MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Economic & Market Overview

July 2014

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Malta Financial Services Authority

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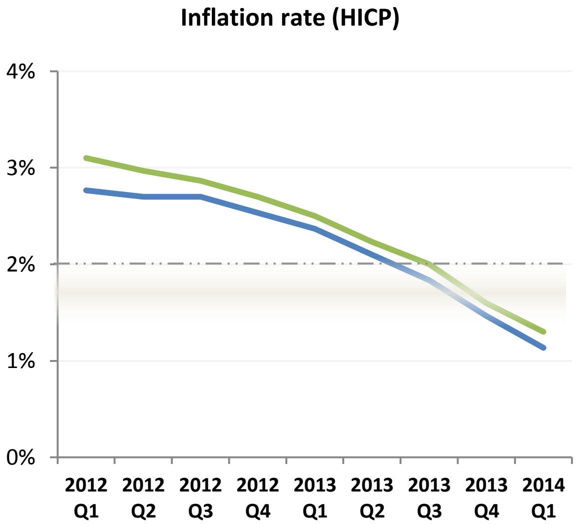
Economic performance in the EU and Euro Area

Confidence within the European Union slowly gained pace during 2013 showing increasing expectations for further economic recovery and expansion, as well as growth in consumption for the forthcoming period. Domestic demand was not as strong as envisaged during the year fuelling little growth in member state's economies. Should consumer confidence improve further, domestic demand would pick-up fuelling further growth within the bloc. However, growth during the first quarter of 2014 deteriorated conveying mixed signals for the year. Economic growth in the EU registered a 0.1 per cent increase during 2013 as compared with 0.4 per cent drop registered during the previous year. Recovery in the Euro Area was even weaker during 2013 as real GDP contracted by 0.4 per cent, as against a 0.7 drop registered the previous year.

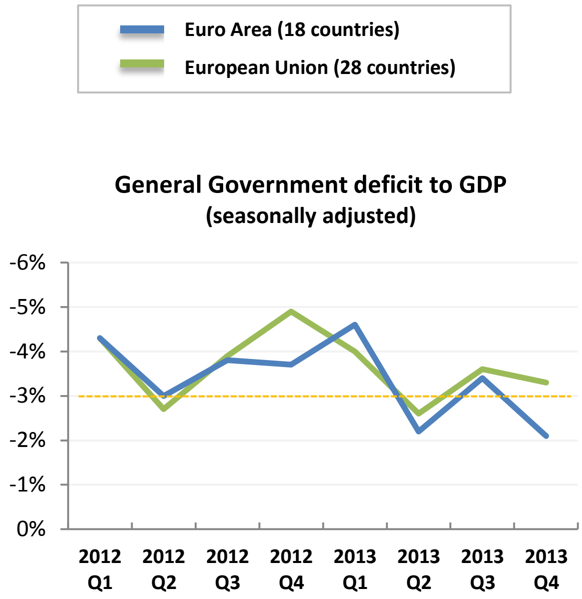
The Harmonised Index of Consumer Price (HICP) inflation continued with its downward trend during 2013 and also during the first quarter of 2014. This trend was the result of a combination of developments, namely falling commodity prices, appreciation of the euro currency, slow economic growth, macroeconomic adjustments by certain member states, and expiration of

