



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

**FIFTY-SEVENTH ANNUAL REPORT
AND
STATEMENT OF ACCOUNTS
2024**

© Central Bank of Malta, 2025

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Theme

The subject of the photos that feature in this publication is gardens. The British horticulturist, garden designer, craftswoman, photographer, writer and artist Gertrude Jekyll said that "a garden is a grand teacher. It teaches patience and careful watchfulness; it teaches industry and thrift; above all it teaches entire trust." A central bank's most valuable currency is trust. This publication also seeks to enhance our engagement with external stakeholders, demonstrate increased transparency and accountability and, in turn, increase trust.

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The cut-off date for information published in Part 1 of this Report is 28 February 2025. However, the cut-off date for tourism has been extended to 6 March 2025, while that for monetary financial institutions' interest rates and the euro area has been extended to 7 March 2025. 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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Research*

*as at 28 March 2025

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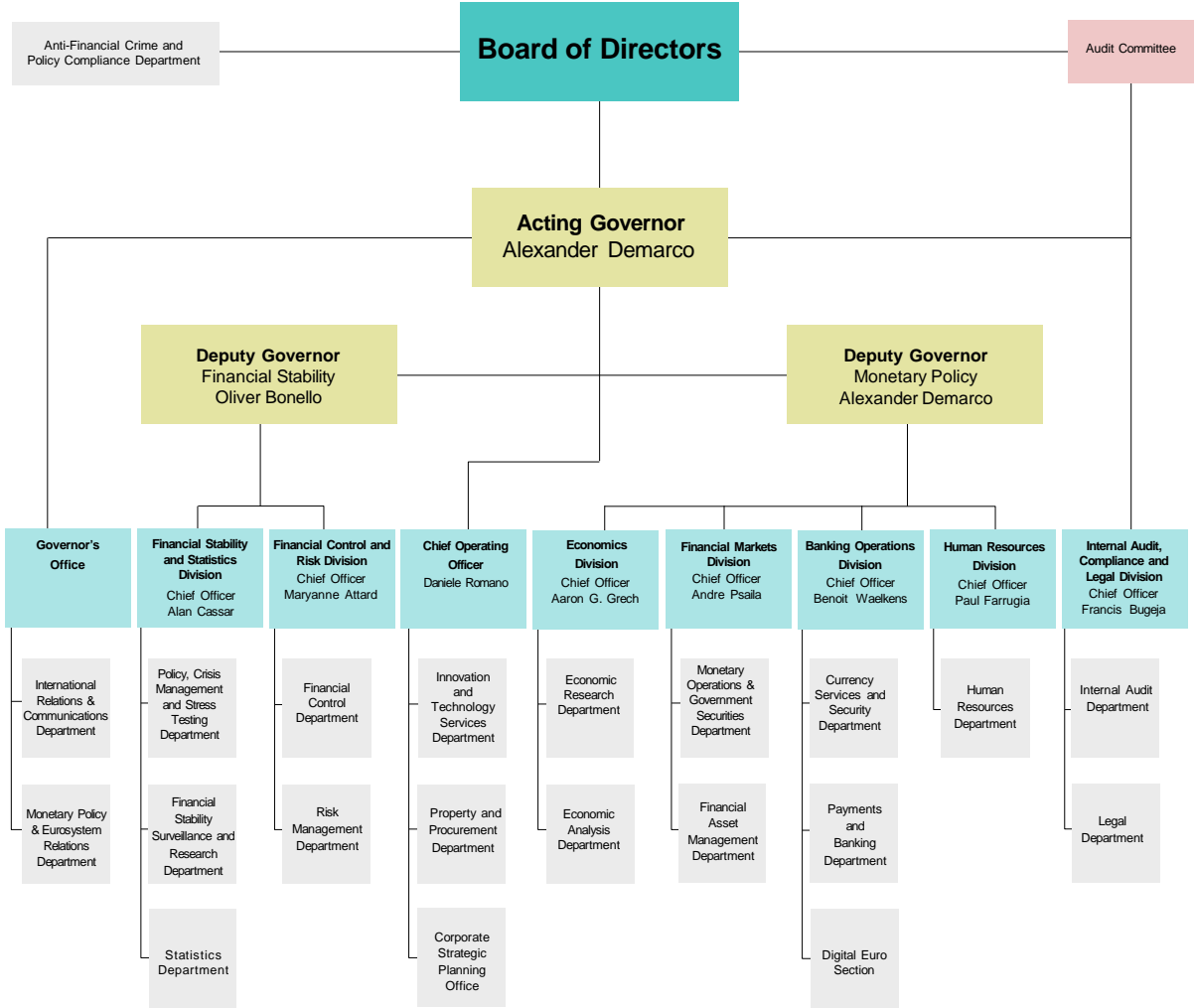


(left to right)

Standing: Peter J. Baldacchino (Director), Romina Borg (Director), Lauren Ellul (Director), Frank Bezzina (Director).

Seated: Oliver Bonello (Deputy Governor), Alexander Demarco (Acting Governor), Francis Bugeja (Secretary).

ORGANISATION CHART*



*as at 28 March 2025

BANK ĊENTRALI TA' MALTA
EUROSISTEMA

Agent Governatur



CENTRAL BANK OF MALTA
EUROSYSTEM

Acting Governor

28 March 2025

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 2024.

Yours sincerely,

Handwritten signature of Alexander Demarco in blue ink.

Alexander Demarco

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ABBREVIATIONS

| | |
|----------|---|
| AIIB | Asian Infrastructure Investment Bank |
| APP | asset purchase programme |
| BCI | Business Conditions Index |
| BLS | Bank Lending Survey |
| BOP | Balance of Payments |
| CCI | construction cost index |
| 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 |
| DFR | Deposit Facility Rate |
| DSGE | Dynamic stochastic general equilibrium |
| EA | euro area |
| EBA | European Banking Authority |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| ECB | European Central Bank |
| ECMS | Eurosystem Collateral Management System |
| EDP | Excessive Deficit Procedure |
| EEl | employment expectations indicator |
| EFC | Economic and Financial Committee |
| EIB | European Investment Bank |
| EPU | Economic Policy Uncertainty |
| ESA | European System of Accounts |
| ESG | Environmental, Social and Governance |
| ESI | Economic Sentiment Indicator |
| ESRB | European Systemic Risk Board |
| €STR | euro short-term rate |
| EU | European Union |
| EUI | Economic Uncertainty Indicator |
| EURIBOR | euro interbank offered rate |
| FC | financial corporation |
| FCI | Financial Conditions Index |
| FOMC | Federal Open Market Committee |
| FSR | Financial Stability Report |
| FX | Foreign Exchange |
| GDP | gross domestic product |
| 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 |
| IIC | Internal Auditors Committee |
| IMF | International Monetary Fund |
| IPC | Investment Policy Committee |
| IPPI | industrial producer price index |

| | |
|--------|---|
| JFSB | Joint Financial Stability Board |
| LFS | Labour Force Survey |
| LNG | liquefied natural gas |
| LSGS | Liquidity Support Guarantee Scheme |
| LTRO | long-term refinancing operation |
| 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 |
| MPC | Monetary Policy Committee |
| MRO | main refinancing operation |
| MSE | Malta Stock Exchange |
| NCB | national central bank |
| NDSF | National Development and Social Fund |
| 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 |
| OPEC | Organisation of the Petroleum Exporting Countries |
| O-SII | Other Systemically Important Institution |
| PSPP | Public Sector Purchase Programme |
| RPI | Retail Price Index |
| RPPI | Residential Property Price Index |
| RRF | Recovery and Resilience Facility |
| SDDS | Special Data Dissemination Standard |
| SDSA | stochastic debt sustainability analysis |
| SEPA | Single Euro Payments Area |
| 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 |
| TIPS | TARGET Instant Payment Settlement |
| TLTRO | targeted longer-term refinancing operation |
| UK | United Kingdom |
| ULC | unit labour cost |
| US | United States |
| VAT | value added tax |
| WBG | World Bank Group |





Photo: Central Bank of Malta's Upper Garden

FOREWORD

“The Maltese economy continued to show resilience despite a challenging international environment”

In 2024, the global economy recovered further, although activity continued to be held back by the still unfolding impact of earlier monetary tightening, ongoing geopolitical tensions, and, later in the year, uncertainty related to a shift in US trade policy. In the euro area, political uncertainty in some of the larger Member States and entrenched structural challenges, notably in the manufacturing sector, also limited economic growth, bar a brief surge around the Paris Summer Olympics.



Developments have been more positive as regards inflation as price pressures in advanced economies eased significantly. While the effects of earlier price shocks continued to dissipate, the previous monetary tightening cycle dampened interest-sensitive expenditure. The disinflation process mainly reflected a correction in energy and food inflation. Core inflation also fell, but in many countries the decrease was more contained relative to that in headline inflation, as services inflation remained elevated.

In the euro area, the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) closed the year at 2.4%, half a percentage point below the December 2023 reading. Inflation excluding energy and food also eased, but at 2.7% remained above the overall rate. This reflects the fact that services inflation continued to hover in a narrow range of around 4.0% for most of the year, partly due to the lagged strong response of wage growth to high inflation in previous years. Nevertheless, successive Eurosystem projections continued to show that the 2% inflation target remains within reach over the medium-term.

Evidence that the disinflation process was well on track firmed during the year. Accordingly, in June the Governing Council of the European Central Bank (ECB) lowered the policy rates. This was followed by three additional rate cuts by the end of the year.

The Council also decided on changes to the operational framework for monetary policy. In particular, the Council decided to continue steering the monetary policy stance by adjusting the deposit facility rate (DFR) and to provide liquidity to banks using a broad mix of instruments. It also approved a reduction in the spread between the rate on main refinancing operations (MROs) and the DFR from 50 to 15 basis points, as from 18 September 2024.

Following these decisions, the DFR which is the stance relevant ECB policy rate, was reduced to 3.00% by December, from 4.00% at the end of 2023. The Council announced additional rate cuts in the first quarter of 2025, bringing the DFR to 2.5% in March 2025. These cuts reflect an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

Indeed, the March 2025 ECB staff projections foresee that while inflation is set to follow a bumpy path during 2025 due to some volatility in the energy and food components, it remains on track to reach the 2% target. According to these projections, both the average rate of headline inflation and core inflation in the

euro area are set to stand at or just below 2% in 2026 and 2027, although the outlook for inflation is also becoming more uncertain in view of the prospects of trade tariffs.

Inflation has also moderated in Malta and this is evident across the non-energy components, as energy prices locally have been kept stable by Government policy since July of 2020. Furthermore, at 1.8% and 2.0% respectively, both HICP inflation and HICP inflation excluding energy and food stood below the corresponding euro area rates in December.

The Maltese economy continued to show resilience despite a challenging international environment, with gross domestic product (GDP) growth outperforming that in most euro area countries. The economy grew by 6.0%, with growth balanced between domestic demand and exports after accounting for their respective import content. The Bank's staff projections foresee growth moderating to 4.0% next year as private consumption, which has been a key driver of economic growth in recent years, should expand at a slower pace, while goods exports are set to keep growing modestly in an increasingly restrictive multilateral trading system.

As the global trading order is shifting towards more protectionism, maintaining a robust pace of growth will hinge on the ability to enter markets that are not targeted by tariffs while also overcoming inefficiencies that render goods and services uncompetitive on export markets. In this regard, addressing the remaining barriers to economic and financial integration in Europe and stepping up innovation are of the essence. A digital euro could accelerate these processes while also safeguarding the Eurosystem's strategic autonomy.

In this regard, in 2024 the ECB engaged closely with relevant stakeholders and co-legislators to provide updates on the progress of the digital euro project. Indeed, during the year, a number of EU Council Working Parties met, in which the Central Bank of Malta was very active in providing its advice on different parts of the single currency package that the European Commission proposed in 2023. The package consists of three legislative proposals; related to the legal tender of euro cash, the legal framework for a possible digital euro and the digital euro services by payment service providers incorporated in non-euro area Member States.

The Eurosystem also began to gather feedback on user preferences. The ECB, on its part, is working on a digital euro scheme rulebook, to ensure a harmonised user experience of the digital euro across all Member States in the euro area. The Central Bank of Malta is participating actively in the related preparatory work, which will continue into 2025, when the Governing Council will decide whether to move on to the next phase of the digital euro project, conditional on the adoption of the EU's legislative framework.

During 2024 the Bank successfully undertook work to be ready in providing instant payments by early 2025. It also carried out work on the upgrade of the Eurosystem Collateral Management System (ECMS) which is a unified system for managing assets used as collateral in Eurosystem credit operations. Once launched in June 2025, the system will complement the other settlement services that the Eurosystem offers. The Bank also engaged with external suppliers to implement the required infrastructure to provide instant payments services to the Government.

Upgrades were carried out on the system which the Central Bank of Malta uses for the management of banknotes and coins. The Bank extended its quarterly discussions on currency issues held with banks to cash-in-transit companies. It also reviewed the compliance of the Malta Stock Exchange (MSE) in terms of the Central Securities Depository Regulation and continued to monitor the information and communications technology, and security risk management practices applied by banks and financial institutions in their operations.

During 2024, the Bank further diversified its financial assets while ensuring that investments remain predominantly invested in high-quality assets. It made more use of in-house managed portfolios where feasible and increased exposure to several fixed income funds which implement environmental, social and governance (ESG) considerations within their strategies. Holdings of Paris-aligned benchmark equity investments increased, while maintaining exposures to equity funds that focus on climate transition. In this light in 2024, the Bank published its second climate-related financial disclosures report in accordance with the Eurosystem's jointly agreed reporting framework for non-monetary policy portfolios (NMPP). Meanwhile, it continued to support the National Development and Social Fund (NDSF) and the investor and depositor compensation schemes in the management of their portfolios.

As the competent macroprudential authority for Malta, the Bank continued to evaluate financial stability risks and enhanced its capabilities to carry out stress testing and sensitivity analyses. As in past years, it conducted an assessment to identify significant third countries to which it has exposure and reviewed macroprudential measures recommended for reciprocity in terms of European Systemic Risk Board (ESRB) recommendations. The Bank also continued to assess the local banks' compliance with CBM Directive 16 on borrower-based requirements and collaborated with the Malta Financial Services Authority (MFSA) on an assessment to identify and apply a capital buffer to Other Systemically Important Institutions (O-SIIs). Work began on the transposition of the relevant text of the revised EU capital requirements package in Central Bank of Malta Directive No.11 on Macroprudential Policy.

Meanwhile, with assistance from the International Monetary Fund (IMF), staff developed the first phase of a network model of the Maltese financial system. Staff also began to extend one of the Bank's econometric models with a more developed supply-side block. The Bank continued to supplement official statistics with its own economic indicators, for instance launching an Economic Policy Uncertainty (EPU) index for Malta in 2024.

The Bank participated in Eurosystem statistical projects aimed at improving data related to the financial sector, notably as regards investment funds, credit and credit risk data, payments and securities statistics and climate change indicators. The Bank also continued to participate in the Integrated Reporting Framework Programme, which seeks to consolidate statistical requirements for credit institutions into one framework by 2029. Further work was carried out with the National Statistics Office (NSO) to ensure compliance with the IMF data dissemination standards and improve the quality of external statistics.

During 2024 the Bank also concluded negotiations for a new collective agreement to both the non-clerical and the clerical and executive categories of its staff, which saw a significant improvement in their working conditions. Nevertheless, despite this increase in staff costs, and more significantly, the continued high monetary income expense incurred as a result of the Eurosystem monetary policy decisions, the Central Bank of Malta is expected to be an exception among Eurosystem national central banks (NCBs), including the ECB, in turning around its financial performance and registering a profit for the financial year ending December 2024, amounting to €4.95 million.

Looking at the year ahead, the Bank remains committed to comply with any changes that may be adopted during the year as regards the ECBs monetary policy framework, the digital euro and Eurosystem standards on climate related disclosures. The roll out of instant payments, reductions in the carbon footprint and upgrades of data centres are also key operational objectives for 2025.

Another objective is to develop further the Bank's modelling toolkit, to encompass the wide range of financial institutions licensed in Malta and be in a better position to assess the implications of structural trends affecting the financial system and the economy. Staff will explore the development of the second phase of the network model of the financial system. The Bank is also monitoring closely developments in international trade policies to assess their macroeconomic implications and intends to carry out further analyses of sectoral linkages and the distributional and macro effects of fiscal and monetary policies.

Building on recent efforts, the Bank will further enhance the use of visuals and interactive content so that the analyses that staff carry out can reach a broader audience. The Bank also intends to publish the results of an updated survey of payment habits carried out in 2024 and increase awareness about the benefits of the digital euro.

On behalf of the Board of Directors I would like to thank the Bank's staff for their effort and dedication to achieving the Bank's objectives.



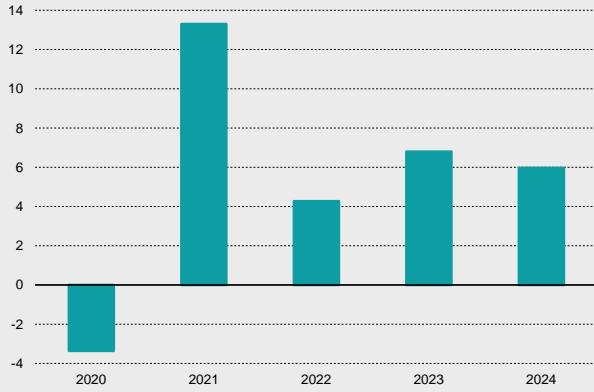
Alexander Demarco



I. FINANCIAL AND ECONOMIC DEVELOPMENTS

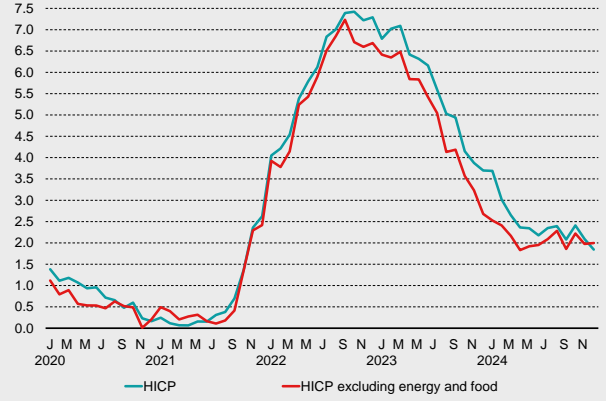
2024: THE MALTESE ECONOMY AT A GLANCE

REAL GDP GROWTH (annual percentage change)



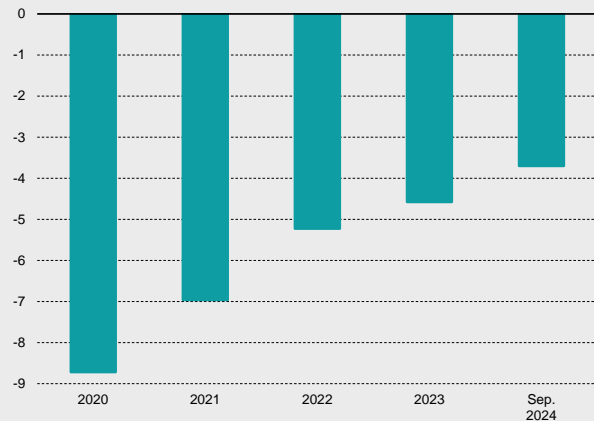
Source: NSO.

HICP IN MALTA: OVERALL AND CORE MEASURE (annual percentage changes)



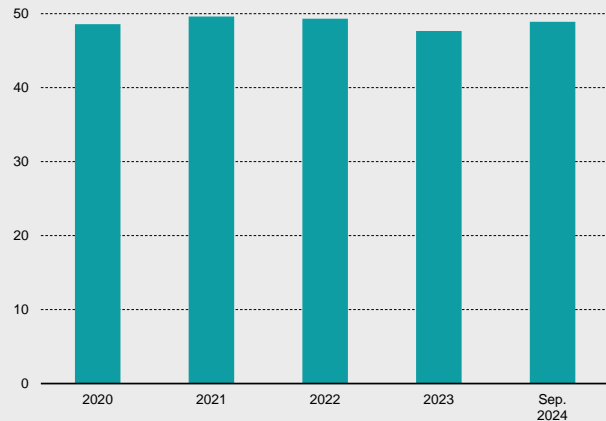
Source: Eurostat.

GENERAL GOVERNMENT BALANCE (% of GDP)



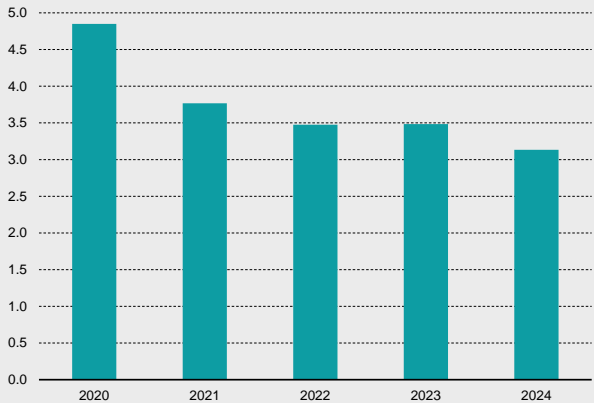
Source: NSO.

GENERAL GOVERNMENT DEBT (% of GDP)



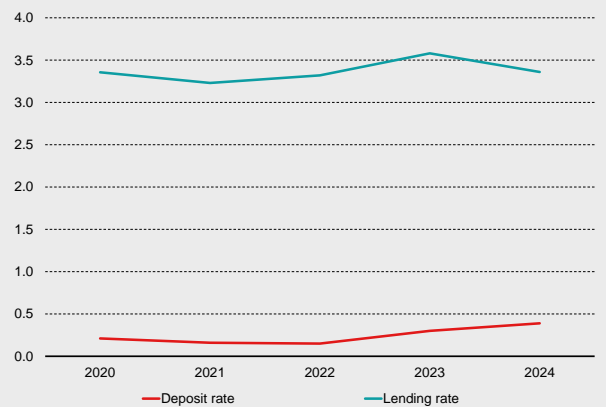
Source: NSO.

UNEMPLOYMENT RATE (not seasonally adjusted; per cent)



Source: Eurostat.

DEPOSIT AND LENDING RATES ON OUTSTANDING AMOUNTS (per cent; end of period)



Source: Central Bank of Malta.

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

During 2024, economic activity in the United States grew robustly though at a marginally slower pace than the year before, while in the United Kingdom economic growth picked up incrementally but remained soft. Unemployment rose slightly in the United States and in the United Kingdom. Price pressures, though remaining rather high, continued to ease. By the end of the year, the annual rate of consumer price inflation (CPI) fell to 2.9% in the United States and 2.5% in the United Kingdom.

During the year, both the Federal Reserve and the Bank of England lowered their key policy rates in the context of easing, albeit still elevated, inflation. Both central banks also continued to unwind the stock of assets held on their balance sheets.

In the euro area, real GDP growth expanded by 0.9% in 2024, up from 0.4% in 2023. Employment continued to increase, though at a slower pace than in the previous three years, while the unemployment rate declined marginally further, to 6.4%. Consumer price inflation, measured on the basis of the HICP, though still fairly high, continued to abate during 2024, with the average for the year as a whole standing at 2.4%, compared to 5.4% in 2023.

During 2024, the ECB eased its monetary policy stance in the context of moderating inflation. The Governing Council lowered its key interest rates four times, such that by December the rate on the deposit facility (DFR), which is the key interest rate for steering the monetary policy stance, stood 100 basis points below its level at the end of 2023.

The Eurosystem's holdings of securities under the asset purchase programme (APP) continued to decline at a measured and predictable pace, as the Eurosystem no longer reinvested the principal payments from maturing securities. As regards the PEPP, reinvestments proceeded at a reduced pace during the year, before being discontinued at the end of 2024.

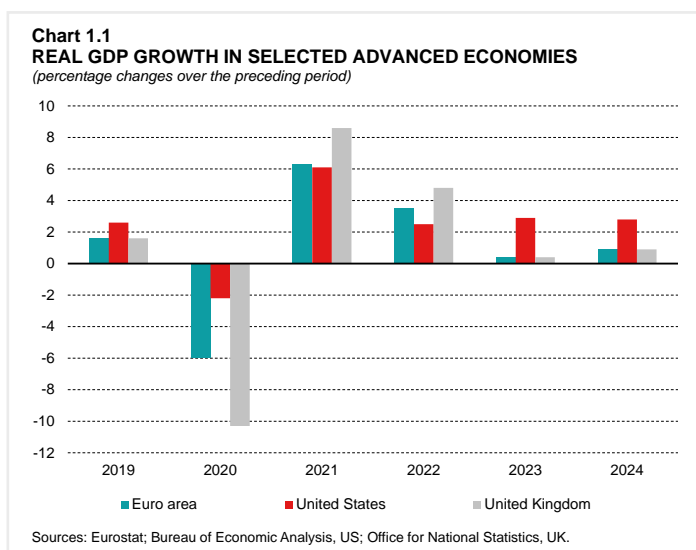
During 2024, the price of oil declined, amid slowing growth in world oil demand and higher oil supply. By contrast, the price of natural gas in Europe rose notably, amid higher gas use, a tighter liquified natural gas (LNG) market and geopolitical instability.

Key advanced economies

US economy expands further, at a marginally slower pace

During 2024, the US economy expanded further, although the pace of economic growth lessened slightly when compared to the previous year (see Chart 1.1). Fiscal policy supported growth, as the Federal budget deficit remained elevated and, indeed, widened from 6.4% of GDP in 2023 to 7.0% in 2024.¹

Real GDP increased by 2.8% in 2024, compared to 2.9% in the previous year. The increase in real GDP mainly reflected higher



¹ These figures are based on calendar year data retrieved from Federal Reserve Economic Data and the US Bureau of Economic Analysis. Financial year data as at the end of September indicate a smaller widening from 6.1% to 6.3%.

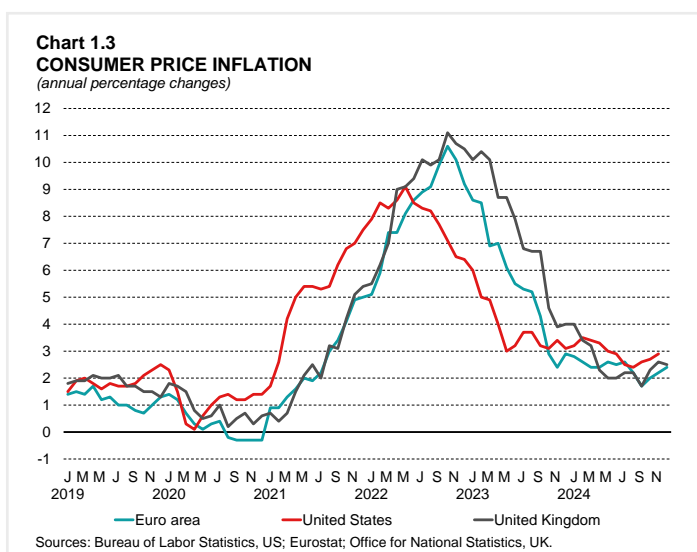
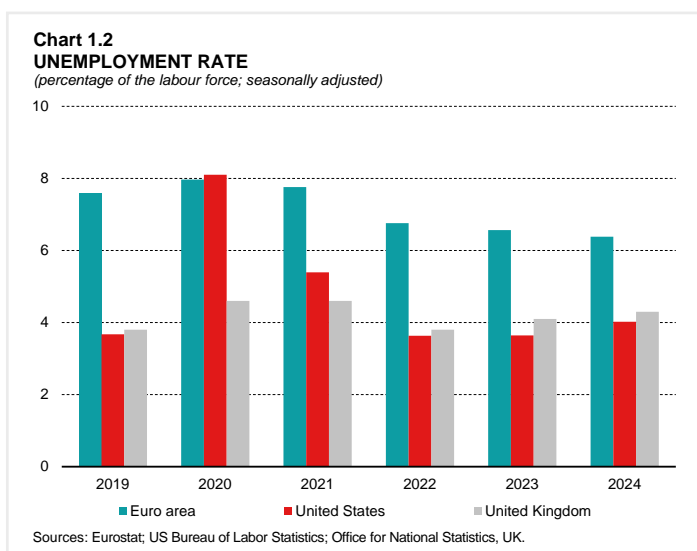
personal consumption expenditures, a substantial part of which represented an increase in spending on services, particularly health care. Private fixed investment also rose notably, reflecting increases in both residential and especially non-residential investment expenditures, in particular intellectual property and equipment. Government consumption and gross investment were also up markedly. Meanwhile, private inventories contributed marginally to growth. On the other hand, net exports acted as a drag on GDP growth as a rise in imports outweighed an increase in exports.

Economic growth in the United States took place against the backdrop of a still-strong labour market, though there were signs that the degree of labour market tightness had diminished. Indeed, job creation slowed down, with employment rising by 0.2% on average during the year, after having increased by 1.7% in 2023.

Non-farm payrolls data suggest that during 2024 employment growth was driven mainly by services, with the strongest level increases recorded in education and health, government, and in the leisure and hospitality sectors. Employment in manufacturing decreased slightly. The labour force participation rate averaged 62.6% in 2024, unchanged from a year earlier, while the unemployment rate averaged 4.0% in 2024, up from 3.6% in 2023 (see Chart 1.2).

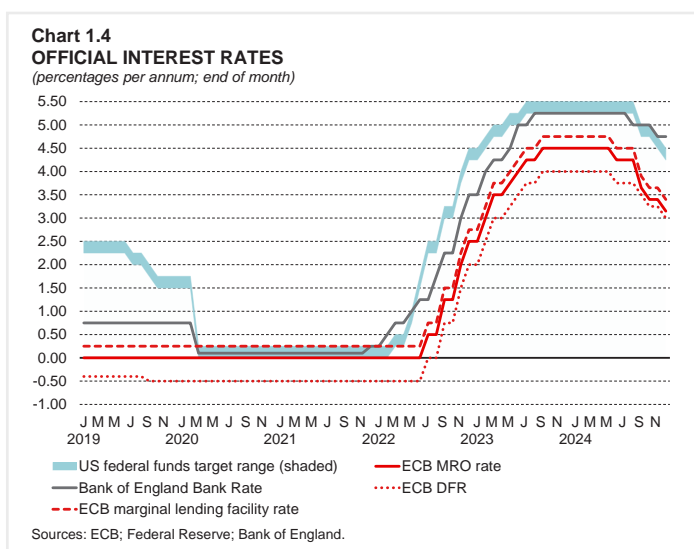
Inflationary pressures declined substantially during 2024, with the average annual inflation rate based on the CPI falling to 2.9% from 4.1% in 2023. Inflation fell to 2.9% in December, from 3.4% a year earlier (see Chart 1.3). US inflation fell over much of the year, but picked up again in the final quarter.

The decline in inflation reflected mainly lower energy and goods prices, coupled with lower price increases in food and beverages, as well as services. Annual energy price inflation continued to follow a negative trend in 2024, except for the period between March and July. Thus, energy price inflation ended the year at -0.5%, compared to -2.0% in December 2023. Meanwhile, the prices of goods excluding food and energy fell at an annual rate of -0.5%, as against an increase of 0.2% a year earlier. Food and beverages price inflation rose at a significantly slower pace, easing to 2.4% in December 2024 from 2.7% a year earlier. Services inflation decreased to 4.4% in December 2024, compared to 5.0% a year earlier, partly reflecting developments in the recreation and shelter sub-components. As a result, inflation excluding food and energy slowed down to 3.2% at the end of 2024, from 3.9% in December 2023.



As regards monetary policy, the Federal Open Market Committee (FOMC) in January 2024 dropped its reference to additional policy firming in favour of a more neutral stance, as it judged that the risks to achieving its goals were “moving into better balance”. The Committee kept the target range for the federal funds rate unchanged for most of the year as it awaited firmer signs that inflation was moving sustainably towards 2%. On 18 September, the FOMC lowered the target range for the federal funds rate by 0.50 percentage points to 4.75%-5.00%, from 5.25-5.50% at the end of 2023, as inflation declined further, though it remained

somewhat elevated. The Committee effected two further quarter-point rate cuts in November and December, respectively, so that by the end of 2024, the target range for the federal funds rate stood between 4.25-4.50% (see Chart 1.4).² Moreover, throughout the year, the FOMC continued to reduce its holdings of Treasury securities and agency debt and agency mortgage-backed securities. In this regard, in June, the Committee slowed the pace of quantitative tightening as it reduced the monthly redemption cap on Treasury securities from USD 60 billion to USD 25 billion. The Committee maintained the monthly redemption cap on agency debt and agency mortgage-backed securities at USD 35 billion.



UK economic growth picks up, but remains weak

Real GDP growth in the United Kingdom rebounded during the first half of 2024, but it lost momentum during the second half of the year. Overall, real GDP grew by 0.9% in 2024, up from 0.4% in 2023 (see Chart 1.1). Consumption expenditures by households and government as well as business investment increased more rapidly than in the year before. However, a notable expansion in inventories, was the main factor behind the faster growth rate. By contrast, net trade deducted from GDP growth, as lower exports and higher imports resulted in a wider trade deficit.

In 2024, the labour market softened. The number of payrolled employees in the United Kingdom rose by 0.8%, a slower rate of increase than the 1.2% recorded a year earlier. The employment rate edged down to 74.7%, on average, compared to 75.0% in 2023, while the unemployment rate averaged 4.3%, slightly up from 4.1% a year earlier (see Chart 1.2).

Consumer price inflation in the United Kingdom continued to decline. The annual rate of inflation, based on the consumer price index (CPI) fell steadily from 4.0% in December 2023 until it reached a low of 1.7% in September 2024, but it rebounded in October. It remained elevated until the year end, reaching 2.5% in December (see Chart 1.3). Overall, average annual inflation fell to 2.5%, down from 7.3% in 2023. Inflationary pressures eased across all the major components of the CPI. Energy prices continued to fall, with annual energy inflation ending the year at -6.0%, compared to -17.3% twelve months before. The annual rate of change of prices for food, alcoholic beverages and tobacco declined to 2.8% in December 2024, compared to 9.3% at the end of 2023. Services inflation fell to 4.4% in December 2024, from 6.4% a year earlier, while non-energy industrial goods inflation (NEIG) dropped to 1.2%, compared to 3.1% in December 2023. Consequently, the annual rate of inflation based on the CPI excluding energy, food, alcoholic beverages and tobacco, declined to 3.2% in December 2024 from 5.1% a year earlier.

² In its meeting held on 28-29 January 2025, the FOMC kept both the target range for the federal funds rate and the pace of quantitative tightening unchanged. The Committee reiterated its strong commitment to supporting maximum employment and returning inflation to its 2% objective.

Against a backdrop of falling inflation, in January, the Bank of England's Monetary Policy Committee (MPC) softened its tightening bias. However, it kept the Bank Rate unchanged at 5.25% until 31 July, when the MPC reduced the Bank Rate by 25 basis points. This was followed by another similar cut in November. The MPC noted the continued progress in disinflation, while reiterating that monetary policy had to continue to remain restrictive for sufficiently long to return CPI inflation to the 2% target sustainably in the medium term. Thus, the Bank Rate ended 2024 at 4.75% (see Chart 1.4).

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 2024 to September 2025, to a total of GBP 558 billion.³

Economic and financial developments in the euro area

Euro area GDP growth expands modestly⁴

Real GDP growth in the euro area rose to 0.9% in 2024, compared to 0.4% in 2023 (see Table 1.1). In quarter-on-quarter terms, economic activity was characterised by positive growth in all the quarters of the year, with growth tailing off in the final quarter. Economic activity took place in the context of higher consumption expenditure by government and households, the latter reflecting the incremental progress in consumer confidence as inflation eased and real disposable income increased. Meanwhile, a modest improvement in net exports also contributed to GDP growth. The services sector drove economic activity, whereas real gross value added (GVA) in manufacturing and construction contracted.

The subdued growth in real GDP largely reflected equal modest increases in domestic demand and net exports of goods and services. As regards domestic demand components, government and private

Table 1.1
REAL GDP GROWTH IN THE EURO AREA

Chain-linked volumes

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------------------------|------------|-------------|------------|------------|------------|------------|
| <i>Annual percentage changes</i> | | | | | | |
| Private consumption | 1.4 | -7.8 | 4.7 | 5.0 | 0.5 | 1.0 |
| Government consumption | 1.9 | 1.2 | 4.4 | 1.1 | 1.4 | 2.8 |
| Gross fixed capital formation | 7.1 | -5.7 | 3.8 | 2.0 | 1.7 | -1.9 |
| Exports | 3.1 | -8.8 | 11.4 | 7.3 | -0.8 | 1.0 |
| Imports | 4.9 | -8.2 | 9.0 | 8.3 | -1.4 | 0.2 |
| GDP | 1.6 | -6.0 | 6.3 | 3.5 | 0.4 | 0.9 |
| <i>Percentage point contributions</i> | | | | | | |
| Private consumption | 0.7 | -4.2 | 2.5 | 2.6 | 0.3 | 0.6 |
| Government consumption | 0.4 | 0.3 | 1.0 | 0.2 | 0.3 | 0.6 |
| Gross fixed capital formation | 1.5 | -1.3 | 0.8 | 0.4 | 0.4 | -0.4 |
| Changes in inventories | -0.3 | -0.3 | 0.7 | 0.5 | -0.9 | -0.3 |
| Exports | 1.5 | -4.2 | 5.1 | 3.6 | -0.4 | 0.5 |
| Imports | -2.1 | 3.6 | -3.7 | -3.7 | 0.7 | -0.1 |
| GDP | 1.6 | -6.0 | 6.3 | 3.5 | 0.4 | 0.9 |

Source: Eurostat.

³ In its meeting ending on 5 February 2025, the MPC reduced the Bank Rate by 25 basis points, to 4.5%. The Committee restated that monetary policy needed to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term dissipated further.

⁴ The cut-off date for data on euro area GDP and the labour market in this chapter is 7 March 2025.

consumption rose by 2.8% and 1.0%, respectively, over the previous year and contributed 0.6 percentage points each to GDP growth. By contrast, a contraction in gross fixed capital formation (GFCF) and a drawdown in inventories exerted a negative impact on GDP growth during 2024. The former reflected lower investment spending in construction as well as in machinery and equipment, possibly reflecting higher borrowing costs and increased uncertainty. Meanwhile, net exports added 0.4 percentage points to GDP growth, as a 1.0% expansion in exports outpaced a 0.2% increase in imports.

Real GVA expanded in most economic sectors during 2024, with contributions to overall growth modestly larger than the year before. This applies particularly to services, notably those areas including public administration, defence, education and health, social work activities, professional, scientific and technical activities, as well as real estate activities. Meanwhile, wholesale and retail trade, transport, accommodation and food service activities, taken together, increased their GVA in real terms, whereas this had contracted slightly in 2023. By contrast, the GVA in industry contracted for the second consecutive year. Also, construction deducted from GDP growth in 2024 in contrast to a positive contribution recorded in the previous year.

Labour market conditions remain favourable, but show some signs of weakness

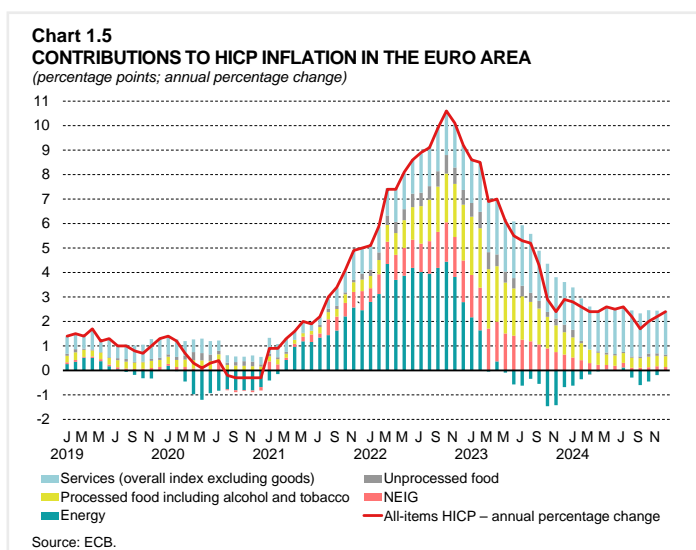
Labour market conditions in the euro area remained favourable during the year under review, though with some incipient signs of weakness. Employment increased by 1.0% in 2024, as against 1.4% in 2023. Meanwhile, unemployment declined slightly further throughout 2024, with the seasonally-adjusted unemployment rate averaging 6.4% during the year, down from 6.6% in 2023 (see Chart 1.2). In December 2024, the unemployment rate stood at 6.3% as against 6.5% a year earlier. As the year progressed, however, survey data indicated that labour demand was weakening.

HICP inflation, though still above target, eases markedly

The annual rate of HICP inflation in the euro area, though still above the ECB's medium-term target, continued to ease notably during 2024, with the average for the year as a whole standing at 2.4%, compared to 5.4% in 2023.

In the early months of the year, although high interest rates and tight financial conditions helped to push down inflation, domestic price pressures remained strong, partly reflecting rising wages, which fed into services prices, as well as lingering effects from earlier shocks. Inflation picked up marginally in the second quarter, mainly reflecting a rebound in energy prices, before moderating. Towards the end of the year, however, upward inflationary pressures were again evident, mainly on the back of a rebound in energy prices, while services inflation remained close to 4.0%. Overall, the annual rate of HICP inflation fell to 2.4% in December from 2.9% a year earlier (see Chart 1.5).

The drop in inflation during 2024 mainly reflected developments in prices of food and NEIG. Unprocessed food inflation fell to 1.9% on average in 2024, from 9.1% in 2023, lowering its contribution to HICP inflation to just 0.1 percentage



points. Processed food (including alcohol and tobacco) inflation decelerated to 3.2% on average in 2024, from 11.4% the year before. As a result, the processed food contribution to overall inflation eased to 0.5 percentage points, from 1.8 percentage points a year before. At the same time, NEIG inflation eased to 0.8% on average in 2024, from 5.0% in 2023, lowering its contribution to overall inflation from 1.3 percentage points in 2023 to 0.2 percentage points. Energy prices also had a downward impact on overall HICP inflation, with energy inflation falling to an average of -2.2%, compared to -2.0% in 2023, partly reflecting developments in commodity markets as well as downward base effects. As a result, the contribution of energy to overall inflation fell again slightly to -0.2 percentage points. Services inflation was more persistent, however, though it also eased to 4.0% on average in 2024, from 4.9% in the previous year. Consequently, the contribution of services to HICP inflation eased to 1.8 percentage points, from 2.1 percentage points in 2023.

HICP inflation excluding energy and food averaged 2.8% during 2024, 2.1 percentage points lower than that recorded in 2023. This measure of inflation moderated further throughout 2024, falling to 2.7% in December from 3.4% a year earlier.

ECB projects a gradual recovery in economic activity, while inflation continues to decline

According to the ECB staff macroeconomic projections published in March 2025, real GDP growth in the euro area is expected to increase from 0.9% in 2025, to 1.2% and 1.3% in 2026 and 2027, respectively (see Table 1.2).⁵ The recovery in economic activity has been delayed amid elevated domestic and trade policy uncertainty, which are assumed to weigh on euro area exports and investments, dampening growth. Reinforced by long-standing competitiveness challenges, trade policy uncertainty is expected to result in a further decline in the euro area's export market share. Nevertheless, ECB staff consider that the conditions remain in place for GDP growth to strengthen over the projection horizon. In the medium term, increasing real wages and employment, against the background of a resilient, although cooling, labour market, are expected to underpin a recovery driven by private consumption, alongside improving investment and foreign demand. Investment is projected to gradually strengthen over the projection horizon, as financing conditions ease, profits increase, Next Generation EU (NGEU) funds are deployed and domestic and foreign demand improve. On the other hand, the ongoing withdrawal of the discretionary fiscal support measures implemented in response to the pandemic and the energy crisis is estimated to continue to have a small negative effect on GDP growth in 2025-27.

Table 1.2
MACROECONOMIC PROJECTIONS FOR THE EURO AREA⁽¹⁾

Annual percentage changes

| | 2024 | 2025 | 2026 | 2027 |
|--------------------------------|------------|------------|------------|------------|
| GDP | 0.8 | 0.9 | 1.2 | 1.3 |
| Private consumption | 1.0 | 1.4 | 1.2 | 1.2 |
| Government consumption | 2.5 | 1.2 | 1.1 | 1.0 |
| Gross fixed capital formation | -1.8 | 1.2 | 1.7 | 1.4 |
| Exports | 0.9 | 0.8 | 2.3 | 2.7 |
| Imports | 0.1 | 1.9 | 2.6 | 2.8 |
| HICP | 2.4 | 2.3 | 1.9 | 2.0 |
| HICP excluding energy and food | 2.8 | 2.2 | 2.0 | 1.9 |

Source: ECB.

⁽¹⁾ ECB staff macroeconomic projections (March 2025).

⁵ Figures for 2024 may differ from those reported in Table 1.1 due to an earlier cut-off date for the ECB staff projections.

Compared to the December 2024 projections, real GDP growth has been revised downwards by 0.2 percentage points for 2025 and 2026, respectively. The weaker outlook largely stems from downward revisions to exports and, to a lesser degree, to investment, reflecting a stronger impact of uncertainty than previously assumed, and the likelihood that competitiveness challenges will probably persist for longer than had been envisaged earlier. Growth projections remain unchanged for 2027.

Turning to the outlook for prices, according to the March 2025 projections, headline HICP inflation is envisaged to decline marginally to 2.3% in 2025, and ease further to 1.9% in 2026, before it inches up to 2.0% in 2027. The rise in energy commodity prices at the turn of the year will boost the annual rate of change in energy prices in 2025. Although oil and gas prices are assumed to decline, energy inflation is expected to remain positive over the entire projection horizon. In 2027, energy inflation is envisaged to be driven up by the introduction of new climate change mitigation measures. Food inflation is projected to increase until mid-2025, mainly on account of recent marked increases in food commodity prices, before declining in 2027. HICP inflation excluding energy and food is expected to decline to 2.2% in 2025 and drop slightly further to 2.0% and 1.9% in 2026 and 2027, respectively. This decline is expected to be mainly driven by lower services inflation.

Compared to the December 2024 projections, HICP inflation has been revised upwards by 0.2 percentage points for 2025. The inflation projection remains unchanged for 2026, but it is revised downwards by 0.1 percentage points for 2027. The upward revision for 2025 largely reflects developments in energy prices, which are expected to outweigh a downward revision to HICP inflation excluding energy and food as well as food inflation. Meanwhile, HICP inflation excluding energy and food is revised downwards by 0.1 percentage points for 2025, it is revised upwards by 0.1 percentage points for 2026 but remains unchanged for 2027. The downward revision for 2025 mainly reflects incoming data, whereas the upward revision for 2026 largely reflects a weaker euro, indirect effects from energy prices and an upward revision to unit labour costs (ULCs) for 2025. Energy inflation was revised marginally downwards for 2026 and 2027, reflecting the revised profile of related commodity prices. Revisions in this component explain those to headline inflation for 2027.

Trade restrictions and fiscal policy measures announced following the finalisation of these ECB staff macro-economic projections resulted in an increase in uncertainty concerning the outlook for economic growth and inflation in the euro area.

ECB lowers key interest rates

The ECB's Governing Council eased its monetary policy stance in 2024 amid signs of abating inflationary pressures. Thus, the Council cut policy rates four times during the year, so that the interest rates on the deposit facility, the MRO and the MLF ended 2024 at 3.00%, 3.15% and 3.40%, respectively, compared to 4.00%, 4.50% and 4.75% at the end of 2023 (see Chart 1.4 and Box 1). The Council continued to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance.⁶

⁶ In each meeting held on 29-30 January and 5-6 March 2025, the Governing Council lowered the three key ECB interest rates by 25 bps. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 2.50%, 2.65% and 2.90%, respectively. In the March meeting, the Council stated that monetary policy was becoming meaningfully less restrictive, as the interest rate cuts were making new borrowing less expensive for firms and households and loan growth was picking up. The Council reiterated that it was determined to ensure that inflation stabilised sustainably at its 2% medium-term target and that it was not pre-committing to a particular rate path.

BOX 1: CHRONOLOGY OF ECB MONETARY POLICY DECISIONS IN 2024

25 January

The Governing Council decided to keep the three key ECB interest rates unchanged, as the incoming information had broadly confirmed its previous assessment of the inflation outlook. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility remained unaltered at 4.00%, 4.50% and 4.75%, respectively.

The Governing Council restated that it would continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions would be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission.

Regarding the APP portfolio, the Governing Council restated that it was declining at a measured pace, as the Eurosystem no longer reinvested the principal payments from maturing securities.

The Governing Council also reaffirmed 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 the year, it intended to reduce the PEPP portfolio by €7.5 billion per month on average and to discontinue reinvestments under the PEPP at the end of 2024.

As to refinancing operations, the Governing Council reiterated that since banks were repaying the amounts borrowed under TLTRO III, it would regularly assess how targeted lending operations and their ongoing repayment 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 counter unwarranted disorderly market dynamics that might seriously threaten the smooth transmission of the monetary policy stance across all euro area countries. This would allow the Governing Council to more effectively deliver on its price stability mandate.

7 March

The Governing Council decided to keep the three key ECB interest rates unchanged. Although inflation had declined and most measures of underlying inflation had eased further, domestic price pressures remained high, in part owing to strong growth in wages. Financing conditions remained restrictive.

11 April

The Governing Council decided to keep the three key ECB interest rates unchanged.

Inflation continued to fall, and most measures of underlying inflation were easing. Financing conditions remained restrictive and the past interest rate increases continued to weigh on demand, which was helping to push down inflation. Nevertheless, domestic price pressures were strong and were keeping services price inflation high.

The Governing Council stated that if its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation was converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction.

6 June

The Governing Council decided to lower the three key policy rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 3.75%, 4.25% and 4.50%, respectively. The Council considered that the inflation outlook had improved markedly, underlying inflation had eased, and monetary policy had kept financing conditions restrictive. This was the first adjustment in official interest rates since September 2023.

In light of persisting domestic price pressures, the Governing Council reiterated that it would keep policy rates sufficiently restrictive for as long as necessary to ensure that inflation would return to its 2% medium-term target in a timely manner. The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. The Council added that it was not pre-committing to a particular rate path.

