the name and on behalf of  
Deloitte Audit Limited  
Registered auditor  
Central Business District, Birkirkara, Malta.