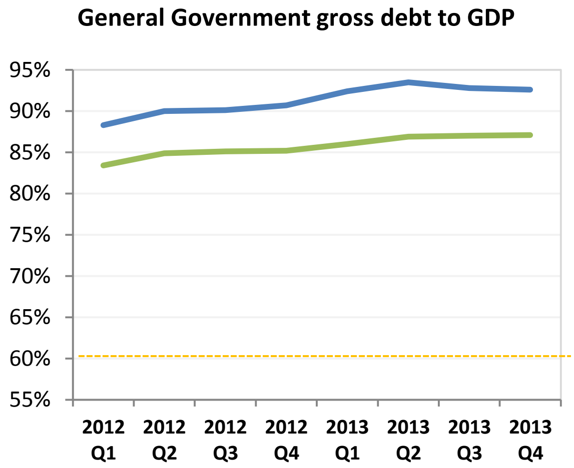


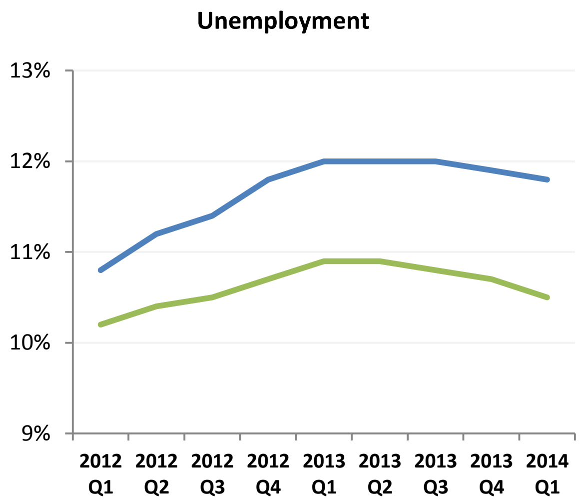
fiscal consolidation measures. The European Central Bank's quantitative definition of price stability is a year-on-year increase of below but close to 2% in the HICP. The inflation rate in December of 2013 stood at 1.3 per cent in the Euro Area and 1.5 per cent in the EU28, as against 2.5 and 2.6 per cent registered during 2012 for the Euro Area and EU28 respectively. Fears of potential deflation are on the increase as inflation dipped further in the first quarter of 2014 registering 1 and 1.2 per cent in the Euro Area and EU28.

Government deficit to GDP in the Euro Area reached the EU's 3 per cent benchmark during 2013, as against 3.7 per cent registered during the previous year. This decrease is attributed to consolidation measures that are continuously being applied across the bloc. However member states are still burdened with accumulated debt. General Government gross debt to GDP has increased from 90.7 per cent during 2012 to 92.6 per cent as recorded in 2013.

Employment within the Euro Area continued to fall during 2013 showing signs of minor improvements for the forthcoming year. Unemployment also reached a historical high rate in the Euro Area, averaging 12 per cent at end of 2013. Youth unemployment soared even higher during the year averaging at 24 per cent in the Euro Area. Further improvements in labour market conditions are required in order to promote sustainable employment

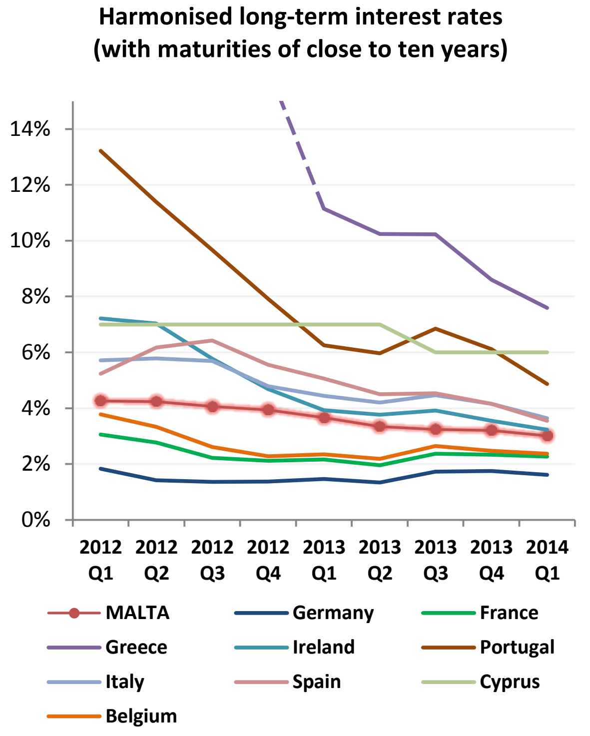






opportunities.