18 July

The Governing Council decided to keep the three key ECB interest rates unchanged.

While the incoming information broadly supported the Governing Council's previous assessment of the medium-term inflation outlook, domestic price pressures were still high, services inflation was elevated, and headline inflation was likely to remain above the target well into 2025.

12 September

The Governing Council decided to lower the DFR – the rate through which it steers the monetary policy stance – by 25 basis points. The Governing Council took its decision based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

Additionally, as announced on 13 March 2024, changes to the operational framework for implementing monetary policy took effect from 18 September. In particular, the spread between the DFR and the interest rate on the MROs was set at 15 basis points. By contrast, the spread between the rate on the marginal lending facility and the rate on the MROs was kept unchanged at 25 basis points. Accordingly, the DFR was decreased to 3.50% and the interest rates on the MROs and the marginal lending facility were lowered to 3.65% and 3.90%, respectively.

17 October

The Governing Council decided to lower the three key ECB interest rates by 25 basis points, citing incoming information that the disinflationary process was well on track, as well as recent downside surprises in indicators of economic activity. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 3.25%, 3.40% and 3.65%, respectively, with effect from 23 October 2024.

12 December

The Governing Council decided to lower the three key ECB interest rates by a further 25 basis points. Hence, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 3.00%, 3.15% and 3.40%, respectively. The Council noted that the disinflation process was well on track and most measures of underlying inflation suggested that inflation would settle around the 2% medium-term target on a sustained basis. Although financing conditions were easing, they continued to be tight.

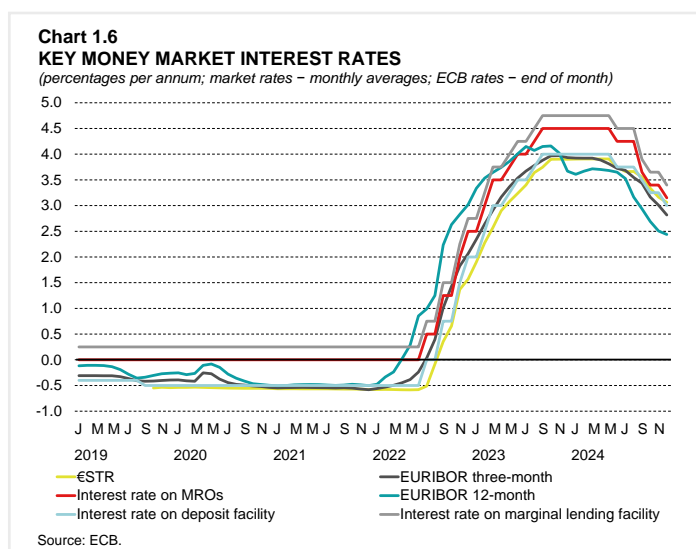
The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance. Moreover, whilst reiterating

that it was not pre-committing to a particular rate path, the Governing Council dropped its restrictive bias with regard to policy rates.

As regards the APP, the Governing Council reaffirmed that the portfolio was declining at a measured and predictable pace, as the Eurosystem no longer reinvested the principal payments from maturing securities. As to the PEPP portfolio, the Governing Council recalled that it would discontinue reinvestments under this programme at the end of 2024.

Money market rates decline

Money market rates in the euro area remained stable over the first five months of 2024 but, subsequently, they followed a downward path in line with the ECB's decision to lower official interest rates. The euro short-term rate (€STR) stood at 3.90%, on average, in December 2023 and remained largely unchanged in the subsequent months before it fell in June 2024, when it averaged 3.75%. The €STR continued to fall over the rest of the year, mirroring reductions in the DFR, and averaged 3.06% in December.⁷



The three-month euro interbank offered rate (EURIBOR) averaged 3.93% in December 2023 and remained largely unchanged until March 2024. In the following months, however, it declined gradually and averaged 2.82% in December. The 12-month EURIBOR continued to decline in 2024, reflecting market players' expectations of lower official interest rates. Thus, it fell from an average of 3.67% in December 2023 to 2.44% 12 months later (see Chart 1.6).⁸

Euro area bond yields fall

After having risen notably since 2021, the ten-year benchmark government bond yield in the euro area increased in the first half of 2024, reaching a peak for the year in June, but then it embarked on a gradual decline. This occurred against the background of abating inflationary pressures and the start of an easing monetary policy cycle in major economies. Overall, the euro area ten-year benchmark government bond yield fell to 2.81% in December 2024 from 2.87% a year before.

Looking at individual sovereign bonds, German ten-year bond yields resumed their upward trend in January and continued to rise until May 2024. Subsequently, they fell consistently until September. Following increases in October and November, German ten-year bond yields fell marginally in December. Thus, they stood at 2.18% in December or eight basis points higher than 12 months before. French bond yields recorded the highest increase among the sovereign bonds in the euro area, as they rose by 36 basis points to average 3.01% in December. The increase in French sovereign bond yields reflected significant uncertainty about the country's political situation and fiscal outlook. Government bond yields also rose in some other jurisdictions, including Estonia, Belgium, Ireland and the Netherlands. Most other euro-area government bond yields fell, the most prominent of which being that on Italian bonds, which went down by 50 basis points, averaging 3.32% in December. Smaller reductions in long-term bond yields were also recorded in Spain, Portugal and Greece, among other euro area countries.

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 1.7). By the end of 2024, spreads on Italian bonds narrowed by 58 basis points, also reflecting an improvement in the credit rating outlook, while those on Greek and Spanish bonds each narrowed by 31 basis points. The narrowing of spreads was more

⁷ 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.

⁸ 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.

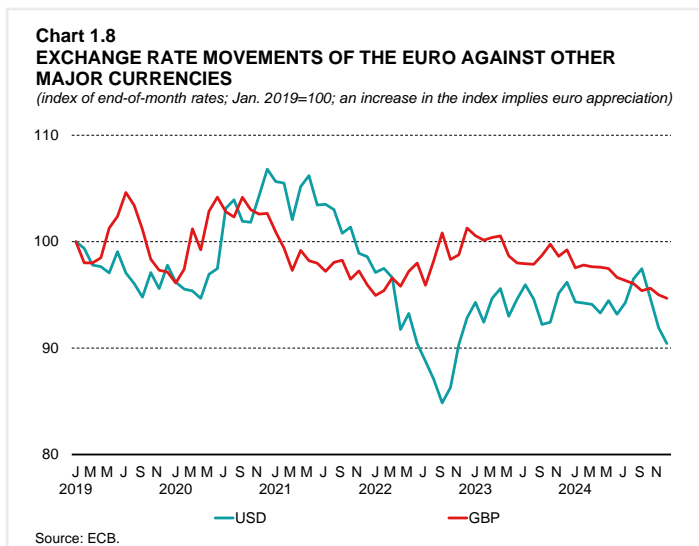
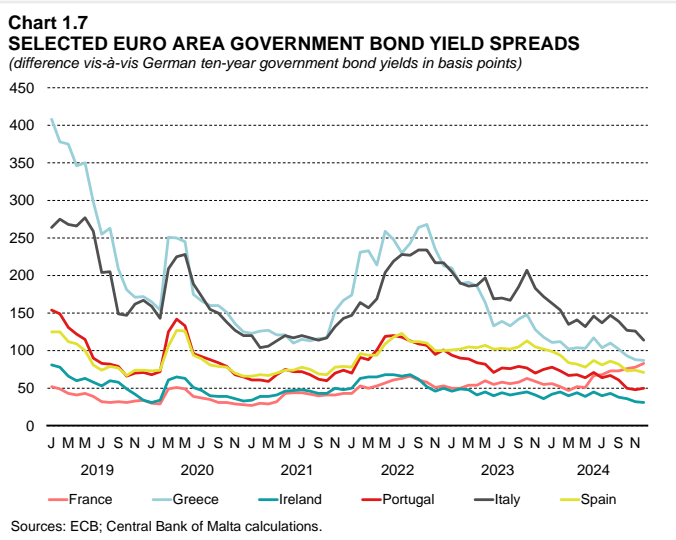
contained in Portugal and Ireland. By contrast, yield spreads on French sovereign bonds widened by 28 basis points.

The euro depreciates against the US dollar and in nominal effective terms

Overall, the euro exchange rate depreciated in nominal effective terms during 2024, with the NEER-18 declining by 1.8% from its end-2023 level.⁹ This contrasted with an appreciation of 1.7% in 2023. The decrease in the external value of the euro occurred mainly in the last quarter of 2024 and largely reflected the ECB’s easier monetary policy stance when compared to those prevalent in other jurisdictions as well as a broad US dollar appreciation.

On a bilateral basis, the euro depreciated by 6.0% against the US dollar in 2024, as against a 3.6% gain recorded in the previous year (see Chart 1.8). The euro tended to fall against the US dollar in the first half of 2024, mainly on account of widening interest-rate differentials between the euro area and the United States. Stronger economic growth in the United States relative to the euro area and elevated geopolitical tensions also had a downward impact on the euro. After rebounding over the summer, the euro resumed its declining trend, and indeed registered notable losses versus the US unit in the later months of the year. This mainly occurred following a market reassessment that the Fed might be less aggressive in lowering interest rates than expected previously. Likely changes in the US international trade policy following the election of Donald Trump to the US Presidency, increased the attraction of US financial assets, in turn supporting the US currency.

The euro also fell against the pound sterling, recording a 4.6% loss in 2024, following a decline of 2.0% the year before. The euro depreciated consistently versus the pound sterling during 2024, mainly reflecting widening interest-rate differentials between the euro area and the United Kingdom. The depreciation of the euro against the pound sterling lessened in the later months of the year as the Bank of England started to ease its monetary policy stance. In 2024, the single currency also weakened versus the Hong Kong and the Singapore dollars, the Chinese renminbi, the Polish zloty and the Swiss franc.



⁹ 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.

By contrast, over the year as a whole, the euro appreciated further against the Japanese yen, as the latter was negatively affected by very low interest rates in Japan compared to other major jurisdictions. The single currency also registered gains against other currencies, including the Korean won, the Canadian dollar, the Australian dollar, the Norwegian krone and a number of currencies of non-euro area EU member states.

Commodities

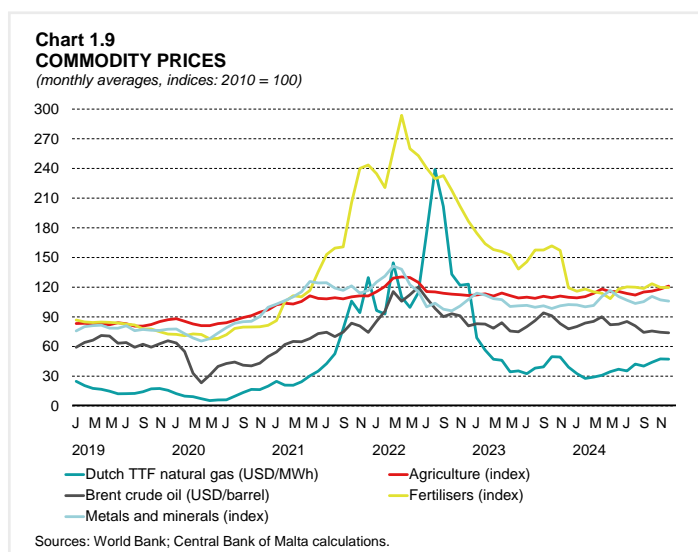
Oil prices fall but prices of natural gas and other commodities end the year higher

In the early months of 2024, oil prices rebounded amid concerns that global geopolitical tensions would cause supply disruptions and the implementation of an oil production cut by the OPEC+ group of producer countries. After the first week of April, however, oil prices tended to decline in the context of slowing growth in world oil demand and higher oil supply. Changes in energy consumption patterns in China reinforced this trend. However, oil prices rebounded for a brief period between mid-September and early October in the context of the beginning of the Israeli bombing of Lebanon and the possible threat of an escalation in the Middle East. Nevertheless, oil prices subsequently succumbed to renewed downward pressure, mainly reflecting demand and supply dynamics. The price of Brent crude oil ended 2024 at USD 73.8 per barrel, 5.2% below the level prevailing at the end of 2023 (see Chart 1.9).

The price of European natural gas fell until around end-February, mainly on account of notably high storage levels in the EU and decreasing demand amid mild weather conditions in Europe. Subsequently, however, the price of European natural gas rebounded on the back of higher gas use in the power and industrial sectors and a tighter global LNG market. Geopolitical instability intensified the increase in the price of gas.

Following some fluctuations, partly due to weather conditions, the price of European natural gas resumed its upward trend as a gas-transit agreement between Russia and Ukraine was due to lapse at the beginning of 2025. The price of Dutch TTF natural gas averaged USD 47.3 per megawatt hour in December 2024, 20.4% higher than in December 2023.

Non-energy commodity prices rose during 2024, with World Bank data showing an increase of 7.9%. The rise mainly reflected higher prices for agricultural products, notably cocoa and coffee. To a lesser extent, prices of metals and minerals as well as fertilisers also rose.



2. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's Financial Conditions Index (FCI), in 2024 financing conditions turned loose from a historical perspective.

The total assets of domestic monetary financial institutions (MFIs) in Malta rose during 2024, driven by an expansion in the assets belonging to international banks, followed by those of core banks.

Maltese residents' deposits rose at a faster pace when compared to 2023. As a result of more attractive remuneration, the composition of deposits shifted somewhat away from overnight deposits, which nevertheless remained the main component of residents' deposits.

Credit to residents also rose at a faster pace, reflecting a recovery in credit to general government. Credit to the private sector also grew, although at a slower pace compared to 2023, as lending to non-financial corporations (NFCs) slowed down or declined in most sectors. By contrast, growth in loans to households grew at a faster pace, mainly on account of strong growth in loans for house purchases.

The outstanding amount of corporate debt and equity increased at a more moderate pace compared to 2023.

Interest rates on outstanding deposits to Maltese residents increased during the year, while those on outstanding loans decreased. As a result, the spread between the two narrowed.

Interest rate data on new business, however, show a widening in the spread between the deposit and the lending rate – driven by higher rates on new loans outpacing increases in deposit rates.

In the primary money market, domestic yields fell during 2024. Meanwhile, the yield on five-year Maltese government bonds declined, while that on the ten-year bonds rose. In the equity market, after having increased in the previous year, the MSE Equity Price Index closed the year below the level registered at the end of December 2023.

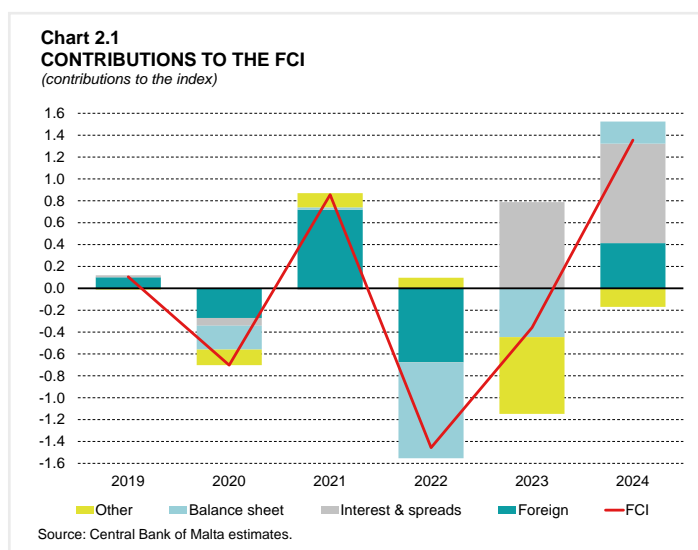
Financial conditions

Financial conditions turn loose

The Bank's FCI monitors domestic financial conditions through a summary measure of relevant domestic and international financial variables.¹

Financial conditions for 2024 were loose from a historical perspective. The improvement over 2023 was primarily due to the loosening effect of domestic factors, although foreign factors also contributed (see Chart 2.1).

During 2024, the contribution of domestic factors turned positive, mainly driven by changes in the



¹ 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.

'balance sheet' and 'other' components. The 'balance sheet' component was affected by smaller negative contributions from real deposits and real credit, and overall had a marginal loosening effect on financing conditions during the year. The 'other' component had a smaller tightening impact compared to 2023, largely because the negative contribution from issues of NFC securities turned broadly neutral. A lower negative contribution from the MSE Index also contributed.

The 'interest and spread' component is estimated to have had a somewhat stronger loosening effect compared to 2023, stemming from a larger positive contribution from the long-term spread against the yield on German government bonds, and from interest rates on deposits.

Foreign factors had a loosening effect in 2024, reflecting a decline in financial market uncertainty, unlike the previous year when they had a broadly neutral effect.

Assets of the banking sector and other monetary aggregates

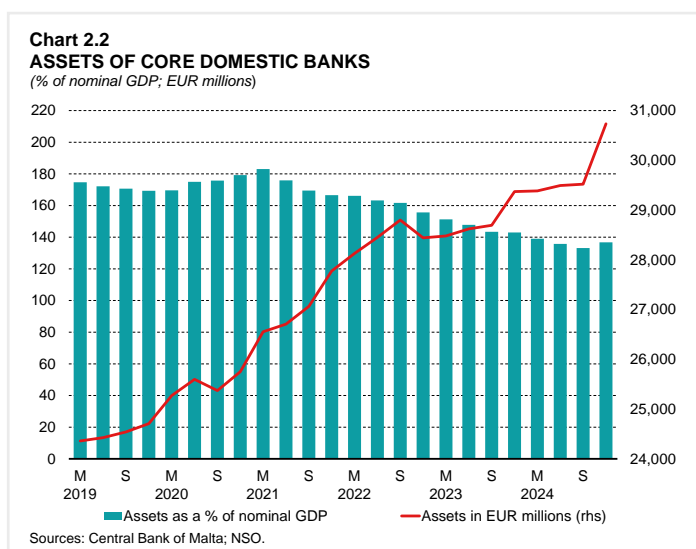
Total assets pertaining to the Maltese banking system (including the Central Bank of Malta) stood at €57,435.7 million at the end of 2024, an increase of €3,547.8 million compared with 2023, or 6.6%. This increase was mostly driven by an increase in the assets of international banks, which increased by €3,042.9 million, or 30.7%. During 2024, core domestic banks' assets increased by €1.362.5 million, or 4.6%.² As a result, the share of core domestic banks' assets in proportion to GDP stood at 136.8% at the end of 2024. This was lower than the share of 143.0% recorded a year earlier (see Chart 2.2), as GDP growth outpaced core banks' assets. Meanwhile, assets pertaining to non-core domestic banks decreased by €232.6 million, or 6.5%. The assets of the Central Bank of Malta also decreased during the year, shedding €625.0 million or 5.7%.³

Residents' deposits expand at a faster pace

Total deposits held by residents with MFIs in Malta rose by 7.0% during 2024, reaching €25,424.9 million by the end of the year (see Table 2.1). Growth picked up compared to 2023, when total deposits had increased by 1.7%. Changes in the monetary policy stance contributed to shifts across components, although overnight deposits remained by far the largest component.

These grew by 4.1% over the 12 months to December and thus recovered from the contraction of 0.2% recorded a year earlier. However, their share in total deposits edged down to 83.4%, from 85.8% in December 2023 (see Chart 2.3), as deposits with agreed maturity of up to two years rose at a much faster rate. The latest increase in overnight deposits largely reflected growth in balances held by households and NFCs.

Time deposits with a maturity of up to two years – the second largest category – registered strong growth of 37.4% in the year to December, following an increase of 25.7% a year earlier. This outcome 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



² 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.

³ 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

| | 2022 Dec. | 2023 Dec. | 2024 Dec. | 2024 Amount outstanding | Absolute change |
|---|--------------|--------------|--------------|-------------------------------|--------------------|
| Overnight deposits | 8.0 | -0.2 | 4.1 | 21,214.8 | 842.2 |
| <i>of which</i> | | | | | |
| Households | 12.4 | 1.8 | 4.2 | 14,864.4 | 596.2 |
| NFCs | 3.0 | -5.2 | 13.8 | 3,904.3 | 474.4 |
| Deposits redeemable at notice up to 3 months | -38.7 | -26.0 | -16.8 | 71.8 | -14.5 |
| <i>of which</i> | | | | | |
| Households | 5.4 | -98.6 | 1202.6 | 7.6 | 7.0 |
| NFCs | -59.5 | 30.4 | -19.7 | 49.1 | -12.0 |
| Deposits with agreed maturity up to 2 years | -24.7 | 25.7 | 37.4 | 3,146.9 | 856.7 |
| <i>of which</i> | | | | | |
| Households | -27.6 | 34.0 | 34.4 | 2,437.8 | 623.7 |
| NFCs | -3.4 | 23.1 | 62.6 | 381.7 | 147.0 |
| Deposits outside M3⁽¹⁾ | -14.4 | 0.8 | -0.3 | 1,006.1 | -2.6 |
| <i>of which</i> | | | | | |
| Households | -9.6 | -4.5 | -2.4 | 877.9 | -21.7 |
| NFCs | -34.5 | -2.8 | -9.4 | 30.6 | -3.2 |
| Total residents deposits⁽²⁾ | 3.0 | 1.7 | 7.1 | 25,439.5 | 1,681.8 |

Source: Central Bank of Malta.

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

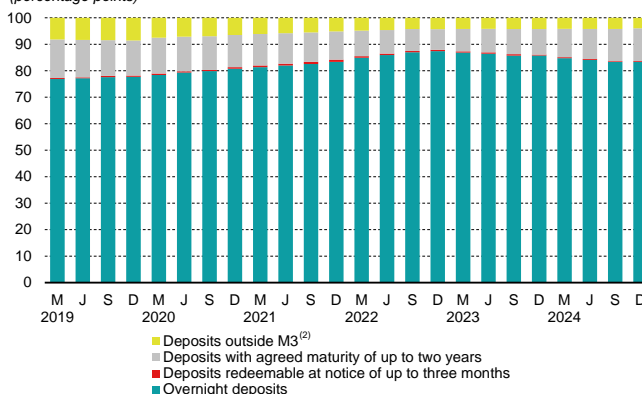
⁽²⁾ Total residents deposits exclude deposits belonging to Central Government.

higher balances belonging to households, although balances held by firms increased significantly as well. As a result, the share of this deposit category in overall deposits reached 12.4% from 9.6% in December 2023.

The share of deposits redeemable at notice of up to three months, decreased to 0.3% from 0.4% at the end of 2023.

Additionally, deposits classified outside M3 contracted by 0.3% when compared with their end-2023 level. This, contrasts with an increase of 0.8% in the previous year. Overall, their share in total deposits edged down to 4.0% at the end of 2024, from 4.2%.

Chart 2.3
DISTRIBUTION OF TOTAL RESIDENTS' DEPOSITS⁽¹⁾
(percentage points)



Source: Central Bank of Malta.

⁽¹⁾ Deposits exclude those belonging to central government.

⁽²⁾ Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

Credit to residents expands at a faster rate

Credit to residents of Malta expanded at a faster rate during 2024. It reached €20.875.3 million by the end of the year (see Table 2.2). This signifies an increase of €1,486.8 million or 7.7% and follows a 5.5% increase in 2023.

The latest expansion was driven mainly by developments in credit to residents outside general government, which increased by €973.0 million (see Chart 2.4). Growth in this component moderated to 6.6%, from 8.0% a year earlier. Meanwhile, credit to general government increased by €512.8 million, or 10.8%, following a contraction of 1.5% in 2023. MFIs increased their holdings of Malta Government Stocks (MGS) and, to a lesser extent, those of Treasury bills.

The expansion of credit to residents outside general government was driven by loans to households. These rose by 9.3% in 2024, following an 8.2% increase in 2023. Lending to NFCs also grew, but its contribution was smaller. Moreover, the latter lost some momentum, as its growth rate eased to 2.1% from 8.8% in 2023.

Loans to households were mostly supported by strong dynamics in lending for house purchases (see Chart 2.5). Indeed, mortgage lending grew by 9.4% during 2024, compared with a 7.9% increase in 2023. Consumer credit also increased, but the level increase

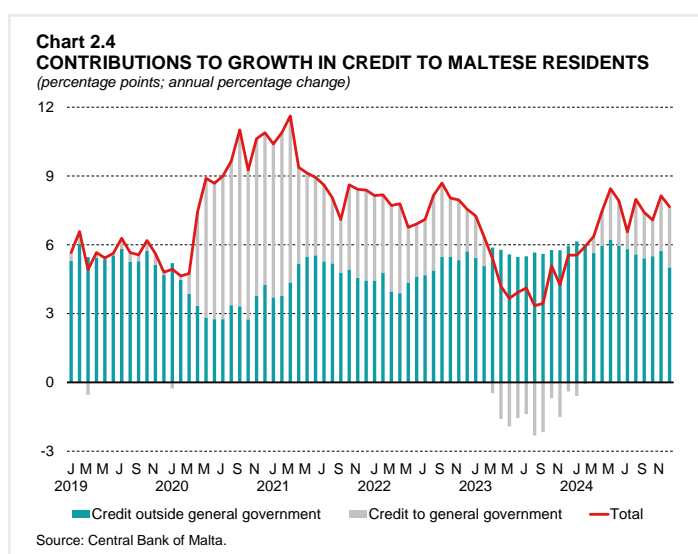


Table 2.2
MFI CREDIT TO MALTESE RESIDENTS

Annual percentage changes; EUR millions

| | 2022 | 2023 | 2024 | | |
|---|------------|-------------|-------------|--------------------|-----------------|
| | Dec. | Dec. | Dec. | Amount outstanding | Absolute change |
| Credit to general government | 7.0 | -1.5 | 10.8 | 5,241.2 | 512.8 |
| Credit to residents outside general government | 7.8 | 8.0 | 6.6 | 15,634.1 | 973.0 |
| Securities & Equity | -5.7 | -4.6 | -5.0 | 293.5 | -15.5 |
| Loans | 8.1 | 8.4 | 6.9 | 15,340.5 | 988.5 |
| <i>of which:</i> | | | | | |
| Loans to households | 10.1 | 8.2 | 9.3 | 9,129.8 | 775.2 |
| Mortgages | 10.4 | 7.9 | 9.4 | 8,428.5 | 723.1 |
| Consumer credit | 50.2 | 20.4 | 13.1 | 496.1 | 57.5 |
| Other lending | -27.8 | -1.8 | -2.6 | 205.3 | -5.4 |
| Loans to NFCs ⁽¹⁾ | 6.7 | 8.8 | 2.1 | 5,089.5 | 104.3 |
| Total credit to residents | 7.5 | 5.5 | 7.7 | 20,875.3 | 1,485.8 |

Source: Central Bank of Malta.

⁽¹⁾ NFCs include sole proprietors and non-profit institutions serving households.

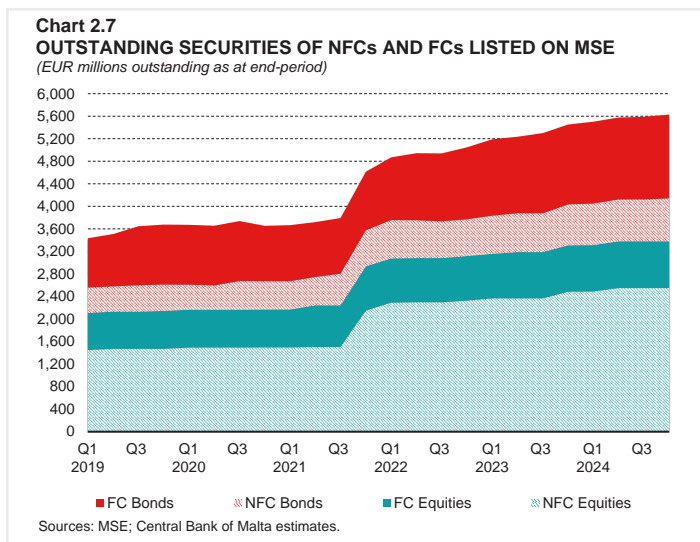
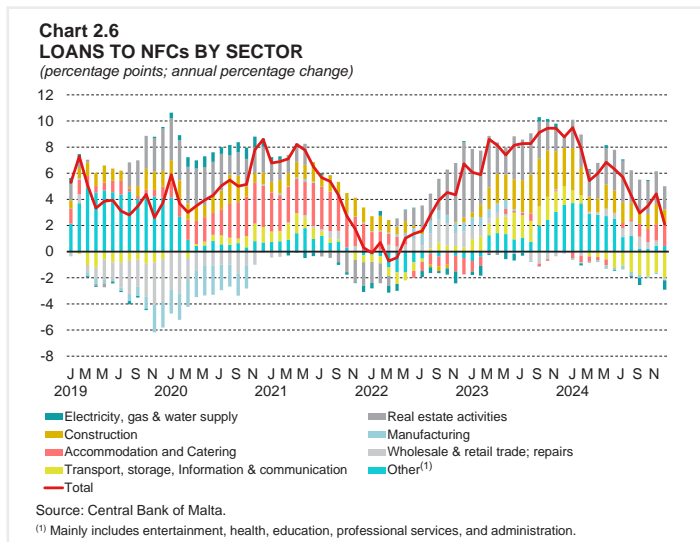
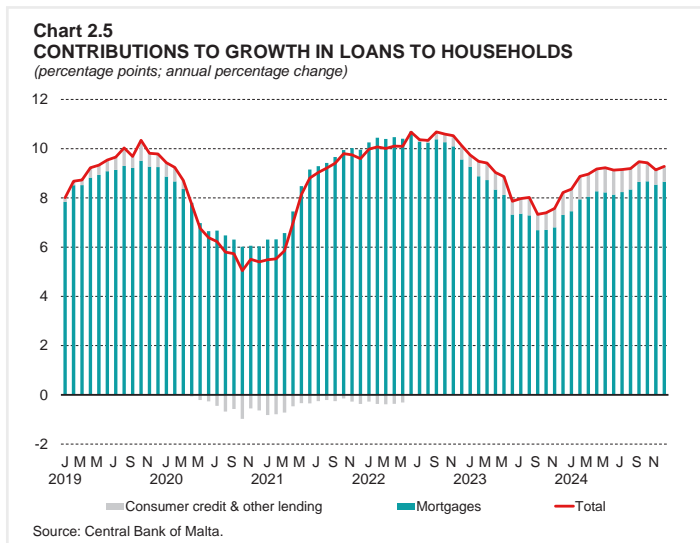
was much smaller than that in mortgages. Meanwhile, other lending to households contracted.

Slower growth in loans to NFCs reflected a strong contraction in lending to public sector NFCs and slower growth in credit to private sector NFCs.

Sectoral data show that the latest increase in loans to NFCs was driven by a strong increase in the real estate sector, followed by the accommodation and food services sector. Smaller increases were recorded in lending to the construction sector. By contrast, loans to the sector comprising transport, storage and information and communication activities, the energy sector, the trades and repair sector and the manufacturing sector declined (see Chart 2.6).

Supplementary data suggest that corporate issuance of bonds and stocks continued to increase. By the end of 2024, €2,249.5 million in corporate debt was outstanding on the MSE, 4.9% higher than the amount listed 12 months earlier (see Chart 2.7). Around two-thirds of the increase emanated from non-bank financial institutions. However, 66.1% 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 2.2%, in annual terms, to €3,378.7 million. Around three-fourths of the outstanding stock was issued by NFCs, with FCs playing a secondary role. The largest equity issues during 2024 were in companies within the real estate and communications sectors. Overall, the amount of listed equity outstanding at the end of 2024 exceeded that of bonds by around 50.2%.⁴



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

Interest rates increase

Interest rates on outstanding residents' deposits held with MFIs in Malta increased in 2024, with the weighted average deposit rate offered to households and NFCs on such balances going up by 9 basis points to 0.39% by the end of the year (see Table 2.3).⁵ Rates on time deposits belonging to households recorded the largest increase of 35 basis points, while the remuneration on balances held by NFCs increased by 32 basis points. The increase in residents' deposits reflects the lagged response to the policy rate tightening by the ECB between July 2022 and September 2024.

At the same time, the weighted average lending rate paid by households and NFCs to resident MFIs on outstanding loans decreased by 22 basis points, decreasing to 3.36%. This decrease was mainly driven by lower rates paid by NFCs. Rates paid by households also decreased, albeit to a lower extent. Mortgage rates decreased by 8 basis points to 2.60%, while rates on consumer credit and other lending decreased by 18 basis points to 4.08%.

The spread between the weighted average lending rate and the deposit rate closed the year under review at 297 basis points, below the 328 basis points recorded at the end of 2023.

Meanwhile, the weighted average deposit rate offered on new balances held by households and NFCs in Malta increased by 5 basis points, to 2.45%. The weighted average lending rate paid by households and NFCs to resident MFIs increased by 9 basis points, to 3.20%. This increase was driven by increases in

Table 2.3
INTEREST RATES ON DEPOSITS AND LOANS

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

| | 2021 | 2022 | 2023 | 2024 | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Dec. | Dec. | Dec. | Mar. | June | Sep. | Dec. |
| Total deposits⁽¹⁾ | 0.16 | 0.15 | 0.30 | 0.35 | 0.37 | 0.40 | 0.39 |
| <i>of which</i> | | | | | | | |
| Overnight deposits | | | | | | | |
| Households | 0.02 | 0.02 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| NFCs | 0.01 | 0.03 | 0.10 | 0.10 | 0.12 | 0.10 | 0.05 |
| Time deposits (less than two years) | | | | | | | |
| Households | 0.51 | 0.72 | 1.79 | 2.05 | 2.07 | 2.15 | 2.17 |
| NFCs | 0.49 | 0.74 | 1.85 | 2.28 | 1.80 | 2.26 | 2.18 |
| Time deposits (more than two years) | | | | | | | |
| Households | 1.78 | 1.73 | 1.79 | 1.82 | 1.89 | 1.98 | 2.07 |
| NFCs | 1.12 | 1.60 | 1.74 | 1.83 | 1.38 | 1.92 | 1.81 |
| Total Loans⁽¹⁾ | 3.23 | 3.32 | 3.58 | 3.52 | 3.51 | 3.41 | 3.36 |
| <i>of which</i> | | | | | | | |
| Households and NPISH | 3.01 | 2.87 | 2.85 | 2.82 | 2.81 | 2.75 | 2.75 |
| Lending for house purchases | 2.80 | 2.66 | 2.68 | 2.67 | 2.66 | 2.60 | 2.60 |
| Consumer credit and other lending | 4.67 | 4.66 | 4.26 | 4.17 | 4.15 | 4.09 | 4.08 |
| NFCs | 3.63 | 4.16 | 4.95 | 4.83 | 4.81 | 4.69 | 4.53 |
| Spread⁽²⁾ | 3.07 | 3.17 | 3.28 | 3.17 | 3.14 | 3.01 | 2.97 |

Source: Central Bank of Malta.

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

⁽²⁾ Difference between composite lending rate and composite deposit rate.

⁵ Basis points are rounded to the nearest whole number.

lending rates for NFCs. By contrast, lending rates for households fell by 5 basis points, driven by lower rates for mortgages.

As a result, the spread between the weighted average lending rate and the deposit rate closed the year under review at 75 basis points, marginally wider than the 71 basis points recorded at the end of 2023.

Liquidity support measures

By the end of December 2024, 395 facilities were still outstanding under the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) launched in 2020. These facilities covered total sanctioned lending of €320.7 million (see Table 2.4).⁶

The sector comprising wholesale and retail activities had the largest cumulative number of outstanding facilities benefiting from the scheme. By the end of 2024, 104 facilities were outstanding in this sector, with a sanctioned value of €56.5 million. This was followed by accommodation and food services activities, with 94 facilities and a sanctioned amount of €75.2 million.

The value of disbursements that were still outstanding by the end of 2024 stood at €126.7 million. Consequently, by end-2024, repayable amounts were equivalent to less than 40% of the sanctioned amount. Almost all these loans will mature within the next three years.

Meanwhile, a total of €24.5 million was disbursed under the Liquidity Support Guarantee Scheme (LSGS) in relation to the Temporary Crisis Framework.⁷ Repayments for this loan have started. At the end of December 2023, this scheme was officially closed for new borrowers.

Table 2.4
MDB CGS

Number and value of outstanding facilities as at end December 2024

| | Total number of facilities ⁽¹⁾ | Sanctioned amount ⁽²⁾ |
|---|---|----------------------------------|
| Manufacturing | 38 | 13.6 |
| Construction | 18 | 22.7 |
| Wholesale and retail trade; repair of motor vehicles and motor cycles | 104 | 56.5 |
| Transportation and storage and information and communication | 26 | 32.1 |
| Accommodation and food service activities | 94 | 75.2 |
| Professional, scientific and technical activities | 22 | 12.9 |
| Administrative and support service activities | 25 | 10.7 |
| Real estate | 9 | 4.5 |
| Other ⁽³⁾ | 59 | 93 |
| Total | 395 | 320.7 |

Source: MDB.

⁽¹⁾ The number of facilities taken by various sectors.

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

⁽³⁾ 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.

⁶ 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 [MDB CGS](#).

⁷ This LSGS consisted 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 was specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans were 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.

Bank Lending Survey indicates mostly 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 were unchanged in 2024. Most banks also reported unchanged demand.

Credit standards for house purchases were mostly unchanged, while those for consumer credit and other lending were unchanged throughout the year. Terms and conditions for these credit categories were also unchanged during the year. Demand was generally unchanged, although selected banks did report some changes in the second quarter.

In response to an ad hoc question on changes in banks' access to wholesale and retail funding, and in their risk transfer capacity arising from the prevailing situation in financial markets, participating banks reported no impacts as regards access to interbank unsecured money markets, debt securities, securitisation, and the ability to transfer risks off balance sheet. However, some isolated tightening effect was reported in terms of access to retail deposit funding.

During 2024, participating banks claimed that their non-performing loan (NPL) ratio had not affected their credit standards, and credit terms and conditions.

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, balance sheet and capital position. The majority of surveyed banks reported no changes. However, there were some isolated positive effects on net interest income. Furthermore, in the second half of the year, increases in holdings of euro area sovereign bonds were reported by half of the participating banks. Participating banks were also asked to indicate if the ECB's monetary policy portfolio had led to changes in credit standards and terms and conditions, and lending volumes. None of these were affected.

Banks were asked to gauge the impact of the Eurosystem's third series of targeted longer-term refinancing operations (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 via interest and non-interest income. In this regard, while non-interest income was assessed to have been unaffected, mixed responses were collected for 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, especially in the first half of the year.

In the second quarter of the year, participating 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. Most banks replied that credit standards were unaffected by climate change considerations during the 12 months preceding the survey. As regards credit terms and conditions, half of the banks reported no changes as a result of climate change factors, while another half reported some loosening for green firms.⁸ Responses for transition and brown firms were mixed. Turning to demand for loans, half of the banks said that due to climate change, the demand for loans by green firms and by firms in transition had increased, driven by fiscal support related to climate change. The remaining half said that they experienced no such changes.

⁸ 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.

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 but saw an increase in their capital stock. Moreover, most banks said that there were no changes relating to funding conditions, credit standards, and credit margins from regulatory or supervisory actions.

When asked whether changes in banks' excess liquidity held with the Eurosystem had led to a change in their lending conditions and loan volumes, all banks reported that there had been no changes.

The money market

In the domestic primary market, the yield on three-month Treasury bills fell to 3.01% at the end of 2024, from 3.58%, 12 months earlier.

In total, the Treasury issued €1,677.4 million worth of bills in 2024, which is lower than the amount of €2,202.6 million issued in 2023. 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 99% of all bills issued. The value of Treasury bills issued in 2024 was marginally higher than that of maturing bills, which stood at €1,654.2 million.

The capital market

In the capital market, total issues of long-term debt by the Government and the private sector amounted to €1,598.9 million in 2024, down from €1,791.8 million in 2023 (see Table 2.5). After taking into account redemptions, roll-overs and buybacks made during the year, positive net issues of long-term debt were

Table 2.5
ISSUES OF LONG-TERM DEBT SECURITIES⁽¹⁾

EUR millions⁽²⁾

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|--------------|----------------|--------------|----------------|----------------|
| Government | | | | | |
| Total issues ⁽³⁾ | 1,335.0 | 1,455.2 | 1,044.7 | 1,394.2 | 1,186.9 |
| Redemptions & roll-overs ^(4,5) | 461.1 | 458.8 | 374.6 | 355.8 | 395.1 |
| Net issues | 873.9 | 996.4 | 670.1 | 1,038.4 | 791.8 |
| Corporate sector | | | | | |
| Total issues | 176.0 | 242.2 | 436.6 | 397.6 | 412.0 |
| Redemptions, roll-overs, buybacks ^(5,6) | 162.0 | 49.7 | 161.1 | 140.9 | 198.6 |
| Net issues | 14.0 | 192.5 | 275.5 | 256.7 | 213.4 |
| Total net issues | 887.9 | 1,188.9 | 945.6 | 1,295.1 | 1,005.2 |

Sources: Central Bank of Malta; MSE; Treasury.

⁽¹⁾ 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.

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

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

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

⁽⁵⁾ 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.

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

recorded in 2024. These stood at €1,005.2 million, mostly consisting of net issuances of MGS, as against €1,295.1 million in 2023.

Total issues of MGS and corporate bonds (before redemptions) increase

In 2024, the Government issued €1,186.9 million in long-term debt and redeemed €395.1 million, such that net issues of MGSs for the year were positive for the fifth consecutive year (see Table 2.5).⁹ The Treasury tapped the bond market three times in 2024, through six individual issues. These issues had maturity dates ranging from three to ten years.

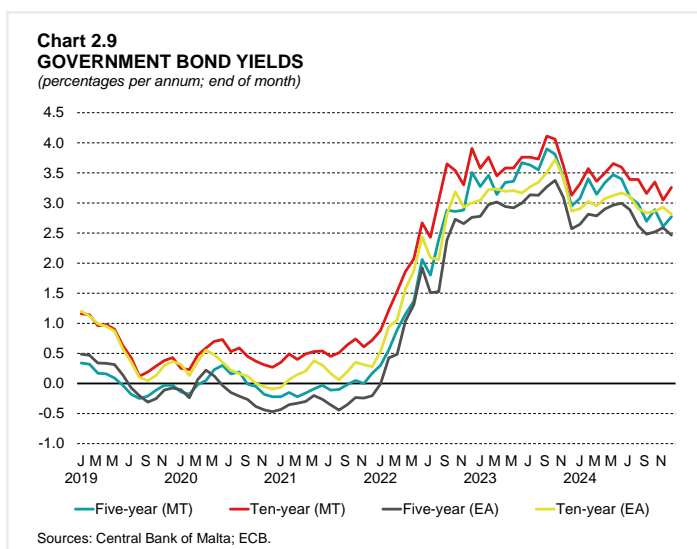
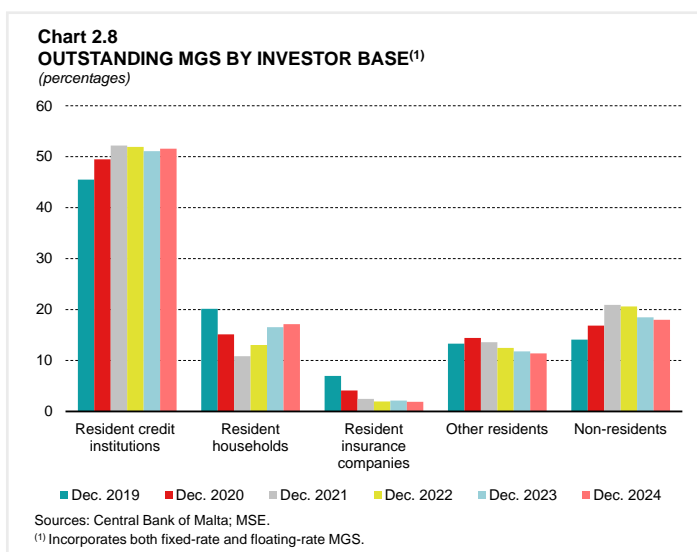
The nominal amount of outstanding MGS increased to €9,136.2 million at the end of 2024, of which 82.0% was held domestically and 18.0% was held by non-residents (see Chart 2.8). Resident credit institutions held 51.6% of outstanding MGS, compared to 51.1% in 2023. The share of MGS held by resident households reached a five-year high of 17.1%.

The yield on five-year Government bonds fell to 2.77% at the end of December, from 2.95% a year earlier (see Chart 2.9). On the other hand, the yield on ten-year bonds rose by 13 basis points, to reach 3.26%.

Meanwhile, in the euro area, the benchmark five-year yield declined by 11 basis points compared with its end-2023 level and ended the year at 2.47%. The euro area ten-year yield fell by 5 basis points to 2.81%. As the domestic ten-year yield rose while the euro area yield declined, the spread between the two increased to 45 basis points from 26 basis points a year earlier.

In the corporate bond market, new issues of long-term debt listed on the MSE stood at €412.0 million in 2024. As redemptions and buy-backs stood at €198.6 million, net issues for the year were positive but lower than a year earlier. During 2024, 12 private companies had new bonds listed on the MSE.

By the end of 2024, 19 firms had listed bonds through Prospects, two less compared with end-2023.¹⁰



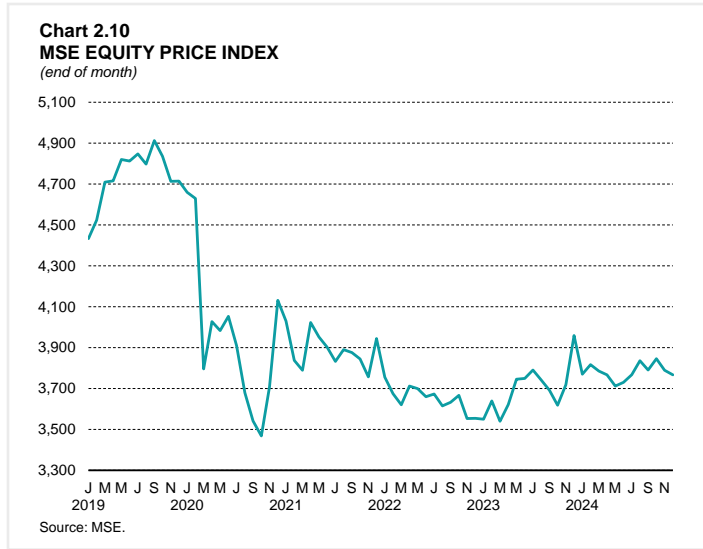
⁹ Figure excludes the rollover of the maturing 62+ Malta Government Savings Bond and explains difference from figure quoted in the chapter on 'Monetary Policy and Financial Market Operations' in Part II of this report.

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

Secondary market turnover for MGS and corporate bonds rose during 2024. Further details are available in the chapter on 'Monetary Policy and Financial Market Operations' in Part II of this report.

MSE index declines

In 2024, turnover in the equity market declined. After having increased in the preceding year, the MSE Equity Price Index fell by 4.9% during 2024 and ended the year at 3766.7 (see Chart 2.10). Meanwhile, the MSE Equity Total Return Index decreased by 0.4%.



3. OUTPUT AND EMPLOYMENT

The Bank's Business Conditions Index (BCI) stood slightly above its long-term average. Meanwhile, the Bank's EPU index stood below its long-term average.

Real GDP growth moderated to 6.0% in 2024, following an increase of 6.8% a year earlier. The expansion in economic activity was driven by domestic demand although net exports also contributed positively to growth. When adjusting for imports, both domestic demand and exports retain a positive contribution, and the divergence between them becomes less significant. Real 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 wholesale and retail trade, repair of motor vehicles and accommodation.

Labour Force Survey (LFS) data for the first three quarters of 2024 show that employment continued to increase, albeit at a slower pace when compared with the same period of 2023. The number of foreign workers also rose during the 12 months to September, albeit at a slower rate than a year earlier.

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

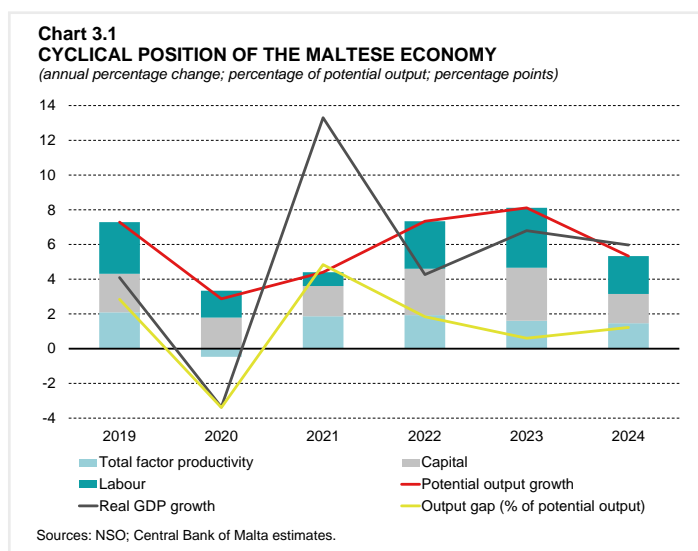
Administrative data show that in 2024, the average number of registered unemployed persons increased by 159, to 1,128 persons, though it still remains at a historically very low level. Meanwhile the job vacancy rate reached 3.1% during the first three quarters of the year, marginally above the rate of 2.8% 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, corroborating survey evidence suggestive of a continued tight labour market.

Potential output and economic indicators

Malta's output gap widens¹

The Central Bank of Malta estimates that in 2024, potential output growth decelerated to 5.3% (see Chart 3.1). Although GDP growth also slowed down during 2024, the increase in GDP relative to that in potential output was stronger. Hence, the output gap widened to 1.2% from 0.6% in 2023. This implies a greater degree of overutilisation of the economy's productive capacity.²

The main contributor to potential output growth in 2024 was labour which continued to be affected by inflows of migrant workers, albeit to a lesser extent than in 2023, and



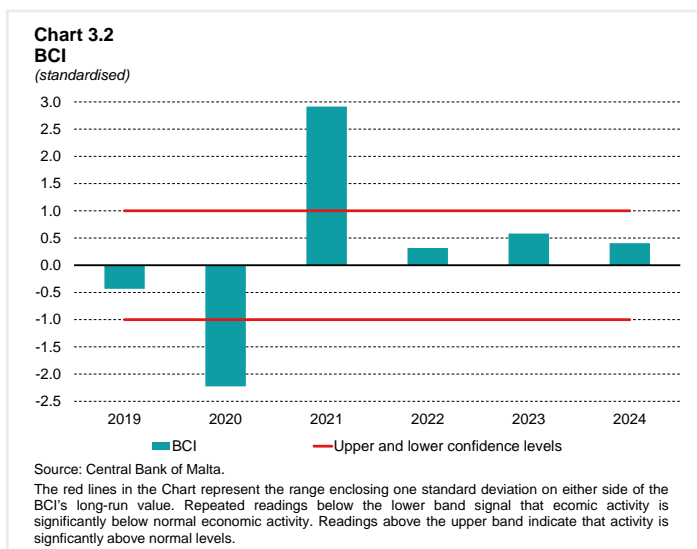
¹ Potential output measures the medium-to-long-term level of real output which is sustainable in an economy. The estimates presented here are derived using a production function approach. For further details on the methodology adopted see Micallef, B., and Eillul, R. (2017), "Medium-term Estimates of 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.

