



MEDIA RELEASE

28 February 2019

Publication of Malta's Financial System Stability Assessment (FSSA) Report by the International Monetary Fund

The International Monetary Fund (IMF) has today published a Financial System Stability Assessment Report summarising the findings of its assessment of Malta's financial sector known as the Financial Sector Assessment Program (FSAP). The report will be followed by the publication of Technical Notes by the IMF on specific topics covered in the FSAP. The FSAP was requested by the Maltese Government in 2017 and was initiated by a scoping visit by the Fund's core team in 20-22 March 2018. Following extensive preparatory work by the Maltese Authorities, an on-site review was carried out by a team of IMF international experts between the 10th and 26th September 2018.

The report notes the following salient points:

"The financial sector in Malta is large compared to the economy and is strongly connected with the rest of the world."

"Key metrics suggest that the banking system is in good health, but challenges exist."

"Banks' total capital adequacy ratio is high (21.2 percent of risk-weighted-assets (RWA) in 2017; Tier 1 Capital ratio at 19 percent) and liquidity is ample."

"The banking system remains resilient under a severe scenario, with weaknesses limited to a few small banks. The system is sufficiently capitalized to absorb losses in the event of a severe macroeconomic shock, but risky exposures would lead to potential losses at a few small banks."

"Continued enhancements are encouraged in the macroprudential framework. While the recent strengthening of systemic risk monitoring is commendable, the legal framework should be enhanced, data gaps closed, and nonbank risk assessment

strengthened. The planned introduction of borrower-based measures to address build-up of vulnerabilities in the housing and household sector is welcome.”

“Ensuring adequate resources is critical to preserve the effectiveness and operational independence of the Malta Financial Services Authority (MFSA). Shortcomings in bank supervision call for urgent action.” “To strengthen bank supervision, the MFSA should take timelier supervisory actions, increase the frequency of onsite inspections, make more use of monetary fines as part of the sanctioning regime, and ensure supervisory action is not delayed through judicial appeal.”

“Actions are needed to support the use of early intervention and resolution powers, and to address weaknesses in the bank liquidation and insolvency framework.”

“Containing financial integrity risks is critical to financial stability.” “A multi-prong approach is needed to address anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies. Enhancing the AML/CFT system is required to protect the financial sector and the broader economy from the ML/TF threats.”

The Governor of the Central Bank of Malta, Dr Mario Vella, commented that:

Malta’s IMF Financial System Stability Assessment thoroughly assessed the stability of Malta’s financial system. The Central Bank of Malta notes the report’s general positive outlook on financial stability risks in Malta. The Maltese banking sector was found to be well capitalised, liquid and operating with healthy profitability levels. The banking system was also found to be resilient under rigorous stress scenarios, with vulnerabilities limited to a few small banks under very severe stressed conditions.

The Central Bank also notes the constructive recommendations put forward in the report, particularly those related to the areas falling under its financial stability remit. In sum, these macroprudential recommendations mainly reflect enhancements to the existing work already being carried out by the Central Bank. With respect to the recommendations made by the IMF, the combined initiatives taken by the Maltese Authorities, some of which are already underway, should strengthen further the resilience of the country’s financial system.

Within a broader perspective, these recommendations will strengthen further Malta’s credential as a jurisdiction of repute and the Bank stands ready to contribute towards their effective implementation.

According to Professor John Mamo, Chairman of the Malta Financial Services Authority:

The IMF Assessment confirms the importance of the financial services sector to the Maltese economy and its strong connections to the rest of the world. Banks continue to be key players in the financial sector which remains healthy and resilient despite the challenges. Investment services firms focus mainly on foreign markets and are well integrated within the single market through inward and outward passporting. The insurance market is sophisticated, as evidenced by the presence of professional reinsurers, captive insurers, protected cell companies (PCC), and a reinsurance special purpose vehicle.

The report highlights the challenges facing the MFSA from the increased demands of supervising the growing number of licensed financial institutions in an evolving and more complex regulatory environment, as well as the need to upgrade the MFSA's operational capacity to enable it to operate more effectively. The MFSA also takes note of the key recommendations made in the report, namely to strengthen supervisory and enforcement capacity through increased resources, investment in technology and a number of operational and technical initiatives intended to enhance sectoral risk-based supervision, enforcement and judicial processes.

Going forward the report also provides valuable inputs into the ongoing improvement processes undertaken by the MFSA in conjunction with other national authorities and stakeholders to continue to safeguard stability and address the risks that may stem from different sectors of the financial market.

Note to Editors

The International Monetary Fund Financial Sector Assessment Program (FSAP) encompasses an in-depth and comprehensive assessment of a country's financial system. Such programs are intended to assist countries to identify key sources of systemic risk in the financial sector and to propose implementation of policies to enhance country resilience to shocks and contagion. The FSAP exercise mainly analyses the quality of the regulatory and supervisory framework, the resilience of the financial sector and the country's ability to manage and resolve financial crises. Following the assessment, the IMF publishes its recommendations related to micro- and macro-prudential issues to countries in a report entitled "Financial System Stability Assessment".

The Maltese Authorities had themselves requested the IMF to undertake an FSAP for Malta in 2017 given that Malta had undertaken its first FSAP in 2002. The Malta FSAP exercise formally commenced in March 2018 through a Scoping Mission visit by the IMF FSAP team which was preceded by extensive preparatory work by the Maltese Authorities. The Main Mission was undertaken between the 10th and 26th September 2018. During this period the IMF FSAP experts held a number of meetings with public authorities and private stakeholders. The members of the IMF Mission team also held meetings with the European Central Bank (ECB), with the latter being also fully involved in the process. Discussions were held with the Ministry for Finance, the Parliamentary Secretary for Financial Services, Digital Economy and Innovation, the ECB, the Governors of the Central Bank of Malta, the Chairman and Chief Executive Officer of the Malta Financial Services Authority (MFSA), and with senior management and staff at the Central Bank of Malta, the MFSA, the Minister for Finance, the Financial Intelligence Analysis Unit, the Malta Development Bank, the Malta Police Force and other public sector institutions. Other meetings were held with banks, insurance companies, law firms, audit firms, non-financial corporations and other market participants.

The IMF expert team conducted assessments on the basis of Principles for Effective Banking Supervision, Insurance Supervisory Principles, Objectives and Principles for Securities Regulation, and Financial Action Task Force's (FATF's) 40+8 Recommendations, and other relevant standards and codes. Moreover, the team assessed financial data provided by the authorities and the ECB to identify risks to financial stability and stress tested the banking system to assess its resilience to shocks. The IMF expert team also assessed the macroprudential stance of domestic authorities and crisis management framework.

The results of the Malta assessment are published in the Financial System Stability Assessment (FSSA) which also focuses on issues of relevance to IMF surveillance. The FSSA was discussed at the IMF Executive Board together with the country's Article IV report and was approved by the IMF's Executive Board on the 22nd February 2019. It was published on 27th February 2019 and the report is available on the IMF website (<https://www.imf.org/en/Publications/CR/Issues/2019/02/27/Malta-Financial-System-Stability-Assessment-46636>).