Spreads on government bonds in Euro Area member states narrowed further. This shows signs of improvement in confidence especially by those countries that were mostly hit by the crisis. However, in view of an environment undermined by weak economic recovery, low inflation and credit constraints, as from 11 June 2014 the ECB council reduced the main refinancing operations of the Eurosystem to 0.15%, the marginal lending facility to 0.40%, and the deposit facility to negative rate of 0.10%



Source: Eurostat

Economic Outlook for the Euro Area

Economies within the Euro Area are anticipated to undergo further recovery and reform with expectations of experiencing stronger and broader-based growth. Prospects for deeper and broader recovery is conditional onto the extent to which member states and EU institutions commit in a holistic manner towards the continued implementation of fiscal and structural reforms together with measures to boost economic growth and job creation. Moreover, new geopolitical risks that emerged from the recent Russia-Ukraine conflict may give rise to further challenges and vulnerabilities to EU member states economies.

GDP growth within the EU is still at a slow pace coupled by differentials in economic performance amongst member states. Further growth potentials are being hindered due to uncertainties and cumulative public and private debts that are engulfing economic prospects. It is projected that economic growth in 2015 will gain momentum in all member states narrowing down the two-speed economic performance phenomena. Growth in the Euro Area is forecasted to reach 1.2 per cent in 2014 which will increase further to 1.7 per cent in 2015. Domestic demand is expected to replace net exports as being the main driver of growth for the forthcoming years.

In the aftermath of the crisis, a large number of member states introduced significant fiscal consolidation and structural reforms. This contributed to the implementation of deficit-reducing measures and enhanced policy coordination within the Euro Area. Deficits of Euro Area member states are expected to decrease further during 2014 falling to 2.5 per cent of GDP. However debt is expected to continue accumulating projected to peak 96 per cent of GDP in 2014.

Inflation in the Euro Area experienced a downward trend since 2011, raising expectations that the ECB will be taking radical action in order to prevent deflationary pressures. This disinflationary trend is expected to slow down during 2014 however the Commission revised downwards the Euro Area inflation forecast to 0.8 per cent. Certain member states are also projected to experience quarterly inflation rates at or below zero during the year. On a positive note, the Commission expects inflation to start rising during 2015 towards 1.2 per cent in view of economic recovery taking place.

Since the crisis struck the Euro Area, unemployment rates took an upward trend reaching its highest historical peak during 2013 at 12 per cent. Large disparities in unemployment continue to exist among member states. This acceleration and disparity in unemployment is expected to diminish slightly during 2014 and decrease further the following year with forecasts indicating unemployment to decline to 11.4 per cent. Moreover, employment growth is expected to accelerate marginally from 0.4 per cent in 2014 to 0.7 per cent the following year.

Financial markets are gradually regaining strength amidst statements by Central Banks to keep interest rates low until recovery in embedded further in member states economies. In this low interest rate environment investors have been turning towards higher yield bonds issued by vulnerable member states. This has contributed to narrowing spreads further within the Euro Area.

Economic recovery is taking place in a weak bank lending environment where access to market funding is limited especially for SMEs. However confidence within the Euro Area is expected to grow stronger in view of the implementation of the Banking Union, commitment of member states for fiscal consolidation, and reform implementation aimed to strengthen domestic demand. Moreover through the Asset Quality Review and the EBA 2014 Stress test of EU banks' balance sheets areas of uncertainties and vulnerabilities incurred on the banking sector will be indicated and consequently addressed with appropriate mitigation actions.