² 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.

further increases in the participation rate. The capital contribution fell due to the decline in investment outlays in 2023, while the contribution from total factor productivity eased somewhat.

BCI slightly above its long-term average³

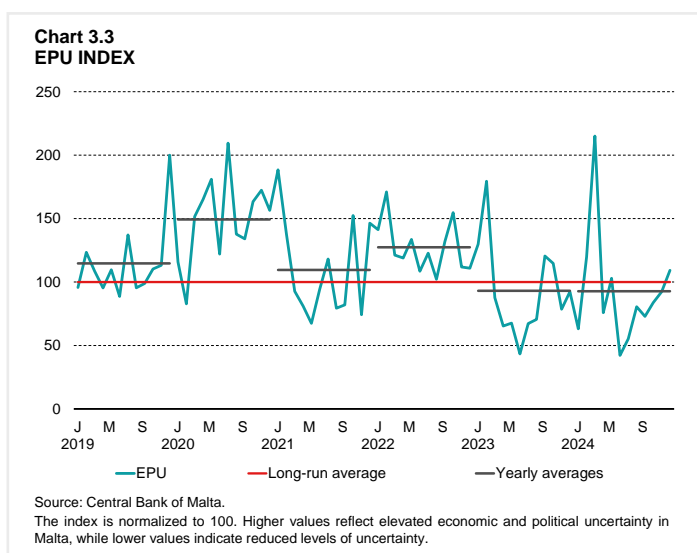
The Bank's BCI continued to stand close to its long-run average measure of economic growth. The index averaged 0.4 during 2024, compared with 0.6 in 2023 (see Chart 3.2). The slight decrease in the index mainly reflects the decrease in the economic sentiment indicator (ESI) to below its long-run average. Nevertheless, the BCI remained slightly above its long-term average as it was supported by strong growth in inbound tourism and above average GDP growth.



Economic policy uncertainty below its long-term average

In 2024, the Bank's EPU Index for Malta, which monitors economic policy uncertainty by synthesising information gleaned from Maltese news portals, averaged 92.8, marginally lower than the 93.1 average for 2023 (see Chart 3.3).⁴ This indicates that local economic policy uncertainty moved further below its long-term average. The 2024 level also represents a marked decline compared to the heightened uncertainty observed during the 2019-2022 period. These years were characterised by political instability at the start, then the COVID-19 pandemic, and afterwards Russia's full-scale invasion of Ukraine, and the resulting inflationary pressures.

However, the extent of uncertainty varied during different parts of the year, being highest during the February-May period, which saw heightened political tensions in the run-up to the EU parliamentary elections. Other key drivers of elevated uncertainty during this period include high inflation, and the closure of Air Malta and establishment of the new national airline.



³ 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.

⁴ The EPU index is based on a framework described in Sant, K., Spiteri, S., (2024), "Economic Policy Uncertainty: An Index for Malta", *Working Paper* WP/07/2024, Central Bank of Malta. See [Economic Policy for Uncertainty Index](#) for the methodology underlying the EPU.

After May, uncertainty declined and mostly stood below its historic average, but returned above it in December, when the EPU averaged 109.3. This reflected elevated economic and political uncertainty from global factors, stemming from the US elections and related trade policy uncertainty, as well as growing political instability in Europe, particularly in France and Germany.

GDP and industrial production

Real GDP growth is driven by domestic demand

Economic activity in 2024 moderated when compared to 2023, but growth remained strong from a historic perspective and well above that in most euro area economies. Real GDP rose by 6.0%, following an increase of 6.8% a year earlier.⁵ Growth in 2024 was mostly supported by a large positive contribution from domestic demand. Net exports also contributed positively to growth, albeit to a smaller extent (see Table 3.1).

Domestic demand rose by 5.3% during 2024, following a 2.1% increase in 2023. Overall, it contributed 4.4 percentage points to GDP growth in the year under review.

Private consumption rose by 5.7%, following a 12.2% increase in 2023, and added 2.7 percentage points to GDP growth. Data on the Classification of Individual Consumption by Purpose (COICOP) show a broad-based increase across all categories of private consumption. The strongest increase in absolute terms was recorded in spending on restaurant and accommodation services. This was followed by higher spending on insurance and financial services. Transport, as well as recreation, sport, and culture also had significant contributions. Expenditure on these items benefitted from the continued strong growth in tourism activity.

Table 3.1
GROSS DOMESTIC PRODUCT⁽¹⁾

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|---------------------------------------|-------------|-------------|-------------|------------|------------|
| | <i>Annual percentage changes</i> | | | | | |
| Private final consumption expenditure | 5.7 | -10.8 | 11.8 | 11.1 | 12.2 | 5.7 |
| Government final consumption expenditure | 9.1 | 12.5 | 6.0 | 0.1 | 3.1 | 7.3 |
| Gross fixed capital formation | 9.5 | -0.4 | 22.2 | 9.8 | -17.0 | 2.4 |
| Domestic demand | 7.7 | -2.8 | 12.4 | 8.1 | 2.1 | 5.3 |
| Exports of goods and services | 7.2 | 6.0 | -0.4 | 13.7 | 5.6 | 5.3 |
| Imports of goods and services | 10.6 | 7.8 | -2.8 | 18.4 | 2.0 | 4.7 |
| GDP | 4.1 | -3.4 | 13.3 | 4.3 | 6.8 | 6.0 |
| | <i>Percentage point contributions</i> | | | | | |
| Private final consumption expenditure | 2.6 | -5.0 | 5.0 | 4.6 | 5.4 | 2.7 |
| Government final consumption expenditure | 1.5 | 2.1 | 1.2 | 0.0 | 0.5 | 1.2 |
| Gross fixed capital formation | 1.8 | -0.1 | 4.6 | 2.2 | -4.1 | 0.5 |
| Changes in inventories | 0.4 | 0.6 | -0.3 | -0.1 | 0.0 | 0.0 |
| Domestic demand | 6.3 | -2.4 | 10.5 | 6.8 | 1.8 | 4.4 |
| Exports of goods and services | 8.9 | 7.5 | -0.6 | 16.3 | 7.2 | 6.6 |
| Imports of goods and services | -11.1 | -8.5 | 3.4 | -18.8 | -2.3 | -5.0 |
| Net exports | -2.2 | -1.0 | 2.8 | -2.5 | 5.0 | 1.6 |
| GDP | 4.1 | -3.4 | 13.3 | 4.3 | 6.8 | 6.0 |

Sources: NSO; Central Bank of Malta calculations.

⁽¹⁾ Chain-linked volumes, reference year 2015.

⁵ The analysis of GDP in this Chapter is based on data published in NSO *News Release* NR 035/2025 published on 27 February 2025.

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 part of domestic consumption – the expenditure of residents of Malta – also rose on a year earlier. Meanwhile, the expenditure of Maltese residents abroad also increased from its 2023 level, partly reflecting an increase in trips over the same period.

In 2024, government consumption grew by 7.3%, above the 3.1% recorded in 2023. This acceleration is due to higher growth in spending on intermediate consumption and compensation of employees. Elevated growth in the latter is partly due to the signing of collective agreements of those working in the education and health sectors. Overall, government consumption added 1.2 percentage points to annual GDP growth.

Following a decrease of 17.0% in 2023, GFCF increased by 2.4% in 2024, and contributed 0.5 percentage points to GDP growth. This reflected higher investment in non-residential buildings, dwellings and intellectual property. On the other hand, investment in machinery and equipment decreased while investment in cultivated biological resources remained broadly stable.

Meanwhile, changes in inventories had a neutral contribution to GDP growth in 2024.

During 2024, imports grew by 4.7% and exports increased by 5.3% on a year earlier. As exports outpaced imports, net exports added 1.6 percentage points to annual real GDP growth. This reflected a smaller trade deficit in goods (in volume terms).

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 import content 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, domestic demand remains the main contributor to real GDP growth in 2024, despite recording a smaller positive contribution compared with the traditional approach. The main driver behind the growth in domestic demand remains private consumption. The import-adjusted contributions also reveal greater balance in the distribution of growth across domestic demand and exports compared to the traditional approach, where the domestic demand contribution by far dominates.

Table 3.2

IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH⁽¹⁾

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|---------------------------------------|-------------|-------------|------------|------------|
| | <i>Percentage point contributions</i> | | | | |
| Private final consumption expenditure | 1.1 | -3.8 | 4.2 | 1.9 | 3.6 |
| Government final consumption expenditure | 1.2 | 1.6 | 1.2 | -0.1 | 0.5 |
| GFCF | 0.4 | -0.6 | 2.7 | 0.2 | -1.4 |
| Changes in inventories | 0.0 | 0.1 | -0.1 | 0.0 | -0.1 |
| Domestic demand | 2.7 | -2.6 | 8.1 | 1.9 | 2.6 |
| Exports of goods and services | 1.4 | -0.8 | 5.2 | 2.3 | 4.2 |
| GDP | 4.1 | -3.4 | 13.3 | 4.3 | 6.8 |

Source: Central Bank of Malta estimates.

⁽¹⁾ Chain-linked volumes, reference year 2015.

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

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|------------|-------------|-------------|-------------|------------|------------|
| Agriculture, forestry and fishing | -0.2 | 0.2 | 0.4 | 0.3 | -0.7 | -0.4 |
| Mining and quarrying; utilities | 0.0 | 0.0 | 0.3 | 0.0 | 0.5 | 0.0 |
| Manufacturing | -0.1 | 0.1 | 0.4 | 0.2 | 0.3 | 0.5 |
| Construction | 0.8 | -0.2 | 0.5 | -0.2 | -0.1 | 0.2 |
| Services | 3.1 | -0.3 | 10.4 | 5.2 | 4.9 | 3.3 |
| <i>of which:</i> | | | | | | |
| Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities | 0.3 | -7.0 | 4.1 | 3.1 | 0.7 | 0.9 |
| Information and communication | 0.6 | 1.6 | 2.0 | 1.8 | 0.0 | 0.1 |
| Financial and insurance activities | 1.4 | 0.9 | 0.4 | 0.2 | 0.0 | 0.5 |
| Real estate activities | 0.6 | -0.9 | 1.0 | -0.1 | 1.4 | 0.5 |
| Professional, scientific, administrative and related activities | 1.4 | 0.8 | 2.1 | 1.8 | 2.0 | 0.6 |
| Public administration and defence; education; health and related activities | 0.9 | -0.1 | 1.2 | 0.4 | 0.5 | 0.8 |
| Arts, entertainment; household repair and related services | -2.0 | 4.3 | -0.3 | -2.0 | 0.4 | -0.1 |
| GVA | 3.7 | -0.2 | 12.1 | 5.5 | 4.9 | 3.6 |
| Net taxation on products | 0.3 | -3.1 | 1.2 | -1.3 | 1.9 | 2.4 |
| Annual real GDP growth (%) | 4.1 | -3.4 | 13.3 | 4.3 | 6.8 | 6.0 |

Sources: NSO; Central Bank of Malta estimates.

Sectoral developments in GVA

GDP data from the output approach show that real GVA grew by 3.8%, following a 5.3% increase in 2023, and added 3.6 percentage points to real GDP growth (see Table 3.3).

Services remained the main driver behind the rise in economic activity, adding 3.3 percentage points to real GDP growth. Most of the increase stemmed from the sector comprising wholesale and retail trade, repair of motor vehicles and accommodation contributed an additional 0.9 percentage points. The remaining services sectors together added another 1.6 percentage points. The manufacturing sector added 0.5 percentage points to growth, while the construction sector added 0.2 percentage points, in the latter case after two consecutive years of negative contributions.

Meanwhile, the contribution of net taxes on products is also positive in annual terms.

Nominal GDP growth remains strong, domestic price pressures ease

Nominal GDP rose by 9.4% in 2024, after increasing by 12.4% in the previous year. All components from the income side – compensation of employees, operating surplus and net taxes – contributed positively to nominal GDP growth. Compensation of employees exerted the largest impact on growth and had a higher contribution compared with 2023.

Chart 3.4 shows the main contributors to growth in the GDP deflator. This rose by 3.2% in 2024, after increasing by around 5.0% in each of the previous two years.

The composition of growth in the GDP deflator changed markedly compared with a year earlier. Growth in 2024 was mainly driven by ULCs, in contrast with 2023 when it mostly reflected increasing unit profits. Compared with a year earlier, the positive contribution from unit profits decreased significantly. Meanwhile, the contribution from unit taxes remained stable.

Industrial production⁶

Industrial production rose by 4.1% in 2024, following an increase of 7.0% in 2023. The annual rate of change was negative in the first quarter of the year, but growth picked up in the second half of the year, amid some volatility.

The increase in production when compared to the previous year reflected developments in the manufacturing and quarrying sectors. By contrast, output in the energy sector, which excludes energy generated abroad and imported through the interconnector, contracted during 2024.

The volume of production in the manufacturing sector rose by 5.0% in 2024, a more moderate pace when compared with 7.5% in 2023.

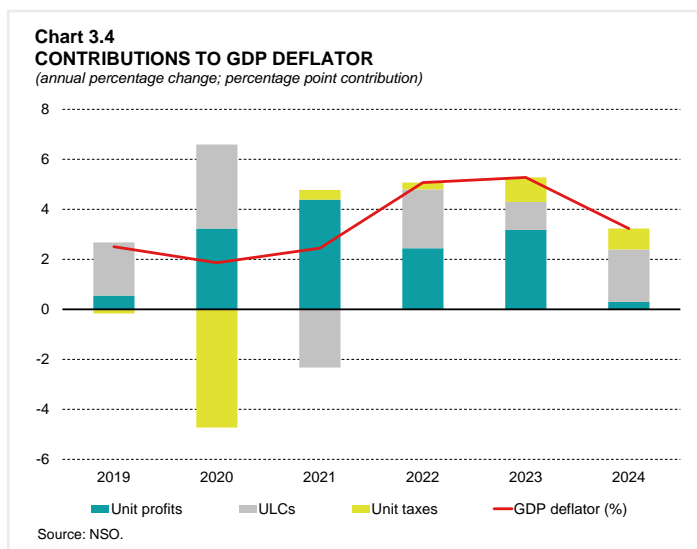
Production rose strongly across firms involved in the production of wood, rubber and plastic products as well as those manufacturing furniture. Significant increases were also reported in the 'other manufacturing' sector – which includes medical and dental instruments, and among firms involved in the manufacture of machinery and equipment, fabricated metal products and motor vehicles, trailers and semi-trailers. Double-digit growth rates were recorded by firms in these sectors.

Meanwhile, smaller declines were reported by firms that manufacture computer, electronic and optical products, electrical equipment, and food products. These increases offset strong falls by firms involved in the printing and reproduction of recorded media and those that manufacture chemical products and wearing apparel.

Data on manufacturing sales point to a slower increase in turnover of 5.4% in 2024, following a 9.6% increase in 2023.⁷ The deceleration was driven by sales in the non-domestic market, as sales to the domestic market rose at a significantly faster pace compared to 2023.

Construction activity

The number of permits for residential units issued by the Planning Authority increased in 2024, after decreasing in 2023. Permits issued stood at just over 8,700 up from just over 8,100 in the previous year, rising by 7% (see Table 3.4). The number of permits in 2024 exceeded the historical average of around 7,300 permits per year but remained well below the number of permits issued in 2018 and 2019.



⁶ 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.

⁷ Data on manufacturing sales are sourced from Eurostat.

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

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Apartments | 11,211 | 10,726 | 6,735 | 6,451 | 8,280 | 7,026 | 7,543 |
| Maisonettes | 1,166 | 1,226 | 727 | 738 | 910 | 712 | 783 |
| Terraced houses | 396 | 402 | 299 | 290 | 333 | 292 | 283 |
| Other | 112 | 131 | 76 | 99 | 76 | 82 | 107 |
| Total | 12,885 | 12,485 | 7,837 | 7,578 | 9,599 | 8,112 | 8,716 |

Source: Planning Authority.

The latest increase in permits was spread across all property categories except for terraced houses. The largest year-on-year increase in level terms was due to permits for apartments.

The number of development permits for commercial buildings increased by 5.6% in 2024, following a fall of 15.1% in the preceding year. In 2024, 2,673 commercial permits were issued, above the 2,532 permits approved in 2023, also higher than the long-term average of around 2,513 permits.

During 2024, construction investment increased by around a 7.0% in real terms, after decreasing in 2023 and in 2022. The latest increase was largely driven by a rise in non-residential investment, which was up by over a tenth. Residential investment grew by 3.5% in the year under review. However, both components remained below their respective level recorded between 2018 and 2020.

The labour market⁸

Labour force grows at a more moderate pace

On average, the labour force expanded at a strong rate of 5.4% in the first nine months of 2024, even though this was slower than that of 7.1% registered in the same period of 2023 (see Table 3.5).

The activity rate went up by 1.3 percentage points on a year earlier, to 81.7%, exceeding the euro area average of 75.4%.⁹ The increase in the activity rate partly reflects a higher female activity rate, which edged up by 1.5 percentage points to 74.0%. At the same time, the male activity rate rose by 1.0 percentage point to 88.0%. Both rates exceeded those for the euro area, which stood at 70.9% and 79.9%, respectively.¹⁰

In the first three quarters of 2024, the number of actual weekly hours worked averaged 34.3 hours, remaining unchanged from the number of hours reported in the same period of 2023. The average number of hours worked in the first three quarters of the year has thus remained broadly at the same levels since 2021 and has not yet recovered to the number of hours worked in the immediate pre-pandemic period when these stood around 36 hours.¹¹

⁸ 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.

⁹ 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.

¹⁰ 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.

¹¹ 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 methodology.

Table 3.5**LABOUR MARKET INDICATORS BASED ON THE LFS⁽¹⁾***Persons; annual percentage changes*

| | 2023 (revised) Jan.-Sep. | 2024 Jan.-Sep. | Annual change % |
|---------------------------------------|--------------------------------|-------------------|-----------------------|
| Labour force | 311,200 | 328,100 | 5.4 |
| Employed | 300,000 | 317,600 | 5.9 |
| <i>By type of employment:</i> | | | |
| Full-time | 264,700 | 281,700 | 6.4 |
| Part-time | 35,300 | 35,900 | 1.6 |
| Unemployed | 11,200 | 10,500 | -6.2 |
| Activity rate (%) | 80.4 | 81.7 | |
| Male | 87.0 | 88.0 | |
| Female | 72.5 | 74.0 | |
| Employment rate (%) | 77.5 | 79.0 | |
| Male | 83.6 | 85.0 | |
| Female | 70.1 | 71.8 | |
| Unemployment rate (%) | 3.6 | 3.2 | |
| Male | 3.8 | 3.4 | |
| Female | 3.3 | 2.9 | |
| Actual hours worked (per week) | 34.3 | 34.3 | |

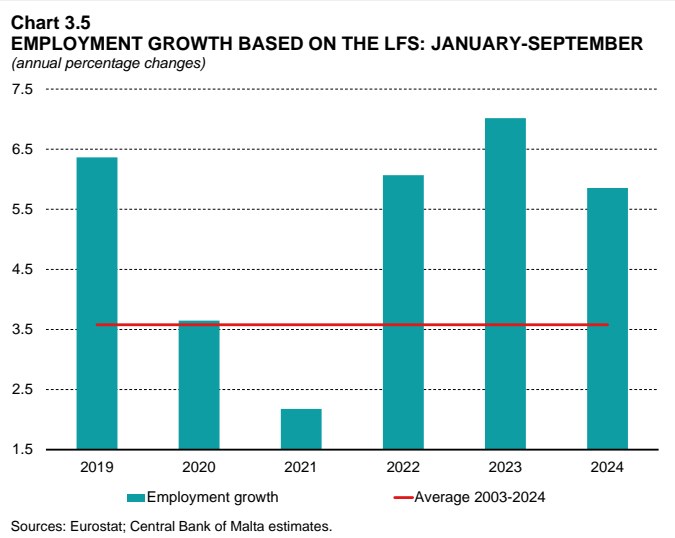
Sources: NSO; Eurostat.

⁽¹⁾ 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.**Employment grows at a slower pace**

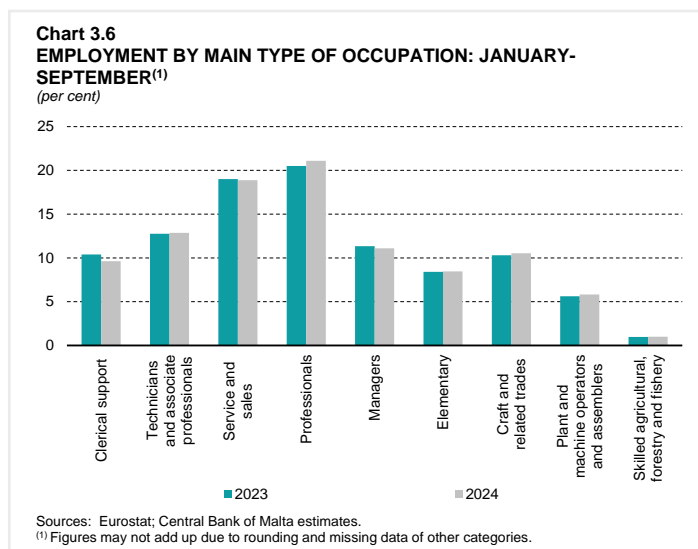
During the first three quarters of 2024, employment expanded at an average annual rate of 5.9% (see Table 3.5). This compares with 7.0% during the corresponding period of 2023 and somewhat exceeds the average increase of 3.6% estimated since 2003 (see Chart 3.5).

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 17,000. Part-time employment also increased, with the number of such jobs rising by around 600. Over the same period, the number of unemployed persons fell by almost 700, to around 10,500 persons – a decrease of 6.2%.

When looking at data on employment by occupation, the largest increase in absolute terms was recorded among persons in professional jobs. These were followed by increases in the number of service and sales workers, technicians and associate professionals, and craft and related trade workers.



When expressed as a share in total employment, those who work in professional jobs, experienced the largest increase in their relative share compared to 2023 (see Chart 3.6). The share of persons employed in craft and related trades, in the operation and assembly of plant and machinery, and in the roles of technician or associate professional also increased, but to a lesser degree. Meanwhile, the share of those employed in clerical occupations decreased. The shares of managerial occupations and of services and sales jobs also declined, but to a lesser extent.



The overall employment rate rose by 1.5 percentage points to 79.0% in the first three quarters of 2024 (see Table 3.5), well above the 70.4% registered in the euro area.¹² The female employment rate registered the strongest increase, gaining 1.7 percentage points, to reach 71.8%. This compares with 66.0% in the euro area. The male employment rate rose by 1.3 percentage points, to 85.0%, remaining also higher than the average rate of 74.9% recorded for the euro area.

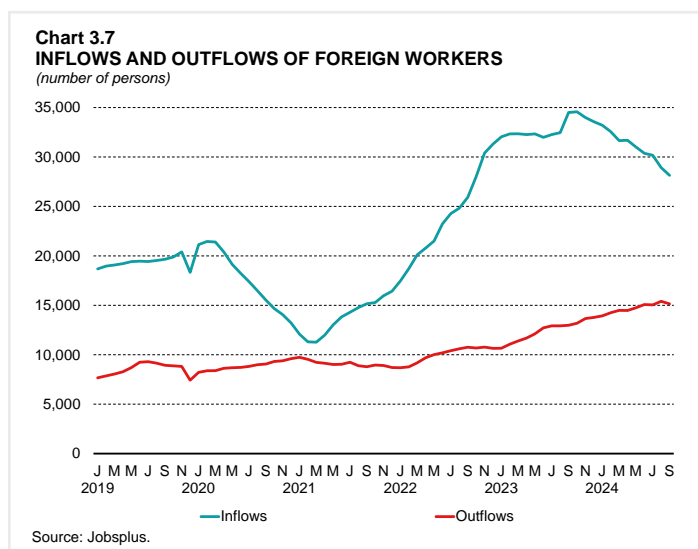
Foreign employment grows at a slower pace

The stock of foreign workers in September 2024 stood at 122,187, up from 109,165 in September 2023.

The number of foreigners in employment rose for all types of occupation. The largest increases in absolute terms – amounting to almost half the total level increase – were recorded in services and sales jobs and in elementary occupations. 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 services and sales experienced the largest increase in their relative share compared to 2023. The share of persons employed in the roles of technician or associate professional and primary activities also increased, but to a lesser extent. Meanwhile, the shares of persons employed in the roles of craft and related trade and in the operation and assembly of plant and machinery remained unchanged. On the other hand, the share of those employed in professional, managerial, clerical and in elementary occupations declined.

Additional administrative data indicate that over the 12 months to September 2024, around 28,100 foreign workers arrived in Malta, while around 15,100 departed (see Chart 3.7).¹³ Inflows stood almost



¹² 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.

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

6,400 lower than they were in the 12 months to September 2023, while foreign workers leaving Malta increased by around 2,200. At around 13,000 persons, net inflows of foreign workers were at their lowest since early 2022, and well below those recorded in the 12 months to September 2023.

Unemployment rate remains low

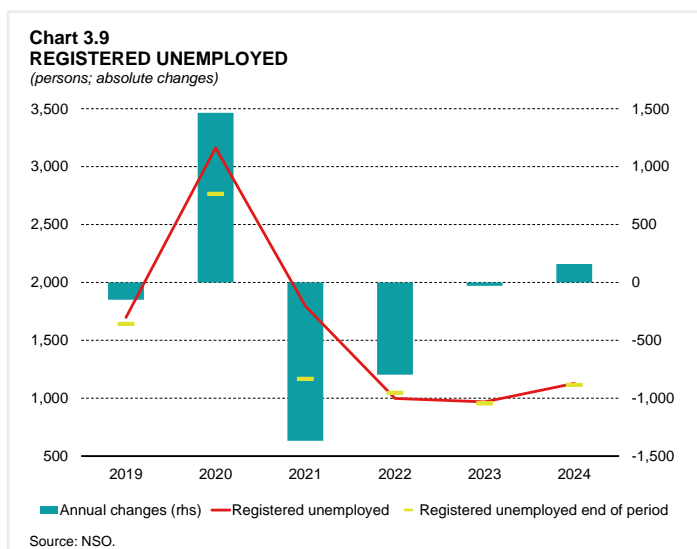
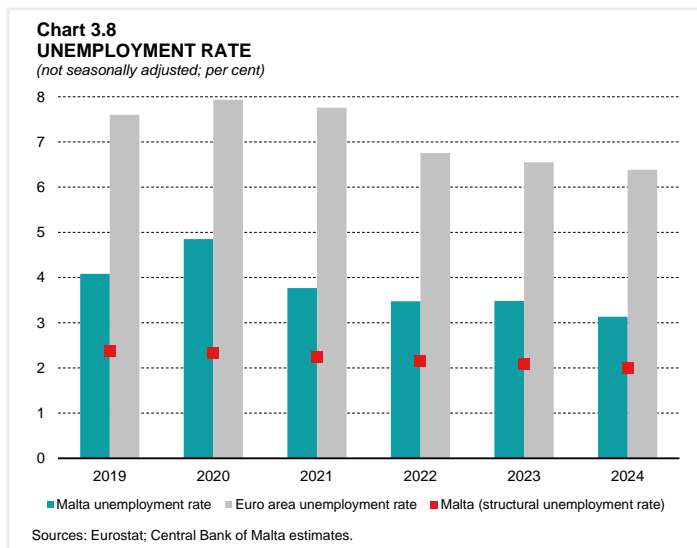
The LFS unemployment rate averaged 3.2% during the first three quarters of 2024, compared to 3.6% in the same period of 2023 (see Table 3.5). The unemployment rate fell from 3.3% in the first quarter of the year to 3.1% in the third, thereby returning to the historic low recorded in the last quarter of 2023.

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 3.1% in 2024, lower than rate of 3.5% recorded in 2023 (see Chart 3.8). The unemployment rate stood at 3.3% in the first quarter of the year but attained a new low of 3.0% during the second half of the year. The unemployment rate also remained well below the annual average rate of 6.4% recorded in the euro area.

It also stood below the Bank's estimate of the structural unemployment measure of 3.5% for 2024.¹⁴ This indicates a degree of labour market tightness, which is also confirmed by other indicators and the Bank's Business Dialogue publication.

According to Jobsplus data, on average, the number of unemployed persons increased by 159 persons over 2024, to 1,128 (see Chart 3.9).¹⁵

This increase was recorded in all age cohorts, but the largest increase being observed among those aged between 30 and 44, which recorded an additional 86 persons on the unemployment register.



¹⁴ 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.

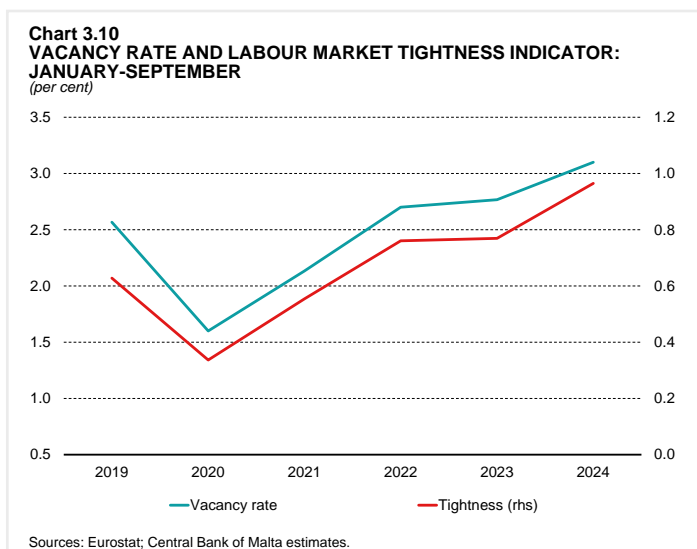
¹⁵ The annual number of registered unemployed is based on the average of the total registered unemployed published by NSO on a monthly basis.

In terms of duration, the increase in the number of unemployed reflected an increase in the short-term unemployment (unemployed for less than a year). Those unemployed for less than 21 weeks increased by around 112 people, and those unemployed for a period of between 21 to 52 weeks, increased by about 35 persons. This outweighed a fall in long-term unemployed (unemployed for more than a year), which declined by around 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 occupations were those of service and sales workers, and technician or associate professionals. Just under a third of persons on the unemployment register were interested in such roles.

The job vacancy rate for industry, construction and services averaged 3.1% during the first three quarters of the year, higher than the 2.8% recorded in the same period a year earlier (see Chart 3.10).¹⁶ The vacancy rate was highest in the information and communication sector (5.9%).

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 falls below its long-term average

During 2024, the European Commission's ESI for Malta averaged 96.9, down from 105.6 in 2023 (see Table 3.6). Following this decrease, the ESI fell below its long-term average of around 100.0. The strongest decrease was recorded in industry, while smaller declines were also registered in the three remaining business sectors. By contrast, sentiment among consumers improved.^{17,18}

The ESI, which had reached 104.8 at the end of 2023, fell below its long-term average for most of 2024, before it rose to 103.0 in October and 109.6 in November. However, it dipped below the long-term average again in December, closing the year at 93.3 (see Chart 3.11).

¹⁶ 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.

¹⁷ 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.

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

Table 3.6
SENTIMENT INDICATOR BY SECTOR

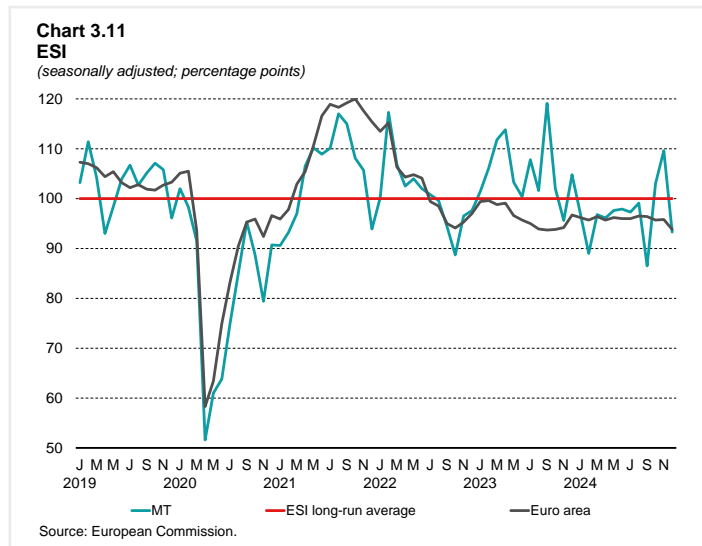
Annual average; absolute change

| | 2022 | 2023 | 2024 | Change |
|--|--------------|--------------|--------------|-------------|
| ESI | 100.9 | 105.6 | 96.9 | -8.7 |
| Industrial confidence indicator | -9.4 | 2.4 | -14.5 | -17.0 |
| Retail trade confidence indicator | 6.0 | 9.8 | -0.4 | -10.3 |
| Services confidence indicator | 20.5 | 26.6 | 17.9 | -8.7 |
| Construction confidence indicator | 7.0 | 1.2 | -5.0 | -6.3 |
| Consumer confidence indicator | -7.4 | -10.9 | -6.1 | 4.8 |
| Employment expectations indicator | 107.9 | 109.2 | 100.7 | -8.5 |
| Industry | 12.0 | 19.3 | 2.3 | -17.0 |
| Services | 30.2 | 30.1 | 17.8 | -12.3 |
| Construction | 5.4 | 12.2 | 0.7 | -11.5 |
| Retail | 15.8 | 17.2 | 7.3 | -9.9 |
| Economic Uncertainty Indicator | 28.1 | 12.1 | 14.2 | 2.1 |
| Industry | 39.4 | 7.6 | 15.5 | 7.9 |
| Retail | 50.8 | 6.5 | 8.4 | 2.0 |
| Services | 20.3 | 15.2 | 14.9 | -0.3 |
| Consumers | 13.7 | 14.4 | 10.6 | -3.7 |
| Construction | 19.5 | 24.9 | 18.3 | -6.7 |
| ESI demeaned | 0.9 | 5.6 | -3.1 | -8.7 |
| EI demeaned | 8.2 | 9.1 | 0.6 | -8.5 |

Source: European Commission.

Malta's ESI indicator stood slightly above that of the euro area, which averaged 95.9. Confidence indicators exceeded those in the euro area across all sectors, bar in industry and in the construction sector. The largest difference stemmed from the services firms.

Table 3.6 presents the annual average reading for each sector included in the ESI and the absolute change relative to 2023. During 2024, sentiment was on average negative across all sectors, except in the services sector. The most negative reading was recorded in industry.



Demeaned data, which take into account the weights assigned to each sector, and the time variation of each sector, show that most of the decrease in the ESI during the

year under review was driven by industry, and to a lesser extent, services (see Chart 3.12).¹⁹ Industry also largely explains why the overall ESI stood below its long-term average during the year under review.

Industrial confidence turns negative, falling sharply below its long-term mean²⁰

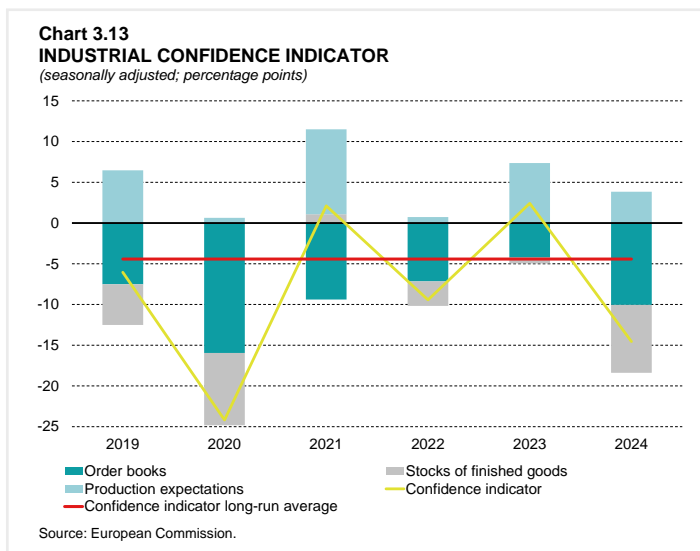
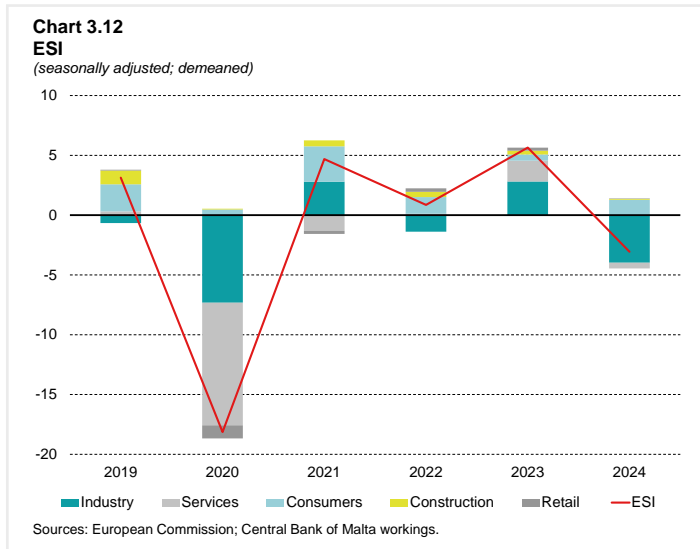
Sentiment among manufacturing firms fell to -14.5, from 2.4 in 2023, thus falling below its long-term mean of -4.4 (see Chart 3.13). The deterioration in sentiment in 2024 was visible across all sub-components of the indicator but mostly reflected a higher net share of firms assessing their stocks of finished goods to be above normal levels.²¹

Sentiment stood below its long-term average in all months of 2024, except in November, when sentiment turned briefly positive.

Confidence in the retail sector falls slightly into negative territory²²

The retail confidence indicator stood at -0.4 in 2024, down from 9.8 a year earlier, falling below its long-term average of 0.1 (see Chart 3.14). The decrease compared to 2023 was particularly significant as regards the assessment of sales in the three months preceding the survey, although business expectations also softened. On the other hand, the share of participants reporting above normal stock levels declined.

Sentiment in this sector was positive for the first part of the year before turning negative in June, with the worst reading recorded in November, when the index stood at -29.0.



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

²⁰ 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).

²¹ 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 3.13.

²² 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.

Additional survey data also show a deterioration in order expectations, as in contrast to 2023, on balance retailers expected a decrease in orders.

Confidence in the services sector declines²³

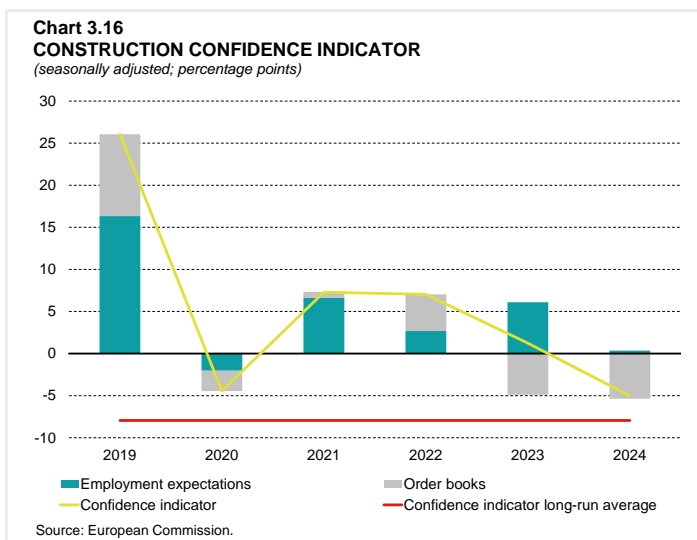
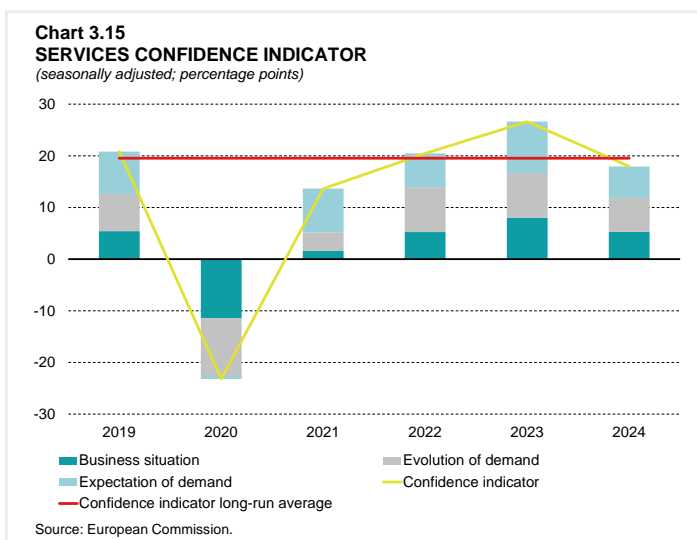
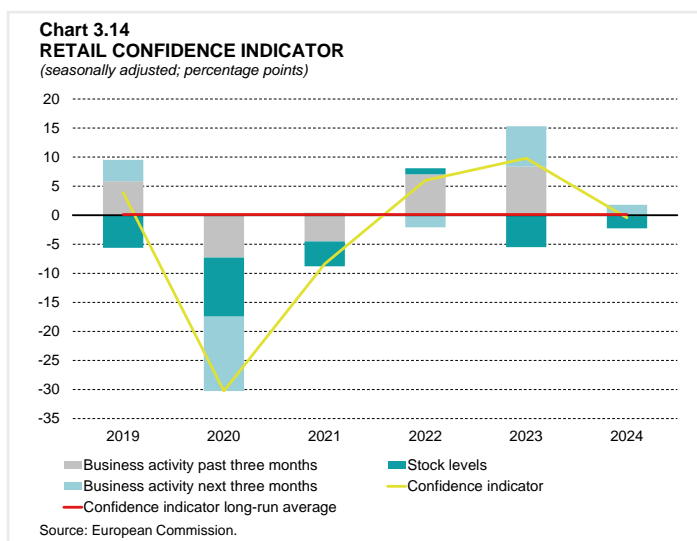
The confidence indicator within the services sector fell to 17.9, from 26.6 in the preceding year (see Chart 3.15). The less positive sentiment in 2024 affected all sub-components of the indicator but was most significant in the case of short-term demand expectations. Following this decrease, confidence in the services sector stood below its long-term average of 19.5. Nevertheless, the indicator continued to stand well above its counterpart for the euro area as a whole.

Sentiment in services was positive during all of 2024, with the highest readings recorded in October and November when the confidence indicator crossed the 30 mark.

Confidence in construction turns negative²⁴

The sentiment indicator for the construction sector averaged -5.0 during 2024, down from 1.2 in the preceding year. Notwithstanding this decrease, confidence remained above its long-term average of -7.9 (see Chart 3.16). The decrease in sentiment in 2024 was mostly underpinned by weaker employment expectations, although these remained positive.

Additional survey data show that pessimism about building activity over the three months preceding the survey increased. Furthermore, labour shortages and other factors were the most important



²³ 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.

²⁴ 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.

impediment to production signalled by respondents during the year under review, followed by insufficient demand.

Consumer confidence improves though remaining negative²⁵

Consumer confidence improved to -6.1, from -10.9 in 2023. Following this increase, sentiment rose above its long-term average of -10.1 (see Chart 3.17).

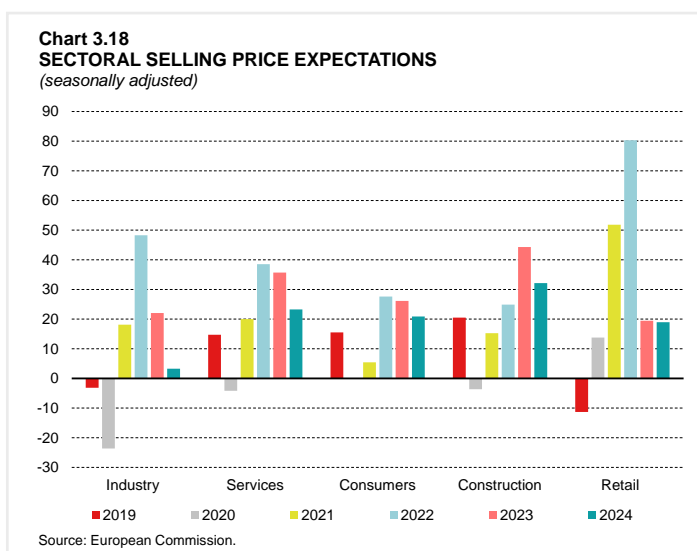
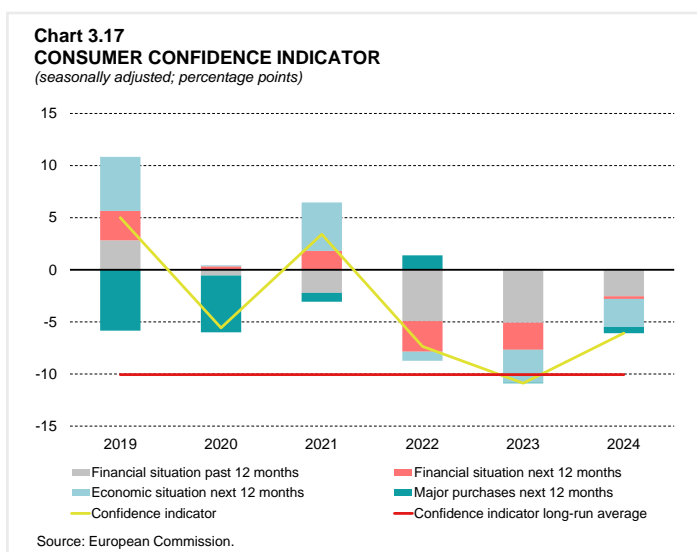
When compared to 2023, the increase in sentiment mainly reflected an improvement in consumers' assessment of their finances over the last 12 months, as well as their expectations of their financial situation, though both remained in negative territory. Consumers' expectations of the general economic situation over the next 12 months also showed improvement. On the other hand, a larger share of households, signalled that they did not intend to undertake major purchases in the 12 months subsequent to the survey.

Additional survey information suggests that more respondents expected unemployment to rise in the following 12 months. Nevertheless, savings expectations increased compared to a year earlier. Both inflation perceptions and price expectations eased significantly. However, the former remained elevated from a historical perspective.

Selling price expectations declined

In 2024, selling price expectations decreased across all sectors. The most significant decreases were recorded in industry, among service and construction firms (see Chart 3.18).

Differences across sectors remained wide – while the net share of firms signalling price increases hovered around 32% in the construction sector, that in other sectors ranged between 3% and 23%.



²⁵ 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.

Employment expectations indicator declined

The employment expectations indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased.²⁶ It stood at 100.7, down from 109.2 a year earlier (see Table 3.6). However, it remained above its long-term average of around 100.0 and stood slightly above the euro area average for the year of 100.2.

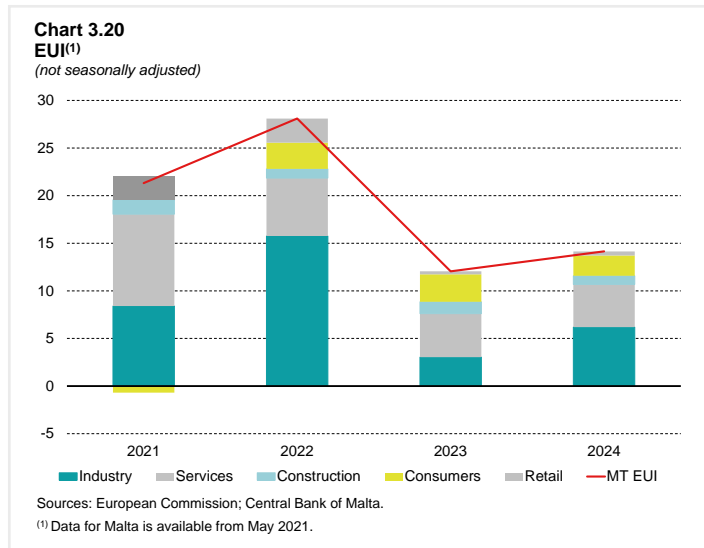
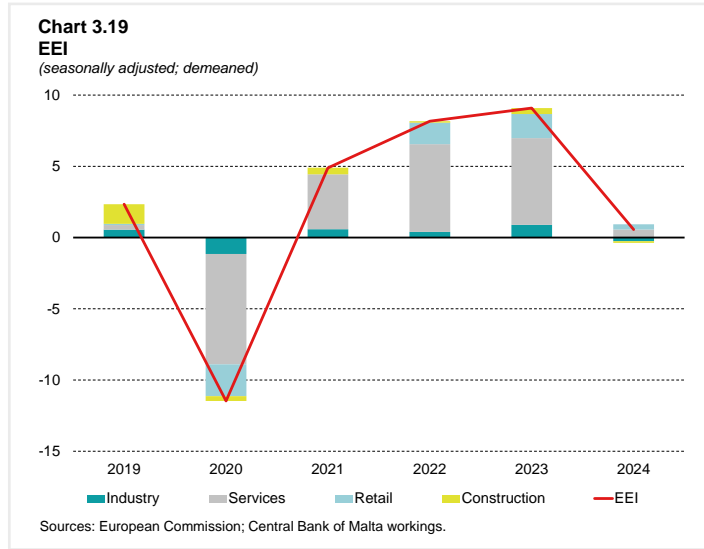
When compared to the euro area average, Malta demonstrated a more favourable assessment in all the sectors, bar in construction.

