Summary for non-specialists
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Macroeconomic Imbalances – Malta 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

MALTA is *experiencing macroeconomic imbalances, which deserve monitoring and policy action.* In particular, the long-term sustainability of the public finances warrants attention while the very large financial sector, and in particular, the strong link between the domestically-oriented banks and the property market poses challenges for financial stability and deserves continued monitoring.

More specifically, the long-term sustainability of public finances is at risk due to the high projected cost of ageing and other sizeable contingent liabilities. While the real estate market does not appear to be exposed to an immediate risk of boom and bust, ensuring its proper functioning is of particular importance for financial stability. To this purpose, regular monitoring of developments in the property market appears warranted. Risks to domestic financial stability stemming from the presence of a very large financial sector should not be overstated, given the very limited exposure of internationally-oriented banks to the domestic economy, but continued regular monitoring of the activities of the internationally-oriented and the non-core domestic banks is important. Furthermore, the stability of the core domestic banks would benefit from further measures to strengthen loan loss provisions to limit risks arising from their exposure to the property sector.