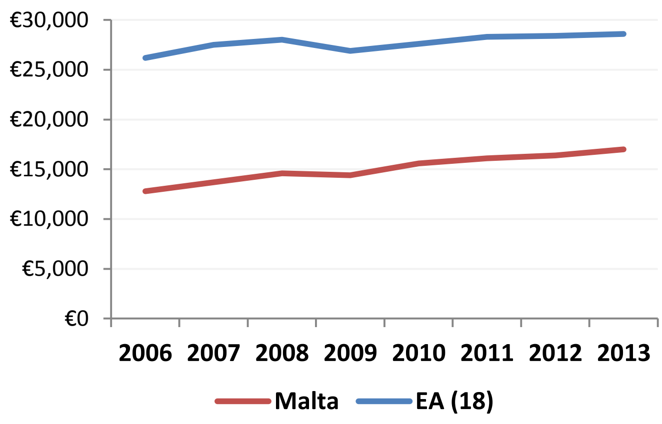
Key Economic statistics

	Malta		Euro Area (18 countries)		EU (28 countries)	
	2012	2013	2012	2013	2012	2013
Economic growth (Percentage change on previous year)	0.8%	2.6%	-0.7%	-0.4%	-0.4%	0.1%
Deficit-to-GDP	-3.3%	-2.8%	-3.7%	-3.0%	-3.9%	-3.3%
Debt-to-GDP	70.8%	73.0%	90.7%	92.6%	85.2%	87.1%
Inflation	3.2%	1.0%	2.5%	1.3%	2.6%	1.5%
Unemployment						
Youth [< 25 yrs]	14.2%	13.5%	23.1%	24.0%	23.0%	23.4%
Total	6.4%	6.5%	11.3%	12.0%	10.4%	10.8%
Male	5.9%	6.6%	11.2%	11.9%	10.4%	10.8%
Female	7.3%	6.4%	11.5%	12.1%	10.5%	10.9%
Employment						
Total	59.0%	60.6%	63.8%	63.5%	64.1%	64.1%
Male	73.3%	74.1%	69.4%	68.8%	69.6%	69.4%
Female	44.2%	46.6%	58.2%	58.2%	58.5%	58.7%

Source: Eurostat

Major Economic trends

Gross Domestic Product (GDP) per capita

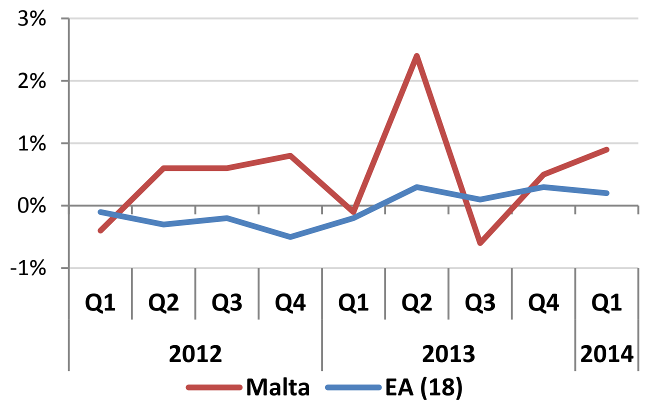


Source: Eurostat

Provisional estimates for 2013 indicate that Gross Domestic Product (GDP) per capita for Malta increase by 3.7 per cent during 2013 as compared to 0.7 per cent registered in the Euro Area.

Growth in Gross Value Added during 2013 was mainly generated by an increase of 13 percent in professional scientific and technical activities, administrative and support services activities; 8 per cent growth in information and communication; and 6 per cent increase in public administration, defence, compulsory social security, education, human health and social work activities. Whereas a drop in Gross Value Added was registered in manufacturing and construction.

Economic growth (quarter-on-quarter)