When accounting for the variation in the weights assigned to each sector in the overall index, the decrease in expectations relative to 2023 was largely driven by the services sector (see Chart 3.19). The remaining business sectors also contributed to the decrease in the EEI, but in a more limited way. The services and retail sectors explain why the overall EEI stood above its long-term average in 2024.

Economic uncertainty increases

The European Commission's Economic Uncertainty Indicator (EUI) for Malta averaged 14.2 in 2024, compared with 12.1 in the previous year (see Chart 3.20).^{27,28} By comparison, the EEI stood at 18.8 in the euro area. During 2024, uncertainty was below that in the euro area in all sectors, except in the case of consumers and in the services sector.

During 2024, on balance, uncertainty increased in industry, and to a lesser extent in the retail sector, while it decreased in the remaining sectors. Uncertainty was highest in the construction sector, followed by industry and services.



²⁶ 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 (2024). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

²⁷ 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.

²⁸ 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 have a cut-off date of 6 February 2025, and thus pre-date the latest release of the national accounts of 27 February 2025. Furthermore, HICP projections include information from the January 2025 flash estimate, but they precede the publication of the final figure for January as well as the February 2025 flash estimate.

Malta's GDP growth is projected to moderate from 6.0% in 2024, to 4.0% in 2025, and to ease further to 3.6% and 3.3% in 2026 and 2027, respectively (see Table 1). Throughout the projection horizon, domestic demand is expected to remain the main driver of growth, although net exports are projected to retain a positive contribution.

Private consumption growth is set to moderate compared with the performance in recent years, reflecting an expected continued normalisation in consumer demand. Nevertheless, it is set to remain strong, as household disposable income in 2025 will be supported by a significant widening of the

Table 1
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA⁽¹⁾

| | 2024 ⁽²⁾ | 2025 | 2026 | 2027 |
|--|---------------------|------|------|------|
| Real economic activity (% change) | | | | |
| GDP | 6.0 | 4.0 | 3.6 | 3.3 |
| Private consumption expenditure | 5.7 | 4.8 | 3.8 | 3.1 |
| Government consumption expenditure | 7.3 | 2.8 | 4.2 | 4.6 |
| Gross fixed capital formation | 2.4 | 1.5 | 3.8 | 0.4 |
| Exports of goods and services | 5.3 | 4.0 | 3.6 | 3.6 |
| Imports of goods and services | 4.7 | 3.7 | 3.8 | 3.3 |
| Contribution to real GDP growth (in percentage pts) | | | | |
| Final domestic demand | 4.4 | 3.0 | 3.2 | 2.3 |
| Net exports | 1.6 | 1.0 | 0.4 | 1.0 |
| Changes in inventories | 0.0 | 0.0 | 0.0 | 0.0 |
| Labour market (% change)⁽²⁾ | | | | |
| Total employment | 4.3 | 2.7 | 2.3 | 2.3 |
| Unemployment rate (% of labour supply) | 3.2 | 3.1 | 3.0 | 3.0 |
| Prices and costs (% change) | | | | |
| Overall HICP | 2.4 | 2.1 | 2.0 | 2.0 |
| Public Finances(% of GDP)⁽³⁾ | | | | |
| General government balance | -3.7 | -3.4 | -2.9 | -2.6 |
| General government debt | 48.9 | 49.6 | 50.1 | 50.1 |

⁽¹⁾ Data on GDP for 2024 were sourced from NSO *News Release* 035/2025 published on 27 February 2025, while HICP was sourced from NSO *News Release* 009/2025 published on 17 January 2025.

⁽²⁾ 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.

⁽³⁾ Central Bank of Malta projections.

income tax bands. This should support private consumption growth, while at the same time contributing to a limited increase in the saving ratio, as higher income households with a lower average propensity to consume are expected to save some of the foregone taxes. In the following years, the saving ratio is envisaged to decline marginally but remain broadly stable at 2024 levels.

Real government consumption growth is set to ease to 2.8% in 2025. Growth is then set to pick up to above 4% in 2026 and 2027. This profile is mainly driven by that of compensation of employees. In 2025 the latter is impacted by a negative base effect stemming from high payments on allowances in 2024 due to newly signed collective agreements. This impact is set to subside in subsequent years as the impact of a collective agreement for the civil service, effective from 2025, gains relevance.

Overall investment is projected to grow by 1.5% in 2025 before picking up to 3.8% in 2026. Investment is projected to grow by only 0.4% in the outer year as government investment is projected to decline strongly that year.

Private investment began to recover in 2024. Growth is expected to remain above 3% throughout the forecast horizon, standing at 3.5% in 2025 and 3.2% in the outer years. Growth in residential construction is expected to remain muted during the forecast horizon as the level of investment outlays remains high from a historical perspective. Moreover, growth in non-dwelling private investment is expected to remain close to 4%. The latter is below historical rates as the ongoing weakness in the private non-residential construction sector is expected to persist.

Government investment is forecast to decline by 6.8% in 2025. This reflects the expected profile of domestically-financed investment. Government investment is then set to grow by 7.0% in 2026 and to decline by 12.2% in 2027. This is mainly due to the profile of EU-funded investment, which is set to increase in 2026 but to drop in 2027, once projects financed by the Recovery and Resilience Facility (RRF) are completed.

Export growth is set to slow down from 5.3% in 2024 to 4.0% in 2025 and edge down further to 3.6% in the outer years. While growth in services exports is expected to moderate following an extended period of robust growth, goods exports are set to recover somewhat from the declines of 2023 and 2024. This reflects some recovery in foreign demand, though the latter is envisaged to remain muted from a historical perspective, in part reflecting the weak global recovery.

Growth in imports is expected to moderate in 2025, falling to 3.7%, before edging down to 3.3% in 2027. This profile is conditioned significantly by that of investment. Similar to services exports, growth in services imports is expected to decline throughout the forecast horizon.

The labour market remains strong and demand for labour is envisaged to be high. However, demand is expected to moderate over the projection horizon, driven by the projected easing in economic growth and an assumed recovery in productivity. Inflows of foreign workers are also expected to slow down somewhat due to the introduction of more restrictive labour market policies than before. Employment growth is thus expected to moderate gradually from 5.1% in 2024 to 2.3% by 2026 and 2027, as GDP growth slows down and the aforementioned factors weigh on recruitment. The unemployment rate is forecast to edge down slightly to 3.0% by 2026.

Annual HICP inflation is projected to stand at 2.1% in 2025, reflecting a decline in food, NEIG and services inflation when compared to 2024. Energy inflation is expected to remain unchanged as a result of government support measures. Services inflation is envisaged to remain the main contributor to HICP inflation in 2025, 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 2025. Inflation is set to ease steadily in the following years, standing at 2.0% in both 2025 and 2026.

The headline budget deficit is expected to narrow throughout the forecast horizon. This is partly driven by the declining profile of inflation mitigation measures. The deficit is set to decline to 3.4% of GDP in 2025 from an estimated 3.7% in 2024, and to eventually reach 2.6% of GDP by 2027. Meanwhile, the general government debt ratio is set to increase to 50.1% by 2026 and to level off in 2027.

Risks to activity are broadly balanced. Downside risks largely emanate from possible adverse effects on foreign demand related to geopolitical tensions, new US tariffs beyond those that were implemented before the cut-off date and included in the baseline, and the possibility of retaliatory measures. A prolongation of the current elevated economic and geopolitical uncertainty could also dampen activity. On the other hand, the labour market could exhibit even stronger dynamics than envisaged in this projection round, both in terms of employment and wages. This could then result in stronger private consumption growth and thus stronger output growth than envisaged. Investment could also grow faster than projected. Another upside risk could stem from a stronger consumption response to the widening of the income tax bands.

Risks to inflation are balanced over the projection horizon. Upside risks to inflation could stem from renewed supply-side bottlenecks that could be triggered by ongoing geopolitical conflicts as well as higher input costs arising from changes in global trade policy, especially in the event of retaliation to higher US tariffs. Having said that, such risks could also be counterbalanced by the subsequent monetary policy response and heightened competitive pressures in markets targeted by tariffs. Furthermore, from the domestic side, there is a risk that higher fees charged to producers and importers with respect to beverages' containers could be passed on to consumers. On the downside, imported inflation could fall more rapidly than expected if economic growth in the euro area is weaker than expected due to the adverse effects of barrier to trade on global growth.

On the fiscal side, risks are mostly tilted to the downside (deficit-increasing). These mainly reflect the likelihood of slippages in current expenditure, including higher-than-expected outlays on energy support measures if commodity prices are higher than assumed. They also reflect the likelihood of additional increases in pensions and wages in the outer years.

4. PRICES, COSTS AND COMPETITIVENESS

Annual inflation, based on the HICP, declined to 2.4% in 2024, from an average of 5.6% in 2023. Indeed, HICP inflation eased from 3.7% in January 2024 to 1.8% by the end of the year, as supply conditions and certain import prices normalised further and the Government's Stabbiltà scheme helped dampen food inflation.

HICP inflation in Malta was on average in line with that in the euro area in 2024. Although the contribution of services inflation in Malta was lower, those of food and energy inflation were higher.

Similar to HICP inflation, the annual rate of inflation based on the Retail Price Index (RPI) also eased in 2024, reaching 1.7% from 5.1% a year earlier.

Furthermore, the annual average rate of change in the industrial producer price index (IPPI) contracted by 0.1% in 2024, after increasing by 3.4% in the previous year. Malta's real Harmonised Competitiveness Indicator (HCI) 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 5.0% in 2024 up from 2.3% in 2023.

Inflation

Average rate of HICP inflation eases in 2024

The average rate of HICP inflation in Malta stood at 2.4% during 2024, down from 5.6% in 2023 (see Table 4.1).¹ HICP inflation was on a downward path throughout 2024, practically halving from 3.7% in January to 1.8% by December (see Chart 4.1).

The disinflation process was significant across all non-energy

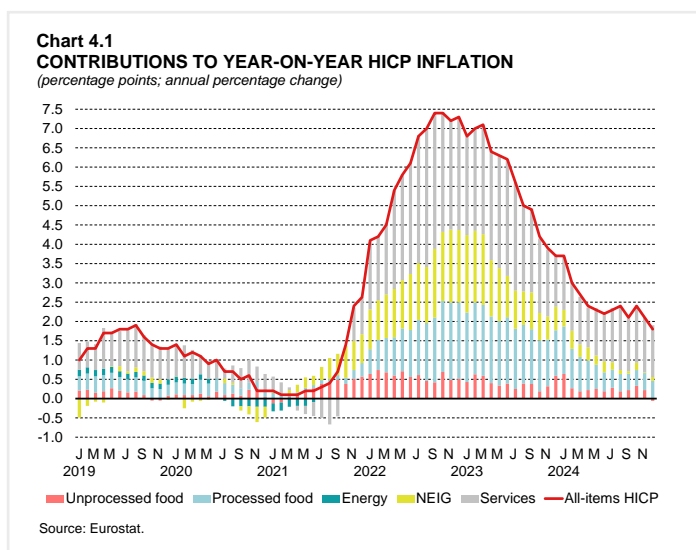


Table 4.1
HICP INFLATION RATES

Average annual rate of change

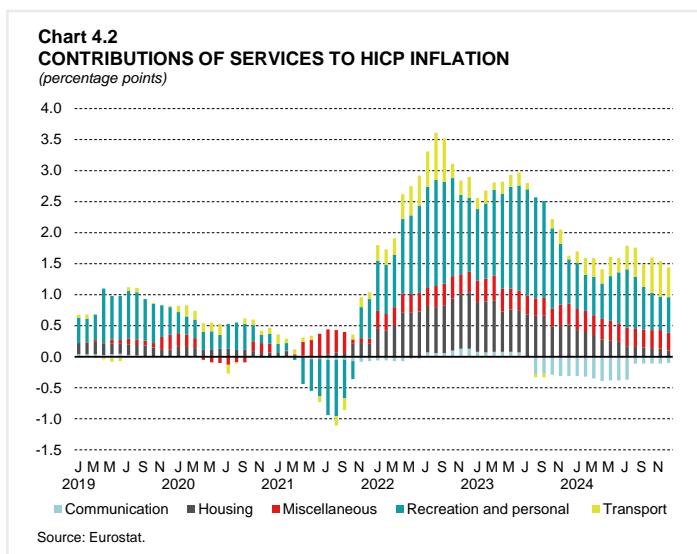
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------------|------------|------------|------------|------------|------------|
| Unprocessed food | 3.5 | 2.9 | 5.5 | 12.1 | 8.5 | 4.9 |
| Processed food including alcohol and tobacco | 2.3 | 1.8 | 0.8 | 8.2 | 9.6 | 3.9 |
| Energy | 2.5 | -0.6 | -1.6 | 0.0 | 0.0 | 0.0 |
| NEIG | 0.0 | -0.4 | 1.5 | 5.3 | 4.4 | 0.9 |
| Services (overall index excluding goods) | 1.8 | 1.0 | 0.7 | 6.0 | 5.1 | 2.8 |
| HICP (annual average inflation rate) | 1.5 | 0.8 | 0.7 | 6.1 | 5.6 | 2.4 |

Source: Eurostat.

¹ The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2024, the weight allocated to services stood at 44.7%, while that of NEIG was 27.5%. Food accounted for 21.5% of the index, while the share allocated to energy stood at 6.2%.

components. Meanwhile, energy prices retained an unchanged contribution to overall inflation, reflecting the retention of Government measures aimed at containing the effects from international price pressures.

Services inflation was the main contributor to overall HICP during 2024. Nevertheless, its contribution to overall inflation fell to an average of 1.3 percentage points from 2.4 percentage points in 2023, as a slight uptick in transport services inflation was offset by weaker dynamics across the remaining components. In particular, the contribution of recreation and personal services to overall HICP inflation fell to 0.7 percentage points, from 1.4 percentage points in 2023 (see Chart 4.2). This mainly reflects a drop in the prices for package holidays.



At the same time, prices relating to housing services grew at a much slower rate compared to 2023, with the average contribution declining by 0.4 percentage points to 0.2 points. This was driven primarily by weaker inflation for services related to the maintenance and repair of dwellings. In addition, slower growth in the prices for postal services and falling prices for wireless telephone services pushed the contribution of communications services further into negative territory. On the other hand, transport services inflation contributed an average of 0.4 percentage points to overall inflation, 0.2 percentage points more than in the previous year. This mainly reflected an increase in the annual rate of change of international flight fares and an increase in selected bus fares paid by individuals who do not hold a Tallinja card.

Meanwhile, NEIG inflation declined to 0.9% in 2024, from 4.4% in 2023. It contributed 0.2 percentage points to overall HICP inflation, from 1.2 percentage points a year earlier. This reflects smaller increases in the prices of semi-durable and non-durable goods, including household goods and kitchen utensils. Moreover, the contribution of durable goods turned negative, driven in particular by negative contributions of vehicles and household appliances.

Although still high from a historical perspective, food prices moderated significantly in 2024. Food inflation including alcohol and tobacco, declined to 4.2% from 9.4% in 2023, and added 0.9 percentage points to overall HICP inflation in 2024. The moderation in the food component was even more significant, as this fell to 5.1% from 11.0%. In part, the easing in food inflation reflects lower imported inflation as well as the dampening effect on processed food inflation of the Stabbiltà scheme that was introduced in February 2024.

Processed food inflation (including alcohol and tobacco) stood at 3.9% during the year under review, from 9.6% in 2023, and its contribution to overall inflation declined to 0.6 percentage points. Weaker dynamics compared to 2023 were observed in all subcomponents. The decline in processed food inflation mainly reflects a slower rate of increase in the prices of bread and cereals, dairy products and non-alcoholic beverages. This in part reflects the introduction of the Stabbiltà scheme in the first quarter of 2024 (see Chart 4.3).

Unprocessed food inflation also fell, standing at 4.9% on average, from 8.5% in 2023, with its contribution to overall inflation broadly halving to 0.2 percentage points. This reflected a slower rate of increase in the prices of meat, fruit and vegetables (see Chart 4.3).

The contribution of energy inflation remained unchanged at 0.0% in 2024, as electricity, gas and transport fuel prices were kept unchanged from their level a year earlier, through government support measures shielding the economy from international energy prices.

Core HICP inflation moderates further in 2024

The core measure of HICP inflation, which is based on the Bank's 'trimmed mean' approach, averaged 2.6% in 2024, down from 5.1% in the previous year.² By December, it had decreased to 2.2%, just above the ECB's medium-term inflation objective (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 – also declined during the year, reaching 2.1% from 4.9% in 2023. This measure stood at 2.0% in December.

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%.³ 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 increased in both Malta and in the euro area. In both economies, the largest increase was recorded in the share of sub-components with inflation rates in the bands of below or equal to 0% and those with inflation rates between 0% and 2%. In Malta, the share of sub-components in these bands stood at 33.7% and 17.0%, respectively. In case of the euro area, the share of sub-components falling in the 0% to 2% band stood

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Chart 4.3
CONTRIBUTIONS OF FOOD TO HICP INFLATION
(percentage points)

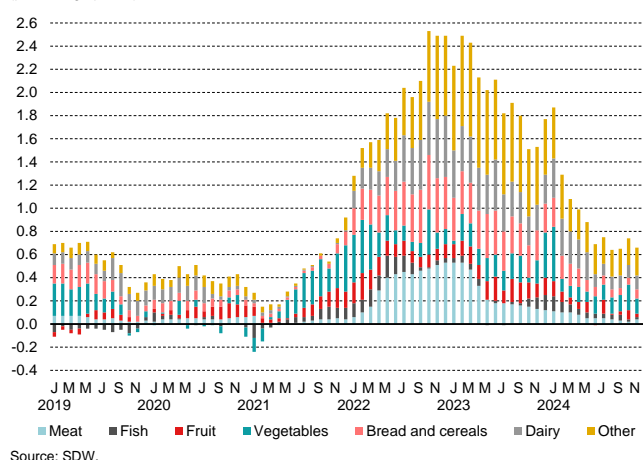
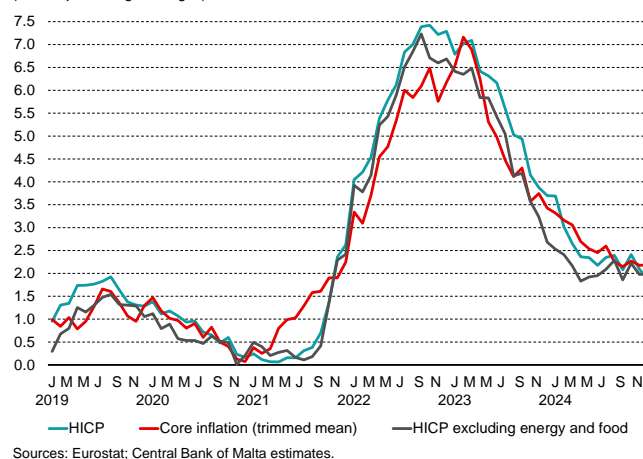


Chart 4.4
HICP IN MALTA: OVERALL AND CORE MEASURE
(annual percentage changes)

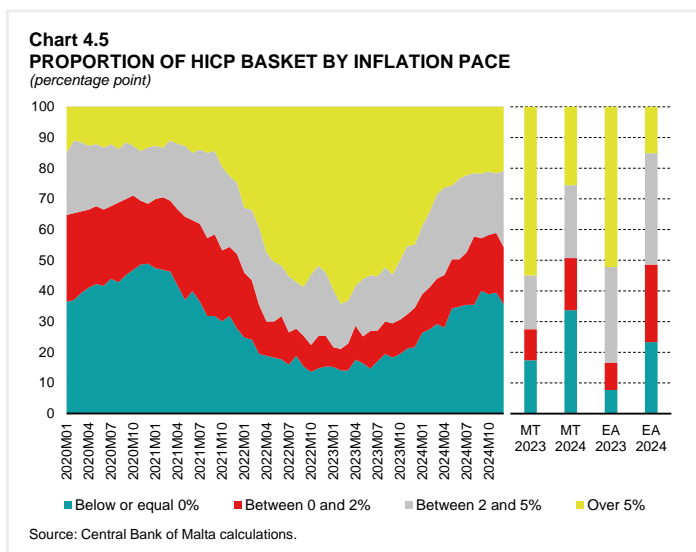


² The Central Bank of Malta uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile components of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation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

³ The calculation of the shares in this chart do not take into account the weights of individual HICP sub-components. This analysis includes 175 sub-indices of the HICP for Malta and 289 sub-indices for the euro area. On average since 2001, 30.7% of items in Malta's basket fell in the 0% or negative inflation rates interval, while this figure stood at 17.7% 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 39.4% and 32.6% respectively in the EA. While 22.4% of the Maltese basket fell in the over 5% interval, only 10.3% of the euro area basket falls in this interval.

at 25.3%, while the share of items with stable or falling prices stood at 23.3%. By contrast, there has been a substantial decline in the share of subcomponents with year-on-year price increases of more than 5%. Indeed in 2024, the latter category stood at 25.6% and 15.1% in Malta and the euro area respectively, from 55.1% and 52.2% in 2023.

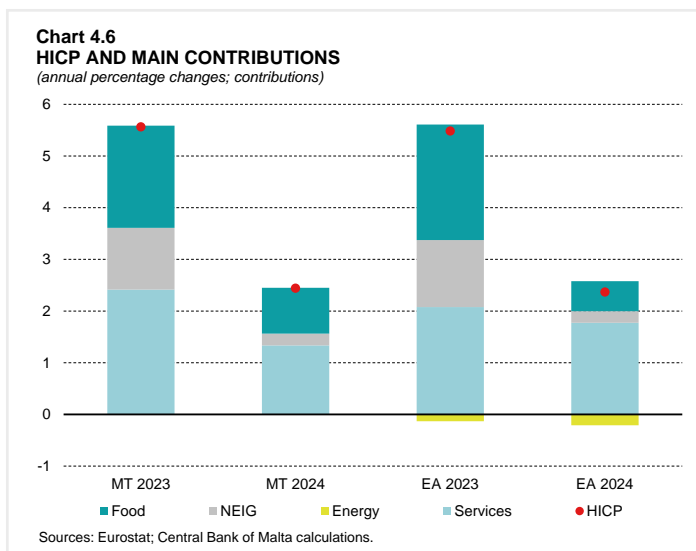
Looking beyond annual averages, Chart 4.5 shows that the share of subcomponents with price increases higher than 5% continued to decline throughout 2024, standing around 21% by December from almost 40% in January.



Comparison with the euro area

Euro area inflation averaged 2.4% during 2024, same as in Malta. However, there are differences in the developments of the subcomponents (see Chart 4.6). While energy inflation lowered euro area inflation by 0.2 percentage points in 2024, energy prices in Malta were kept unchanged from their level a year earlier, through government support measures.

At the same time, the contribution of food inflation in the euro area was lower than that in Malta. This stood at 0.6 percentage points in the euro area as opposed to 0.9 percentage points in Malta. The difference stemmed from both processed and unprocessed food inflation.



Conversely, prices of services had a higher impact on the inflation rate in the euro area than in Malta. While services inflation contributed 1.8 percentage points to HICP inflation in the euro area, it contributed 1.3 percentage points to Maltese inflation. Meanwhile, NEIG inflation accounted for 0.2 percentage points of overall inflation, both in the euro area and in Malta.

While Malta's inflation rate was above that of the euro area at the start of 2024, euro area inflation turned out higher during the last months of the year. Indeed, by December euro area inflation stood at 2.4%, 0.6 percentage points higher than that in Malta. This partly reflects that HICP excluding food and energy, closed the year at 2.7% in the euro area compared to 2.0% in Malta.

RPI inflation decreases

Similar to HICP inflation, annual inflation based on the RPI moderated significantly during 2024. The latter averaged 1.7%, down from 5.1% a year earlier. All subcomponents contributed to the decline.

Table 4.2
CONTRIBUTIONS TO RPI INFLATION⁽¹⁾

Percentage points (annual averages)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------------|------------|------------|------------|------------|------------|
| Food | 0.8 | 0.4 | 0.5 | 2.2 | 2.1 | 0.8 |
| Beverages and tobacco | 0.1 | 0.1 | 0.0 | 0.2 | 0.3 | 0.1 |
| Clothing and footwear | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |
| Housing | 0.2 | 0.2 | 0.1 | 1.2 | 0.8 | 0.1 |
| Water, electricity, gas and fuels | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Household equipment and maintenance | 0.0 | -0.1 | 0.1 | 0.4 | 0.4 | 0.0 |
| Transport and communications | 0.3 | -0.1 | 0.0 | 0.7 | 0.1 | -0.3 |
| Personal care and health | 0.1 | 0.2 | 0.1 | 0.3 | 0.5 | 0.3 |
| Recreation and culture | 0.2 | -0.1 | 0.3 | 0.4 | 0.2 | 0.1 |
| Other goods and services | 0.1 | 0.1 | 0.1 | 0.4 | 0.5 | 0.4 |
| RPI (annual average inflation rate) | 1.6 | 0.6 | 1.5 | 6.2 | 5.1 | 1.7 |

Source: NSO.

⁽¹⁾ Totals may not add up due to rounding.

Food inflation remained the main contributor to overall RPI inflation in 2024, adding 0.8 percentage points. This was significantly below the 2.1 percentage point contribution for 2023 (see Table 4.2). Indeed, food prices increased at a rate of 3.6% on average during 2024 from 9.5% in 2023.

The contribution of personal care and health stood at 0.3 percentage points, while that of housing, beverages and tobacco and recreation and culture all stood at 0.1 percentage points. On the other hand, the contributions from clothing and footwear, and transport and communication inflation were among the lowest recorded as prices of the former were broadly stable while those of transport and communication services decreased. 'Other goods and services' contributed 0.4 percentage points to overall RPI inflation during 2024, as prices rose by 4.8% during the year under review.

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 2024 set of weights applied to the HICP index differ from the 2023 weights, as these weights are updated annually. By contrast, the weights of the RPI are not updated annually and hence are not affected by such changes.

Residential property prices

Residential property prices grow at a faster pace

Residential property prices continued to increase during the first three quarters of 2024. The NSO's Residential Property Price Index (RPPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – increased at an average annual rate of 6.9% during the first three quarters of the year, following a 6.2% increase recorded in 2023 as a whole (see Chart 4.7).⁴ The price increase in the first three quarters of 2024 exceeded that in the euro area, where house prices increased by an annual rate of 1.2%.

⁴ '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. Further information is available in NSO News Release 004/2025.

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 2024, as well as various government schemes supporting the property market.

Misalignment index suggests house prices were below fundamentals in 2024

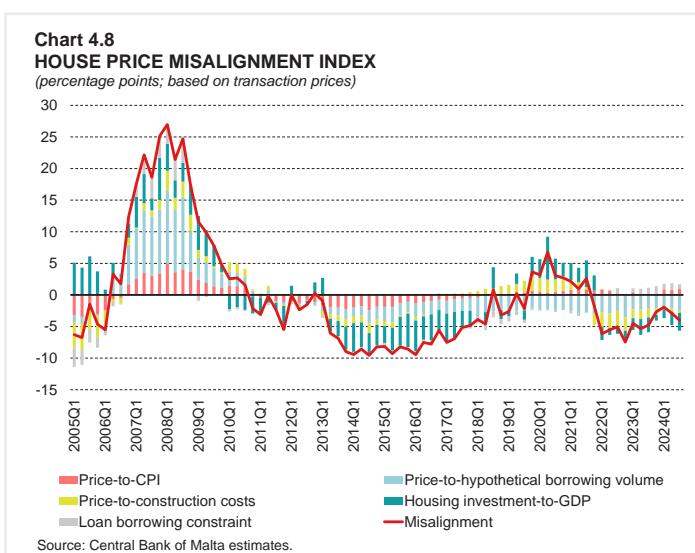
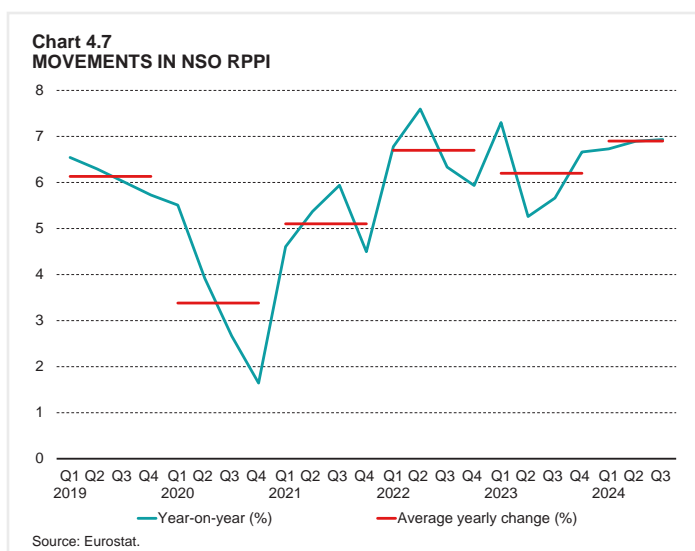
As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to provide an indication of the evolution of house prices against fundamentals.^{5,6} This indicator consists of five sub-indices that represent household, investor, and system-wide factors, with the weights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

House prices, as measured by the NSO's RPPI, were below the level consistent with fundamentals in the first three quarters of 2024 (see Chart 4.8).⁷ The undervaluation during this period was driven mainly by the house price-to-hypothetical borrowing ratio and the housing investment-to-GDP ratio. The house price-to-construction ratio also contributed to the undervaluation, although to a lesser extent. Conversely, the house price-to-inflation ratio and the loan borrowing constraint contributed positively to the misalignment index, as they stood above their long-term average.

Final deeds and promise of sale agreements for residential property increase⁸

NSO data on residential property transactions show that 12,597 final deeds of sale were registered with the tax authorities in 2024, 3.4% more than a year earlier. This follows a decline of 15% in 2023 (see Table 4.3). Over 90% of final deeds registered in 2024 involved purchases by individuals.

The number of registered contracts rose in all main districts, except in Gozo.



⁵ 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.

⁶ 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.

⁷ 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.

⁸ This section is based on NSO News Release 022/2025. 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.

Table 4.3
NSO RESIDENTIAL PROPERTY

| | 2021 | 2022 | 2023 | 2024 | Annual change | |
|-------------------------------------|---------|---------|---------|---------|---------------|-----|
| | | | | | Abs. | % |
| Residential transactions | | | | | | |
| Promise of sale | 15,639 | 12,164 | 13,185 | 13,588 | 403 | 3.1 |
| Final deeds of sale | 14,368 | 14,331 | 12,180 | 12,597 | 417 | 3.4 |
| Transaction value (millions) | 3,162.0 | 3,299.6 | 3,258.2 | 3,502.2 | 244.0 | 7.5 |

Source: National Statistics Office.

The Southern Harbour district recorded the strongest increase in absolute terms. This region accounted for more than half of the increase in deeds, although the Northern Harbour retained the highest number of registered deeds.

The value of final deeds reached €3,502.2 million, an increase of €244 million, or 7.5%, over 2023.

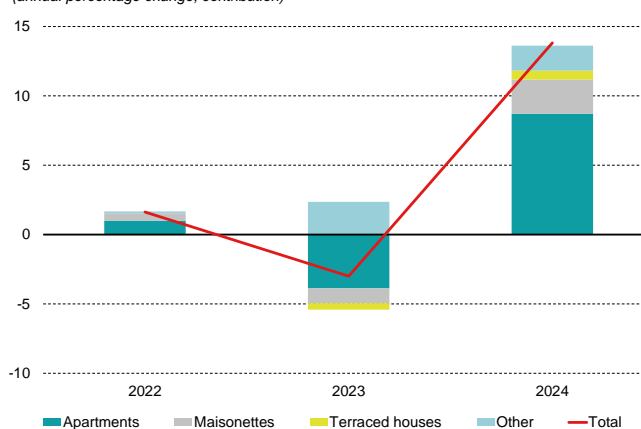
The number of promise-of-sale agreements stood at 13,588, 3.1% higher than the amount registered in 2023. This followed an increase of 8.4% in 2023. Increases were recorded in all districts, except in the Northern Harbour and Gozo districts.

Mortgage transactions increase⁹

The number of mortgage contracts increased significantly after last year's fall. They rose by 13.8% in 2024, after decreasing by 3.0% in 2023 (see Chart 4.9). The latest increase was spread across property types, with the biggest increase occurring in mortgages financing apartments.

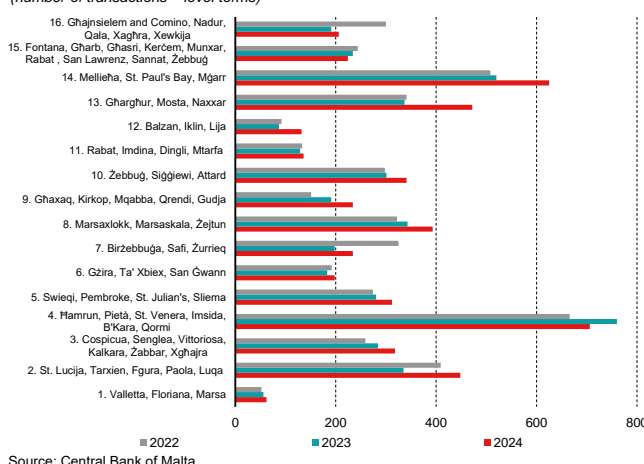
In 2024, the highest number of mortgage transactions related to properties located in region

Chart 4.9
MORTGAGE CONTRACTS
(annual percentage change; contribution)



Source: Central Bank of Malta.

Chart 4.10
MORTGAGE TRANSACTIONS BY REGION
(number of transactions – level terms)



Source: Central Bank of Malta.

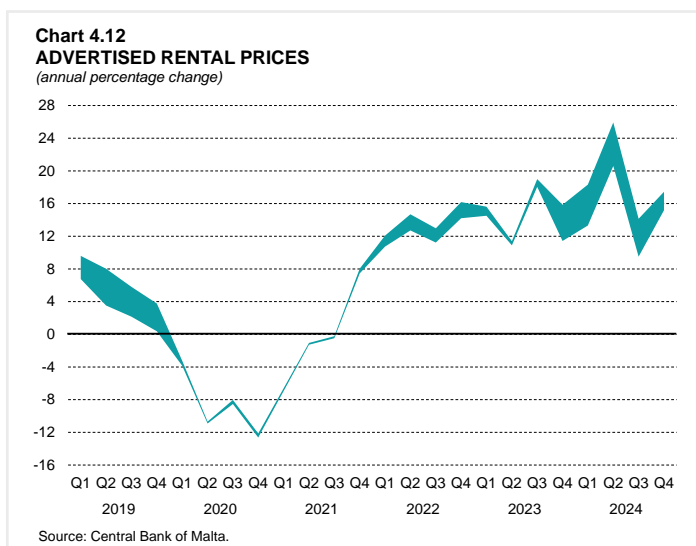
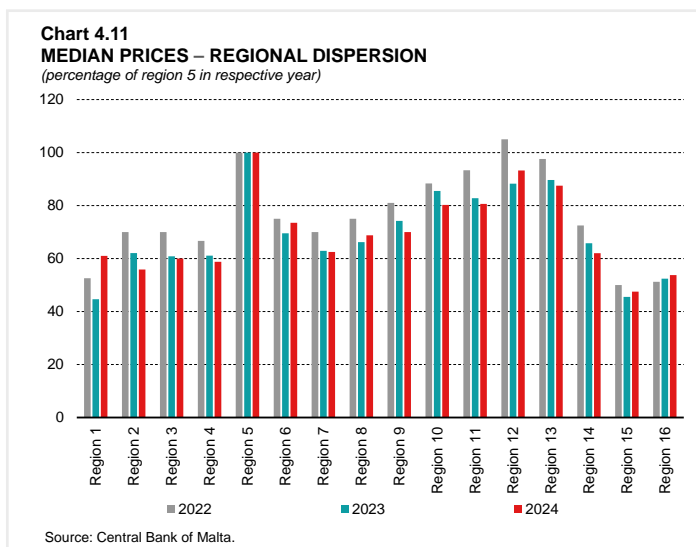
⁹ The data used in the section are collected by the Central Bank of Malta from four commercial banks and relate only to properties which have been purchased with a mortgage. These data exclude properties that have either been transacted using other means of financing, as well as mortgages that have been 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.

4, followed by region 14. On the other hand, the lowest number of mortgage transactions involved properties located in region 1. In 2024 mortgage transactions increased in most locations, except in regions 4 and 15 (see Chart 4.10). Region 13 showed the largest increase in the number of mortgages, followed closely by regions 2 and 14.

Region 5 has held its position as the most expensive in terms of median prices in 2024 (see Chart 4.11). In 2024, the range between the maximum and minimum median price increased slightly further, signalling higher price dispersion across Malta.

Advertised rental prices grew at a faster pace

The annual rate of change of advertised rents collected by the Bank from internet sources recorded another significant increase in 2024.^{10,11} The average range of estimates from various methods indicate that advertised rents collected by the Bank have increased at annual rates of between 14.7% and 19.0% in the year under review (see Chart 4.12). The range widened and shifted up slightly compared to 2023.



Costs and competitiveness

Producer price pressures ease

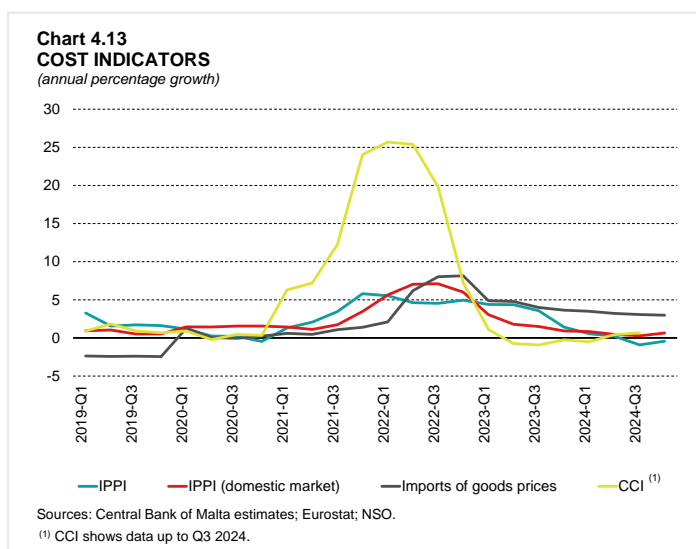
Producers' output prices, as measured by the IPPI, contracted by 0.1% during 2024, after increasing by 3.4% a year earlier (see Chart 4.13).¹² While energy producer price inflation remained at zero, the annual rate of change of prices of intermediate goods fell from 1.1% in 2023 to -3.3% in 2024. This offset increases in other producer prices. Producer prices for capital goods showed the strongest increase of 4.0%, while producer prices of consumer goods rose by 1.3%. Both components recorded weaker increases compared to 2023.

¹⁰ 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.

¹¹ The source used for this index does not take into account contract renewals. Hence, rent inflation based on this method is not comparable to that derived from Housing Authority data, which take into account renewals.

¹² The IPPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

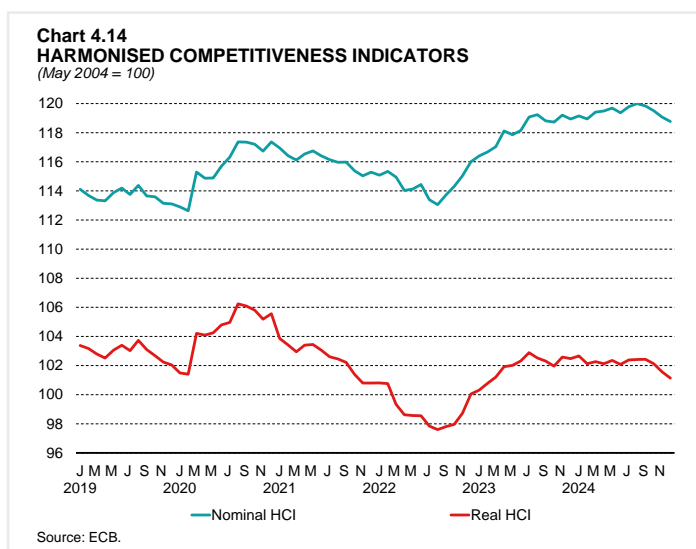
Other indicators affecting the domestic market also show easing cost pressures. Growth in the domestic IPPI was down to 0.6% when compared to its average reading of 1.8% in 2023. This moderation was broad-based across its components.¹³ The imports of goods deflator also showed slower growth, as it rose by 3.1% down from 4.2% in 2023.¹⁴ The construction cost index (CCI) for new residential buildings published by Eurostat increased by 0.2% in the first three quarters of 2024, after contracting by 0.2% in the previous year.



Real HCI points to a deterioration in external competitiveness

In 2024, the nominal HCI, which reflects developments in trade-weighted nominal exchange rates, was up by 1.0%, compared with its average reading for 2023 (see Chart 4.14).¹⁵

The real HCI, which also takes into account changes in price inflation relative to trading partners, was up by 0.2% over its 2023 average level. The smaller increase in the real HCI compared to that of the nominal measure reflects the fact that Malta's inflation rate was lower than of its trading partners during most of the year.



ULCs increase 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 2024, compared to 2023.¹⁶ When measured in headcount terms, ULCs in

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

¹⁴ This index is derived from national accounts data published by the NSO.

¹⁵ 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. The HCI measures used in this publication are measured against 42 trading partners.

¹⁶ Annual growth in ULCs, CPE, and labour productivity is measured on a four-quarter moving average basis. A degree of caution is required in the interpretation of ULCs in view of contemporaneous structural shifts in the composition and factor intensity of production, notably the shift to labour-intensive services. See Micallef, B. (2015), "Unit labour costs, wages and productivity in Malta: a sectoral and cross-country analysis", *Policy Note* August 2015, Central Bank of Malta, available at <https://www.centralbankmalta.org/en/policy-notes-2015>, and Rapa, N. (2016), "Measuring international competitiveness", *Quarterly Review* 2016(1), pp. 53-63, Central Bank of Malta.

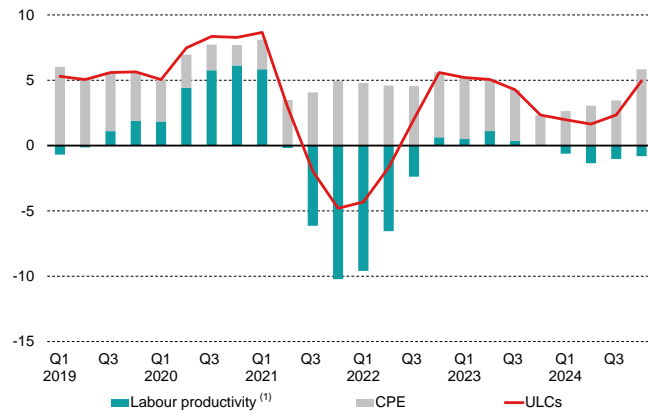
Malta rose by 5.0% in 2024, following an increase of 2.3% in the previous year (see Chart 4.15).

The acceleration in ULC was driven by faster growth in average wage growth, which offset a pickup in productivity. Annual growth in CPE increased to 5.8%, from 2.3% in 2023, as the number of employees increased at a slower pace than total compensation.

Meanwhile, labour productivity grew by 0.8% in 2024, after it was broadly stable in the previous year. In 2024, GDP growth slightly offset an increase in employment.

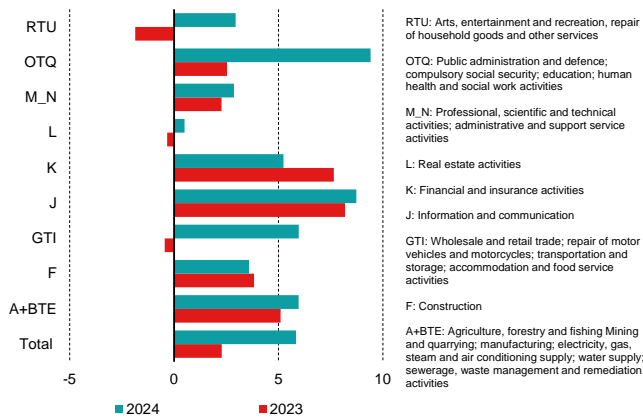
On average, during the year, growth in CPE was fastest in the public administration and defence sector, among the largest sectors. This sector had an average year-on-year growth rate of 9.4% (see Chart 4.16). The second-highest increase – at 8.7% – occurred in the information and communication sector. When compared with the previous year, growth picked up in most of the economic sectors, with the exception of the construction and the financial and insurance activities sectors.

Chart 4.15
DECOMPOSITION OF ULCs (PER PERSON) IN MALTA
(annual percentage change; four-quarter moving average)



Sources: NSO; Central Bank of Malta estimates.
⁽¹⁾ A rise (drop) in productivity contributes negatively (positively) to ULC growth.

Chart 4.16
CPE BY SECTOR
(annual percentage growth)



Source: NSO data.

5. BALANCE OF PAYMENTS¹

During the first three quarters of 2024, the current account of the balance of payments (BOP) registered a wider surplus when compared to the corresponding period of 2023. This mainly reflects higher net receipts from services and a return to net inflows on the secondary income account.

Between January and September net inflows on the capital account increased compared to the corresponding period of 2023, while the financial account showed higher net lending.

When measured over the four quarters to September 2024, the current account balance registered a surplus equivalent to 6.3% of GDP. This compares with a current account surplus of 2.9% of GDP in the euro area. The cyclically-adjusted current account surplus is estimated to have ended September 2024 at 9.9% of GDP.

References to data pertaining to Malta in this section are based on the 2024Q3 vintage of the BOP available on Eurostat in January 2025 and therefore, may not be consistent with the most recent trade data reported for 2024 in Chapter 3 of Part 1 of this Annual Report (Output and Employment), which are based on the GDP release covering the full year.

The current account

Between January and September 2024, the current account recorded a surplus of €1,042.9 million, €72.6 million higher than a year earlier (see Table 5.1). This was driven by higher net receipts from services and a return to net inflows on the secondary income account. Together these offset a wider merchandise trade deficit and 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 higher surplus of €1,388.2 million, from a surplus of €1,220.5 million a year earlier. The current account-to-GDP ratio reached 6.3%, up from 6.1% a year earlier (see Charts 5.1 and 5.2).

Malta's cyclically-adjusted current account balance is estimated to have stood at 9.9% of GDP in the year to September 2024. The cyclically-adjusted measure broadly exhibits similar developments to the unadjusted

Table 5.1
BALANCE OF PAYMENTS

EUR millions

| | 2021 | 2022 | 2023 | 2023 Q1-Q3 | 2024 Q1-Q3 |
|---|----------------|---------------|----------------|----------------|----------------|
| Current account | 1,563.8 | -137.9 | 1,315.5 | 970.3 | 1,042.9 |
| Goods | -1,997.9 | -3,177.4 | -2,446.6 | -1,910.5 | -2,081.1 |
| Services | 5,223.5 | 5,245.1 | 6,153.2 | 4,652.3 | 5,210.4 |
| Primary income | -1,544.7 | -1,916.5 | -2,303.1 | -1,708.8 | -2,118.6 |
| Secondary income | -117.1 | -289.0 | -88.0 | -62.7 | 32.3 |
| Capital account | 246.5 | 228.2 | 255.8 | 147.8 | 235.6 |
| Financial account⁽¹⁾ | 1,895.7 | -502.0 | 1,917.1 | 1,370.3 | 1,752.7 |
| Errors and omissions⁽²⁾ | 85.5 | -592.4 | 345.9 | 252.3 | 474.1 |

Source: Eurostat.

⁽¹⁾ Net lending (+) / net borrowing (-).

⁽²⁾ 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.

¹ As BOP data are undergoing substantial revisions, readers are advised to exercise caution in interpreting changes over time.

measure (see Chart 5.1). However, in the third quarter it stood above the headline measure.²

Goods deficit widens

In the first three quarters of 2024, the merchandise trade gap widened by €170.6 million when compared with the corresponding period of 2023 and stood at €2,081.1 million. This was the result of a €277.0 million increase in imports, which offset a €106.4 million increase in exports. The increase in imports was mainly due to higher imports of machinery and transport equipment, fuels and chemicals.

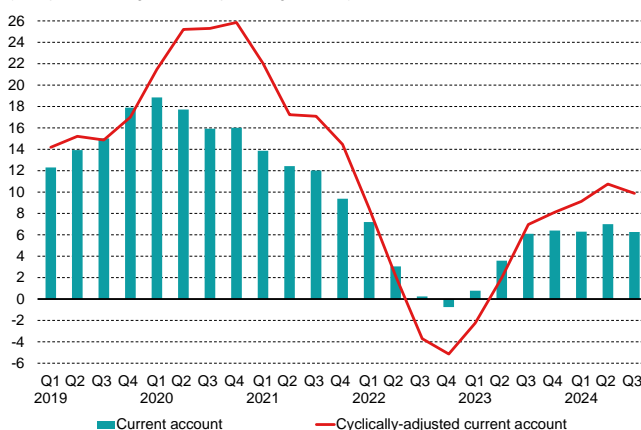
When measured on a four-quarter cumulative basis, the visible trade gap widened to €2,617.3 million, €128.4 million more than the deficit recorded a year earlier. This stemmed from a €96.0 million increase in goods imports and a €32.5 million decline in goods exports. As a result, the share of the goods deficit in GDP declined to 11.8% in the year to September 2024, from 12.4% a year earlier (see Chart 5.3).

The surplus on services widens

Between January and September 2024, the surplus on services increased by €558.1 million on a year earlier, reaching €5,210.4 million, as the increase in services receipts was stronger than that in related payments. The travel component drove most of the increase in the surplus from services, followed by the transport account. By contrast, net receipts from 'other services' decreased, reflecting higher net payments related to business services other than financial services.