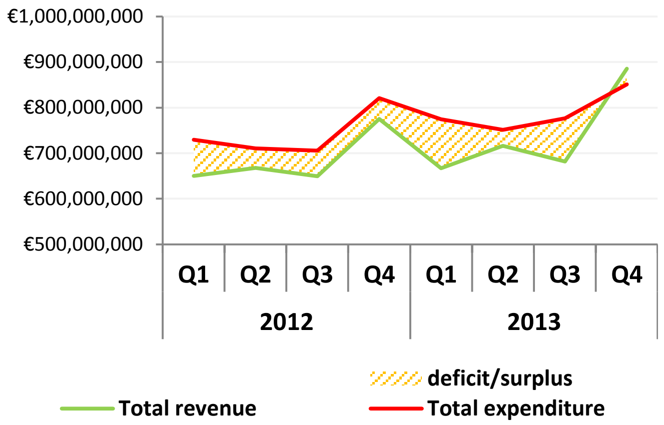


Source: Eurostat

Malta's economy registered growth on a quarter-on-quarter basis of 0.9 per cent during the first quarter of 2014 as against a drop of 0.1 per cent registered during the same quarter of the previous year. Whereas the Euro Area registered growth of 0.2 per cent during the first quarter of 2014 as against a 0.2 per cent drop registered during the same quarter of the previous year.

On an annual basis, Malta's real growth rate accelerated to 2.6 per cent during 2013 as compared to 0.8 per cent registered the previous year. Whereas the economy of the Euro Area contracted by 0.4 per cent during 2013 as against a 0.7 per cent drop registered during 2012.

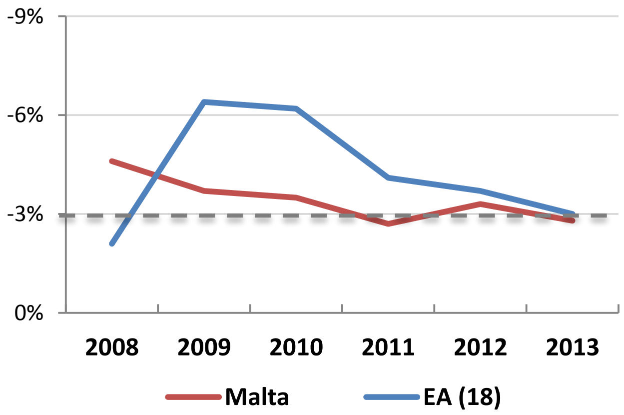
Malta's General Government revenue and expenditure



Source: NSO news release 076/2014

During the fourth quarter of 2013 Malta's General Government revenue increased by 14 per cent as against that registered during the same quarter of the previous year. The main contributing factor was higher proceeds from current taxes on income and wealth. Conversely total expenditure increased by 4 per cent during the period under review, with current transfers payable being the main contributing factor. As a result, the General Government recorded a surplus of € 34.4 million.

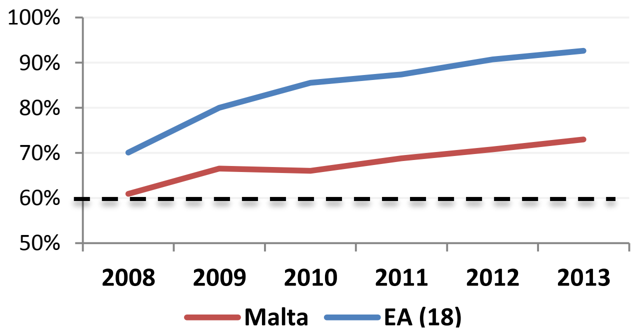
General Government deficit on GDP



Source: Eurostat

Malta's General Government deficit on GDP for the year 2013 stood at 2.8 per cent of GDP, as compared to 3.3 per cent registered during the previous year. Thus this places Malta's 2013 fiscal balance below the Stability and Growth Pact benchmark of 3 per cent such that Malta's economy no longer constitutes Macroeconomic Imbalances. General Government deficit on GDP within the Euro Area average registered 3 per cent in 2013, as against 3.7 per cent registered during the previous year.

General Government gross debt to GDP

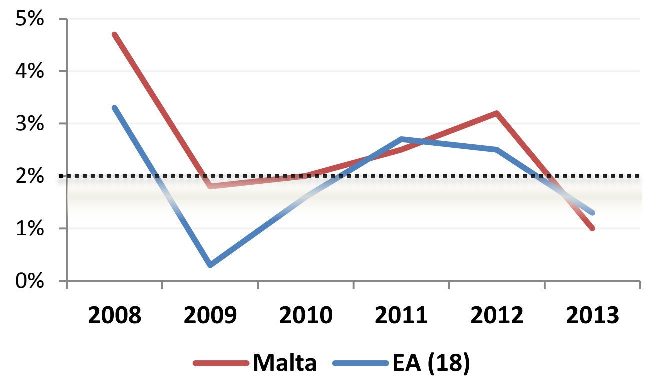


Source: Eurostat

General Government Debt kept on accumulating for Malta and also other EU member states. In 2013, General Government Debt on GDP for Malta stood at 73 per cent of GDP as against 70.8 per cent registered the previous year. Whereas for the Euro Area this stood at 92.6 per cent of GDP during 2013, as against 90.7 per cent registered the previous year. This puts the majority of member states within the Euro Area above the 60 per cent Stability and Growth pact benchmark.

HICP Inflation (12 month average rate)

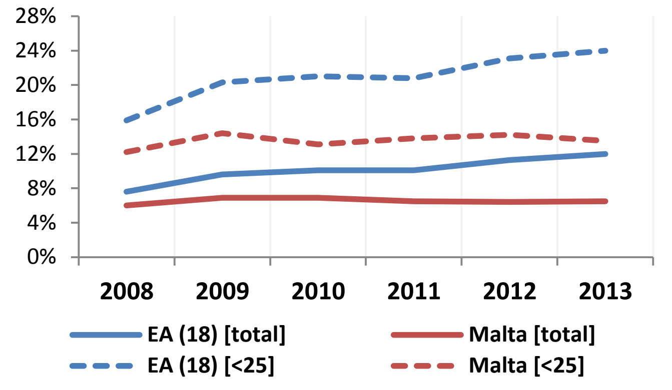
The Harmonised Index of Consumer Prices (HICP) fell to the lowest level in four years moving further away from the European Central Bank's (ECB) target of just below 2% and adding fears of deflationary pressures. As A result the ECB reduced interest rates on the main refinancing operations of the Eurosystem to 0.15%. Inflation in the Euro Area stood at 1.3 per cent as at 2013, whereas that for Malta stood at 1 per cent.



Source: Eurostat

Unemployment rate

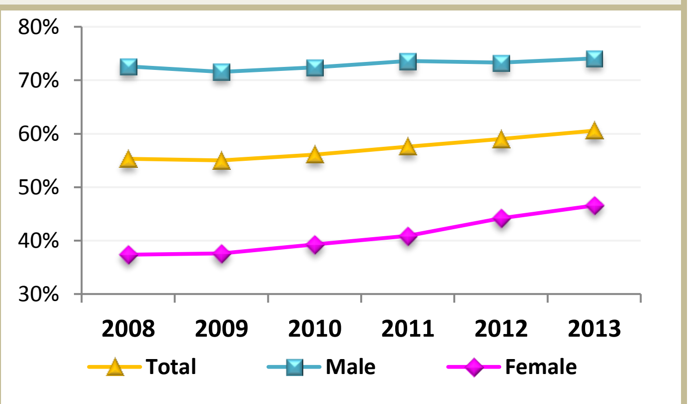
Unemployment in Malta remained stable during the years registering 6.5 per cent during 2013. Conversely unemployment in the Euro Area continued to increase reaching 12 per cent as at 2013. Large differences in unemployment rates exist between member states. This is more visible in unemployment figures amongst youths. The Euro Area average reached an all-time rate of 24 per cent. Whereas Malta registered 13.5 per cent unemployment amongst youths, 0.7 percentage points lower than that registered during the previous year.