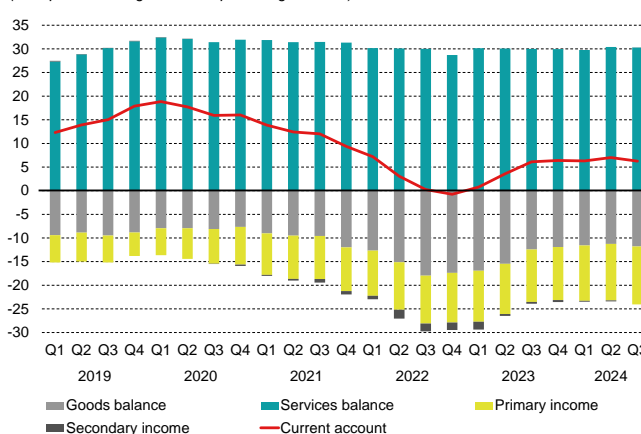
When measured over the year to September 2024, the overall surplus from services stood at

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



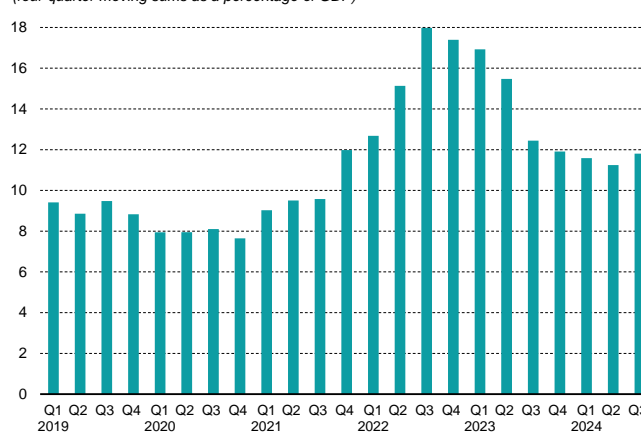
Sources: Eurostat; Central Bank of Malta.

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.

² 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.

€6,711.3 million, an increase of €709.4 million when compared with the corresponding period of 2023. On this basis too, the higher surplus was spurred by the travel and transport components. The share of net services receipts in GDP widened marginally to 30.3%, from 30.0% over the same period of 2023 (see Chart 5.4).

Net outflows related to primary income increase³

Between January and September 2024, net outflows related to primary income rose to €2,118.6 million, €409.7 million more than in the first three quarters of 2023. This was due to higher net outflows related to income from direct investment and ‘other investment’. These outweighed higher net income related to 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%, 1.1 percentage points more than in the four quarters to September 2023.

Inflows on the secondary income account turn positive⁴

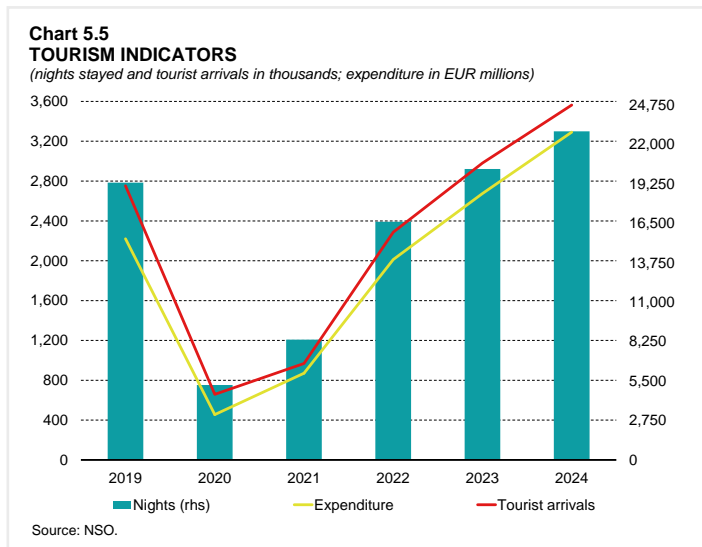
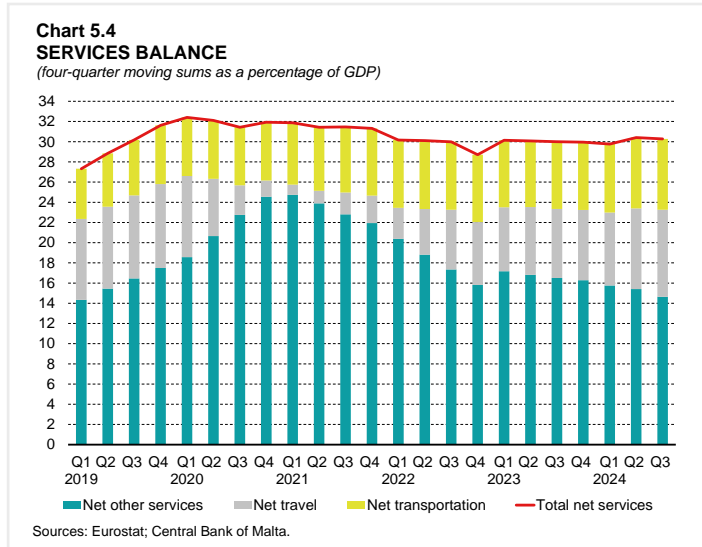
During the first nine months of 2024, net inflows on the secondary income account amounted to €32.3 million, as opposed to net outflows of €62.7 million in the corresponding period of 2023.

Net flows on the secondary income account also turned positive when measured over four quarters, reaching €6.9 million. As net inflows on the secondary income account were small in absolute terms, they had a negligible share in GDP at the end of September 2024.

Tourism activity

During 2024, inbound tourism broke further records as 3.6 million tourists visited Malta, almost a fifth more than in 2023. Nights stayed and tourist expenditure in Malta also rose significantly compared with 2023.

The number of tourists visiting Malta totalled 3,563,618 in 2024, up from 2,981,476 in 2023 (see Chart 5.5). Tourists visiting Malta



³ The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

⁴ The secondary income account shows current transfers between residents and non-residents.

for leisure purposes accounted for most of the increase in arrivals in absolute terms. This segment recorded an increase of 580,050 visitors, equivalent to a 21.4% increase over 2023. Those visiting for business also increased, albeit to a much lesser extent. On the other hand, the number of visitors coming over for other purposes declined.

Once again, strong growth in arrivals were reported from almost all major source markets. The United Kingdom registered the largest increase in absolute terms, followed by Poland. Arrivals from Italy also increased strongly. After losing the top spot to Italy in 2023, the United Kingdom once again re-emerged as the most important source market in 2024. In fact, arrivals from the United Kingdom made up 19.8% of total tourist arrivals in 2024, up from 18.1% in 2023. Arrivals from Italy accounted for 17.3% of total tourist arrivals in 2024, while arrivals from France made up 8.3%. Next were Poland and Germany, with shares of 7.4% and 7.0%, respectively.

The number of nights that tourists spent in Malta increased to 22.9 million in 2024, 13.0% more than the number of nights stayed in 2023. This was attributable to an increase in nights stayed in both collective accommodation and other rented accommodation. On the contrary, nights stayed in non-rented accommodation declined.

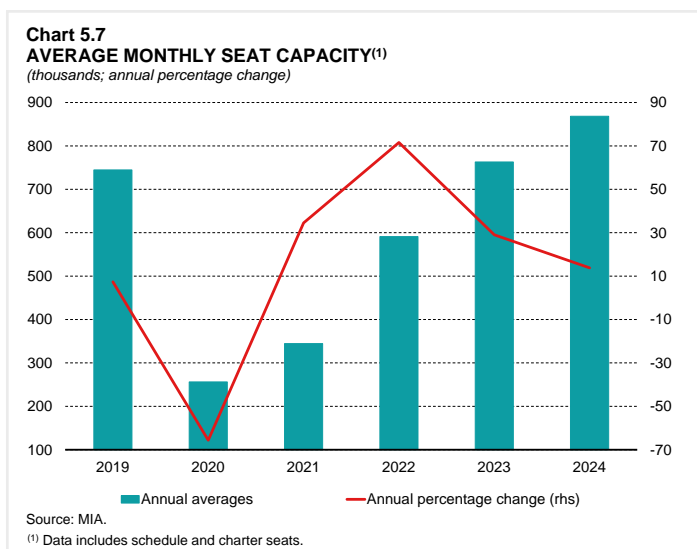
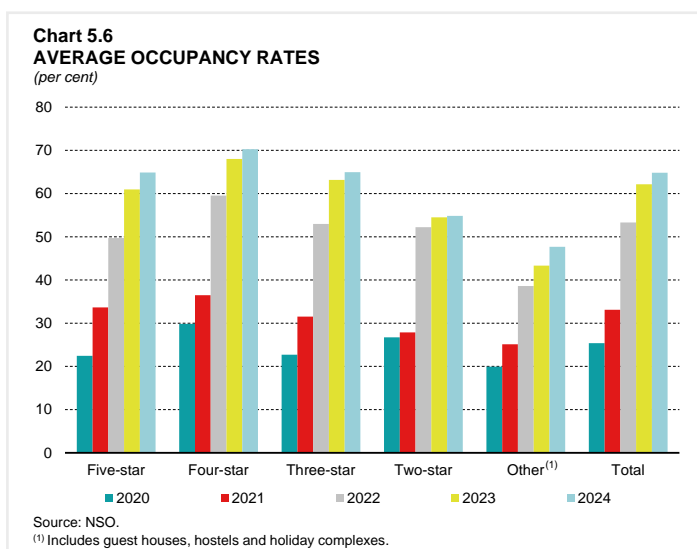
The total average occupancy rate in collective accommodation establishments rose to 64.8% in 2024, up from 62.2% a year earlier (see Chart 5.6). Higher occupancy rates were registered across all accommodation categories compared to 2023.

During 2024, the share of non-residents in the total number of guests using collective accommodation increased, to reach 89.4%, from 88.5% a year earlier.

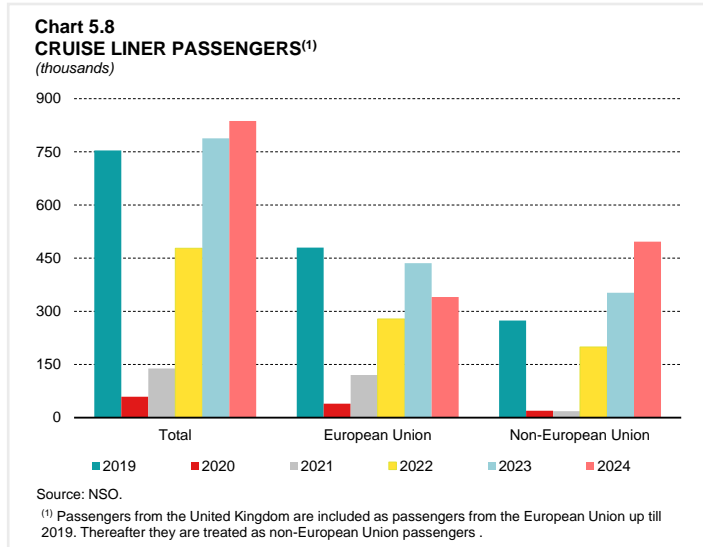
Tourist expenditure increased by almost a quarter over 2023, to €3,291.5 million. The largest increase in absolute terms was in the non-package expenditure category, followed by 'other' expenditure and package expenditure.

Since tourism expenditure outpaced arrivals, expenditure per capita rose to €923.6, from €897.2 in 2023 – an increase of 3.0%. This increase occurred despite a further reduction in the average length of stay from 6.8 nights to 6.4 nights and reflects an increase of 8.9% in spending per night.

According to Malta International Airport (MIA) data, seat capacity increased by 13.8% in 2024, compared with a year earlier, reaching an average of 868,312 seats per month (see Chart 5.7).



A total of 363 cruise liners visited Malta during 2024, 54 more compared with a year earlier. The number of foreign passengers rose to 837,196 persons up from 788,100 visitors a year earlier (see Chart 5.8). Visitors from the United States comprised the largest share of cruise passengers, reflecting an increase in calls by cruise liners popular with US visitors. They were followed by visitors from the United Kingdom and Italy. Nevertheless, visitors from the EU generally declined, following strong growth in 2023.



The capital and financial account

The capital account recorded net inflows of €235.6 million in the first three quarters of 2024, an increase of €87.9 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 €109.4 million.

Meanwhile, the financial account showed higher net lending of €1,752.7 million in the first nine months of 2024, €382.3 million higher than in the same period of 2023. When measured on a four-quarter sum basis, the financial account also showed a higher net lending balance compared to a year earlier.

6. GOVERNMENT FINANCE

In the first three quarters of 2024, the general government deficit declined significantly when compared to that recorded in the corresponding period of 2023. When measured on a four-quarter moving sum basis, the deficit-to-GDP ratio narrowed from 4.6% as at end-2023 to 2.9% in the third quarter of 2024.

Meanwhile, general government debt as a share of GDP declined, from 47.7% at end-2023 to 45.3% as at end-September 2024. The general government net financial worth ratio also improved. Meanwhile, the cyclically-adjusted deficit narrowed in the four quarters up to September 2024.

Quarterly developments

General government deficit narrows significantly

In the first three quarters of 2024, the general government registered a deficit of €48.8 million, a €290.8 million decrease when compared to the deficit recorded in the corresponding period of 2023 (see Table 6.1). This was due to government revenue increasing much more significantly than government expenditure. Indeed, for the first time since 2019, Government posted a surplus in the second and third quarters of the year. As a result, the primary balance turned into a surplus of €146.9 million, from a deficit of €187.9 million in the first three quarters of 2023.

Higher tax receipts underpin revenue growth

Between January and September, general government revenue increased by €828.5 million, or 17.1% in annual terms. This was largely due to higher inflows from current taxes on income and wealth, which increased by €514.0 million. This in turn reflects higher income tax receipts paid by both companies and

Table 6.1
REVENUE, EXPENDITURE AND DEBT

EUR millions

| | 2019 | 2020 | 2021 | 2022 | 2023 | Q1 - Q3 | | Change Q1-Q3 | |
|--|----------------|-----------------|-----------------|----------------|----------------|----------------|-----------------|--------------|-------------|
| | | | | | | 2023 | 2024 | Amount | % |
| Revenue | 5,196.1 | 4,791.1 | 5,420.7 | 5,935.2 | 6,561.3 | 4,838.5 | 5,667.0 | 828.5 | 17.1 |
| Taxes on production and imports | 1,614.3 | 1,393.1 | 1,568.2 | 1,778.1 | 1,943.6 | 1,438.3 | 1,646.1 | 207.8 | 14.4 |
| Current taxes on income and wealth | 2,023.1 | 1,814.8 | 2,142.4 | 2,318.3 | 2,514.0 | 1,902.3 | 2,416.3 | 514.0 | 27.0 |
| Social contributions | 800.1 | 838.2 | 914.8 | 990.6 | 1,067.7 | 771.0 | 844.4 | 73.4 | 9.5 |
| Capital and current transfers receivable | 277.6 | 291.9 | 270.9 | 278.1 | 337.7 | 216.7 | 206.3 | -10.4 | -4.8 |
| Other ⁽¹⁾ | 480.9 | 453.3 | 524.4 | 570.0 | 698.4 | 510.1 | 553.8 | 43.7 | 8.6 |
| Expenditure | 5,090.7 | 6,043.8 | 6,581.0 | 6,889.7 | 7,501.4 | 5,178.1 | 5,715.8 | 537.7 | 10.4 |
| Compensation of employees | 1,510.5 | 1,589.3 | 1,773.6 | 1,834.7 | 1,944.2 | 1,450.6 | 1,583.2 | 132.6 | 9.1 |
| Intermediate consumption | 968.7 | 1,189.5 | 1,248.4 | 1,298.6 | 1,477.2 | 1,022.5 | 1,180.6 | 158.2 | 15.5 |
| Social benefits | 1,270.6 | 1,367.9 | 1,434.8 | 1,539.0 | 1,654.4 | 1,253.7 | 1,377.3 | 123.6 | 9.9 |
| Subsidies | 195.1 | 684.4 | 706.4 | 836.9 | 738.5 | 462.7 | 396.2 | -66.4 | -14.4 |
| Interest | 183.6 | 170.9 | 168.0 | 163.8 | 215.9 | 151.7 | 195.8 | 44.0 | 29.0 |
| Other current transfers payable | 291.5 | 303.3 | 444.3 | 472.0 | 408.7 | 258.8 | 380.7 | 122.0 | 47.1 |
| Gross fixed capital formation | 508.7 | 527.5 | 609.6 | 589.0 | 712.5 | 442.2 | 454.9 | 12.8 | 2.9 |
| Capital transfers payable | 151.4 | 191.2 | 178.6 | 144.1 | 333.2 | 126.9 | 133.9 | 7.0 | 5.5 |
| Other ⁽²⁾ | 10.7 | 19.8 | 17.3 | 11.6 | 16.7 | 9.2 | 13.1 | 3.9 | - |
| Primary balance | 288.9 | -1,081.7 | -992.4 | -790.6 | -724.2 | -187.9 | 146.9 | 334.9 | - |
| General government balance | 105.4 | -1,252.7 | -1,160.3 | -954.5 | -940.1 | -339.7 | -48.8 | 290.8 | - |
| General Government debt | 5,728.1 | 6,981.7 | 8,271.8 | 9,009.8 | 9,790.3 | 9,419.7 | 10,035.0 | | |

Source: NSO.

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

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

households. Furthermore, receipts from production and imports increased by €207.8 million, mainly due to higher VAT receipts. Meanwhile, social contributions went up by €73.4 million, reflecting continued favourable labour market conditions.

Non-tax revenue also increased during the period under review. This was mostly driven by a €43.7 million rise in the 'other' component of government revenue, reflecting an increase in income from sales.

Current outlays support expenditure growth

During the same period, government expenditure increased by €537.7 million, or 10.4% when compared to a year earlier, with recurrent expenditure contributing the most to the increase.

Intermediate consumption grew by €158.2 million, partly on the back of higher expenditure within the public administration, health and residential care sectors. Moreover, spending on compensation of employees increased by €132.6 million, mainly driven by higher payments on allowances owing to the recently concluded collective agreements. Outlays on social benefits increased by €123.6 million, mainly due to higher outlays on retirement pensions and, to a lower extent, spending on children's allowances, widows' pensions and contributory bonuses. Outlays were boosted by the increase in benefits announced in Budget 2024.

Other current transfers payable increased by €122.0 million in the period under review. This partly reflects a base effect stemming from a one-time refund from the EU in 2023. At the same time, transfers to church schools increased due to higher costs associated with a new collective agreement for educators. Interest payments increased by €44.0 million, reflecting the financing requirements and the rollover of maturing debt at a higher interest rate than the original cost. On the other hand, spending on subsidies fell by €66.4 million, due to lower spending on energy support measures.

Meanwhile, capital expenditure rose slightly in the period under consideration. This is due to a €12.8 million increase in GFCF, coupled with a €7.0 million increase in capital transfers, both stemming from higher outlays on locally financed projects.

Debt increases in level terms

In September 2024, the stock of general government debt stood at €10,035.0 million, an increase of €244.8 million from its level as at end-2023. The stock of long-term debt securities (composed of MGS) increased by €459.6 million, as new issues outweighed the value of redeemed securities. Thus, the share of long-term securities in total government debt increased by 2.6 percentage points, to 82.4%. On the other hand, the stock of short-term securities outstanding (composed of Treasury bills) decreased by €198.9 million, and their share in total debt declined to 3.6%.

Meanwhile, the stock of loans outstanding increased slightly by €5.2 million. Notwithstanding this increase, the share of long-term loans in total debt fell by 0.2 percentage points, to 9.7%. Furthermore, the level of currency and deposits outstanding declined by €21.1 million, bringing down their share in total debt by 0.3 percentage points to 4.3%. 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 4.6% at end-2023, to 2.9% in the third quarter of 2024.

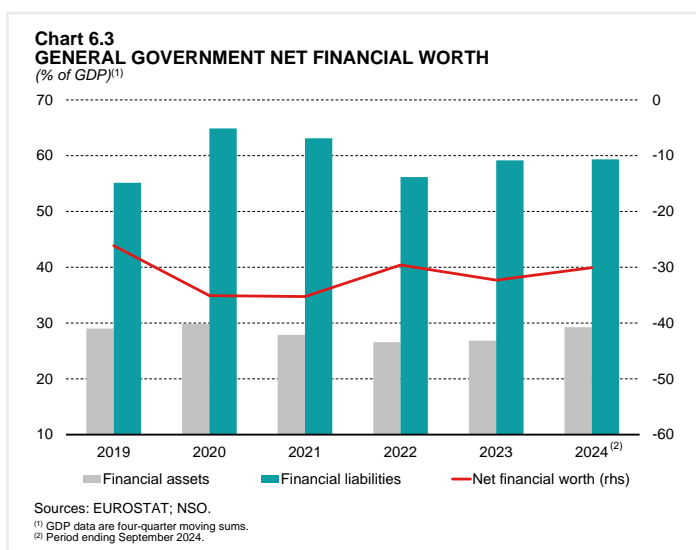
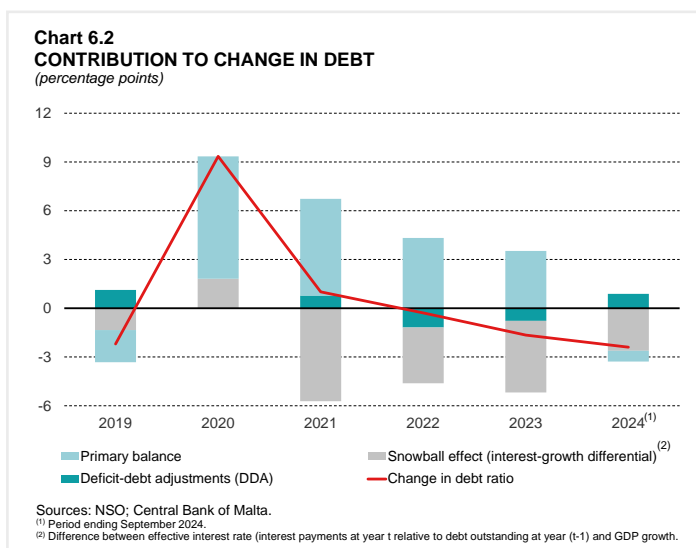
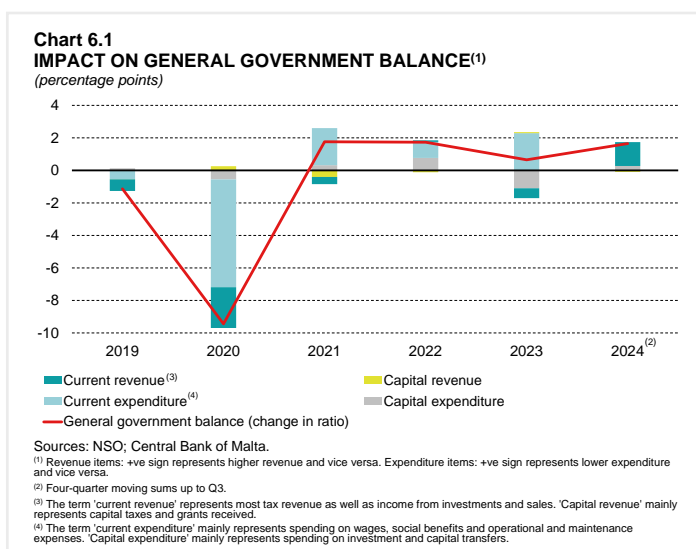
During this period, the ratio of total revenue in GDP increased by 1.4 percentage points, reflecting the surge in tax revenue (see Chart 6.1). On the other hand, the ratio of total expenditure in GDP declined by 0.3 percentage points, driven by a lower share of capital outlays in GDP. Since the general government deficit ratio started declining in 2021, the improvement was mostly driven by a lower share in the expenditure ratio. Events in the first three quarters of 2024 seem to extend this trend.

Meanwhile, the government debt-to-GDP ratio fell by 2.4 percentage points when compared to December 2023, reaching 45.3% of GDP (see Chart 6.2). As GDP growth remained strong, the interest-growth differential exerted a debt-decreasing effect over this period. This, coupled with the surplus registered in the first three quarters of the year, offset the impact of debt-increasing deficit-debt adjustments.

Net financial worth ratio improves

The market value of financial assets as at end-September 2023 stood at €6,488.2 million, an increase of €973.2 million when compared with December 2023.¹ This was mainly due to higher government deposits held at banks and a higher value of shares and equities. The share of financial assets in GDP rose by 2.4 percentage points to 29.3% as at end-September 2024 (see Chart 6.3).

Meanwhile, the market value of financial liabilities increased by €1,004.7 million, ending the third quarter of 2024 at €13,157.1 million. This is mainly due to a strong increase in accounts payable and outstanding debt securities.



¹ 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

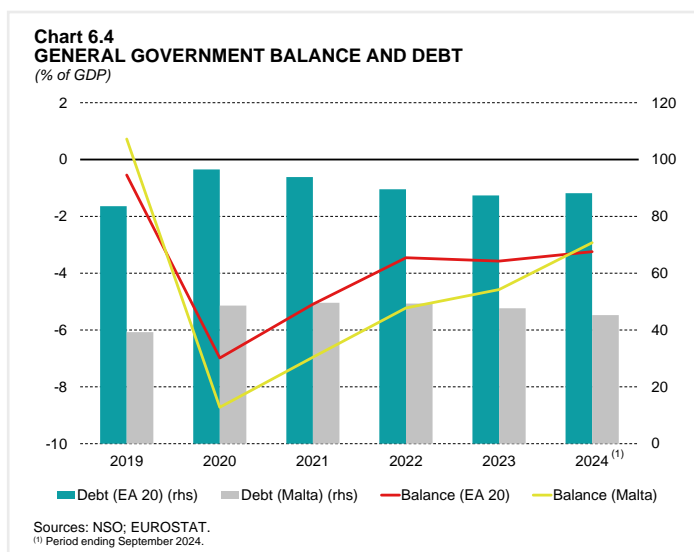
Despite this substantial increase, the share of financial liabilities in GDP rose only slightly by 0.2 percentage points, to 59.3%.

The resulting net financial worth of general government as a share of GDP improved by 2.2 percentage points and closed the third quarter of the year at -30.1%, from -32.3% as at end 2023. Consequently, the net financial worth of the Maltese Government continued to compare favourably with the euro area average. The latter stood at -57.1% of GDP in September 2024.

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

During the four quarters to September 2024, the euro area general government deficit stood at 3.2% of GDP, narrower than the deficit of 3.6% recorded in 2023 (see Chart 6.4). Moreover, over the same period, the euro area debt ratio increased from 87.4% to 88.2% of GDP.

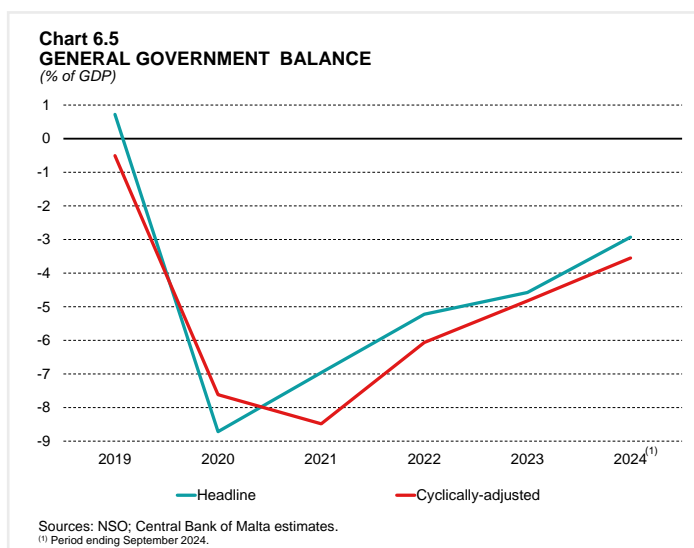
The improvement in the Maltese general government deficit ratio was thus larger than in the euro area average, resulting in a lower ratio than that of the euro area. Moreover, the Maltese government debt-to-GDP ratio remained well below the corresponding ratio for the euro area and well below the 60% reference value.



Cyclically-adjusted balance improves²

On a four-quarter moving sum basis, the cyclically-adjusted deficit stood at 3.5% of GDP in September 2024, 1.3 percentage points lower than the deficit posted at the end of 2023 (see Chart 6.5). This improvement was slightly smaller than the change in the headline balance during the same period.

The improvement in the cyclically-adjusted balance since December 2023 mainly reflects a rise of 1.3 percentage points in the share



² 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 Mourre, 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.

of direct taxes, which boosted the share of cyclically-adjusted revenue by 1.5 percentage points (see Table 6.2).

Meanwhile, the share of cyclically-adjusted expenditure in GDP increased by 0.2 percentage points, due to an increased share of intermediate consumption, social benefits and interest payments.

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

Percentage points of GDP

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 ⁽¹⁾ |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|---------------------|
| Revenue | -1.0 | -2.7 | 0.1 | -0.6 | -0.5 | 1.5 |
| Current taxes on income and wealth | 0.5 | -0.4 | -0.8 | 0.2 | -0.3 | 1.3 |
| Taxes on production and imports | -0.4 | -1.4 | -0.3 | 0.3 | -0.3 | 0.3 |
| Social contributions | -0.3 | 0.2 | 0.1 | -0.4 | -0.2 | 0.0 |
| Other ⁽²⁾ | -0.8 | -1.1 | 1.1 | -0.7 | 0.2 | 0.0 |
| Expenditure | -1.0 | 4.5 | 1.0 | -3.0 | -1.8 | 0.2 |
| Compensation of employees | -0.2 | 0.0 | 0.5 | -0.9 | -0.7 | 0.0 |
| Intermediate consumption | 0.4 | 1.2 | -0.2 | -0.6 | 0.0 | 0.3 |
| Social benefits | -0.5 | 0.0 | 0.1 | -0.5 | -0.5 | 0.1 |
| Interest payments | -0.2 | -0.1 | -0.1 | -0.1 | 0.1 | 0.1 |
| Gross fixed capital formation | 0.1 | 0.0 | 0.3 | -0.5 | 0.2 | -0.2 |
| Other ⁽³⁾ | -0.5 | 3.5 | 0.4 | -0.3 | -0.8 | -0.1 |
| Primary balance | -0.3 | -7.3 | -1.0 | 2.3 | 1.4 | 1.4 |
| General government balance | -0.1 | -7.1 | -0.9 | 2.4 | 1.2 | 1.3 |

Sources: NSO; Central Bank of Malta estimates.

⁽¹⁾ Four-quarter period up to September 2024.

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

⁽³⁾ Mainly includes subsidies, current and capital transfers.

BOX 3: THE SUSTAINABILITY OF MALTESE GOVERNMENT DEBT¹

This box assesses the sustainability of Maltese general government debt using different methodologies. It updates previous debt sustainability analyses (DSA) published by the Bank.² The term ‘sustainability’ used in this analysis is in line with the International Monetary Fund’s (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, most short-term and long-term risks to sustainability in 2023 (latest available data) were considered to be contained to medium.
- Medium-term sustainability risks are assessed via a deterministic and stochastic approach. In a scenario assuming additional fiscal consolidation in line with EU rules, the debt-to-GDP ratio is expected to remain below the 60% reference target.
- The stochastic debt analysis offers a supplementary evaluation of the scenarios by incorporating macroeconomic uncertainty into the debt-to-GDP trajectory. The findings indicate a small likelihood of the debt-to-GDP ratio surpassing 60% in the medium term, with the probability peaking at 8.8% in 2032. This suggests that, even under the combined impact of shocks, debt levels are projected to remain stable by the end of the forecast period.
- While the stochastic analysis provides an assessment of macroeconomic uncertainty, there remain risks that are difficult to quantify. Risks with an adverse impact on debt sustainability include the likelihood of higher-than-expected discretionary spending, the effects of international tax harmonisation and costs related to the physical and transition risks from climate change and nature degradation. On the other hand, other unquantifiable risks – such as the EU’s clean industrial deal and digitalisation – may well present positive externalities to the economy, in the form of increased investment and productivity.

Deterministic debt sustainability analysis

Traditional deterministic approaches to DSA project a single debt-to-GDP trajectory, based on a baseline forecast for GDP and the underlying fiscal position. This trajectory is then subjected to various shocks in order to determine the susceptibility of the projections to adverse circumstances.

In contrast with previous sustainability analyses published by the Bank, this box will assess the profile of Maltese general government debt in only one scenario. The uncertainties surrounding this scenario are then explored further through a stochastic analysis (see section below).

In this scenario, GDP growth, inflation and Government’s borrowing costs up until 2027 are in line with the Bank’s latest forecast exercise.³ Thereafter, these are determined by a set of assumptions.⁴

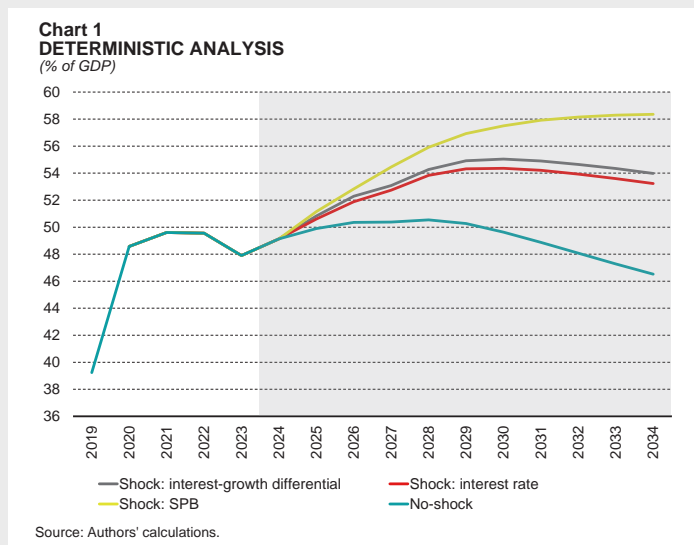
¹ Prepared by Ian Debattista and John Farrugia, respectively a senior economist and manager at Fiscal Affairs and Reports Office within the Economic Analysis Department of the Central Bank of Malta. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the authors’ own.

² This study uses the national accounts vintage up to the fourth quarter of 2024, published in February 2025 and the general government data vintage up to the third quarter of 2024, published in January 2025. The cut-off date for projections is 6 February 2025.

³ This exercise is available at: <https://www.centralbankmalta.org/economic-projections>.

⁴ Real GDP growth is set to grow in line with the forecast structural primary balance and potential output growth. Inflation is assumed to revert to around 2.0%. The forecast path of interest rates is based on ECB technical assumptions and the maturity profile of outstanding MGS. For further details, see boxes published in previous Annual Report publications.

The forecast fiscal path is expressed in terms of the structural primary balance (SPB). This is set to be in line with the Bank's fiscal projections up until 2027. The SPB in 2028 is set to be in line with Government targets, as published in the Medium-Term Fiscal Structural Plan.⁵ Thereafter, Government is assumed to adhere to the terms of the Stability and Growth Pact (SGP), such that no additional consolidation is pursued once the structural deficit is brought down to 1.5% of GDP (see section on assumptions and Table 3).



On the basis of these assumptions, and excluding the impact of any shocks, the general government debt is expected to peak at just over 50.0% in 2028 before declining to just over 46.0% of GDP by 2034 (see Chart 1). It is thus not expected to decline to pre-pandemic levels, before Government introduced significant support measures. Nevertheless, it is set to be considerably lower than the 60% reference ratio set by the SGP.

In this scenario, the debt-to-GDP ratio remains less than 60% even when assuming an adverse shock.

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. By 2030, the debt ratio is set to peak at between 54.0% and 55.0% in these scenarios. It is then projected to decline to around 53.0% and 54.0% by 2034.

A shock to the SPB exerts the largest impact on the debt profile. The debt-to-GDP ratio would increase at a gradual pace, before stabilising somewhat at just over 58.0% by 2034.

According to this scenario, adverse shocks cause the debt-to-GDP ratio to peak at a progressively later timeframe. Moreover, the debt-to-GDP ratio remains comparatively high for an extended period. For public finances to be less susceptible to these shocks, a more aggressive fiscal consolidation path than that assumed in the no-shock path would be needed.⁶

Stochastic debt sustainability analysis

Deterministic analyses do not fully capture the uncertainty inherent when projecting the debt-to-GDP path. Stochastic debt sustainability analysis (SDSA) addresses this limitation by simulating multiple

⁵ The Plan, which was published in September 2024, establishes the minimum fiscal adjustment path necessary to ensure debt sustainability in line with the EU's economic governance framework. Targets are based on a reference trajectory, estimated by the Commission, for net nationally-funded expenditure. The Plan covers the period 2025-2028.

⁶ Were the deterministic no-shock scenario set to assume that the debt-to-GDP ratio return to its pre-pandemic level (around 39% in 2019), the SPB would need to improve consistently each year. In this instance, by 2034 the structural balance would be in surplus by just under 1.5% of GDP.

debt paths under various shock combinations, effectively conducting extensive sensitivity tests on debt determinants. Unlike deterministic models, which offer a fixed trajectory, SDSA generates a distribution of possible outcomes, enabling a probabilistic assessment of debt sustainability. This approach allows policymakers to quantify risks and make more informed decisions based on the full range of potential debt paths, rather than a single estimate.

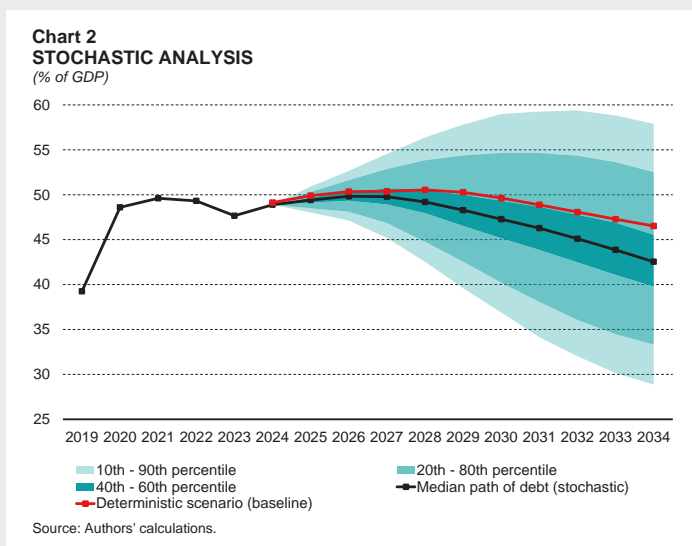
Existing literature uses several methodologies to generate shocks to macroeconomic variables, that drive debt dynamics. This analysis applies bootstrapping techniques on the residuals of a vector auto regression (VAR) estimation applied to Maltese data.⁷ Shocks are generated for real GDP growth, the short and long-term interest rate and the SPB (see section at the end of this box). The central path of these variables, i.e. the path without accounting for any shocks, is based on the trajectory forecast using the deterministic model.

This model generated 10,000 different paths for government debt, consistent with what is done in Medeiros (2012). Chart 2 presents a fan chart showing the distribution of results across the next decade based on this framework.

A key distinction between the stochastic and deterministic approaches lies in the treatment of macroeconomic uncertainty. Traditional deterministic models apply shocks to individual economic variables in isolation, leading to a single projected path for the debt-to-GDP ratio. In contrast, SDSA considers simultaneous shocks to multiple debt determinants, resulting in a broader distribution of potential outcomes.

The results of the SDSA in Chart 2 indicate a range of possible debt-to-GDP trajectories over the forecast horizon. According to the median path of possible trajectories, the debt-to-GDP ratio peaks at just over 49.8% in 2026, before decreasing gradually thereafter. The results highlight increasing uncertainty surrounding the projections over time, as evidenced by the widening confidence intervals. The 10th-90th percentile range suggest that debt paths could vary considerably depending on uncertainty related to macroeconomic conditions. Nevertheless, the median debt path is broadly in line with the deterministic scenario between 2025 and 2027 and exerts a stronger downward trajectory thereafter.

Table 1 presents two important metrics with which to gauge the range of probabilities generated by the stochastic analysis. The probability that the debt ratio remains higher than its initial level in 2024, is rather high in during the first years of the projected horizon due to the projected moderation in economic growth and higher refinancing costs for government debt. Thereafter, the



⁷ See Medeiros, J. (2012). Stochastic debt simulation using VAR models and a panel fiscal reaction function: Results for a selected number of countries. European Commission, Directorate-General for Economic and Financial Affairs. *Economic Papers* 459. <https://doi.org/10.2765/26084>

Table 1
STOCHASTIC ANALYSIS: PROBABILITY METRICS

| <i>Probability</i> | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Debt exceeds its initial level | 69.2% | 68.6% | 60.9% | 52.6% | 46.6% | 42.2% | 39.2% | 36.1% | 32.8% | 29.1% |
| Debt exceeding 60% of GDP | 0.0% | 0.0% | 0.5% | 3.1% | 5.9% | 7.9% | 8.6% | 8.9% | 8.6% | 7.9% |

Source: Authors' calculations.

probability declines gradually from 69.2% in 2025 to 29.1% by 2034. This suggests that although debt levels are expected to increase in the initial years, there is a growing likelihood that debt stabilises in the long-term and even trends downwards.

This stochastic analysis also shows that throughout the next decade, there is only a small likelihood of government debt exceeding 60%. This probability reaches a peak of 8.9% in 2032. The relatively higher probability in the outer years of the projected horizon is attributed to the wider confidence bands, as uncertainty compounds the further the distance from the current year.⁸

The fan chart analysis is a useful means to account for uncertainties surrounding the deterministic scenario. Some of these uncertainties can be identified, without being quantified. For instance, there exists the risk of higher-than-expected outlays on subsidies to retain fixed retail utility prices, if commodity prices are high. This would directly affect the Government's ability to follow fiscal targets, since the European Commission considers the profile of net nationally financed expenditure as the single operating indicator when assessing adherence to the SGP.⁹

Other types of uncertainties reflect events which are without precedent and thus cannot be measured within the stochastic framework. Such risks include the planned reform in the international corporate tax framework, and a requirement by EU Member states to implement the EU Minimum Tax Directive (Directive 2022/2523). Malta applied a derogation to this directive but needs to transpose it by end-2029. Further uncertainties reflect the extension of the EU Emissions Trading System to additional industries, and the likely introduction of an EU-wide carbon tax. Other risks are on balance more likely to bring about positive externalities. An EU-wide effort to boost investment in green technology and enhance competitiveness, known as the clean industrial deal, may create new market opportunities and increase foreign direct investment. The proliferation of AI technology also has the potential to improve productivity and the economic environment.

Heat map of indicators

This section assesses highly relevant indicators, according to literature, to assess debt sustainability in the short and long-term. The thresholds set to indicate low, medium and high risks are sourced from the European Commission's Debt Sustainability Monitor series. This is a backward-looking analysis using information up to 2023. At the time this exercise was conducted, data at end-2024 was not available for most indicators.

The threat that each indicator poses to the debt ratio is color-coded: red indicates a high threat, yellow indicates a medium threat, and green indicates a low threat to sustainability. The heat map is presented in Table 2.

⁸ The stochastic analysis also enables the computation of the probability that the debt-to-GDP ratio returns to pre-pandemic levels. By 2034, the likelihood of the debt level falling below its 2019 level is estimated at 38.1%.

⁹ The term 'net nationally financed expenditure' is defined as primary expenditure, adjusted for the economic cycle, net of EU funds and the impact of discretionary revenue measures. Government expects to limit growth in net nationally financed expenditure by an average of 5.2% between 2025 and 2027. According to the deterministic projections discussed in this box, spending would need to grow by just above this rate between 2028 and 2034, if fiscal targets are to be met.

Table 2
HEAT MAP

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|--------|--------|-------|-------|--------|
| Structure of debt | | | | | |
| Share of short-term debt | Yellow | | | | |
| Change in share of short-term debt (y-o-y) | 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 | | | | |
| Liquidity risks | | | | | |
| Gross financing needs (% of GDP) | Green | | | | |
| Net financing needs (% of GDP) | Yellow | | | | |
| Ten-year government bond spread over German Bund | Green | | | | |
| Macro-financial risks | | | | | |
| Private sector debt (% of GDP) | Green | | | | |
| Private credit flow (% of GDP) | Red | Yellow | Green | Green | Yellow |
| 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 | | | | |
| Competitiveness risks (high/low risk) | | | | | |
| ULCs (% change over three years) | Red | | | | |
| Real effective exchange rate (% change over three years) | Green | | | | |
| Current account balance (three-year average as % of GDP) | Green | | | | |
| Export market shares (% change over five years) | Green | | | | |
| Implicit/ contingent risks | | | | | |
| Commission Ageing Report: increase in ageing costs (pp of GDP) | Red | Green | Green | Red | Green |
| General government guarantees (% of GDP) | Green | Yellow | Green | Green | Green |

Sources: Eurostat; author's calculations.

Risks associated with the composition of debt and availability of liquidity are assessed to be relatively low. While the share of short-term debt within total debt presents a moderate risk, this has been on a declining trend, decreasing from around 16% in 2020 to around 11% by the end of 2023. Notably, short-term debt also encompasses holding of Maltese Government Retail Saving Bonds, which are classified as deposits under the ESA methodology. Other indicators for the structure of debt remain at a low threat, mainly as debt remains almost all denominated in euro, and at a fixed interest rate and mostly held by Maltese residents.

Risks associated with gross and net financing needs have diminished, driven by the sustained reduction in the government deficit since 2020, and were low by the end of 2023.

From a macro-financial perspective, the main risks to debt sustainability arise predominantly from the historically elevated share of non-performing loans in total loans issued by the core domestic banks, when compared with the applicable threshold. This indicator reflects the risk of a sudden shock to one or more economic sectors due to the inability of a bank to meet its credit obligations, leading to adverse effects on GDP and ultimately on public finances. Nonetheless, this metric has improved significantly over time and is currently at historic lows.¹⁰

¹⁰ The high-risk threshold applied in this study has a value of 2.30%. This metric amounted to 2.33% by September 2024.

Another key risk to sustainability stems from implicit liabilities related to ageing costs, including pensions, healthcare, and long-term care, as a share of GDP. According to the European Commission's 2024 Ageing Report, between 2022 and 2070 Malta is projected to experience the second-largest increase in age-related expenditure as a share in GDP within the euro area, increasing by 8.7 points. Nevertheless, by 2070, ageing-related costs are expected to remain below the euro area average. The Commission's projections are also based on the assumption that migrant workers continue to live in Malta long enough to qualify for pension benefits.

Government guaranteed debt as a share of GDP continued to decrease in 2023, reaching 5.6% of GDP – well below the euro area average. Historically, this is the lowest ratio recorded since 2003. As a result, the risk of guarantees being called is considered low. The main source of risks concerning government guarantees lies in the fact that 45% of outstanding loans are concentrated in the energy sector.¹¹

Assumptions and technical information

Numerical targets included in 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 points 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 points of GDP for a four-year adjustment plan, and 0.25 percentage points for a seven-year plan.

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

Deterministic analysis: main determinants

The forecast path for the main determinants of debt is shown in Table 3.

Table 3

DETERMINISTIC ANALYSIS: MAIN DETERMINANTS OF DEBT

Per cent; averages over simulation period

| | 2025- 2034 average | Shock: interest growth differential | Shock: interest rate | Shock: SPB |
|--------------------------------------|--------------------------|--|----------------------------|---------------|
| Real GDP growth rate | 3.5 | 3.0 | 3.5 | 3.5 |
| Inflation (GDP deflator growth rate) | 2.1 | 2.1 | 2.1 | 2.1 |
| Implicit interest rate | 2.9 | 3.4 | 3.7 | 3.1 |
| Deficit-debt adjustments (% of GDP) | 0.3 | 0.3 | 0.3 | 0.3 |
| SPB (% of GDP) | -0.8 | -0.9 | -0.9 | -1.8 |
| <i>Memo: SPB in 2034 (% of GDP)</i> | <i>-0.1</i> | <i>0.0</i> | <i>0.0</i> | <i>-1.1</i> |

Source: Authors' calculations.

¹¹ See National Audit Office Malta (2024). "Annual Audit Report: Public Accounts 2023" for further details.

Deterministic analysis: shocks (applied from 2025 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 points lower GDP growth path and 0.5 percentage points 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.

Stochastic analysis: shocks (applied from 2025 onwards)

Shocks are generated through bootstrapping of residuals based on a quarterly VAR model, whose specification will be outlined in greater detail in a forthcoming Central Bank Discussion Paper. The VAR estimation is conducted using data for Malta, from 2001Q3 to 2024Q4 for four input variables, to which shocks are applied to: the growth rate of real GDP, short-term and long-term interest rates, and the SPB. Through resampling, shocks differ across multiple iterations, thereby creating different scenarios.

Projected real GDP growth is calculated in a similar manner to the deterministic approach, however adding the shock in each quarter. Growth is based on its lagged value, the level of potential GDP, changes in the SPB in the preceding quarter, and the output gap. Shocks to the short and long-term interest rates are generated in percentage point deviation. Therefore, the central scenario of the rates is similar to the deterministic approach, with the shocks adding potential deviation from such scenario.

The path of the SPB is set to be in line with the Bank's projections up until 2027. Thereafter, this is based on the abovementioned SGP numerical targets. The model takes into account possible divergence from this path following the introduction of shocks.



Argotti Botanic Gardens, Floriana

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.¹ 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 2024, the Central Bank of Malta also participated in the reinvestment phase of the Pandemic Emergency Purchase Programme (PEPP).

Open market operations

Standard monetary policy measures include open market operations, aimed at managing the level of liquidity in the financial system, 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.

The 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 long-term refinancing operations (LTROs), which consist of liquidity-providing reverse transactions at a monthly frequency and with a maturity of three months.

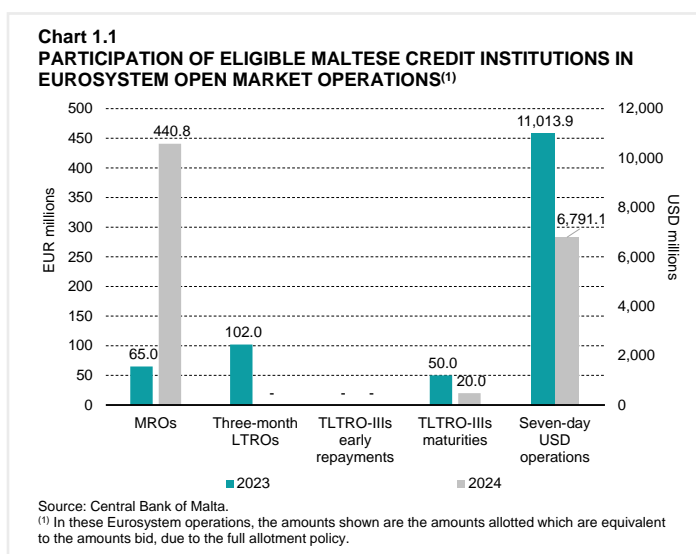
During 2024, the Eurosystem continued to offer liquidity to eligible credit institutions via fixed-rate tender procedures with full allotment, through both MROs and LTROs.