Source: Eurostat

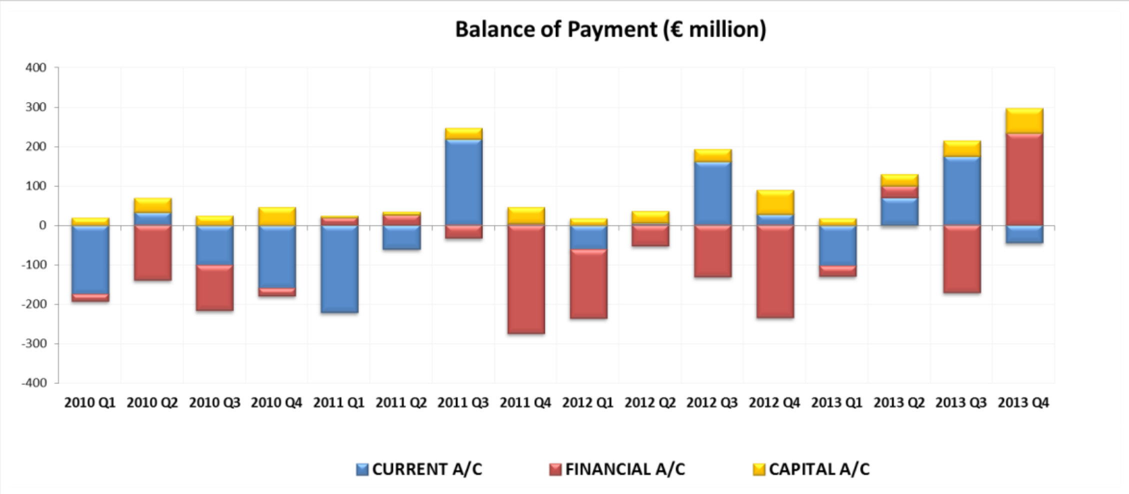
Employment in Malta

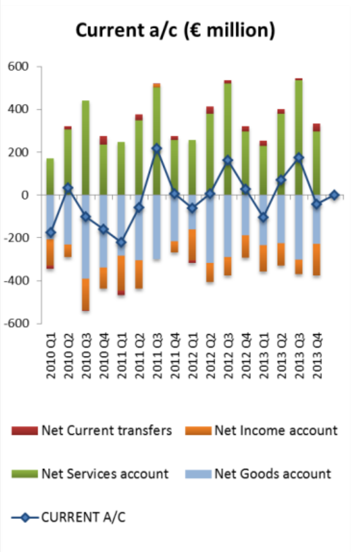
The employment rate in Malta registered an increase in 2013 of 1.6 percentage points, standing at 60.6 per cent at end of year. Although Malta's employment rate is growing, it is still below that of the Euro Area average of 63.5 per cent. The increase in female participation to the labour force was the main contributor to employment growth, registering 2.4 percentage points growth in 2013, standing at 46.6 per cent. Male employment increased by 0.8 percentage points reaching 74.1 per cent at end of year.

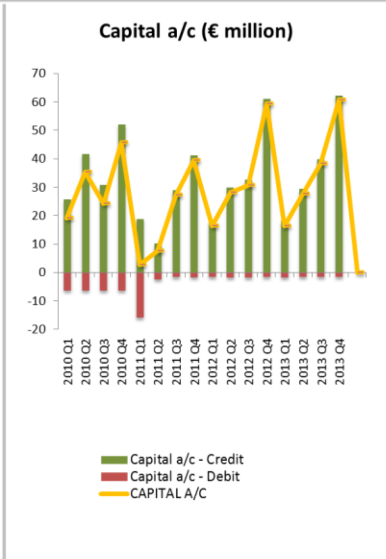


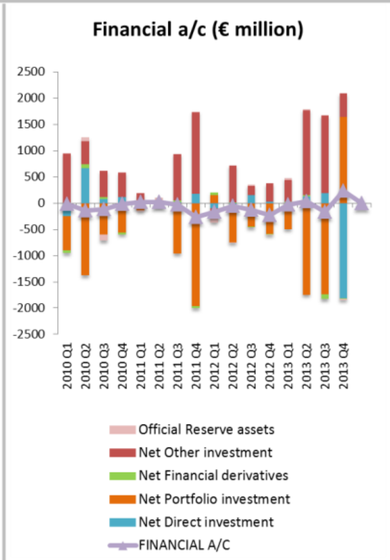
Source: Eurostat

Balance of Payment









The current account provides information on trade in goods, transactions in services, income from employment and investment and current transfers.	***The capital account is where all international capital transfers are recorded.***	***The financial account records an economy's transaction in external financial assets and liabilities, it consists of flow variables since it records changes in the country's asset holdings during the year.***