More specifically, during 2024, the ECB conducted 53 MROs. Credit institutions established in Malta participated in these operations with a total cumulative amount of €440.8 million, €375.8 million higher when compared to 2023 (see Chart 1.1).

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 did not participate in the three-month LTROs during 2024, when compared to a participation for an aggregate amount of €102.0 million in 2023 (see Chart 1.1).

As from September 2021, and one year after the settlement of each TLTRO, credit institutions could on a quarterly basis partially or fully repay the amounts allotted in such operations. During 2024, Maltese credit institutions with outstanding TLTROs did not participate in these early repayments. However, the outstanding balance of €20.0 million in such operations matured during the year (see Chart 1.1).

During 2024, the ECB continued the weekly liquidity-providing operations of US dollars with a one-week tenor through collateralised lending in conjunction with the US Federal Reserve. In 2024, credit institutions established in Malta participated regularly, for a



¹ For a description of the monetary policy decisions taken by the Governing Council, please refer to the Chapter titled "The euro area and the external environment", which can be found in Part 1 of this Report.

total cumulative amount of USD 6,791.1 million, lower than the USD 11,013.9 million taken up in the previous year.

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 €4,407.7 million, a decrease of €1,110.2 million compared to the 2023 average. Similar to 2023, Maltese credit institutions did not utilise the marginal lending facility in 2024.

Minimum reserve requirements

The ECB requires credit institutions established in the euro area to hold reserve deposits with their respective 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 2024, this reserve requirement ratio remained unchanged at 1.0%. Furthermore, the remuneration of minimum reserves remained also unchanged at 0%. The average balance required as minimum reserve deposits by credit institutions established in Malta amounted to €298.8 million in 2024, compared to €300.2 million in 2023. The average daily balances, held in the current accounts with the Central Bank of Malta, amounted to €310.0 million in 2024, compared to €435.5 million in 2023.

Key ECB interest rates

The interest rates on the overnight deposit facility, the MROs and the marginal lending facility (MLF) decreased four times throughout the year standing at 3.00%, 3.15% and 3.40% respectively as at end-2024. As part of the operational framework review announced on 13 March 2024, the spread between the interest rate on the MROs and the DFR was set at 15 basis points as from 18 September 2024. The spread between the marginal lending facility rate and the MROs rate remained unchanged at 25 basis points.

Changes to the operational framework for implementing monetary policy

On 13 March 2024, the Governing Council of the ECB decided on changes to the operational framework for implementing monetary policy. These changes will affect the way central bank liquidity is provided as excess liquidity in the banking system, while remaining significant over the coming years, gradually declines. The purpose of the operational framework is to steer short-term money market rates closely in line with the Governing Council's monetary policy decisions.

The Governing Council agreed on a set of key parameters and features for its operational framework:

- The Governing Council will continue to steer the monetary policy stance through the DFR. Short-term money market interest rates are expected to evolve in the vicinity of the DFR with tolerance for some volatility as long as it does not obscure policy signals.
- The Eurosystem will provide liquidity through a broad mix of instruments, including short-term credit operations (MROs) and three-month longer-term refinancing operations (LTROs) and at a later stage, structural longer-term credit operations and a structural portfolio of securities.
- The MROs will continue to be conducted through fixed-rate tender procedures with full allotment. The MROs are intended to play a central role in meeting banks' liquidity needs and their use by counterparties is an integral part of a smooth implementation of monetary policy.

- The three-month LTROs will also continue to be conducted through fixed-rate tender procedures with full allotment.
- The rate on the MROs was adjusted such that the spread between the rate on the MROs and the DFR was reduced to 15 basis points from 50 basis points. The narrower spread will incentivise bidding in the weekly operations, so that short-term money market rates are likely to evolve close to the DFR and will limit the potential scope for volatility in short-term money market rates. At the same time, it will leave room for money market activity and provide incentives for banks to seek market-based funding solutions. The rate on the MLF was adjusted such that the spread between the rate on the MLF and the rate on the MROs will remain unchanged at 25 basis points. These changes came into effect on 18 September 2024.
- New structural longer-term refinancing operations and a structural portfolio of securities will be introduced at a later stage, once the Eurosystem balance sheet begins to durably grow again, considering legacy bond holdings. These operations will make a substantial contribution to covering the banking sector's structural liquidity needs arising from autonomous factors and minimum reserve requirements.
- The reserve ratio for determining banks' minimum reserve requirements remains unchanged at 1.0% and the remuneration of minimum reserves remains unchanged at 0.0%.
- A broad collateral framework will also be maintained for refinancing operations.

The Governing Council stated that it would monitor the evolution and distribution of excess liquidity, the formation of money market rates, the evolution of banks' demand for reserves and the functioning of money markets and broader financial markets within the parameters announced. Based on the experience gained, the Governing Council would review the key parameters of the operational framework in 2026. It would stand ready to adjust the design and parameters of the framework earlier, if necessary, to ensure that the monetary policy implementation remains in line with the established principles.

Asset purchase programme

During 2024, the APP portfolio was declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities. The Central Bank of Malta's public sector purchase programme (PSPP) holdings amounted to €993.1 million² and had a weighted average remaining maturity of 9.4 years as at end December 2024.

Pandemic emergency purchase programme

The Central Bank of Malta continued its participation in the reinvestment phase of 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.

In 2024, the Governing Council confirmed its intention to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Furthermore, it reaffirmed its plan to reduce the PEPP portfolio by an average of €7.5 billion per month in the second half of 2024. On 12 December 2024, the Governing Council confirmed its decision to discontinue reinvestments under the PEPP by the end of 2024.

During 2024, the Central Bank of Malta purchased €12.4 million worth of Maltese sovereign securities under the PEPP. Since the inception of this programme, the Central Bank of Malta bought €562.1 million worth of Maltese sovereign securities.³ The Central Bank of Malta's PEPP holdings amounted to €483.4 million⁴ and had a weighted average remaining maturity of 9.4 years as at end December 2024.

² This figure reflects the amortisation of securities held under the PSPP portfolio.

³ This figure does not reflect the amortisation of securities held under the PEPP portfolio. Purchases of securities which matured until 2024 are also included in this figure.

⁴ This figure reflects the amortisation of securities held under the PEPP portfolio.

During the same period, the Central Bank of Malta transferred Maltese sovereign bonds to the ECB's own PEPP portfolio amounting to €1.2 million, with total securities bought since inception in this portfolio amounting to €80.4 million.⁵

The Central Bank of Malta participated only in the public sector purchases within the PEPP.

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 more effectively deliver on its price stability mandate. However, this instrument was not used throughout 2024.

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 to the ECB. As at end-December 2024, the nominal outstanding value of eligible domestic marketable securities amounted to €9,831.0 million, compared with €9,016.0 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 €1,135.1 million. This consisted of both domestic and foreign assets, with the share of debt instruments issued by the Maltese government accounting for around 78.2% of the securities pledged.

On 29 November 2024, the Governing Council announced changes to the Eurosystem collateral framework to enhance harmonisation, flexibility and risk efficiency. These adjustments aim to integrate temporary measures into the general collateral framework, creating a harmonised list of eligible assets accessible to all counterparties across the euro area. In fact, the Governing Council decided to accept (a) asset-backed securities with a second-best rating of credit quality step three on the Eurosystem's harmonised rating scale and which fulfil the eligibility criteria stipulated in the temporary collateral framework and (b) marketable assets denominated in US dollars, pounds sterling and Japanese yen as eligible collateral under the general framework. In addition, NCBs' in-house credit assessment systems will be accepted as an additional credit assessment source under a harmonised framework. The Governing Council also mandated the relevant Eurosystem committees to carry out preparatory work on the future integration of pools of non-financial corporate credit claims into the general framework.

Furthermore, the Governing Council approved the discontinuation of several asset types which have been eligible under the Guideline on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral. These include private individuals and pools of credit claims backed by real estate assets as eligible debtor and asset types for additional credit claims, individual credit claims with a credit quality below credit quality step three and foreign currency and foreign currency-denominated loans in US dollars, pounds sterling and Japanese yen. Additionally, the ECB will phase out the temporary easing of certain technical requirements for the eligibility of additional credit claims, such as those benefiting from a COVID-19 related public sector guarantees. The Governing Council also agreed to discontinue the acceptance of retail mortgage-backed debt instruments and non-marketable debt instruments backed by eligible credit claims which have been eligible under the Guideline on the implementation of the Eurosystem monetary policy framework.

These changes, aligned with the ECB's commitment to maintaining a broad and effective collateral framework, will gradually be implemented starting no earlier than the fourth quarter of 2025, with some measures extended to at least the end of 2026.

⁵ This figure does not reflect the amortisation of securities held under the PEPP portfolio. There were no maturities in this portfolio during 2024.

Eurosystem Collateral Management System

On the 24 October 2024, the Governing Council decided to reschedule the launch of the ECMS from 18 November 2024 to 16 June 2025. 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 that are unrelated to monetary policy instruments, such as banknotes in circulation, government deposits, net foreign assets and net assets denominated in euro. These forecasts are transmitted to the ECB on a weekly basis, at the beginning of the maintenance period, and whenever the aggregate reserve requirement changes within the period. This information enables the Eurosystem to determine liquidity needs even if the current full allotment policy ensures ample liquidity.

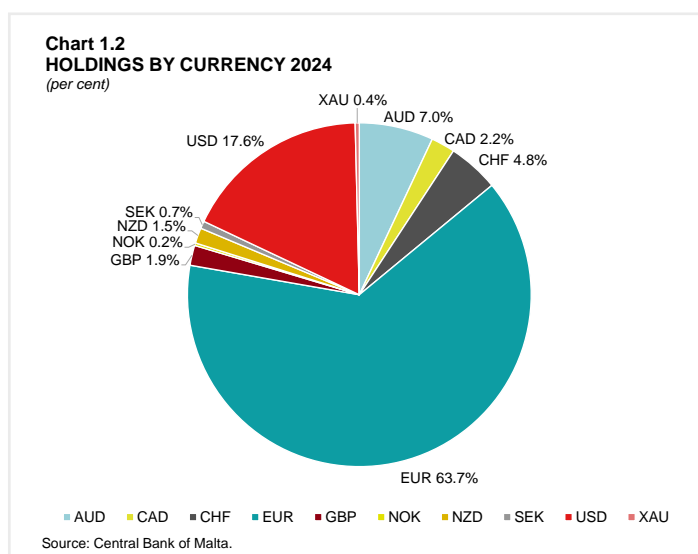
In 2024, a box outlining the liquidity conditions in the Maltese banking system and the monetary policy operations conducted by the Central Bank of Malta, within the Eurosystem's single monetary policy framework during the eight maintenance periods from 8 February 2023 to 30 January 2024, was published in the Bank's *Quarterly Review 2024:3*.

Remuneration of non-monetary policy deposits and government deposits

On 16 April 2024, the Governing Council decided to adopt a single legal act setting out a uniform remuneration rate for non-monetary policy deposits held with the Eurosystem. This rate is set at the €STR minus a spread of 20 basis points. The rate will also continue to apply as a ceiling for remunerating euro area government overnight deposits. Exceptions will apply particularly for non-monetary policy deposits held in TARGET for guarantee funds and prefunded accounts by financial market infrastructures domiciled in the European Economic Area. These deposits will be remunerated at the €STR. The Governing Council considers these exceptions necessary given the relevance of such deposits for the smooth operation of payment systems and financial stability in the euro area. All changes to the remuneration regime were applied as of 1 December 2024.

Non-monetary policy operations

The Central Bank of Malta's investment portfolio reached approximately €3,400 million in 2024. It comprises different financial assets denominated in both euro and foreign currencies. The Bank embarked on a diversification exercise in 2021 and tilted its portfolio to other asset classes instead of investing solely in the traditional fixed income asset class. Asset holdings are determined through a Strategic Asset Allocation exercise, which is reviewed and approved annually by the Board of Directors. The currency composition of the internally managed portfolios remained consistent with the previous year, with 64.0% of the Bank's financial assets being denominated in euro, while the remaining 36.0% primarily allocated to other G10 currencies, with the largest share in USD (see Chart 1.2). To mitigate foreign exchange (FX) risk, the Bank hedges foreign currency holdings



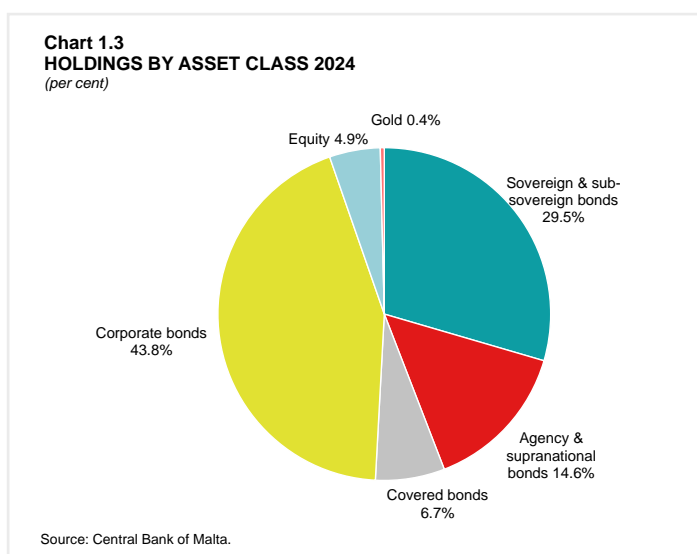
in its internally managed portfolios and prioritizes investment funds that hedge foreign currency exposure back to euro whenever feasible.

The Bank increased the size of its internally managed fixed income portfolios to capitalise on the relatively higher yielding market environment. A new foreign currency Treasury Inflation Protected Securities internally managed portfolio was set-up in 2024. It was made possible because of the Bank’s introduction of a new Treasury Management System earlier in 2022, which supports the management of such instruments and portfolios. Prior to the creation of this new portfolio, the Bank’s inflation-linked bond exposure predominantly originated from investment in funds. A significant part of the inflation-linked exposure is now being managed internally which reduces the fees incurred by the Bank and allows it to tailor better the characteristics of the portfolio to its desired allocations.

The strategic exposure to diversified equities and fixed income assets continued to increase during the year to benefit from regional differences in fixed income and equity markets whilst ensuring that such investments remain predominantly invested in high-quality financial assets (see Chart 1.3). Investment in fixed income instruments was executed at relatively higher yields in 2024. However, bond market volatility was nonetheless elevated. The Bank also profited from its exposure to equities and gold given the rally in both markets. Episodes of equity market pullbacks were experienced during the year. A notable event was the surprise rate hike by the Bank of Japan in late July, which led to the worst equity sell-off in around two years. This was followed by a strong rally due to interest-rate cut expectations from major central banks and ahead of and following US elections. The negative correlation between bonds and equities, while not restored to pre-2020 levels, improved during 2024 as there were episodes where bonds rallied when equities faced selling pressure. The diversification of the Bank’s assets away from traditional fixed income ensures that the Bank’s investments are well optimised, which in turn contributes to the Bank’s ability to maintain financial independence. During 2024, the Bank’s own investments generated a revenue of around €95 million,⁶ in addition to more than €32 million of total reserves coming mainly from the new asset classes introduced during the past three years.

Sustainability and climate considerations will remain an integral part of the Bank’s investment decisions. As part of the Eurosystem, the Bank will continue to comply with the common stance adopted on climate-related disclosures of the NMPPs and thus will be also guided by any developments at Eurosystem level in this regard.

The Central Bank’s Investment Policy Committee (IPC) plays a pivotal role in shaping and implementing the institution’s investment strategy. The committee 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, ensuring sufficient liquidity whilst incorporating sustainability considerations in line with pre-set financial risk parameters which stipulate acceptable interest rate, credit and market risks, amongst others. The IPC monitors global



⁶ Excluding funding costs.

financial market trends, evaluates macroeconomic indicators and assesses the risk-return trade-offs of various investments to ensure prudent financial risk management in the three-year Strategic Asset Allocation presented to the Board of Directors. The committee oversees diversification strategies to mitigate concentration risks. It reviews strategic allocations annually in response to emerging global challenges, such as climate risks and geopolitical uncertainties. 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 the Tactical Benchmark monthly for the internally active managed portfolios. During 2024, 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.

The Bank entered into spot/outright foreign currency transactions with lower activity being registered during 2024 when compared to the previous year. Activity in FX swap purchases and sales, as part of the management of the Bank's own FX positions, decreased when compared to 2023. The Central Bank of Malta continued to repo out some of its fixed income holdings, mainly in the general collateral pooling repo market and the special repo. The activity level was higher than in previous years due to the greater availability of collateral resulting from portfolios expansion. The repo activity enhanced the return of the Bank's fixed income portfolios due to favourable conditions.

The Bank continued to fulfil its discretionary portfolio investment management and administration mandate with the NDSF. The Bank assisted NDSF in several investment related matters and under its guidance, the Fund's portfolios performed well owing to the relatively high yielding environment and robust performance in the foreign equity markets.

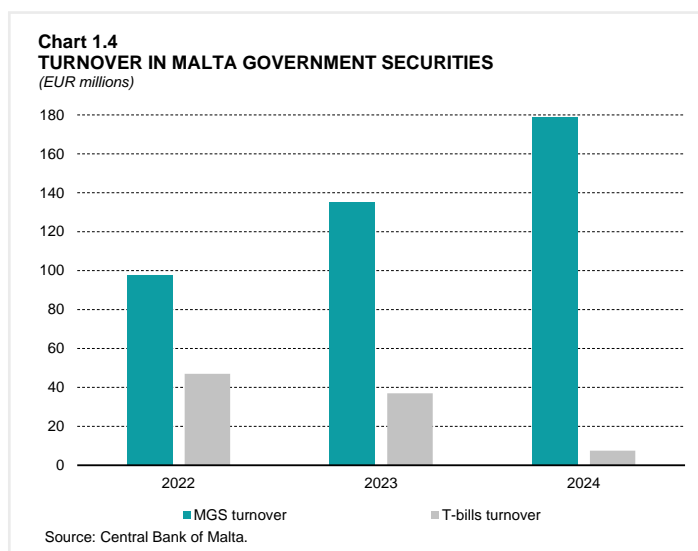
The Bank continued to manage the Investor Compensation Scheme and Depositor Compensation Scheme portfolios. In 2024, the Bank guided the Schemes to optimise the Depositor Compensation Scheme portfolio with the aim of increasing the liquidity of this portfolio.

The Bank has a pooling arrangement with the Central Bank of Ireland related to the foreign reserves managed on behalf of the ECB. A presentation and discussions surrounding the NCBs internally managed portfolios was organised in 2024. In addition, the Bank's portfolio managers hosted representatives from the Central Bank of Ireland for an official visit to discuss the management of the pooling portfolio and other reserve management practices being adopted by both NCBs.

Malta Government Securities market-making operations

In 2024, the Bank continued to fulfil the role of the only market-maker for Malta Government Securities in the domestic market. In its unique role, the Bank publishes daily indicative bid and offer prices and offers a two-way trading on the secondary market for these instruments. Furthermore, the Bank acts as an agent on behalf of public institutional clients.

Trading in the secondary market for Malta Government Securities (MGSs) continued to increase in 2024, with total nominal on-exchange turnover reaching €178.7 million and surpassing 2023 figure by €43.5 million. As denoted in Chart 1.4, secondary market turnover seems to be on an upward momentum, recovering from the



lowest values in the past 14 years witnessed in 2022. A total of 63.4% of the traded amount was recorded in the second half of the year, with the drop in yields experienced during such period possibly explaining the increased turnover, as investors engaged in profit-taking opportunities.

The Bank retained its position as a prominent market player in MGSs, accounting for 77.7% of total on-exchange turnover for the year under review. Such activity includes trades brokered by the Bank on behalf of public institutional clients. In nominal terms, purchases effected by the Bank for its books and on behalf of its clients amounted to €135.4 million, whereas sales for the year reached €3.3 million. Both on-exchange purchases and sales rose over the previous year, with the purchases volume adding €54.9 million and sales rising by €3.3 million, given that the sales volume in 2023 was insignificant.

On-exchange secondary market turnover for Malta Treasury Bills (T-bills) stood at €7.5 million, significantly lower than the €36.9 million recorded in 2023. In the past three years trading in this security saw a pick-up after being dormant for six years. The Bank was only active on the buy side of the market, participating in 97.3% of the volume traded, up from 84.0% recorded in 2023. The remaining 2.7% of the transactions were carried out between other brokers.

In the primary market, the Treasury Department issued a total of €1,259.2 million in MGSs, comprising three issuances opened to both the retail and wholesale sectors, alongside the rollover of the maturing 62+ Malta Government Savings Bond. Retail participation in the three issuances accounted for 23.9% of the amount allotted, with the remaining 76.1% were absorbed by the wholesale. The Bank continued to provide advice to the Treasury Department through information on prevailing market conditions and assistance on the pricing scenarios for the maturities and coupons offered.

During 2024, the Bank continued its publications on financial markets matters. *The Malta Government Stocks Market – 2023 in Review* report delved into the performance of MGS market for the year 2023, analysing primary market participation and trends by different market players, as well as secondary market activity such as fluctuations in turnover during a ten-year period, most traded MGS, as well as movements in holdings by different categories. A summarised version of this report was produced as a Box in the Bank's *Quarterly Review 2024:4*.

Finally, a box on the degree of spillover from US Treasuries to European Government bond yields including the Maltese yield curve was also published in the Bank's *Quarterly Review 2024:4*.

2. FINANCIAL STABILITY

The Central Bank of Malta serves as the national macroprudential authority tasked with safeguarding the stability of the country's financial system. It monitors and evaluates systemic risks, conducts macroprudential research, and develops and maintains stress testing frameworks and sensitivity analyses with the aim of assessing bank resilience to extreme but plausible events. Additionally, the Bank introduces new or refines existing macroprudential policy tools as necessary to address emerging risks and maintain financial stability.

Main developments

Following the publication of the *Financial Stability Report (FSR) 2023*, the Bank presented the Report's key messages in a seminar titled *Financial Stability in a Highly Uncertain Global Environment: Is There a Need for More Resilience?* The Bank welcomed Mr Alessio De Vincenzo, Head of the Financial Stability Directorate in the Directorate General for Economics, Statistics and Research at *Banca d'Italia* who also shared his perspectives, during the Financial Stability Seminar, on the European macroprudential framework, referencing ongoing discussions about extending the framework to include non-bank financial intermediation. In the final quarter of the year, the Bank also published the *Interim FSR 2024*, providing an update of the developments of the first half of the year.



Launch of FSR 2023

These publications featured various articles on topics of interest, including credit gap measurements using the Hamilton filter, the impact of the ECB's monetary policy tightening on deposits flows and interest margins, as well as a box on the methodological update of the liquid assets ratio for domestically relevant insurance firms and investment funds. The Report carried an update of an earlier study on the size of the non-bank financial intermediation sector in Malta, as well as a dedicated boxed article highlighting the importance of O-SIIs in Malta. Additionally, the interim FSR included an initial analysis of a reverse stress testing framework that identifies a bank's break point to outflows of deposits. The *Report* also provided an overview of the pension funds registered in Malta and it outlined a forecasting framework for core domestic banks.

The Bank organised a series of internal research seminars focused on macroprudential research providing staff with the opportunity to present their work, share expertise and solicit feedback from colleagues. Staff also presented their research at international conferences and workshops. Three staff members published research on macroprudential policy in international peer-reviewed journals and one staff member contributed to an ECB Occasional Paper. Three working papers were also published. Moreover, one staff member provided training in econometrics to some of the Bank's economists, while another delivered a series of talks on using social media to better communicate research. The Bank also benefitted from an IMF Technical Assistance mission on the construction of a network model of the Maltese financial system, aimed at studying the effects of credit risk materialisation on banks' capital buffers and the potential for default cascades. Staff participated in online and in-person sessions with an IMF consultant, which led to the development of the first phase of the model.

Macroprudential policy developments

The Bank reviews macroprudential policy measures recommended for reciprocation by other Member States of the EU in line with the ESRB recommendation on the assessment of cross-border effects and voluntary reciprocity for macroprudential measures (ESRB 2015/2). Four countries recommended measures for reciprocation during 2024 namely: Portugal, Denmark, Italy and Belgium. The Bank carried out

internal assessments to determine reciprocity stance for the recommended policy measures and decided not to reciprocate based on the immateriality 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-reciprocation stance unchanged in relation to the previously activated measures recommended for reciprocation by other Member States.

Furthermore, the Bank conducted its yearly assessment to identify significant third countries to which it has exposure, in line with the ESRB recommendation (ESRB/2015/1), on recognising and setting the counter-cyclical capital buffer (CCyB) rates for exposures to third countries. The material third countries identified during 2024, covering the period from the second quarter 2024 to the second quarter 2025 were the United Kingdom and the United Arab Emirates.

As stipulated in Article 19 of CBM Directive No. 16 on borrower-based measures, applicable credit institutions are required to submit internal audit reports annually, and external audit reports every three years to demonstrate compliance with the Directive. In 2024, the Bank analysed the internal audit reports submitted by banks for financial year 2023 whereby all banks were deemed to be compliant. In anticipation of the next round of submissions which is due in April 2025, the Bank provided the institutions concerned with more refined guidelines in scope on the areas that are required to be addressed in their external audits related to the Directive.

In March 2023, the Central Bank of Malta, in consultation with the MFSA and following the recommendation by the Joint Financial Stability Board (JFSB), introduced a sectoral systemic risk buffer (sSyRB) targeting domestic residential real estate (RRE) mortgage exposures to natural persons secured by RRE in Malta. This macroprudential tool implemented under Article 133 of the Capital Requirements Directive (CRD) framework aims to prevent and mitigate systemic risks that could have serious adverse effects on the financial system and the real economy. The sSyRB was initially set at a rate of 1.0%, which took effect at the end of September 2023, with a fully phased-in rate of 1.5% that came into effect at the end of March 2024. In 2024, the CCyB remained at 0% as vulnerabilities remained localised in the real estate sector.

On a yearly basis, the Central Bank of Malta, together with the MFSA, conducts an assessment to identify and apply a capital buffer to domestic O-SIIs. This assessment is carried out in line with the *2025 Statement of Decision on the Identification of Other Systemically Important Institutions and the Related Capital Buffer Calibration* document, jointly published by the Central Bank of Malta and the MFSA, and the provisions under CBM Directive No. 11. The same four credit institutions were identified as O-SIIs in the 2024 exercise, namely Bank of Valletta plc, HSBC Bank Malta plc, MDB Group Ltd and APS Bank plc with an O-SII buffer ranging from 0.50% to 2.00%.

In 2024, the Bank continued conducting quarterly rounds of the BLS among the four major core domestic banks. The aim of this exercise is to collect qualitative insights into changes in lending standards and credit demand from households and NFCs. The findings were presented in a dedicated box in the Bank's FSR 2023, offering a comparison of domestic trends with those in the euro area.

Committee meetings at domestic and European levels

The Bank's Financial Stability Committee continued its discussions on matters concerning financial stability, as well as on the content of the FSR and its Interim Report. Other significant topics addressed included the construction of sectoral credit gaps using the Hamilton filter, the results of the 2024 O-SII capital buffer exercise, as well as the Transposition of CRD specifically on third country branches. The Bank remained active in the JFSB as well as the Domestic Standing Committee and its Crisis Management Task Force. The Bank held also bilateral discussions with the Ministry for Finance on matters related to the Crisis Management and Deposit Insurance (CMDI) as well on the European Commission's Macro prudential policy review via the Expert Group on Banking, Payments and Insurance (EGBPI). At a European level, senior Bank officials attended various meetings of the ESRB, the European Banking Authority (EBA), the Economic and Financial

Committee, the Single Supervisory Mechanism and the ECB. Additionally, discussions on financial stability matters were held with the IMF in terms of its Mission Article IV, with the European Commission and credit rating agencies.

Future developments

The Bank endeavours to improve its analysis and expand its internal risk dashboards, analytical metrics and its suite of stress testing frameworks to encompass the wide range of financial institutions licensed in Malta. The Bank will keep up with financial stability developments, especially with emerging risks, such as climate change and digital transformation. Following the publication of the amended CRD/CRR text, the Bank began working on transposing the relevant text in Central Bank of Malta Directive No.11 on Macroprudential Policy. Member States have until 10 January 2026 to transpose the CRD text, while the CRR text was applicable as from 1 January 2025.

Moreover, the Bank intends to conduct further research on topics related to financial stability and macroprudential policy and seek to disseminate it at local and international conferences and workshops and explore the second development phase of the financial network model.

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.

Staff conducted four projection exercises, two of which form part of the Eurosystem's Broad Macroeconomic Projection Exercise. The tools used in the forecasting processes were enhanced and an analysis relevant to the pattern of revisions to national accounts data and forecast errors was performed. The Bank continued to collect information on various fiscal measures, including inflation support and climate change related ones. Additional work was undertaken to assess the implications of the benchmark revision to national accounts as well as newly available household sector accounts for the projections. The commentary on the Bank's projections continued to feature boxes on specific aspects of the forecasts. In 2024, some boxes explored the dynamics of goods and services inflation, developments in food inflation and the impact of the *Stabbilta'* scheme, the performance of goods exports as well as developments in private consumption. Other boxes focused on the composition of social benefits and capital expenditure as well as the implications of the Budget 2025. As in previous years, meetings were held with officials from the European Commission, the IMF and major credit rating agencies to discuss the local economic situation and outlook.

The results of the Bank's regular dialogue with business firms' representatives and public sector institutions continued to be published in the Business Dialogue as well as in a [dedicated dashboard](#) accessible from the Bank's website. Staff published the results of an ad-hoc survey on the impact of climate change on Maltese firms. In addition, these were discussed in a conference co-hosted with the European Investment Bank (EIB), entitled *EIB Investment towards the green, digital and energy transition in small states*.

The Bank continued to analyse domestic and foreign, economic and financial developments in its Quarterly Review and Annual Report. Moreover, the publication of the monthly Economic Update was maintained. These publications include commentaries on several internally developed indicators including the Bank's estimate of potential output and structural unemployment, the BCI, the FCI and cyclically adjusted fiscal and current account balances. The Economic Update began to include a short commentary on services production. The merchandise trade deficit analysis in the Economic Update was refined to better reflect the impact of fuel, sea vessels and aircraft.

The Bank 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. Following the publication of the fourth wave of the Household Finance and Consumption Survey (HFCS) in 2023, staff embarked on two research projects. The first one focused on the relevance of inheritances for home ownership in Malta. The second one involved a collaboration with the Gozo Regional Development Authority on a regional analysis of HFCS data. Both strands of work had reached an advanced stage by the end of the year. The Bank continued to collaborate with the ECB on an experimental set of distributional wealth statistics, which link distributional information collected from the HFCS at three-year intervals with quarterly financial accounts data. A brief description of these data and selected results for Malta featured in the Quarterly Review. The Bank also continued to collaborate with the NSO in fulfilment of Malta's obligations under the IMF's Special Data Dissemination Standard (SDDS) Plus as regards fiscal data, including the provision of additional details about government debt.

Bank staff undertook specialised economic research which resulted in four working papers, five policy notes, 28 boxes and three articles that featured in the Bank's regular publications. The first working paper estimated systematic patterns in the revisions of Maltese real GDP data which could be used to project future revisions and in turn, be useful for real time economic assessments. The second one documented an energy extension to the Bank's DSGE model, expanding the model's capabilities to answer questions related to the green transition and energy-related shocks. The third working paper dealt

with the computation of a new EPU index, while the fourth evaluated the impact of two pension-related policies introduced in Malta in 2017 and 2022.

The policy notes dealt with the impact of the surge in inflation since mid-2021 on Maltese households, the impact of climate change mitigation on Maltese firms, the transmission of monetary policy to local retail interest rates, changes in inflation persistence over time and the distributional impact of the minimum wage increases in Malta. The articles focused on the access to finance according to the Survey on Access to Finance of Enterprises, the arts, entertainment and recreation sector and the wealth distribution among Maltese households according to the Distributional Wealth Accounts.

Staff participating in the Rental Observatory, set up by the Housing Authority, concluded the research project initiated a year earlier. This project aimed at analysing the demographic and socio-economic characteristics of tenants and landlords in Malta and gauging their experience, satisfaction and awareness levels, following the introduction of the Residential and Leases Act in January 2020. A short box with the main project findings, which was prepared in collaboration with the Department of Economics at the University of Malta and the Housing Authority, featured in the third edition of the Quarterly Review.

In 2024, the Bank organised three external conferences, namely the Annual EIB conference, the 13th Annual CompNet Conference and the Working Group on Economic Modelling out-of-Frankfurt meeting. In 2024, the Bank also organised its [seventh Annual Research Workshop](#). During the workshop, the Bank launched the seventh edition of the Research Bulletin. The Bulletin articles dealt with the estimation of the macroeconomic and sectoral impacts of the extension of the EU Emissions Trading System, the perceived impact of climate change in Maltese firms, the economic effects of the fixed-energy price policy in Malta and the re-estimation of STREAM, the macroeconomic model of the Bank. Apart from presentations discussing the above topics, the workshop also included a keynote speech by Carlo Altavilla, the Head of the Economic Analysis Division of the ECB, who underscored the critical role of non-conventional monetary policy in linking central bank actions to the provision of credit in the economy. This was followed by two presentations from the Bank's economists which examined the transmission of monetary policy to mortgage rates in the euro area and Malta during the recent tightening cycle, as well as the role of intergenerational transfers in supporting homeownership in Malta.



Compnet Conference



Research Workshop



EIB Conference

The Bank continued working on the upkeep of its existing models as well as the development of new modelling tools to be used in future policy and research work. During this year, the Bank's staff started to extend STREAM, the Bank's macroeconometric model, with a more developed supply-side block. The Bank will continue to develop its semi-structural models with more theory consistent features, ensuring that the model's supply side is more responsive to current economic developments.

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. The Bank also remained active in domestic fora, such as the National Productivity Board and the National Coordinating Committee on Combating Money Laundering and Funding of Terrorism.

Research plans for 2025 relate to a continuation of studies on long-term structural trends in the Maltese economy, focusing primarily on the physical and transitional impacts of climate change. Studies focusing on the distributional effects of monetary and fiscal policies as well as of inflationary pressures are also expected to feature in future work, together with a deeper analysis of sectoral linkages, labour skills shortages and other issues affecting the labour market. Efforts to augment the research capacity of the Bank's econometric and structural models will also be pursued.

4. STATISTICS

The Bank, through its statistics function, is primarily responsible for the processing of a wide range of granular data collected from the credit and financial institutions licensed in Malta. Such collected data are transformed into aggregated statistics and indicators in the areas of monetary, banking, financial, payments, securities, financial accounts and financial markets. These statistics are shared with other national and international authorities, market participants and the public. The Bank also collects various other statistics, which are mainly used for internal policymaking and analysis purposes, such as prudential supervisory and macroeconomic statistics. The Bank also contributes to the compilation of Malta's BOP/international investment position (IIP) statistics, which is compiled by the NSO. Moreover, the Bank fulfils various international statistical reporting obligations, mainly to the ECB, ESRB and IMF.



During this year, in cooperation with the NSO, the Bank improved its adherence to the IMF's SDDS Plus by implementing the requirements as per the *Tenth Review* of the framework, which is the highest tier of the Fund's Data Standards Initiatives.

Participation in Eurosystem-related work continued. In conjunction with the ESCB, work proceeded on the update of the ECB's Regulation and Guideline concerning statistics on the assets and liabilities of investment funds, which are targeted to come in force in late 2025. A consultation with the funds industry on this revised reporting framework took place in the early months of the year.

Bank staff participated in an ECB expert group and in local fora on climate change statistical indicators. 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 enhanced the quality of the Maltese securities data held within the ECB's Centralised Securities Database while collecting a range of securities holding statistics by institutional sector.

The participation of the Bank in the ESCB's Integrated Reporting Framework programme was maintained. The programme, complemented by the Common Data Management solution, aims at the integration of various ECB statistical regulations addressed to credit institutions into one common reporting framework in the medium-term. The latter project would increase the efficiency of reporting and robustness of euro area while at the same time, it would reduce credit institutions' reporting burden. Meanwhile, the ECB's Register of Institutions and Affiliates Database continued to be populated with reference data of all newly licenced institutions and is considered as the primary reference database for various statistical and supervisory processes.

During the year, the Bank strengthened its efforts to ensure the robustness of the reported real estate exposures data in line with the ESRB's *Recommendation on closing real estate data gaps*. The data being collected also enables the Bank to monitor developments as per Directive No. 16 entitled *Regulation on the borrower-based measures* and fulfils the Bank's requirements on the hedonic property price index and lending standards.

The Bank pursued its collaboration with the NSO to enhance the quality of the BOP, IIP and other external statistics. The Bank also followed up on the recommendations of the ECB and Eurostat on the BOP/IIP dataset within the framework of the Macroeconomic Imbalances Procedure. Bank officials contributed within their areas of competence to the NSO's benchmark revisions in Malta's BOP/IIP statistics. Concurrently, the Bank provided its statistical platform to the NSO for the processing of the BOP/IIP statistics. In the area of financial accounts statistics, work progressed well and met in full the amended ECB statistics. During the year, the Bank released information on the revisions to Malta's BOP statistics by the NSO which affect the Bank's compilation of the Gross/Net External Debt and Financial Accounts statistics.

Staff also contributed to the work done by the ECB on the published new set of experimental data on households' distributional wealth accounts. The Bank and the NSO continued to adhere to the agreed memorandum of understanding in the area of data and statistics, which was extended for another year.

The collection of statistics from various other financial institutions was stepped-up. This initiative also fulfils the commitment to enhance its releases on its website and is consistent with the requirements of the IMF's *SDDS Plus* requirements. Dialogue with the associations of the financial institutions continued. Concurrently, a consultation was carried out with the payments and e-money institutions with the aim of collecting additional payments data split by gender and residency. The Bank also shared 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](#) – expanded to new joint initiatives. Moreover, the Bank continued to improve its data sharing capabilities with the MFSA. In its efforts to continuously improve data and statistical robustness, vetting of data was augmented while stepping up considerably its use of business intelligence and machine learning capabilities. While staff training was stepped-up, research on the use of advanced statistical production techniques was pursued.

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. The searches on prospective and existing customers by credit institutions continued to increase, from 53,216 in 2023 to 54,107 in 2024, while the searches by the Bank on behalf of customers that avail themselves of the right to request an extract from the Bank continued to increase, from 906 in 2023 to 1,145 in 2024. The Bank endeavoured to enhance the CCR solution and to possibly extend its access to other eligible institutions.

The Bank, as the supervisory authority on [credit reference agencies](#) (CRAs) in Malta, maintained an open dialogue with the two licenced agencies. The main business of a CRA, also often termed as a credit bureau, is to prepare, assemble and evaluate credit information and related credit and risk management information on legal and natural persons for the purpose of issuing credit scores. The Bank publishes a register of the CRAs licenced in Malta on its website.

Cooperation with the MFSA at the technical level evolved through the *Joint Data Coordination Group* which aims to recommend policy actions on common data management. 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, promoted dialogue on financial data, metadata, data formats and statistics among stakeholders. Concurrently, Bank officials participated in the Statistics Committee in both ESCB and in SSM composition and in its various sub-structures. This year's participation was also extended to an expert group on insurance companies' statistics and in the data management & data governance network of experts. The Bank's internal Statistics Committee convened four times during the year to establish and execute the Bank's policy on statistical information.

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. The Bank also issues euro 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

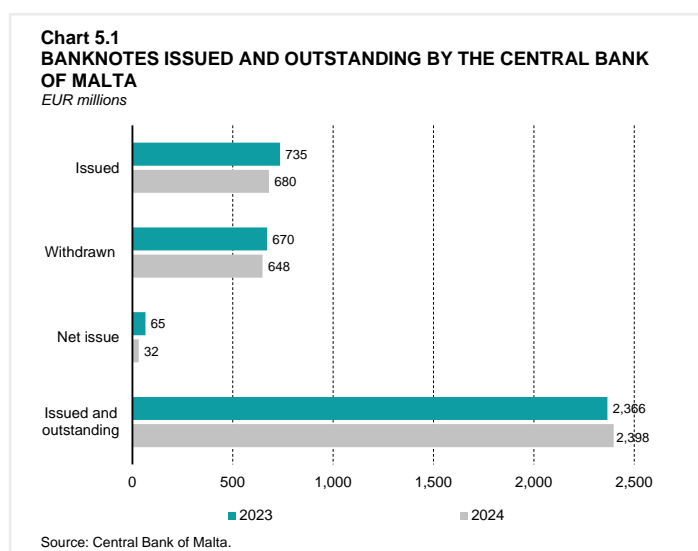
The Central Bank of Malta maintains an adequate supply of euro banknotes and coins to meet the demand of the banking system. The Bank ensures the high quality and authenticity of the currency in circulation. All currency returned to the Bank is processed by ECB/EC accredited machines. Counterfeit banknotes 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 a monthly basis. In terms of the obligations laid down under Central Bank of Malta Directive No. 10, the Bank monitors currency 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

In 2024, the Bank inspected 28.3 million banknotes, compared to 29.6 million in 2023. The inspected banknotes had a total value of €640.6 million, which was €40.6 million lower than the previous year. This represents a 4.14% decrease in the volume of banknotes inspected, attributed to increased commercial banks' re-circulation activities during 2024. 23.1 million banknotes, with a total value of €502.8 million, were deemed fit for re-issue, while 5.4 million banknotes, with a value of €125.5 million, were destroyed. The volume and value of destroyed banknotes dropped by 27.9% and 48.1%, respectively.

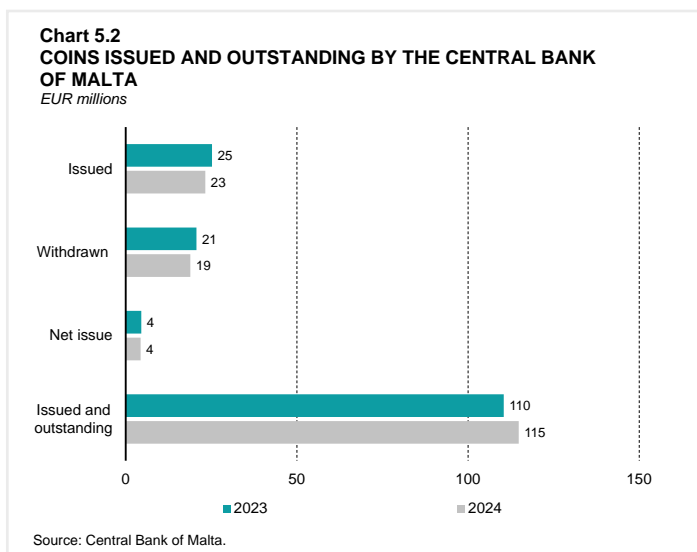
In 2024, the value of euro banknotes in circulation increased by 1.3%, reaching a total of €2,397.8 million by year-end (see Chart 5.1). No new series of banknotes were issued during 2024. However, the ECB continued the process of eventually issuing a third series of the euro banknotes.

In 2024, the outstanding volume of euro coins rose by 4.0%. By the end of the year, there were €114.8 million coins issued and outstanding in terms of value (see Chart 5.2).



During 2024, the Bank processed 35.1 million coins, equivalent to €19.2 million. Between 2023 and 2024, the number of coins examined increased from 34.1 million to 35.1 million, an increase of 2.9%. No coins were demonetised or ceased to be exchangeable during 2024.

The Bank implemented an upgrade of the Cash Single Shared Platform system for stock management of banknotes and coins. During 2024, there were no developments regarding Bank Directives relating to cash management.



During 2024, the Bank continued to certify professional cash handlers via its dedicated online platform. By the end of 2024, there were 1,770 certified professional cash handlers enrolled.

The Bank intensified its educational campaign to increase public awareness on the authenticity of banknotes both through social media and physical presence. Educational presentations were held across all spheres of society and physical presentations were given to school students, retailers, active ageing, hoteliers and others. The total number of educational sessions during 2024 amounted to 167 sessions.

Anti-counterfeit measures

During 2024, the Central Bank of Malta continued to monitor credit institutions and other professional cash handlers, ensuring that all cash handlers were appropriately certified and trained. In addition, Bank staff performed monitoring tests on all types of banknote handling and coin processing machines. A total of 65 unannounced inspections at credit institution branches, six inspections at cash-in-transit companies and 16 monitoring tests on banknote handling machines were undertaken to ensure compliance with the Bank's Directive No. 10 on the Authentication, Fitness Checking and Recirculation of Euro Banknotes and Coins. The Bank collected, analysed and subsequently sent to the ECB data on recirculation.

Quarterly meetings on currency matters and counterfeit developments were held with credit institutions. During 2024, the Bank also started holding quarterly meetings with cash-in-transit companies.

In 2024, the Bank examined 2,052 suspect banknotes and 1,115 suspect coins. The identified counterfeits reported on the ECB's Counterfeit Monitoring System amounted to 1,565 banknotes and 950 coins. Compared to the previous year, the number of detected counterfeits rose by 57.1%. The quality of the counterfeits remained of a poor standard, making them easy to identify using the feel-look-tilt test.

Throughout 2024, the Bank's counterfeit expert personnel were called upon four times to provide expert evidence in court cases.

BOX 4: NUMISMATIC RELEASES 2024

In 2024, the Central Bank of Malta's numismatic coin programme consisted of two silver and gold coins issues, one silver coin issue and two commemorative €2 coin issues.

Malta on the United Nations Security Council

An issue of gold and silver coins marked Malta's two-year term as a member of the United Nations Security Council. The silver coins, which have a face value of €10, were limited to 600 pieces, while the gold coins, which have a face value of €50, were limited to 400 pieces. The coins were designed by Antonella Napolione and were minted at the Royal Dutch Mint.



Marco Polo – 700th anniversary of his death

A silver coin was issued to commemorate Marco Polo, a 13th century Venetian merchant, best known for his trips in the East. His travel book was the first account written by a European of a visit along the Silk Route to China. It provided information on the geographical vastness of the Asian continent, its diversity, peoples, customs and wonders. The coins, which have a face value of €10, were limited to 600 pieces. The coin was designed by Daniela Fusco and was minted at the Royal Dutch Mint.



50th anniversary of the Republic of Malta

The Bank marked the 50th anniversary since Malta became a republic with a silver and gold coin issue. Malta attained independence from Britain in 1964. In 1974, the House of Representatives voted in favour of constitutional amendments to make Malta a republic. This was brought into effect on 13 December 1974, when Malta was proclaimed a republic with Sir Anthony Mamo as the first President. The silver coins have a face value of €10 and are limited to 1,000 pieces, while the gold coins have a face value of €100 and are limited to 65 pieces. The coins were designed by Noel Galea Bason and minted at the Royal Dutch Mint.



The Maltese honeybee

In 2024, the Bank also issued two commemorative €2 coins. One of the coins depicts the Maltese honeybee. A total of 85,000 coins were minted. The coin was designed by Maria Anna Frisone and minted by the Royal Dutch Mint.



Maltese walled cities – Ċittadella Gozo

The second commemorative €2 coin depicts Ċittadella of Gozo. It is the first of a series dedicated to Maltese walled cities. The coins, of which 95,000 were minted (10,000 were included in 2024-year sets), were designed by Noel Galea Bason and minted by 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 2024, the NHPAB was chaired by the Acting 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.

Fourth annual review and evaluation on Malta Stock Exchange's open findings

During 2024, the Central Bank of Malta conducted the fourth annual review and evaluation process of the MSE with regards to compliance with the Central Securities Depository Regulation. The Bank assessed several aspects such as risk, operational performance, main changes and testing activities.

Classification exercise on Payment Systems

An annual classification exercise of payment systems was conducted by the Central Bank of Malta on MTEUROPAY and Malta Clearing House (MCH). Following an analysis on the provided data by both payment system operators, MTEUROPAY and MCH were classified as Other Retail Payment Systems owing to the low transactions' volume and value processed when compared to other European payment operators.

Annex 3 of Central Bank of Malta Directive No. 1

The Central Bank of Malta Directive No. 1 requires that credit and financial institutions submit an annual report on the information and communications technology, and security risk management of their operations. Several pending issues were addressed. However, some recommendations were also put forward by the Bank to various institutions with an expectation to be implemented over the course of 2025.

Analysis on the Payment Statistics

The Bank conducts statistical analysis on the transactions effected through different payment instruments. Reports, such as Point of Sales report, were prepared with the main conclusions published in the Bank's Quarterly Review.

Monthly merchants' data to National Statistics Office

As agreed with the NSO, the Central Bank of Malta collects monthly card payment data per merchant. The collected data is subsequently submitted to the NSO.

Review of Central Bank of Malta Directive No. 19

Following a consultation process with the Malta Bankers' Association on the review of the Central Bank of Malta Directive No. 19, the Bank took into consideration several suggestions made and consequently, the legal text and relevant guidance notes were reviewed and amended accordingly.

Interchange Fee Regulation

Moreover, in the fourth quarter of 2024, the Bank initiated a study to evaluate the fees charged by international card schemes as well as any remuneration provided by such card schemes to local acquirers. This study is being carried out to monitor adherence with Article 5 of the Interchange Fee Regulation on prohibition of circumvention.

Payment Habits Survey

In 2024, the Bank carried out a survey on the payment habits of the Maltese population in collaboration with the NSO. A report is currently being drafted with an intention to be published by the end of the first quarter of 2025.

Payment Services Directive No. 3 and Payment Service Regulation

On 28 June 2023, the European Commission launched a proposal to amend and modernise the revised Payment Service Directive No. 2, which will be split between a Directive and a Regulation. The Bank contributed to multiple consultations regarding the proposed text.

Instant Payments Regulation

In 2024, the European Commission published Regulation (EU) 2024/886 on instant credit transfers applicable from 8 April 2024. A Joint Working Group on the Instant Payments Regulation was set up and meetings with credit institutions were held.

Malta Clearing House

Members of the 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 2024, the MCH comprised 11 members including the Central Bank of Malta. The number of cheques issued during 2024 continued to decrease when compared to 2023 (see Table 5.1).

Table 5.1
NUMBER AND VALUE OF CHEQUES PROCESSED BY THE MCH, 2023 AND 2024

| | Number of cheques | Value (EUR millions) |
|-------------------|-------------------|----------------------|
| 2023 | 2,233,245 | 7,807.0 |
| 2024 | 1,986,359 | 7,749.4 |
| Change | -246,886 | -57.6 |
| Percentage change | -11.1% | -0.7% |

Source: Central Bank of Malta.

During 2024, the MCH processed 1,986,359 cheques with a value of €7,749.4 million. Compared to 2023, the number and value of cheques processed dropped by 11.1% and 0.7%, respectively.

TARGET2-Malta

The Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET2)-Malta payments traffic in 2024 registered a 4.3% decrease in terms of volume and an increase of 5.5% in terms of value when compared to 2023. The volume of customer payments was 179,125 for a total value of €26.4 billion, leading to a decrease in volume of 1.1% and an increase in value of 3.1% when compared to 2023. During 2024, the number of direct participants on a local level decreased to 12, as one of the participants voluntarily surrendered its licence as a credit institution. The total volume of payments processed during 2024 was 226,318 for a total value of €300 billion.

The volume of inter-bank payments was 47,193 for a total value of €273.6 billion, indicating a decrease of 11.5% in terms of volume and an increase of 5.8% in terms of value (see Table 5.2).

Table 5.2
TARGET2 PAYMENTS

| | Total volume of payments | Total value of payments (EUR billions) | Total volume of customer payments | Total value of customer payments (EUR billions) | Total volume of inter-bank payments | Total value of inter-bank payments (EUR billions) |
|-------------------|--------------------------|--|-----------------------------------|---|-------------------------------------|---|
| 2023 | 236,455 | 284.3 | 183,131 | 25.6 | 53,324 | 258.7 |
| 2024 | 226,318 | 300.0 | 179,125 | 26.4 | 47,193 | 273.6 |
| Change | -10,137 | 15.7 | -2,006 | 0.8 | -6,131 | -14.9 |
| Percentage change | -4.3% | 5.5% | -2.2% | 3.1% | -11.5% | 5.8% |

Source: Central Bank of Malta.

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 TARGET2, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Single Euro Payments Area (SEPA) credit transfers and direct debits.

The number of cheques drawn on the Bank increased marginally during 2024 when compared to 2023 (see Table 5.3). This is mainly due to Government tax refunds and the issue of cheques by the Ministry for Home Affairs, Security and Employment to pay atypical workers.

Table 5.3
NUMBER AND VALUE OF CHEQUES DRAWN ON THE CENTRAL BANK OF MALTA BY THE GOVERNMENT

| | Number of cheques | Value (EUR millions) |
|-------------------|-------------------|----------------------|
| 2023 | 372,942 | 152.5 |
| 2024 | 374,728 | 135.5 |
| Change | 1,786 | -17.0 |
| Percentage change | 0.5% | -11.1% |

Source: Central Bank of Malta.

During 2024, the Bank continued servicing the Government's external debt through periodic payments. In 2023, €127,953.00 worth of capital repayments were settled as compared to €120,389.50 of settlements in 2024. The associated interest paid in 2024 was €1,929,669.00. The Bank also paid €891,000.00 of interest during 2024 on loans. In 2024, the Bank processed 3.5 million SEPA credit transfers for a total value of €9.6 billion on behalf of its customers. When compared to the previous year, there was an increase of 9.2% in the volume whilst registering an increase of 26.3% 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. The Bank also hold accounts pledged in favour of the Investors Compensation Scheme and Depositors Compensation Scheme.

The Bank operates a retail payments system, MTEUROPAY, through which it provides technical access for payment service providers licensed in Malta, enabling them to send and receive SEPA credit transfers and SEPA direct debits. During 2024, there were 12 institutions participating in the system, with two institutions beginning their participation in 2024. As at end of 2024 there were another three applications awaiting to be vetted.

The total volume and values of transactions processed through MTEUROPAY during 2024 are shown in Table 5.4.

Table 5.4
MT EUROPAY

| Payment instrument | Volume | Value (EUR millions) |
|----------------------------------|---------|-------------------------|
| SEPA credit transfers – incoming | 303,539 | 12,699.0 |
| SEPA credit transfers – outgoing | 490,385 | 6,666.2 |
| SEPA direct debits – incoming | 33,327 | 4.4 |
| SEPA direct debits – outgoing | 99,214 | 63.0 |

Source: Central Bank of Malta.

Other financial services

During 2024, in line with the Instant Payments Regulation (Regulation (EU) 2024/886), work was conducted within the instant payments sphere. The Bank engaged with external suppliers to implement the required infrastructure to provide instant payments services to its main client i.e. the Government. The Bank successfully managed a soft launch during December 2024 and is able to accept its first incoming instant payment as from 9 January 2025.

Digital euro

In 2024, the Bank actively participated in work related to the preparation of a Central Bank Digital Currency, namely a Digital Euro. During the year, work was performed on discussions related to the legislative proposal of the European Commission in this regard. The Bank contributed to the development of the project, the product and the design of clear guidelines on the way the Digital Euro will operate in the form of a Rule-book. Work on the project will continue through 2025.

6. CORPORATE GOVERNANCE

Governance

Board of Directors

The Board of Directors 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).

In 2024, the Central Bank of Malta 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 Professor Lauren Ellul as non-executive Directors. The term of office of Mr Demarco as a Deputy Governor for Monetary Policy had come to an end on 31 December 2023. The President of Malta, acting on the advice of the Cabinet of Ministers, in accordance with the provisions of the Central Bank of Malta Act (Cap. 204), had reappointed Mr Demarco as Deputy Governor of the Central Bank of Malta for a further period of five years with effect from 1 January 2024. All members of the Board are appointed for a statutory term of five years and are eligible for reappointment. In terms of the Central Bank of Malta Act (Cap. 204) the Governor and the Deputy Governors are appointed by the President of Malta acting on the advice of the Cabinet of Ministers while the other non-executive Directors of the Board are appointed by the Prime Minister acting on the advice of the Cabinet of Ministers. As from 1 August, Professor Scicluna stepped aside from his duties of Governor and in terms of the provisions of article 8 of the Central Bank of Malta Act, he designated Mr Demarco to assume the role of Acting Governor as of that date. Mr Francis Bugeja continued to act as Secretary to the Board. The Board met 15 times in 2024.

Management and internal organisation

During 2024, the Board approved changes to the structure and composition of the Governor's Office, namely the setting up of a Communications & International Relations Department in addition to the Monetary Policy & Eurosystem Department. The Board also endorsed several organisational changes in the Operations Division, renaming it to Operations, Technology & Strategy Division. The Board also sanctioned organisational changes to the Property and Procurement Department.

In February 2024, a new agreement with Caritas to cover an Employee Assistance Programme, based on previous agreements, was approved. In April 2024, the Board of Directors confirmed the replacement of the IBGL Steering Committee with the Project Review Board and with the refocusing of the Change Advisory Board. Accordingly, it approved the amended Terms of Reference of the respective two fora.

In June 2024, the Board formally approved the Terms of Reference of the Payments System Participation Review Board. In July 2024, the Central Bank of Malta Board of Directors approved amendments to the Terms of Reference of the Payment Systems Committee. In addition, the Board approved a new version of the Internal Audit Charter.

In October 2024, the Board approved revisions to the Prevention of Money Laundering and Funding of Terrorism Internal Handbook. The Financial Crime Compliance Department was reorganised with the setting up of a new Department called Anti-Financial Crime and Payments Policy & Compliance Department. Moreover, the Board sanctioned several changes to the structure and composition of Core Applications Office.

Anti-Financial Crime activities

The Bank carries out due diligence in respect of applications for the opening of new accounts and existing accounts of credit and financial institutions, changes to government accounts signatories, correspondent and counterparty banks, Bank Fund applications, and shortlisted candidates and new employees.

In line with the new Instant Payments Regulation (EU) 2024/886, the Bank continues to regularly perform customer name sanctions screening to remain compliant with sanctions imposed by the United Nations Security Council, the Council of the European Union and any sanctions imposed by the local competent authority i.e. the Sanctions Monitoring Board. A total of 654 ongoing alerts were analysed, the large majority of which turning out to be false positives.

Monitoring of transactions processed on behalf of MTEUROPAY indirect participants was implemented as at the end of 2023. During 2024, a total number of 5,668 transactions were monitored, of which 591 were sent to the respective credit or financial institutions for further information and documentation. All monitoring alerts were closed for 2024.

In line with Subsidiary Legislation 373.03 – Centralised Bank Account Register Regulations, the Bank completed a total of 56 submissions, including two extra submissions wherein testing was being performed on the new Financial Intelligence Analysis Unit – Centralised Bank Account Register Schema 4.

A total of 68 Requests for information were received pertaining to Court Investigation Orders, Attachment Orders and Asset Recovery Bureau freezing orders. During 2024, a number of suspicious activity transaction reports were submitted by the Money Laundering Reporting Officer to the Financial Intelligence Analysis Unit.

The Bank prepared an internal *Anti-Money Laundering/Counter Financing of Terrorism* online training, launched in the first quarter of 2024. In 2024, tailored training for Bank staff was also organised.

Audit Committee

The Bank's Audit Committee, chaired by Professor Peter J. Baldacchino and including Professor Frank Bezzina, Professor 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. By the end of 2024, the Bank completed the Annual Audit Plan.

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 the full attainment of its strategic goals.

The Audit Committee was also briefed on operational risk 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 2024, 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 2024 Annual Audit Plan. The Department completed 23 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, and developed further since, for each of these audits, the Department provided an opinion on the level of efficiency demonstrated in the use and deployment of resources. The internal auditors 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 Auditors provided the necessary assurances to the ESCB decision-making bodies through the conduct of IAC audits and on-going participation in IAC meetings. Through its membership the Department also actively engaged in three IAC Audit substructures, namely those on:

- Monetary Policy, Financial Stability and Market Operations;
- Statistics;
- Quality Management.

Between April and September, the Internal Audit function hosted an ECB trainee graduate as part of the IAC on-going trainee programme.

In 2024, the internal audit function continued to review several of the Bank's Policies and Procedures and to participate in the Compliance Committee, mostly in the capacity of observers, to preserve its independence and objectivity.

Risk Management

The Risk Committee convened eight times in 2024, focusing on risks associated with the Bank's operations and financial assets on its balance sheet. Committee members reviewed these risks, addressed incidents arising, and agreed on suitable mitigation measures. Additionally, the Committee also monitored the implementation of newly introduced controls and measures.

The operational risk status of the various business areas was consistently reported on a regular basis to the Risk Committee. The Bank successfully completed the sixth cycle of the Operational Risk Management process with the findings presented to the Risk Committee. A report will also be shared with the Audit Committee and the Board of Directors in early 2025.

Throughout 2024, business areas updated their Business Impact Analysis and created new ones where necessary. Critical operations underwent a thorough review of their business continuity plans, complemented by regular resilience testing. The results from the fifth cycle of the Business Continuity Management program were presented to the Risk Committee, with a formal report scheduled for submission to the Audit Committee and the Board of Directors in the first quarter of 2025.

As part of its information security mandate, the Bank's Information Security Function conducted multiple risk assessments on various initiatives undertaken by the business areas. A new information security policy and an updated set of related standards were drafted, to be presented to the Board of Directors in the first quarter of 2025. Additionally, the Bank upgraded its risk management platform during the year.

Bank staff actively participated in all monthly IPC meetings, providing insights on topics such as the performance of assets under management relative to the tactical and strategic benchmarks. The performance of investments managed by the Bank's external asset managers was also closely monitored. In addition, staff contributed to finalising the Strategic Asset Allocation framework for 2025-2027.

In June 2024, the Bank published its annual climate-related disclosures for its euro denominated NMPPs, covering governance, strategy and risk management aspects as well as key metrics and targets. Staff calculated climate-related metrics for individual holdings, including weighted average carbon intensity, total carbon emissions and carbon footprint, among others.

Legal issues

In 2024, the Bank was involved in issuing and amending the following Central Bank of Malta Directives:

1. Directive No. 1 on the Provision and Use of Payment Services was amended to incorporate the Guidelines on the resubmission of historical data under the EBA reporting framework (EBA/GL/2024/04).

2. Directive No. 6 on New Generation TARGET was amended by means of Guideline ECB/2024/20 amending Guideline (EU) 2022/912 on a new-generation TARGET ECB/2022/8. The amendments consolidated all rules on remuneration on non-monetary policy deposits into one single act, included a reference to the Eurosystem's policy on prefunding by ancillary systems, amended the conditions, calculation methods and procedures under the TARGET Compensation Scheme, included operational day changes and revised the fee policies to reflect adjustment to cost structures.
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. 12 on Administrative Measures and Penalties for Infringements was amended to further align the Bank's powers to impose penalties with the Central Bank of Malta Act (Cap. 204 of the Laws of Malta).
5. Directive No. 14 on the Central Credit Register was amended to empower the Bank to require the Identity Malta Agency – *Identità* – to pass to it personal data pertaining to data subjects, as defined by the EU General Data Protection Regulation, which is necessary for the Bank in the discharge of its duties.
6. Directive No. 19 on the Use of Cheques and Bank Drafts was amended to lay down rules for the safe and effective use of cheques and bank drafts, where the payer, payee and the regulated institutions servicing the paper-based instruments are all located in Malta. The amendments also seek to ensure the safe and effective use of cheques and bank drafts, by reducing the legal and operational risks associated with these payment instruments.

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, in vetting contracts, agreements, terms of business, declarations, memoranda of understanding and other legally binding documentation entered into by the Bank. Legislative developments impacting the Bank were also thoroughly assessed.

The legal team was also involved in drafting Legal Notice 2 of 2025 titled Malta Membership of the International Monetary Fund (Successor Agreement to the 2020 Borrowing Agreement) Order, 2024.¹ This Legal Notice renewed the Bank's existing borrowing agreement with the IMF with a view to lending to the IMF a Special Drawing Rights denominated amount.

The Bank's responsibilities in compliance include the conduct of periodical exercises, such as the annual Bank-wide data protection stocktake exercise and the bi-annual prevention of abuse of insider information compliance exercise.

The legal function maintained its involvement in various internal committees and continued to participate in the ESCB's Legal Committee and its sub-structures.

¹ Published on 10 January 2025.

7. RESOURCES MANAGEMENT

Human Resources

The Bank's staff complement as at the end of 2024 stood at 380, including 11 employees on a part-time basis. The full-time equivalent as at end 2024 numbered 352.51 employees.

During 2024, the Bank recruited 38 employees, among which, one Senior Executive, 14 Assistant Executives, 22 Officers II and one Maintenance Assistant. 31 employees resigned, one employee had his contract terminated and 12 staff members retired during 2024.

At the end of 2024, seven employees were seconded to offices within the public sector.

In October 2024, the Bank signed a new collective agreement with the two unions representing all employees at the Bank, namely the *Union Haddiema Bank Ċentrali* and the Professionals, Finance and Services Section of the General Workers Union. Both agreements cover the period 2024 to 2027.



Acting Governor Alexander Demarco with members from the two unions

Temporary summer work was offered to 12 university students between mid-July and mid-September, while another six university students had their part-time internship contracts extended until the end of June 2025. A further nine university students were offered part-time work placements at the Bank on a nine-month internship programme starting in October 2024. During their internship, university students continue their academic studies at the university and undertake supervised practical work related to their line of study on a flexible work arrangement. The Bank also hosted an official from the Central Bank of Estonia for a four-week attachment with Internal Audit Department as part of the IAC Mobility of Auditors Programme and offered a six-month attachment to a trainee from the ECB under the IAC Traineeship Scheme.

In 2024, the Bank launched a doctoral internship programme for PhD students at an advanced stage of their dissertation, who completed their exams and whose research interests and technical knowledge are in line with projects specified by the Bank. The first internship was offered from October 2024 until April 2025.

During 2024, eight Central Bank of Malta employees celebrated their 25 years of service at the Bank.

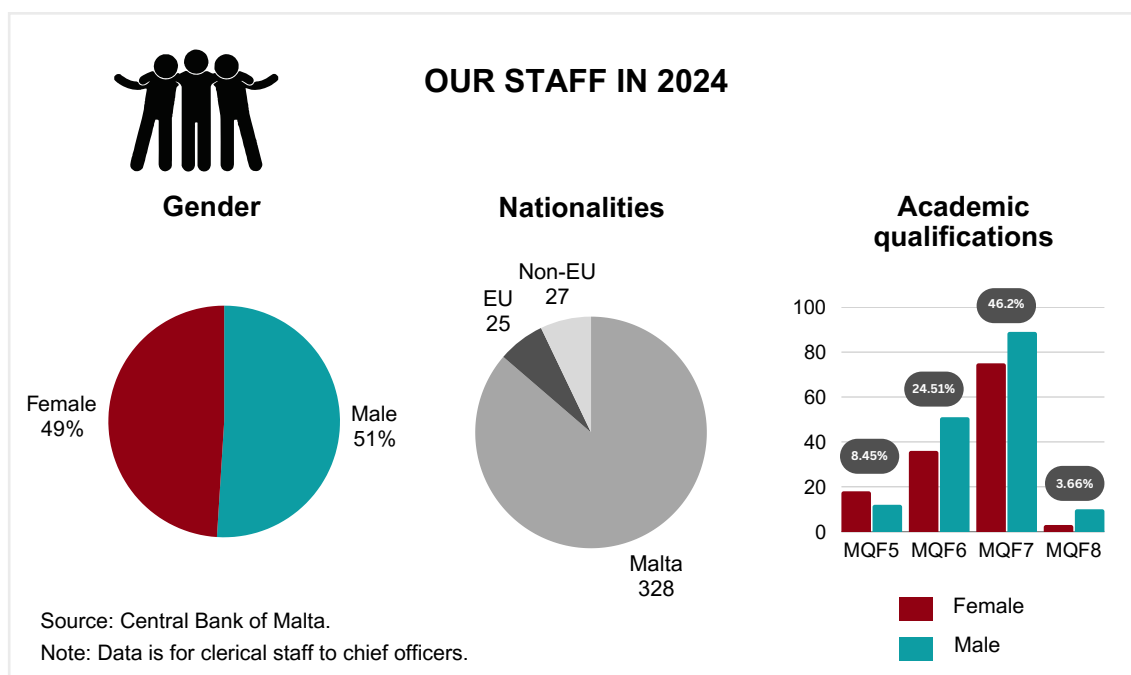
Equality, diversity and inclusion

Early in 2024, the Central Bank of Malta was awarded the Equality Mark by the National Commission for the Promotion of Equality. The award signifies the true commitment by the Bank to implement relevant policies

and practices that foster a healthy work environment free from discrimination as well as tangible proof of the Bank's commitment to its employees. The Bank continues to support gender equality and provides family-friendly measures to ensure that career progression, personal growth and opportunities for development are open to all staff irrespective of their gender or caring responsibilities.

Gender balance

By the end of 2024, 24.6% of the staff in the top three grades at the Bank – comprising Senior Executives, Heads and Chief Officers – were females when compared to 16.2% in 2014. The gender distribution of clerical staff below Senior Executive grade is more balanced, with 50.3% of all staff in these grades being females as at the end of 2024, compared to 47.0% a decade ago.



Nationality Statistics

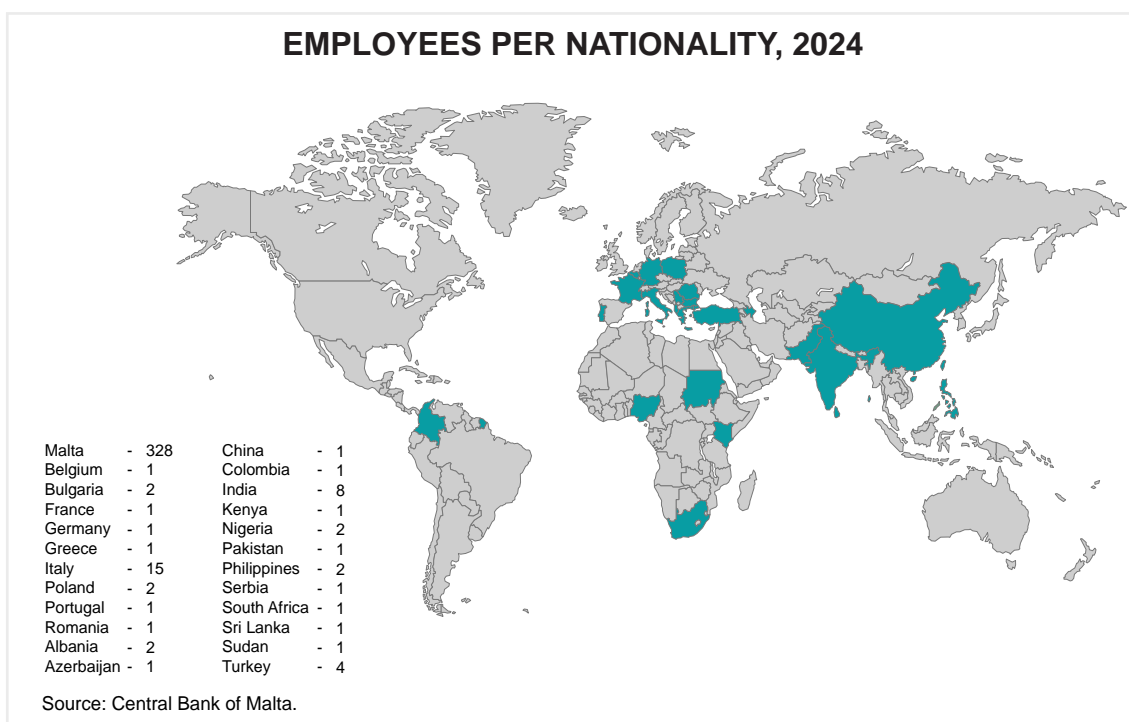
The Central Bank of Malta is an inclusive employer and as such it employs indigenous and non-Maltese staff as indicated in Table 7.1.

Table 7.1
NATIONALITY STATISTICS, 2024 VERSUS 2014

| Nationality | Number of employees | | Per cent of all staff | |
|------------------|---------------------|------|-----------------------|------|
| | 2024 | 2014 | 2024 | 2014 |
| EU countries | 25 | 6 | 6.6 | 1.6 |
| Non-EU countries | 27 | 0 | 7.1 | 0.0 |
| Malta | 328 | 361 | 86.3 | 98.4 |

Source: Central Bank of Malta.

EMPLOYEES PER NATIONALITY, 2024



Training and development

As in previous years, the Bank allocated resources to staff training, within the Bank and through courses organised by local and foreign providers, attended both physically and online.

A total of 2,309 participants attended 42 in-house courses. In 2024, the Bank launched two online training sessions covering the Bank's Policy on Whistleblowing and Financial Crime Compliance. All staff members were invited to access these virtual learning activities.

As shown in Table 7.2, 434 staff members participated in external training programmes in 2024, 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, the European Commission, universities, the BIS and financial institutions. They covered various areas of interest to the Bank.

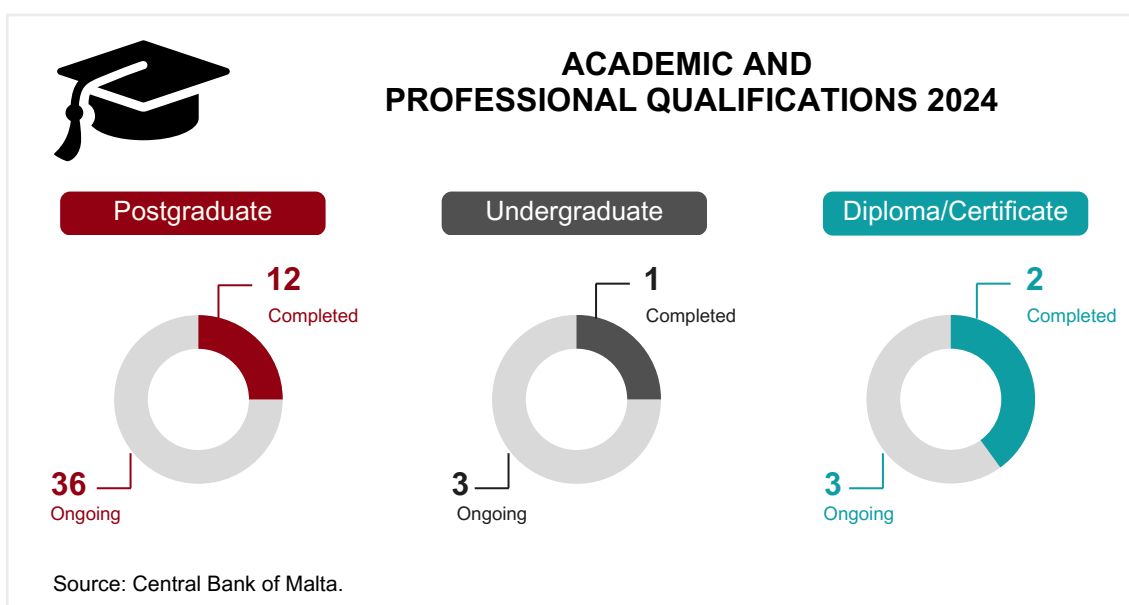
Table 7.2
STAFF TRAINING DURING 2024

| Type of training | Number of courses/seminars | Number of participants |
|-------------------|----------------------------|------------------------|
| Internal | | |
| Internal physical | 26 | 246 |
| Internal online | 16 | 2,063 |
| External | | |
| Local physical | 41 | 87 |
| Local online | 80 | 141 |
| Foreign | | |
| Foreign physical | 40 | 41 |
| Foreign online | 63 | 165 |

Source: Central Bank of Malta.

During 2024, several employees completed or continued their programme of studies. 12 staff members completed their postgraduate education, one of whom was fully supported by the Bank under the Learning, Research and Development Study Programme to read a PhD on a part-time basis in Social Policy offered by the University of Bristol. A total of 36 employees continued their enrolment in postgraduate degree programmes, while three employees were reading qualifications at undergraduate level and another three staff members were following a course at diploma level.

Two staff members embarked on a full-time postgraduate course with Utrecht University under the Learning, Research and Development Study Programme, one specialising in Banking and Finance and the other in sustainable finance and investments.



Another employee was provided with support under the same Programme to read on a part-time basis a PhD in Economics offered by the University of Barcelona. In 2024, an employee embarked on a Central Banking and Banking Supervision Executive Education Programme offered by the European University Institute's Florence School of Banking and Finance.

Several employees attended online training courses offered by the ECB in different areas.

Schuman Programme

The Bank participated in the sixth edition of the Schuman Programme which offers all employees within the ESCB a chance to work on interesting projects in NCAs, NCBs or the ECB for six to nine months on a full-time basis. In 2024, the Bank hosted two participants through this programme, one from the ECB and the other from the National Bank of Slovakia.

Innovation and Technology Services

In 2024, the Bank continued to develop and safeguard its digital assets through comprehensive security assessments, security monitoring, incident response and threat intelligence activities. Several major projects were implemented, including the enhanced Security Orchestration, Automation and Response capabilities. The Bank further developed the partnership with the ECB, by actively contributing to the IT Committee and related working groups, conducting yearly self-assessments, reviewing security policies and guidelines, and developing best practices on various information systems. Efforts were also dedicated to the migration of internal infrastructure to latest technology to align with ESCB technology standards and best industry practices. This milestone enabled the Bank to enhance security, scalability and compatibility with emerging technologies.

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. The Bank's website continued to be the showcase and repository for the Bank's official communications, publications and statistical data.

The Library

The Central Bank of Malta's Library plays a critical role in supporting the Bank's mission by providing access to high-quality, relevant information and resources. As the Bank continues to focus on enhancing its research capabilities, policy-making effectiveness and investment decisions, the Library invested in digital resources to satisfy the information needs of different business areas. In 2024, the Library also disseminated information and promoted the Bank's research work. The Library continued its investment in specialized databases to cater for the specific needs of various business areas, ensuring access to high-quality, targeted information resources.

Publications

The Bank's flagship publications, particularly the *Annual Report*, the *Quarterly Review*, the *FSR* and its *Interim Report*, and the *Climate-related Financial Disclosures of the Central Bank of Malta's Non-monetary Policy Portfolios* continued to be published in line with the established publications calendar. The Bank kept on improving the design of its publications with the introduction of visuals and dashboards increasing the general public's interest in the Bank's publications. The Bank reduced further the number of the printed copies of the two Bank's publications that are still published in hard copy format, migrating them to a digital format as part of an organisational-wide effort to reduce the ecological footprint of the Bank.

Social Media

Over the past three decades, central banks transformed their communications practices. A key element in this transformation has been the growing use of social media platforms to engage with a broader audience. The Bank has established a strong presence across various social media platforms, including Facebook, Instagram, LinkedIn, X and YouTube. These channels serve as direct communication tools to share informative and educational content, such as publications, surveys, reels, videos, job vacancies and events. In 2024, the Bank leveraged these platforms for targeted campaigns, such as the euro banknotes campaign and the ten-year anniversary of the Single Supervisory Mechanism (SSM). A key innovation has been the increased use of interactive content, such as infographics.

Corporate Strategic Planning

During 2024, 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 organised its projects according to a prioritisation framework that takes into consideration several variables, such as costs, revenue generation, risk mitigation, reengineering 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 of Malta 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:

- 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.
- To foster financial stability by strengthening the resilience of the domestic financial sector.
- To ensure a smooth functioning payment system and a secure provision of cash.
- To continue to be a reference for economic and financial analysis, research and statistics in Malta.
- To optimize return on the Bank's financial assets while contributing positively to the environment.
- To enhance risk mitigation and security measures, especially to fully safeguard the systems' integrity.
- To maintain strong internal governance, in full compliance with the law.
- To enhance overall efficiency and effectiveness, while actively promoting environmental awareness, corporate social responsibility (CSR), inclusiveness and diversity.

During 2024, the Bank monitored closely the progress of the objectives and the implementation of its project portfolio. 45 projects were successfully completed. In the 2024 Corporate Strategic Plan, 158 objectives were approved for all the Bank's Divisions, Departments and Offices. The plan remained on track and the Bank successfully achieved its main targets.

Property and procurement

During 2024, the Bank continued maintaining, upgrading, restoring and embellishing its premises. Several areas within the Bank's buildings were restructured to create new workspaces, or were converted to fulfil new functions, such as the new coin processing facilities. Upgrades to the Bank's data centres are underway to cater for current and future exigencies. As regards procurement, the Bank issued twelve calls for quotations and six calls for tenders with respect to purchases of a certain value, apart from over 340 requests for quotations for low value purchases. The tenders were related among others to the leasing of electric vehicles and multifunctional printers, coin processing equipment and structural works. In its procurement practices, the Bank always seeks fair and competitive bidding processes to obtain value for money and remain in line with local and European legislation. 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. During the year, the Bank also signed, or renewed, a significant number of maintenance agreements to ensure that the Bank's premises and equipment are serviced and maintained to the highest standards. In 2024, the Bank also took part in meetings of the ESCB Heads of Administration Conference, where participants from NCBs of the European Union exchanged best practices and experiences on procurement, property management, new working arrangements and energy saving measures. The Bank's Health and Safety Committee held quarterly meetings on various Health and Safety issues.

8. CORPORATE, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Climate change and sustainability

As stewards of national and global economic stability, central banks hold a pivotal role in addressing the challenges posed by climate change and ecological degradation. By embracing sustainability, the Central Bank of Malta, together with the Eurosystem, seek to foster a transition towards greener economies, safeguard its assets against climate-related vulnerabilities and promote broader societal well-being. In doing so, the Central Bank of Malta reinforces its commitment to not only maintain financial stability but also advance the sustainability agenda for future generations. Through careful consideration and action, central banks can lead the way in creating a more resilient and equitable financial system that meets the challenges of the 21st century.

Climate change disclosures in monetary and non-monetary policy portfolios

By supplying climate-related information on central banking own portfolios, the Eurosystem aims to lead by example, improve transparency and support efforts by regulators and other stakeholders to close gaps in climate data.

On 25 June 2024, the ECB published its second set of climate-related financial disclosures, providing information on the carbon footprint of its portfolios and their exposure to climate risks, as well as on climate-related governance, strategy and risk management.

The disclosures show that carbon emissions within the Eurosystem's corporate sector portfolios have continued to decline. Most of the reduction was due to securities issuers becoming more carbon-efficient, with about one fifth of the emission reduction in 2022 and 2023 attributed to the Eurosystem's efforts to tilt reinvestments towards issuers with better climate performance.

In addition, the Governing Council agreed that interim emission reduction targets will be set for the corporate sector portfolios in the APP and PEPP. At this stage, these interim targets will be used internally to monitor the corporate sector portfolios' emission reduction trajectory.

The scope of the assets' disclosures held for monetary policy purposes has been significantly expanded, now covering 99.7% of Eurosystem monetary policy holdings, including public sector assets and covered bonds under the APP and the PEPP, as well as the ECB's foreign reserves, with the only exception being asset-backed securities due to data limitations. The available data for the assets subject to disclosures show that their associated emissions are also gradually declining in line with the decarbonisation efforts by issuers.

The disclosures on the ECB's NMPPs cover staff pension fund investments and its own funds. All corporate sector investments in the ECB staff pension fund now follow EU Paris-aligned Benchmarks, leading to a 50.0% reduction in associated emissions in 2023 compared to the previous year. The ECB aims to further reduce the carbon footprint of these investments by an annual average of at least 7.0% in the future. The share of green bonds in the ECB's own funds increased from 13.0% in 2022 to 20.0% in 2023, with plans to reach 25.0% in 2024.

Going forward, the Eurosystem will continue to improve the quality of their disclosures in line with advancements in climate-related data. Furthermore, the Eurosystem will also keep reducing the carbon footprint of its corporate sector portfolios under the APP and the PEPP on a path that supports the goals of the Paris Agreement.

Climate change and sustainability considerations in the Bank's non-monetary policy portfolios

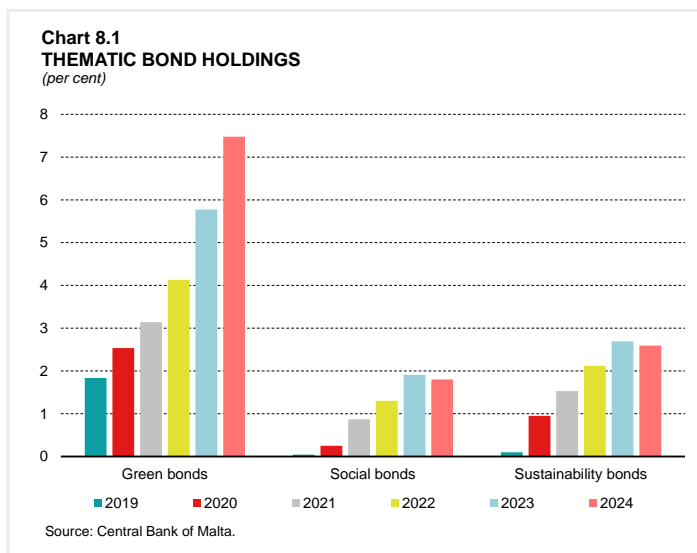
In recent years, the integration of sustainability and climate change considerations into the resilience of central banks' investment portfolios has gained significant prominence. The Central Bank of Malta manages its financial assets in alignment with its core objectives. The Bank's fourth investment pillar is sustainability, complementing capital preservation, liquidity and return. This strategic addition guides the Bank's investment decisions, reflecting a commitment to responsible and forward-thinking financial management.

During 2024, the Bank increased its holdings of Paris-aligned benchmark¹ equity investments and maintained exposures to actively managed equity funds that focus on climate transition. These funds incorporate ESG factors in their investment strategies. Moreover, the Bank increased exposure to several geographically diversified fixed income funds which implement ESG considerations within their strategies. The Central Bank of Malta also concluded the process to implement the EU Paris-aligned benchmark exclusions to its externally managed corporate bond portfolio. The latter also implements norm-based negative screening based on the Norges Bank Investment Management exclusion list. By promoting companies committed to reducing their carbon footprint and engaging in sustainable practices, these funds not only contribute to the fight against climate change but also represent potential economic opportunities.

The Bank continued to increase its International Capital Market Association – aligned thematic holdings, namely green, social and sustainable bonds. By the end of 2024, these holdings amounted to EUR409 million, thus making up close to 12% of the Bank’s assets under management (see Chart 8.1) up from EUR260 million or 10.4% in 2023.

The proportion of assets under management incorporating any form of ESG considerations has decreased from 23.4% in 2023 to 20.7% of the Bank’s assets. This decline is attributed to a significant increase in the Bank’s own funds during 2024, which had primarily been invested in internally managed held-to-maturity fixed income portfolios.

In 2024, the Bank published its second climate-related financial disclosures report² in accordance with the Eurosystem’s jointly agreed reporting framework. The report covers sovereign and sub-sovereign holdings, as well as non-sovereign holdings which include supranational bodies, agencies, corporate and covered bonds. Starting from 2024, the impact of the land use, land use change and forestry sector on greenhouse gas emissions was also reported for sovereign issuers. To improve transparency, the Bank has once again published both historical³ and forward-looking climate data and has initiated the release of a sectoral analysis of its corporate and equity holdings. This analysis indicates that most carbon emissions from non-sovereign holdings arise from just four sectors: utilities, materials, industrials and energy, which comprise a small portion of the Bank’s assets. The Bank has set a target to achieve carbon neutrality for its financial assets by 2050 at the latest. To this end, the Bank is committed to regularly update and monitor metrics and adapt strategies, aimed at reducing climate risks within the NMPPs. Additionally, the Bank seeks to improve the climate metrics of NMPPs over time to progress toward this target while balancing its other investment objectives.



¹ [EU Paris-aligned Benchmark](#).

² [Climate-related Financial Disclosures of the Central Bank of Malta’s Non-monetary Policy Portfolios](#)

³ Updated historical metrics with the latest figures as per market practice to align financial and climate data to the same year to the extent possible, depending on data availability.

Climate change considerations in financial stability

Climate change and biodiversity loss pose serious threats to financial stability, influencing both risk management and strategic investment positions of financial institutions. They face growing financial risks due to climate-related events which can affect the value of their assets and increase the likelihood of loan defaults. Furthermore, the transition to a low-carbon economy means that banks must reassess their lending and investment portfolios, as some sectors may face devaluation and regulatory restrictions.

In response, the Bank carried out a survey with the core domestic banks to gain insights into their approaches to assessing climate-related risks, particularly within their lending and investment portfolios. The goal of this exercise is to improve the understanding of the current green financing landscape while addressing existing data gaps. Initial results indicate that most of these banks are actively working towards a more climate-conscious business model. Beyond setting targets for green debt securities, banks are also increasing lending for sustainable and environmentally-friendly purposes. Notably, in the 12 months to June 2024, loans classified for green purposes doubled, primarily driven by green personal loans, although an increase in green loans for home purchases and sustainable corporate lending were also reported.

Environmental initiatives

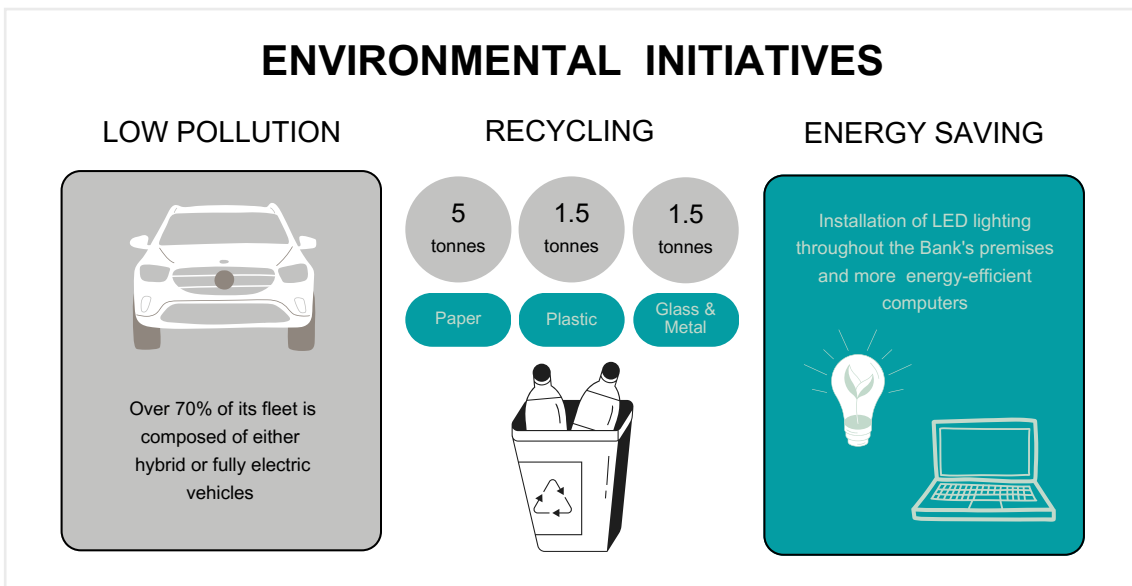
European Central Bank

The ECB implemented the reduction of the environmental footprint of banknotes project to enhance its climate-related endeavours, with a particular emphasis on the implications of the green transition, the tangible impacts of climate change and the economic risks associated with the degradation of natural ecosystems. A central element of the plan is the continued reduction of the environmental footprint of Eurosystem banknotes, alongside the integration of environmental considerations into other payment systems and market infrastructures.

The ECB has progressively shifted towards the utilisation of sustainable cotton in the production of banknotes. By 2023, all banknotes were produced using sustainable cotton, and by 2027, the ECB aims to exclusively use organic cotton, further minimising their environmental impact. Moreover, the recycling of euro banknotes at the end of their lifecycle into fuel, insulation materials or raw inputs for other products, supports a circular economy model.

Central Bank of Malta

The Bank made further advances in reducing its ecological footprint. Following the introduction of mandatory waste separation in all its offices, the Bank was able to step up its recycling efforts. During the year, the



Bank sent for recycling five metric tonnes of paper, which was around 40% less than in 2023, partly reflecting a reduction in the consumption of paper (also about 40% lower from the previous year) and a shredding exercise performed in 2023 that was not repeated in 2024. The Bank also recycled over 1.5 tonnes of plastic, together with 1.5 tonnes of glass and metal. The Bank also continued to streamline several processes with the aim of achieving further efficiencies, particularly in reducing the consumption of paper through the increased use of digital means. The Bank will attempt to convert its fleet of leased vehicles to either hybrid or fully electric models by 2025. Currently, over 70 per cent of the Bank's automobiles are hybrid or fully electric. More energy efficient LED lighting was installed while various items of equipment, including servers and computers, were replaced with more energy efficient models.

Eurosystem Climate Change Forum

During 2024, the Bank continued to participate actively in the discussions of the Eurosystem Climate Change Forum, with the aim of improving cooperation and fostering knowledge-sharing. Two senior officials represent the Central Bank of Malta on this Forum.

Network of Central Banks and Supervisors for Greening the Financial System

The Bank continued 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.

Corporate Social Responsibility

The Central Bank of Malta has embedded a CSR aspect in all its central banking tasks which concern 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.

Philanthropy and outreach

The Staff Social Club organised several campaigns throughout the year where staff made donations to entities including the Hospice Malta through the Pink October and the Movember Campaigns. In 2024, Jacob's Pay It Forward Coffee Van prepared coffee for staff with profits used to fund Jacob's Coffee Run initiative. The Committee also organised dress down days to collect funds for the Malta Community Chest Fund Foundation and *Dar tal-Providenza*. The Social Club Committee coordinated two blood drive events and sponsored staff members to participate in the President's Solidarity Fun Run. In 2024, staff could volunteer at the Soup Kitchen in Valletta to help prepare and cook meals for vulnerable persons.



Soup Kitchen



Blood drive event



L-Istrina 2024



Jacob's Pay it Forward Coffee Van

Staff

The Central Bank of Malta Staff Social Club is composed of three sub-committees, namely the Sports Committee, the Cultural Committee and the Religious Committee. The Social Club organised staff events which included an ice cream day, Sip & Savour wine tasting event, the Central Bank of Malta summer party, a bowling event, a karaoke night, quiz night, the Christmas staff gathering and the children's Christmas party. Staff members also took part in four different Euro Events namely the Euro Hike in Cyprus, the Euro Cross Country in Italy, the Euro Badminton in Estonia and the Euro Soccer in Germany. Staff participated in events organised by the Malta Employees Sports Association (MESA), including a table tennis tournament and a badminton tournament. In addition, the Sports Committee organised a football tournament for staff members. REACH, the Central Bank of Malta Religious Committee, organised the Our Lady of Sorrows mass and a mass in memory of a former Bank employee, Mr Christopher Zarb.



Karaoke night



MESA table tennis tournament



Euro Cross



Euro Soccer



Euro Badminton



Euro Hike

Financial literacy

In 2024, the Central Bank of Malta continued to maintain its commitment to promoting financial literacy and enhancing public awareness of the euro. The Bank regularly disseminated weekly informative posts regarding euro banknotes and coins across its social media platforms. Additionally, 105 information sessions were conducted, engaging a total of 2,188 participants. Direct engagement with retailers was a key focus, with 62 retail outlets receiving on-site training sessions for cash handlers, reaching 107 participants.

The Bank organised educational tours at its premises, comprising an information session followed by a visit to the Currency Museum. Continuing its collaborative efforts from the previous year, the Bank actively participated in the *Skola Sajf* partnership programme, the *Be Money Smart* initiative led by the Home Economics Centre, as well as initiatives in cooperation with the Malta Police Force and the Malta Chamber of SMEs.

Throughout these engagements, educational brochures, tokens, and other informative materials were distributed, thereby facilitating participant interaction and providing essential tools to enhance their understanding of euro banknotes and coins verification.

During 2024, the Acting Governor delivered a presentation about the proposed design of a Digital Euro, based on the legislative proposal issued by the European Commission, to the Malta Association of Small Shareholders.

The Bank published an article entitled *Analysis of Cash Usage, Preferences and Perceptions on Euro Banknotes of the Maltese Public*, which provides a comprehensive survey-based analysis of cash usage trends and payment preferences in Malta. The study surveyed 708 individuals, revealing a gradual shift towards digital payment methods, though cash remains significant, especially among older demographics. It highlighted that 84% of respondents intended to continue using cash, albeit less frequently, while most preferred digital methods for their convenience and security. The €20 banknote emerged as the most popular in terms of daily transactions and design.

During 2024, the Bank also published a report titled *Bond performance measures and valuations – A primer for the inexperienced investor*, aimed at educating the public on matters relating to fixed income investments and their valuation.

Notte Bianca

The Central Bank of Malta once again opened its doors to the public on *Notte Bianca*, a key event in Malta's cultural calendar. More than 4,600 guests visited the Bank during the event.

At the Bank's Currency Museum in Castille, visitors could explore a splendid selection of coins and banknotes, showcasing the rich history of currency. Counterfeit experts provided insights on detecting fraudulent money; collector coins were available for sale at the Malta Coin Centre.



Notte Bianca – members of the Canine Search and Rescue Team of the Sovereign Order of Malta

Members of the Canine Search and Rescue Team of the Sovereign Order of Malta demonstrated their equipment and canines, briefing visitors about their humanitarian cause and initiatives.

The Bank organised an exhibition entitled *Coinage in Malta: 2,500 years of history* at the Polverista, the former gunpowder building and chapel. The upper and lower gardens were open exclusively for the night, offering a variety of attractions for guests to enjoy in a unique and enchanting setting.

In collaboration with the Customs Department, *Žekkin* the famous Labrador sponsored by the Bank, demonstrated how money-related crime is detected. *Žekkin* and smart sniffer-dogs were active in simulation exercises at the Upper Garden.

Visit by the President of Malta

On the 50th anniversary of Malta becoming a Republic, the Central Bank of Malta produced a commemorative coin to celebrate such historical event. For this occasion, Her Excellency, Dr Myriam Spiteri Debono, President of Malta, visited the Bank in December 2024. The Acting Governor presented the commemorative coin to Her Excellency.



Acting Governor Alexander Demarco with the President of Malta H.E. Dr Myriam Spiteri Debono

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.

The members of the Fund's Advisory Board are Dr Nancy Calamatta, who acts as Chair, Professor Yosanne Vella, Professor Marvin Formosa, Marquis Nicholas de Piro and Dr Pauline Lanzon.

In 2024, some of the beneficiaries of financial support were the Inspire Foundation towards the purchase of equipment to be placed in a new rehabilitation centre, the Senglea Historical Society towards its annual publication on the history of Senglea, two Maltese researchers to pursue overseas research on the care and conservation of manuscripts, various Maltese artists and watercolourists towards their respective exhibitions on history and art, and *Għaqda Mużikali Marija Annunzjata Ħal Tarxien* towards an orchestral concert commemorating the 150th anniversary of the titular painting of the Annunciation.

Other meritorious projects to which the Bank pledged support upon their completion were: the Heritage Parks Federation towards the restoration and conservation of a dilapidated British military building at the *Majjistral* Nature and History Park into a multi-purpose exhibition hall, the Msida Parish Church towards the restoration of its prestigious pipe-organ and the Floriana Parish Church towards the reconstruction of its triumphal wooden arch, a rare piece of Maltese cultural heritage.



The signing of a Collaboration Agreement between the Central Bank of Malta and the Heritage Parks Federation



Dr Pauline Lanzon at the launch of the Nucleus exhibition with the exhibiting watercolourists



Inspire Foundation's new rehabilitation centre which includes equipment sponsored by the Central Bank of Malta



Mr Joseph Abela, President of the Senglea Historical Society, with Dr Nancy Calamatta, Chairperson of the Central Bank of Malta Fund

9. INTERNATIONAL RELATIONS

Eurosystem and European System of Central Banks

The Governor or his alternate 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 15 meetings, with eight being focused on monetary policy. Furthermore, the Governing Council took a significant number of decisions by written procedure. In addition, in connection with the ECB's responsibilities in bank supervision, the Governing Council adopted numerous draft supervisory decisions prepared by the ECB's Supervisory Board. A retreat for the Governing Council also took place in May, allowing the members to discuss policy issues in an informal setting.

Following several decisions taken by the Governing Council during 2024, the Governor signed several agreements on behalf of the Bank. More specifically, these covered: TARGET services, wholesale central bank money settlement services, the T2 and TARGET Instant Payment Settlement (TIPS) Currency Participation Agreement with *Danmarks Nationalbank*, the Centralised Securities Database (CSDB) Data Usage Agreement, the ECMS and the TIPS Currency Participation Agreement with *Norges Bank*.

The Governor or his alternate 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 EU, mainly performs an advisory role. There were four General Council meetings in 2024.

The Governor or Acting Governor, or, in their absence, a Deputy Governor, also participated in the three sessions dedicated to the Macroprudential Forum, held jointly by the Governing Council and the ECB's Supervisory Board during 2024 to discuss financial stability issues.

Furthermore, the Deputy Governor for Financial Stability sits on the ECB's Supervisory Board together with a senior official of the MFSA.



Group photo of the Governing Council in Slovenia

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 or Acting 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

Since its opening in November 2023, the Bank's Brussels Office has liaised with EU institutions and local stakeholders to establish its presence in the EU capital. It has strengthened ties with other central banks, particularly through its location in the House of the Euro, which brings together representatives from the ECB and several NCBs. The Bank worked to encourage dialogue between monetary and fiscal policymakers, harnessing synergies while maintaining institutional independence to build a shared European perspective in a challenging international environment. The Brussels Office also acted as a key point of contact between the Bank, EU institutions and Maltese representatives in Brussels. It facilitated discussion on key EU policy initiatives, including the reformed fiscal rules and the RRF.

The Bank's representative in Brussels participated in several events aimed at advancing the completion of the Capital Markets Union (CMU), while engaging stakeholders on the design and implications of the digital euro. Financial stability and macroprudential issues were frequently discussed, with particular attention to the growing role of non-bank financial intermediaries and their implications for systemic risk.

European Systemic Risk Board

The Bank also participates in the ESRB, with the Governor serving as a voting member on the General Board. In 2024, the Governor, Acting Governor and the Deputy Governor for Financial Stability attended the General Board meetings, where they discussed potential vulnerabilities and risks for the EU financial system, as well as related policy measures. Senior Bank officials also took part in meetings of the ESRB's Advisory Technical Committee and its substructures.

Other EU institutions

Bank officials actively participated in meetings of the Economic and Financial Committee (EFC), including in alternate composition (EFC-A), a forum that brings together officials from Central Banks and Ministries of Finance of the European Union. The EFC plays a pivotal role in shaping EU economic and financial policies, addressing both European and global challenges.

At the European level, the EFC coordinates economic and fiscal policies to bolster resilience and stability across member states. In 2024, it was instrumental in advancing the Economic and Governance Review, which lays out a more sophisticated set of fiscal rules to align with Europe's financing needs in the green, digital and defence domains. The interim results of the RRF have been discussed thoroughly, as the committee monitored progress on the CMU initiative, which is aimed at integrating Europe's capital markets to drive growth and reinforce the continent's strategic autonomy.

Globally, the EFC facilitated discussions on financial assistance to Ukraine, ensuring coordinated efforts to support reconstruction and stabilization in response to the Russian military aggression. Moreover, the committee served as a platform for formulating a unified EU stance on global macroeconomic and trade issues, IMF quota reforms and governance review, and support for developing economies. These discussions underscore the EU's commitment to contributing to a global dialogue in an increasingly fragmented environment.

International Monetary Fund

In the IMF, Malta forms part of a constituency headed by Italy, together with Albania, Greece, Portugal and San Marino. As the main institution representing Malta, 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 Meetings in April. In turn, the Acting Governor participated in the IMF Annual Meetings in October. During the year, several resolutions proposed by the Fund's Executive Board were voted on. These included the election of the IMF Managing Director, where the incumbent Managing Director Kristalina Georgieva was elected for a second term.

Having concluded a contribution agreement with the Fund for the purposes of contributing to the Resilience and Sustainability Trust, in 2024 the Central Bank of Malta contributed an SDR-denominated amount equivalent to €3.8 million to the trust's Loan Account. This amount complements the contributions of €5 million to the Deposit Account and €0.5 million to the Reserve Account made by the Central Bank of Malta and the Ministry for Finance respectively in 2023.

As part of the process surrounding the 16th General Review of Quotas, in January 2025, the Central Bank of Malta signalled consent for Malta's participation in the quota increase. Once realised, Malta's quota share in the Fund will increase by SDR84.2 million to SDR252.5 million.

The bilateral borrowing arrangement between the Fund and the Bank, which expired at the end of 2024, was renewed until end 2027.

Following an Article IV mission late in the year, 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 World Bank Group (WBG) by the Minister for Finance, throughout the year the Bank continued to assist the Ministry in monitoring developments and providing advice on initiatives from the Group. During 2024, 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 the European Bank for Reconstruction and Development (EBRD), Malta forms part of the constituency headed by Austria, together with Bosnia & Herzegovina, Cyprus, Israel and Kazakhstan. The Bank, together with the Ministry of Finance, continued to monitor developments in the EBRD during the year, with the Governor voting on several resolutions. At the EBRD's 33rd Annual Meeting Malta was represented by a Bank official. During the meeting, Governors elected President Odile Renaud-Basso to serve as EBRD president for a second term.

As of 1 August 2024, responsibility for Malta's representation in the EBRD was assumed by the Ministry for Finance, with the Minister for Finance and Permanent Secretary taking up the roles of Governor and Alternate Governor respectively.

Asian Infrastructure Investment Bank

In the Asian Infrastructure Investment Bank (AIIB), 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. The Bank, together with the Ministry for Finance, continued to follow developments in the AIIB during the year, with the Governor voting on several resolutions. Bank and Ministry officials represented Malta in several constituency meetings. At the ninth Annual Meeting of the AIIB, Malta was represented by a Bank official.



Matthew Zammit, International Relations Office, at the AIIB Annual Meeting

As of 1 August 2024, responsibility for Malta's representation in the AIIB was assumed by the Ministry for Finance, with the Minister for Finance and Permanent Secretary taking up the roles of Governor and Alternate Governor, respectively.

The Commonwealth

The Bank continued to provide banking services to the Commonwealth Small States Trade Finance Facility, which was set up to enhance trade and investment finance particularly for small Commonwealth states. No transactions involving the Bank took place in 2024.



Upper Barrakka Gardens, Valletta

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 2024.

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 2024, 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 14 November 2024 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2024/31).

Financial results

The Bank's financial statements for the year ended 31 December 2024 are set out on pages A-4 to A-38. During the year under review, the Bank registered a profit of €4.95 million which was transferred to the risk provision. For the year ended 31 December 2023, a release of €18.72 million from the risk provision was made to cover the financial result for the year.

Board of Directors

The members of the Board of Directors during the year ended 31 December 2024 and up to the date of authorisation for issue of the financial statements were:

Professor Edward Scicluna – Governor (designated Mr Alexander Demarco to perform duties of Governor as from 1 August 2024)

Mr Alexander Demarco – Deputy Governor Monetary Policy and Acting Governor as from 1 August 2024

Mr Oliver Bonello – Deputy Governor Financial Stability

Professor Peter J. Baldacchino

Dr Romina Borg

Professor Frank Bezzina

Professor 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 14 November 2024 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2024/31).

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 2024 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 2024 are included in the Annual Report 2024, 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.

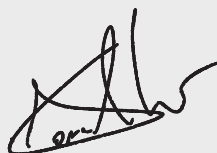
Auditors

Deloitte Audit Limited were appointed as the auditors of the Bank with effect from the financial year ended 31 December 2023 and have signified their willingness to continue in office.

By order of the Board.



Mr Alexander Demarco
Acting Governor



Mr Oliver Bonello
Deputy Governor

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

17 March 2025

* www.centralbankmalta.org/annual-reports

Balance Sheet as at 31 December 2024

| | 2024 | As restated 2023 |
|---|-------------------|---------------------|
| Assets | €'000 | €'000 |
| A 1 Gold and gold receivables | 14,655 | 17,438 |
| A 2 Claims on non-euro area residents denominated in foreign currency | 1,371,547 | 1,119,419 |
| A 2.1 Receivables from the IMF | 389,887 | 377,720 |
| A 2.2 Balances with banks and security investments, external loans and other external assets | 981,660 | 741,699 |
| A 3 Claims on euro area residents denominated in foreign currency | 288,784 | 375,275 |
| A 4 Claims on non-euro area residents denominated in euro | 981,653 | 740,612 |
| A 4.1 Balances with banks, security investments and loans | 981,653 | 740,612 |
| A 4.2 Claims arising from the credit facility under ERM II | - | - |
| A 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro | 10,000 | 57,000 |
| A 5.1 Main refinancing operations | 10,000 | 20,000 |
| A 5.2 Longer-term refinancing operations | - | 37,000 |
| 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 | - | - |
| A 6 Other claims on euro area credit institutions denominated in euro | 278 | 585 |
| A 7 Securities of euro area residents denominated in euro | 2,693,434 | 2,457,230 |
| A 7.1 Securities held for monetary policy purposes | 1,476,486 | 1,552,289 |
| A 7.2 Other securities | 1,216,948 | 904,941 |
| A 8 General government debt denominated in euro | - | - |
| A 9 Intra-Eurosystem claims | 4,204,198 | 5,516,191 |
| A 9.1 Participating interest in ECB | 33,264 | 22,234 |
| A 9.2 Claims equivalent to the transfer of foreign reserves | 52,235 | 42,314 |
| A 9.3 Claims related to TARGET | 4,118,699 | 5,451,643 |
| A 9.4 Net claims related to the allocation of euro banknotes within the Eurosystem | - | - |
| A 9.5 Other claims within the Eurosystem (net) | - | - |
| A 10 Items in course of settlement | 11,077 | 7,348 |
| A 11 Other assets | 532,042 | 461,813 |
| A 11.1 Coins of euro area | 9 | 7 |
| A 11.2 Tangible and intangible fixed assets | 36,531 | 38,728 |
| A 11.3 Other financial assets | 392,527 | 311,811 |
| A 11.4 Off-balance sheet instruments revaluation differences | 5,824 | 1,086 |
| A 11.5 Accruals and prepaid expenses | 52,450 | 51,562 |
| A 11.6 Sundry | 44,701 | 58,619 |
| Total Assets | 10,107,668 | 10,752,911 |

| | 2024 | As restated 2023 |
|---|-------------------|---------------------|
| Liabilities | €'000 | €'000 |
| L 1 Banknotes in circulation | 1,890,129 | 1,504,538 |
| L 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | 5,514,797 | 5,609,247 |
| L 2.1 Current accounts (covering the minimum reserve system) | 306,474 | 302,533 |
| L 2.2 Deposit facility | 5,208,323 | 5,306,714 |
| L 2.3 Fixed-term deposits | - | - |
| L 2.4 Fine-tuning reverse operations | - | - |
| L 2.5 Deposits related to margin calls | - | - |
| L 3 Other liabilities to euro area credit institutions denominated in euro | 6,551 | 6,208 |
| L 4 Debt certificates issued | - | - |
| L 5 Liabilities to other euro area residents denominated in euro | 780,418 | 1,432,262 |
| L 5.1 General government | 668,863 | 800,343 |
| L 5.2 Other liabilities | 111,555 | 631,919 |
| L 6 Liabilities to non-euro area residents denominated in euro | 32,352 | 24,227 |
| L 7 Liabilities to euro area residents denominated in foreign currency | 445,346 | 420,898 |
| L 8 Liabilities to non-euro area residents denominated in foreign currency | - | - |
| L 8.1 Deposits, balances and other liabilities | - | - |
| L 8.2 Liabilities arising from the credit facility under ERM II | - | - |
| L 9 Counterpart of special drawing rights allocated by the IMF | 322,017 | 312,082 |
| L 10 Intra-Eurosystem liabilities | 557,006 | 915,197 |
| L 10.1 Liabilities equivalent to the transfer of foreign reserves | - | - |
| L 10.2 Liabilities related to TARGET | - | - |
| L 10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem | 507,683 | 861,846 |
| L 10.4 Other liabilities within the Eurosystem (net) | 49,323 | 53,351 |
| L 11 Items in course of settlement | 15 | - |
| L 12 Other liabilities | 42,474 | 34,161 |
| L 12.1 Off-balance sheet instruments revaluation differences | 1,095 | 5,426 |
| L 12.2 Accruals and income collected in advance | 9,674 | 15,130 |
| L 12.3 Sundry | 31,705 | 13,605 |
| L 13 Provisions | 94,131 | 89,225 |
| L 13.1 Risk provisions | 94,131 | 89,180 |
| L 13.2 Other provisions | - | 45 |
| L 14 Revaluation accounts | 32,361 | 18,833 |
| L 15 Capital and reserves | 390,071 | 386,033 |
| L 15.1 Capital | 20,000 | 20,000 |
| L 15.2 Reserves | 370,071 | 366,033 |
| L 16 Accumulated losses carried forward | - | - |
| L 17 Profit/(loss) for the year | - | - |
| Total Liabilities | 10,107,668 | 10,752,911 |

Profit and Loss account for the year ended 31 December 2024

| | 2024 | As restated 2023 |
|---|-----------------|---------------------|
| | €'000 | €'000 |
| 1 Net interest income/(expense) | 74,445 | 58,952 |
| 1.1 Interest income | 301,995 | 301,646 |
| 1.2 Interest expense | (227,550) | (242,694) |
| 2 Net result of financial operations and write-downs | 13,355 | 5,302 |
| 2.1 Realised gains/(losses) arising from financial operations | 16,266 | 8,562 |
| 2.2 Write-downs on financial assets and positions | (2,911) | (3,260) |
| 3 Net result of pooling monetary income | (49,803) | (53,920) |
| 4 Net income/(expense) from fees and commissions | (847) | (819) |
| 5 Income from equity instruments and participating interests | - | - |
| 6 Other income | 2,858 | 4,369 |
| 7 Staff costs | (18,164) | (15,718) |
| 8 Administrative expenses | (13,360) | (12,683) |
| 9 Depreciation of tangible and intangible fixed assets | (3,285) | (3,641) |
| 10 Banknote production services | (242) | (164) |
| 11 Other expenses | (6) | (398) |
| Profit/(loss) before the transfer (to)/from risk provisions | 4,951 | (18,720) |
| 12 Transfer (to)/from risk provisions | (4,951) | 18,720 |
| Profit/(loss) for the year | - | - |
| Transfer to reserves for risks and contingencies | - | - |
| Payable to the Government of Malta in terms of article 22(2) of the Central Bank of Malta Act (Cap. 204) | - | - |

The financial statements on pages A-4 to A-38 were approved for issue by the Board of Directors on 17 March 2025 and are signed on its behalf by:



Mr Alexander Demarco
Acting 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 2024

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).¹

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 of 14 November 2024 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2024/31) (the Guideline).

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 2024 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 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.

¹ 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.

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:²

- 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 measured at amortised cost) 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

² Refer to article 9(6) of the Guideline of 14 November 2024 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2024/31), OJ L, 2024/2941, 11.12.2024.

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 in the 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. Taking into due consideration the nature of its activities, the Bank has established a risk provision within its balance sheet to cover all financial risks, defined as market, liquidity and credit risks. The Bank decides on the size and use of the provision on the basis of a reasoned estimate of its risk exposure.

4 Changes in the presentation of the balance sheet and profit and loss account

In 2024, the Guideline introduced changes to the presentation of the balance sheet and profit and loss account of NCBs. These changes aimed to foster transparency and increase the value of the information presented in the financial statements for the readers. The comparative figures for 2023 have been restated to reflect the new presentation.

With respect to the balance sheet, the Bank's claims related to TARGET, previously presented together with other items under A 9.5 'Other claims within the Eurosystem (net)', are now reported separately under A 9.3. As a result, the other intra-eurosystem balances previously reported under A 9.5 'Other claims within the Eurosystem (net)' are now being reported under L 10.4 'Other liabilities within the Eurosystem (net)'. Furthermore, the new layout segregates the presentation of provisions from L 13 'Provisions' into sub-items L 13.1 'Risk provisions' and L 13.2 'Other provisions'.

Consequently, the total assets and liabilities reported in the comparative figures as at 31 December 2023, have been restated from €10,700 million to €10,753 million, resulting in a change of €53 million. The table below shows an excerpt of the 2023 intra-eurosystem balances as previously published and as restated.

| | As published 2023 €000 | | As restated 2023 €000 |
|--|------------------------------|---|-----------------------------|
| Assets | | Assets | |
| A9.3 Claims related to the issuance of ECB debt certificates | - | A9.3 Claims related to TARGET | 5,451,643 |
| A9.5 Other claims within the Eurosystem (net) | 5,398,292 | A9.5 Other claims within the Eurosystem (net) | - |
| Liabilities | | Liabilities | |
| L10.4 Other liabilities within the Eurosystem (net) | - | L10.4 Other liabilities within the Eurosystem (net) | (53,351) |

For the profit and loss account, the numbering of item 'Net result of pooling monetary income' has changed, and the fees and commissions are now presented on a net basis. In addition, the 'Transfer (to)/from provisions for financial risks', previously reported as part of item 2 'Net result of financial operations, write-downs and risk provisions' is being presented separately as item 12 before the 'Profit/(loss) for the year'. These changes in the presentation of the profit and loss account did not affect the figure of the 'Profit/(loss) for the year' reported in the comparative 2023 period.

5 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.

On 1 January 2024, the ESCB experienced a quinquennial capital key change in accordance with Article 29.3 of the Statute. As a result, the Bank's allocation of the ECB's share capital increased from 0.0853% to 0.1053%.

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 ESCB quinquennial capital key change on 1 January 2024, the Bank's Eurosystem capital key increased from 0.1040% to 0.1288%.

6 Banknotes in circulation

The ECB and the euro area NCBs, which together constitute 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.³ The share of banknotes allocated to each NCB is disclosed in the balance sheet under L 1 'Banknotes in circulation'.

Following the quinquennial capital key change, the Bank's share in euro banknotes increased from 0.0960% as at 31 December 2023 to 0.1190% as at 1 January 2024 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. Until 31 December 2024,

³ 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 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.

these balances were remunerated⁴ on a daily basis at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (MROs) (see 9 'Post-balance sheet events' in the general notes to the financial statements). 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 year⁵ 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,⁶ 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 on 1 January 2023 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/(expense)'.

7 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.⁷ 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 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.

The amount distributed to the Bank, if any, is recognised in the profit and loss account under 5 'Income from equity instruments and participating interests'.

8 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 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

⁴ 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 and ECB Decision of 14 November 2024 (ECB/2024/33), OJ L 2024/2939, 11.12.2024.

⁵ Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender in the respective Member State.

⁶ 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.

⁷ 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.

and adjusted to form part of a single position for 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.

The Intra-Eurosystem balance of the Bank vis-à-vis the ECB arising from TARGET, is presented on the balance sheet of the Bank as an asset or liability under either A 9.3 'Claims related to TARGET' or L 10.2 'Liabilities related to TARGET' (see 4 'Changes in the presentation of the balance sheet and profit and loss account' in the general notes to the financial statements). Until 31 December 2024, the remuneration of the claim or liability related to TARGET, with the exception of reverse transactions in connection with US dollar liquidity-providing operations, was calculated daily at the latest available interest rate used by the Eurosystem in its tenders for MROs (see 9 'Post-balance sheet events' in the general notes to the financial statements). Intra-ESCB balances vis-à-vis 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'. 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 value⁸ 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'. Until 31 December 2024, these claims were remunerated on a daily basis at the latest available interest rate used by the Eurosystem in its tenders for MROs, adjusted to reflect zero return on the gold component (see 9 'Post-balance sheet events' in the general notes to the financial statements).

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 6 'Banknotes in circulation' in the general notes to the financial statements).

Other intra-Eurosystem balances denominated in euro are presented as a single net asset or liability under A 9.5 'Other claims within the Eurosystem (net)' or L 10.4 'Other liabilities within the Eurosystem (net)' (see 4 'Changes in the presentation of the balance sheet and profit and loss account' in the general notes to the financial statements). This includes the ECB's interim profit distributions to NCBs, if any, and the balance arising from the monetary income.

9 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.

⁸ 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.

On 13 March 2024, the Governing Council decided⁹ on a set of principles that will guide monetary policy implementation in the future and that, among other key parameters, it will continue to steer the monetary policy stance through the deposit facility rate. In the same context, the Governing Council decided that as from 1 January 2025 the deposit facility rate becomes the basis for the remuneration of (i) TARGET balances; (ii) claims/liabilities related to the allocation of euro banknotes within the Eurosystem; and (iii) claims equivalent to the transfer of foreign reserves. The deposit facility rate will also apply for the remuneration of the difference between the value of earmarkable assets and the liability base as well as the remuneration of certain monetary policy security holdings for monetary income sharing purposes (see 3 'Net result of pooling monetary income' in the notes to the profit and loss account).

⁹ See the [press release](#) of 13 March 2024 on the Governing Council's decisions.

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 2024, gold was revalued at €2,511.069 (2023: €1,867.828) per fine troy ounce and unrealised valuation gains as at that date amounted to €1,699,678 (2023: €416,358) with a corresponding amount disclosed under L 14 'Revaluation accounts'.

| | €'000 | Fine troy ounces |
|--|---------------|------------------|
| Balance as at 31 December 2023 | 17,438 | 9,336 |
| Net effect of transactions during the year | (4,067) | (3,500) |
| Valuation movements during the year | 1,284 | - |
| Balance as at 31 December 2024 | 14,655 | 5,836 |

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:

| | 2024 €'000 | 2023 €'000 | Change €'000 |
|------------------------|------------------|------------------|-----------------|
| US dollar | 527,483 | 332,371 | 195,112 |
| Special drawing rights | 390,122 | 377,939 | 12,183 |
| Australian dollar | 188,935 | 114,325 | 74,610 |
| Swiss franc | 74,648 | 73,172 | 1,476 |
| Canadian dollar | 73,877 | 91,764 | (17,887) |
| New Zealand dollar | 47,127 | 31,648 | 15,479 |
| Great British pound | 37,650 | 48,728 | (11,078) |
| Swedish krona | 23,591 | 28,128 | (4,537) |
| Norwegian krone | 8,058 | 21,263 | (13,205) |
| Others | 56 | 81 | (25) |
| Total | 1,371,547 | 1,119,419 | 252,128 |

A 2.1 Receivables from the IMF

| | 2024 €'000 | 2023 €'000 | Change €'000 |
|---|----------------|----------------|-----------------|
| Reserve tranche position (net) | 54,207 | 54,287 | (80) |
| SDR holdings | 326,648 | 318,476 | 8,172 |
| Resilience and Sustainability Trust (RST) | 9,032 | 4,957 | 4,075 |
| Total | 389,887 | 377,720 | 12,167 |

Malta's quota as a membership subscription to the IMF as at 31 December 2023 and 2024 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. During the year under review, the net reserve tranche position decreased by SDR1,441,666 to SDR43,213,110 (2023: SDR44,654,776), which as at 31 December 2024 amounted to a euro equivalent of €54,206,541 (2023: €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 2023 and 2024, 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 2024, the Bank entered into arrangements with the IMF resulting in sale of SDR460,000. As at 31 December 2024, Malta's SDR holdings, net of transfer to the RST and including interest received thereon, amounted to SDR260,401,915 (2023: SDR261,969,321) equivalent to €326,648,162 (2023: €318,476,104). 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 2024, an amount of SDR7,200,590 (2023: SDR4,077,590) equivalent to €9,032,420 (2023: €4,957,126) was contributed 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 2023 and 2024.

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.

| | 2024 | 2023 | Change |
|--|----------------|---------|---------|
| | €'000 | €'000 | €'000 |
| Marketable debt securities other than those held-to-maturity | 260,690 | 109,579 | 151,111 |
| Held-to-maturity debt securities | 699,612 | 615,282 | 84,330 |
| Current accounts and overnight deposits with banks | 21,358 | 16,838 | 4,520 |
| Total | 981,660 | 741,699 | 239,961 |

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.

| | 2024 | 2023 | Change |
|--|----------------|---------|-----------|
| | €'000 | €'000 | €'000 |
| Marketable debt securities other than those held-to-maturity | 24,090 | 19,376 | 4,714 |
| Held-to-maturity debt securities | 209,065 | 140,520 | 68,545 |
| US dollar liquidity-providing operations | 53,903 | 214,480 | (160,577) |
| Current accounts and overnight deposits with banks | 1,726 | 899 | 827 |
| Total | 288,784 | 375,275 | (86,491) |

During 2024, credit institutions established in Malta participated for a total amount of US\$6,791,100,000 in US dollar liquidity-providing operations. The outstanding amount as at 31 December 2024 stood at US\$56,000,000 (2023: US\$237,000,000). 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:

| | 2024 | 2023 | Change |
|---------------------|----------------|---------|-----------|
| | €'000 | €'000 | €'000 |
| US dollar | 143,611 | 273,454 | (129,843) |
| Swiss franc | 81,462 | 58,239 | 23,223 |
| Australian dollar | 34,837 | 19,623 | 15,214 |
| Great British pound | 25,445 | 20,376 | 5,069 |
| Canadian dollar | 3,369 | 3,512 | (143) |
| Others | 60 | 71 | (11) |
| Total | 288,784 | 375,275 | (86,491) |

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.

| | 2024 | 2023 | Change |
|--|----------------|---------|---------|
| | €'000 | €'000 | €'000 |
| Marketable debt securities other than those held-to-maturity | 102,647 | 76,420 | 26,227 |
| Held-to-maturity debt securities | 816,891 | 616,707 | 200,184 |
| Fixed income investment fund | 62,106 | 47,476 | 14,630 |
| Current accounts and overnight deposits with banks | 9 | 9 | - |
| Total | 981,653 | 740,612 | 241,041 |

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 2024, the total Eurosystem holding of monetary policy assets amounted to €34 billion (2023: €410 billion) of which the Bank held €10,000,000 (2023: €57,000,000). 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 2024, MROs carried out with the Bank amounted to €440,800,000, of which an amount of €10,000,000 remained outstanding as at the end of the year. As at 31 December 2023, an amount of €20,000,000 was outstanding on these operations.

During 2023, the MRO rate increased from 2.50% to 4.50% by the end of the year. Throughout the financial year ended 31 December 2024, the Governing Council decided to reduce this interest rate as shown in the following table.

| With effect from: | Changes in basis points (bps) | MRO rate (%) |
|----------------------------|-------------------------------|--------------|
| 12 June | -25 bps | 4.25 |
| 18 September ¹⁰ | -60 bps | 3.65 |
| 23 October | -25 bps | 3.40 |
| 18 December | -25 bps | 3.15 |

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.

LTROs 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. During 2024, credit institutions established in Malta did not participate in new LTROs and as at 31 December 2024 there were no outstanding operations (2023: €17,000,000).

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

¹⁰ See footnote 9.

conducted between June and December 2021. These operations had a three-year maturity and the last operation matured in 2024. For all TLTRO III, starting 12 months after the settlement of each operation, participants had the option on a quarterly basis of terminating or reducing the amount of the TLTRO III concerned before maturity.

Interest rates on these operations could have been as low as 50 basis points below the average interest rate on the deposit facility which prevailed over the period from 24 June 2020 to 23 June 2022, but in any case they might not have 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.¹¹ The actual interest rates could only be known at the maturity or early repayment of each operation, and until that time, a reliable estimate was used for calculating the TLTRO III interest accruals. In 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.

As at 31 December 2024, there were no outstanding TLTRO III with the Bank. The last operation outstanding as at the end of the previous financial year amounting to €20,000,000, matured in 2024 without early repayment.

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 2023 and 2024.

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 2023 and 2024.

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 2023 and 31 December 2024, there was no participation in the marginal lending facility by credit institutions established in Malta.

During 2023, the marginal lending facility rate increased from 2.75% to 4.75% by the end of the year. Throughout the financial year ended 31 December 2024, the Governing Council decided to decrease this interest rate as shown in the following table.

| With effect from: | Changes in basis points (bps) | Marginal lending facility rate (%) |
|----------------------------|-------------------------------|------------------------------------|
| 12 June | - 25 bps | 4.50 |
| 18 September ¹² | - 60 bps | 3.90 |
| 23 October | - 25 bps | 3.65 |
| 18 December | - 25 bps | 3.40 |

¹¹ 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.

¹² See footnote 9.

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 2024, this sub-item consisted of securities acquired by the Bank within the scope of the PSPP¹³ and the PEPP.¹⁴ The Bank's purchases under these programmes comprised MGS from the secondary market. The SMP¹⁵ security held by the Bank as at 31 December 2023, matured in 2024.

The amortised cost of the securities held for monetary policy purposes as well as their market values,¹⁶ are as follows:

| | 2024 | | 2023 | | Change | |
|---------------------------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|
| | Amortised cost | Market value | Amortised cost | Market value | Amortised cost | Market value |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Securities markets programme | - | - | 9,949 | 10,216 | (9,949) | (10,216) |
| Public sector purchase programme | 993,088 | 886,333 | 1,038,185 | 919,080 | (45,097) | (32,747) |
| Pandemic emergency purchase programme | 483,398 | 410,565 | 504,155 | 421,468 | (20,757) | (10,903) |
| Total | 1,476,486 | 1,296,898 | 1,552,289 | 1,350,764 | (75,803) | (53,866) |

¹³ 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.

¹⁴ 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, ECB Decision of 10 February 2021 (ECB/2021/6), OJ L 50, 15.2.2021, p. 29, ECB Decision of 8 February 2024 (ECB/2024/7), OJ L 2024/1166, 26.4.2024 and ECB Decision of 24 October 2024 (ECB/2024/29), OJ L, 2024/2819, 31.10.2024.

¹⁵ ECB Decision of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

¹⁶ 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 market value is not recorded on the balance sheet or in the profit and loss account and is provided for comparison purposes only.

Since July 2023, the Eurosystem is no longer reinvesting the principal payments from maturing securities held under the asset purchase programme (APP).¹⁷ Consequently, in 2024 the holdings in this portfolio continued to decline.

During the first half of 2024, the Eurosystem continued to reinvest, in full, the principal payments from maturing securities purchased under the PEPP. Over the second half of the year, the PEPP portfolio declined by an average of €7.5 billion per month, as the Eurosystem did not reinvest all of the principal payments from maturing securities. The reinvestments under the PEPP were discontinued at the end of 2024.

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 €3,907 billion (2023: €4,269 billion).

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, losses from holdings of SMP, CBPP3,¹⁸ ABSPP,¹⁹ PSPP supranational securities, PEPP securities other than public sector securities and CSPP,²⁰ 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 2024 on securities purchased under all the programmes, no impairment losses were recorded by the Bank.

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.

| | 2024 | 2023 | Change |
|--|------------------|---------|---------|
| | €'000 | €'000 | €'000 |
| Marketable debt securities other than those held-to-maturity | 61,495 | 52,392 | 9,103 |
| Held-to-maturity debt securities | 623,822 | 365,281 | 258,541 |
| Marketable investment funds | 531,631 | 487,268 | 44,363 |
| Total | 1,216,948 | 904,941 | 312,007 |

¹⁷ The APP consists of the CBPP3, the ABSPP, the PSPP and the corporate sector purchase programme (CSPP).

¹⁸ 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.

¹⁹ 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.

²⁰ 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, ECB Decision of 15 December 2023 (ECB/2023/38), OJ L 2024/190, 05.01.2024 and ECB Decision of 24 October 2024 (ECB/2024/28), OJ L, 2024/2818, 31.10.2024. Under this programme, the NCBs may purchase investment grade euro denominated bonds issued by non-bank corporations established in the euro area.

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, claims related to TARGET 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.

Following the capital key change that occurred on 1 January 2024, the share that the Bank held in the subscribed capital of the ECB increased from 0.0853% to 0.1053%, resulting into an additional contribution of €2,165,001 transferred to the ECB. As at 31 December 2024, the Bank's share in the ECB's subscribed capital amounted to €11,398,732 (2023: €9,233,731). Consequently, the Bank's participating interest in the rest of the ECB equity, reported as part of this sub-item, increased by €8,864,666 and as at 31 December 2024 amounted to €21,865,042 (2023: €13,000,376).

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. Consequent to the capital key change that occurred on 1 January 2024, these claims increased by €9,921,219 and as at 31 December 2024 amounted to €52,235,216 (2023: €42,313,997).

A 9.3 Claims related to TARGET

This item consists of the balance of the Bank vis-à-vis the ECB arising from TARGET, which as at 31 December 2024 amounted to €4,118,698,985 (2023: €5,451,642,446) (see 4 'Changes in the presentation of the balance sheet and profit and loss account' and 8 'Intra-Eurosystem balances/Intra-ESCB balances' in the general notes to the financial statements).

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 2023 and 2024, 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 and 2024, the Bank had a net liability within the Eurosystem as reported under L 10.4 'Other liabilities within the Eurosystem (net)' (see 4 'Changes in the presentation of the balance sheet and profit and loss account' and 8 'Intra-Eurosystem balances/Intra-ESCB balances' in the general notes to the financial statements).

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.

| | Land and buildings | Other assets | Total |
|----------------------------------|-------------------------------|---------------------|---------------|
| | €'000 | €'000 | €'000 |
| Cost | | | |
| As at 31 December 2023 | 35,930 | 18,858 | 54,788 |
| Additions | 26 | 1,188 | 1,214 |
| Derecognition of assets | (97) | (182) | (279) |
| As at 31 December 2024 | 35,859 | 19,864 | 55,723 |
| Accumulated depreciation | | | |
| As at 31 December 2023 | 6,086 | 10,635 | 16,721 |
| Charge for the year | 499 | 2,697 | 3,196 |
| Derecognition of assets | - | (150) | (150) |
| As at 31 December 2024 | 6,585 | 13,182 | 19,767 |
| Net book value | | | |
| As at 31 December 2023 | 29,844 | 8,223 | 38,067 |
| As at 31 December 2024 | 29,274 | 6,682 | 35,956 |
| | | | |
| | Land and buildings | Other assets | Total |
| | €'000 | €'000 | €'000 |
| Right-of-use assets | | | |
| As at 31 December 2023 | 410 | 251 | 661 |
| Additions | 3 | - | 3 |
| Depreciation charge for the year | (9) | (80) | (89) |
| As at 31 December 2024 | 404 | 171 | 575 |
| Total net book value | | | |
| As at 31 December 2023 | 30,254 | 8,474 | 38,728 |
| As at 31 December 2024 | 29,678 | 6,853 | 36,531 |

As at 31 December 2024, the net book value included an amount of €500,037 (2023: €394,945) 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 €392,527,406 (2023: €311,810,991) (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 and swap transactions outstanding as at the balance sheet date.

A 11.5 Accruals and prepaid expenses

As at 31 December 2024, this sub-item was mainly composed of accrued interest income of €52,347,266 (2023: €51,561,801) of which, €11,444,273 (2023: €22,940,531) 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 €27,050,082 (2023: €31,632,513) and loans amounting to €13,426,803 (2023: €13,450,664). As at 31 December 2023, 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 (see L 12.3 'Sundry' in the notes to the balance sheet for position held as at 31 December 2024).

Liabilities

L 1 Banknotes in circulation

This item consists of the Bank's share of the total euro banknotes in circulation (see 6 'Banknotes in circulation' in the general notes to the financial statements).

During 2024, the total value of banknotes in circulation within the Eurosystem increased by 1.35% from €1,567 billion at 31 December 2023 to €1,588 billion at 31 December 2024. According to the banknote allocation key, the Bank had an amount of euro banknotes in circulation of €1,890,129,360 at the end of the year (2023: €1,504,537,920).

The value of the euro banknotes actually issued by the Bank in 2024 increased by 1.33% from €2,366,383,630 to €2,397,812,680 at year end. As this exceeds the allocated amount, the difference of €507,683,320 (2023: €861,845,710) 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 L 3 '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. Following a Governing Council decision on 27 July 2023, these balances are remunerated at zero per cent as from 20 September 2023.

Current accounts amounting to €306,474,300 remained outstanding as at 31 December 2024 (2023: €302,533,151).

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 2024, the aggregate volume of such deposits with the Bank amounted to €1,127,957,327,462. As at 31 December 2024, outstanding deposits amounted to €5,208,323,316 (2023: €5,306,713,698).

During 2023, the deposit facility rate increased from 2.00% to 4.00% by the end of the year. Throughout the financial year ended 31 December 2024, the Governing Council decided to reduce this interest rate as shown in the following table.

| With effect from: | Changes in basis points (bps) | Deposit facility rate (%) |
|-------------------|-------------------------------|---------------------------|
| 12 June | -25 bps | 3.75 |
| 18 September | -25 bps | 3.50 |
| 23 October | -25 bps | 3.25 |
| 18 December | -25 bps | 3.00 |

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 2023 and 2024.

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 2023 and 2024.

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. There were no outstanding deposits related to margin calls as at 31 December 2023 and 2024, with no instances of margin calls occurring during 2024.

L 3 Other liabilities to euro area credit institutions denominated in euro

As at 31 December 2024, this item consisted of funds of credit institutions that were not freely disposable amounting to €6,550,638 (2023: €6,207,938).

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.²¹

²¹ 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/2015/29) and (ECB/2019/8); 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 (ECB/2023/8) and (ECB/2024/12); ECB Decision on the remuneration of non-monetary policy deposits held with national central banks and the European Central Bank (ECB/2024/11), OJ L 2024/1209, 3.5.2024; 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/2020/38), (ECB/2021/25), (ECB/2022/5), (ECB/2022/47), (ECB/2023/9), and (ECB/2024/19).

| | 2024 | 2023 | Change |
|-----------------------|----------------|---------|-----------|
| | €'000 | €'000 | €'000 |
| Current accounts | 553,793 | 652,752 | (98,959) |
| Sinking fund accounts | 115,070 | 147,591 | (32,521) |
| Total | 668,863 | 800,343 | (131,480) |

L 5.2 Other liabilities

This sub-item consists of current accounts in euro which are repayable on demand amounting to €111,555,096 (2023: €149,260,067), of which €9,199,873 (2023: €10,141,935) related to balances of former credit institutions. These balances are remunerated in accordance with the provisions established by the Governing Council.²²

As at 31 December 2023, this sub-item also included collateralised inward deposits of €482,658,788. These liabilities were 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, including the IMF current account for administrative expenses. Whereas the IMF account is non-interest bearing, the other balances are remunerated in accordance with the provisions established by the Governing Council.²³

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.²⁴ Other current accounts included balances of former credit institutions amounting to €69,168,960 (2023: €65,285,765).

| | 2024 | 2023 | Change |
|---|----------------|---------|----------|
| | €'000 | €'000 | €'000 |
| Government of Malta current accounts | 125,800 | 160,167 | (34,367) |
| Government of Malta sinking fund accounts | - | 9 | (9) |
| Liabilities to banks | 241,725 | 185,192 | 56,533 |
| Other current accounts | 77,821 | 75,530 | 2,291 |
| Total | 445,346 | 420,898 | 24,448 |

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).

²² See footnote 21.

²³ See footnote 21.

²⁴ See footnote 21.

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 6 'Banknotes in circulation' in the general notes to the financial statements and L 1 'Banknotes in circulation' in the notes to the balance sheet).

L 10.4 Other liabilities within the Eurosystem (net)

As at 31 December 2024, the balance of €49,322,804 (2023: €53,350,838) included (i) balances resulting from the pooling and allocation of monetary income within the Eurosystem pending settlement (see 5 'Net result of pooling monetary income' in the notes to the profit and loss account), and (ii) balances with the ECB in respect of any amounts receivable or refundable.

| | 2024 | 2023 | Change |
|--|---------------|--------|---------|
| | €'000 | €'000 | €'000 |
| Net result from pooling of monetary income | 49,848 | 53,876 | (4,028) |
| Other claims within the Eurosystem | (525) | (525) | - |
| Total | 49,323 | 53,351 | (4,028) |

For the years 2023 and 2024, 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 7 'ECB profit distribution' in the general notes to the financial statements). Therefore, no related amounts were due at the end of 2023 and 2024.

L 11 Items in course of settlement

These liabilities comprise transactions which were not yet settled as at the end of the financial year.

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 and swap transactions outstanding as at the balance sheet date.

L 12.2 Accruals and income collected in advance

This sub-item principally includes accrued interest expense on interest-bearing liabilities of €9,566,474 (2023: €15,029,749).

L 12.3 Sundry

Sundry liabilities mainly includes realised losses attributable to off-balance sheet positions, principally foreign exchange swap transactions outstanding at the year end, amounting to €20,258,104 (see A 11.6 'Sundry' in the notes to the balance sheet for the position held as at 31 December 2023). These losses arose

from the conversion of such transactions into their euro equivalent at the respective currency's average cost on the balance sheet date, compared with the euro amounts at which the transactions were initially recorded. Sundry liabilities also include unrealised revaluation gains attributable to MGS and Treasury bills held as part of the earmarked portfolio amounting to €1,026,604 (2023: €3,007,975).

This sub-item also includes accrued operating expenses of which €577,984 (2023: €663,762) relates to the lease liability.

L 13 Provisions

L 13.1 Risk provisions

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. In 2024, the Bank generated a profit of €4,951,102 which was transferred to the provision for financial risks. Consequently, the risk provision reported as at 31 December 2024 amounted to €94,131,252 (2023: €89,180,150).

L 13.2 Other provisions

In 2023, a total provision of €42.9 million was established by the NCBs of participating Member States against credit risks in monetary policy operations. The Bank's share in this provision as at 31 December 2023 amounted to €44,651. During 2024, the impaired security held by one of the Eurosystem NCBs under the PEPP-Corporate portfolio was sold and the provision was used to cover most of the realised loss. The Bank's portion of the realised loss amounted to €56,161 (see 3 'Net result of pooling 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.

| | 2024 | 2023 | Change |
|----------------------------|---------------|--------|--------|
| | €'000 | €'000 | €'000 |
| Gold | 1,700 | 416 | 1,284 |
| Foreign currency positions | 3 | 8 | (5) |
| Marketable instruments | 30,658 | 18,409 | 12,249 |
| Total | 32,361 | 18,833 | 13,528 |

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 2023 | 20,000 | 75,505 | 187,776 | 102,752 | 386,033 |
| Net issuance of euro coins | - | - | - | 4,038 | 4,038 |
| Balance as at 31 December 2024 | 20,000 | 75,505 | 187,776 | 106,790 | 390,071 |

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/(expense)

1.1 Interest income

Interest income principally includes income on foreign reserve assets and euro-denominated portfolios, as well as interest income on monetary policy operations and intra-Eurosystem claims.

| | 2024 | 2023 | Change |
|--|----------------|----------------|------------|
| | €'000 | €'000 | €'000 |
| Marketable debt securities | | | |
| - In euro | 44,302 | 20,713 | 23,589 |
| - In foreign currency | 36,110 | 22,382 | 13,728 |
| Fixed-term deposits | | | |
| - In foreign currency | - | 23 | (23) |
| Current accounts and overnight deposits | | | |
| - In euro | 16 | (2) | 18 |
| - In foreign currency | 1,099 | 709 | 390 |
| IMF | 2,390 | 2,233 | 157 |
| Monetary policy operations | | | |
| - Main refinancing operations | 328 | 52 | 276 |
| - Longer-term refinancing operations | 374 | 2,865 | (2,491) |
| - Securities acquired under the SMP | 153 | 664 | (511) |
| - Securities acquired under the PSPP | 16,560 | 16,707 | (147) |
| - Securities acquired under the PEPP | 3,819 | 3,614 | 205 |
| Intra-Eurosystem claims | | | |
| - TARGET Balances | 181,047 | 225,074 | (44,027) |
| - Claims arising from the transfer of foreign reserves | 1,865 | 1,389 | 476 |
| Forward foreign exchange contracts | (4,509) | (7,962) | 3,453 |
| Marketable investment funds | 18,250 | 12,980 | 5,270 |
| Other interest income | 191 | 205 | (14) |
| Total | 301,995 | 301,646 | 349 |

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.

| | 2024 | 2023 | Change |
|--|----------------|---------|----------|
| | €'000 | €'000 | €'000 |
| Government accounts | | | |
| - In euro | 962 | 1,762 | (800) |
| - In foreign currency | 143 | 446 | (303) |
| Other customer accounts | | | |
| - In euro | 143 | 426 | (283) |
| - In foreign currency | 8,779 | 7,952 | 827 |
| Monetary policy operations | | | |
| - Minimum reserves | - | 6,673 | (6,673) |
| - Overnight deposits | 169,951 | 183,903 | (13,952) |
| Intra-Eurosystem liabilities | | | |
| - Net liabilities related to the allocation of banknotes within the Eurosystem | 21,175 | 31,311 | (10,136) |
| Other interest expense | 26,397 | 10,221 | 16,176 |
| Total | 227,550 | 242,694 | (15,144) |

2 Net result of financial operations and write-downs

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.

| | 2024 | 2023 | Change |
|--|---------------|-------|--------|
| | €'000 | €'000 | €'000 |
| Net gains on disposal of financial instruments | 12,164 | 7,017 | 5,147 |
| Net gains on foreign currency positions | 4,102 | 1,545 | 2,557 |
| Total | 16,266 | 8,562 | 7,704 |

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.

| | 2024 | 2023 | Change |
|---|--------------|-------|--------|
| | €'000 | €'000 | €'000 |
| Write-downs on marketable instruments | 2,875 | 3,238 | (363) |
| Write-downs on foreign currency positions | 36 | 22 | 14 |
| Total | 2,911 | 3,260 | (349) |

3 Net result of pooling monetary income

This item principally includes the net result of pooling monetary income for 2024 amounting to an expense of €49,780,811 (2023: €53,866,997). In 2024, an expense of €66,993 was paid in relation to adjustments from the previous year which included the Bank's share of the realised loss from the sale of an impaired security held by a Eurosystem NCB. This item further includes the release of the Bank's share of the provision established in 2023 against losses in monetary policy portfolios amounting to €44,651 (see L 13.2 'Other provisions' in the notes to the balance sheet). The Bank's share in the realised loss arising from the restructuring of an issuer in 2024, whose securities were held by a Eurosystem NCB in its CSPP and PEPP-Corporate portfolio, is also included in this item.

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 related to TARGET; 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 related to TARGET; 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, until 31 December 2024, the following were 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 (see 9 'Post-balance sheet events' in the general notes to the financial statements).

Until 31 December 2024, the net income derived from the earmarkable assets held and the liability base were 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 (see 9 'Post-balance sheet events' in the general notes to the financial statements).

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 2024 was a payment by the Bank of €49,780,811 (2023: €53,866,997). This net result is the difference between the net monetary income pooled by the Bank amounting to €107,775,860 (2023: €96,273,043) and the reallocated amount of €57,995,049 (2023: €42,406,046).

4 Net income/(expense) from fees and commissions

Fees and commissions income for the year, principally arising from banking services provided by the Bank amounted to €1,147,836 (2023: €794,377), while fees and commissions expenses, mainly consisting of custody fees and correspondent account charges, amounted to €1,994,970 (2023: €1,613,174).

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.

| | 2024 | 2023 | Change |
|---|---------------|---------------|--------------|
| | €'000 | €'000 | €'000 |
| Staff salaries | 15,646 | 13,559 | 2,087 |
| Other staff costs | 1,303 | 1,234 | 69 |
| Training, welfare and other related expenditure | 1,215 | 925 | 290 |
| Total | 18,164 | 15,718 | 2,446 |

The full-time equivalent average number of staff employed by the Bank during the year was as follows:

| | 2024 | 2023 | Change |
|-------------------------------|------------|------------|------------|
| | Number | Number | Number |
| Governors | 3 | 3 | - |
| Chief Officers and Heads | 26 | 26 | - |
| Executives and other officers | 297 | 299 | (2) |
| Non-clerical staff | 26 | 30 | (4) |
| Total | 352 | 358 | (6) |

8 Administrative expenses

This item consists of operating expenditure incurred by the Bank.

Administrative expenses of €13,359,584 (2023: €12,683,403) 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 2024 amounted to €123,900 (2023: €129,800).

Compensation to the members of the Board of Directors for the financial year ended 31 December 2024 amounted to €442,528 (2023: €413,317).

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.

12 Transfers (to)/from risk provisions

This item shows the movements in the risk provision (see L 13.1 'Risk provisions' in the notes to the balance sheet).

Other notes

Off-balance sheet instruments

As at 31 December 2024, the Bank had outstanding net foreign exchange swap contracts of €890,449,007 against other currencies. As at 31 December 2023, off-balance sheet instruments included forward and swap contracts of €766,652,984 and unsettled net spot transactions of €6,120,000.

As at the balance sheet date, the Bank also had outstanding interest rate futures contracts linked to German government securities (net long position with a notional amount of €9,700,000) and US treasury notes (net long position with a notional amount of US\$17,700,000).

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 €4,432,000 (2023: €4,686,700), 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 the 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 €8,699,925 (2023: €6,334,834), 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 2024, 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 €62,566,176 (2023: US\$65,000,000 or approximately €58,824,000). No amounts were borrowed under these facilities at the balance sheet dates.

Assets held in custody

As at 31 December 2024, assets held in custody by the Bank in terms of the Insurance Business Act (Cap. 403) amounted to the equivalent of €13,107,192 (2023: €14,033,269).

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 2024, the Investor and Depositor Compensation Schemes had deposits of €253,061 (2023: €785,618) and €9,290,343 (2023: €8,830,851) respectively, with the Bank.

Statement of the Bank's investments as at 31 December 2024

| | EUR €'000 | USD €'000 | Others €'000 | Total €'000 |
|--|------------------|----------------|-----------------|------------------|
| Cash and balances with banks | | | | 25,196 |
| Gold balances | | | | 14,655 |
| Debt securities by issuer category: | | | | |
| Government | 2,385,094 | 183,935 | 156,080 | 2,725,109 |
| Monetary financial institutions | 827,675 | 326,511 | 322,362 | 1,476,548 |
| Other financial institutions | 165,532 | 35,751 | 41,391 | 242,674 |
| Non-financial institutions | 14,928 | - | - | 14,928 |
| Supranational | 80,634 | 49,441 | 77,991 | 208,066 |
| | 3,473,863 | 595,638 | 597,824 | 4,667,325 |
| Claims on the IMF | | | | 389,887 |
| Participating interest in the ECB | | | | 33,264 |
| Transfer of foreign reserves to the ECB | | | | 52,235 |
| Investment funds | | | | 593,737 |
| Total investments | | | | 5,776,299 |

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-38, which comprise the balance sheet as at 31 December 2024 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 2024, 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/2024/31) on the legal framework for accounting and financial reporting in the European System of Central Banks (recast), issued on 14 November 2024 (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

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 page A-2 to A-3, and
- (ii) the 'Foreword', 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 17 March 2025 and signed by:



Julia Gingell as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor
Central Business District, Birkirkara, Malta.