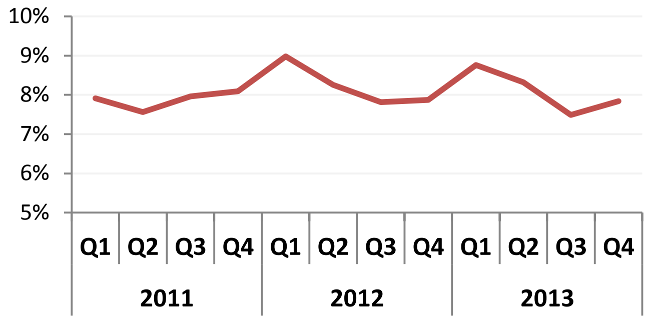
Source: Central Bank of Malta

The Current account of the Balance of Payments, as a proportion of GDP, registered a surplus equivalent to 1.4 per cent in 2013, as against 2 per cent registered the previous year. In the last quarter of 2013, the current account registered a deficit of EUR 43 million, as against a surplus of EUR 29 million registered during the same quarter of the previous year. This drop was attributed to a wider merchandise trade gap (increase of EUR 40.8 million) and an increase in net outflows of the income account (EUR 41.8 million). Conversely the services account remained relatively unchanged, whereas current transfers expanded by EUR 10.5 million. The Capital account recorded net inflows of EUR 143 million as at end 2013 as compared to net inflows of EUR 134 million registered at end of previous year. Conversely, the Financial account registered net inflows of EUR 69 million during 2013 as compared to net outflows of EUR 585 million during the previous year. During the last quarter of 2013, financial flows registered EUR 233.8 million as against net outflows of EUR 232.6 million registered during the same quarter of the previous year. Financial flows were heavily affected by operations of internationally oriented banks whereby they sold holdings of foreign portfolio instruments such that net portfolio inflows of EUR 1.6 billion were recorded during the last quarter of 2013. The direct investment account recorded net outflows of EUR 1.8 billion in the last quarter of 2013, whereas net inflows on the other investment increased to EUR 500 million. Financial derivatives account fell by EUR 5.2 million standing at EUR 12.8 million at last quarter of 2013.

Malta's financial services sector

Financial and Insurance activities contribution to total Gross Value Added (GVA)

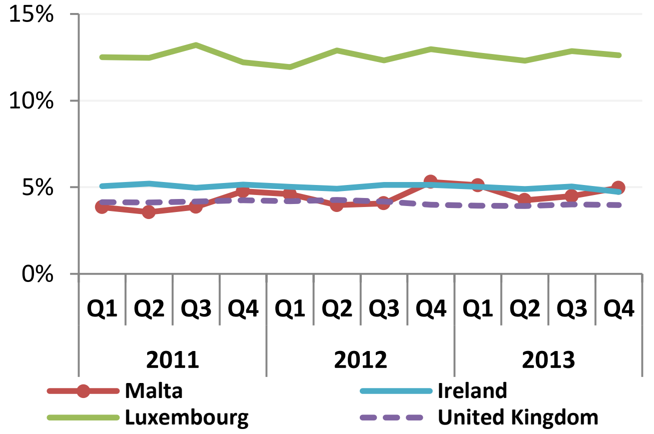
Malta's financial services sector contributed 7.8 per cent to total GVA during the fourth quarter of 2013. This is 0.1 percentage points lower than that recorded during the same quarter of the previous year. During 2013, the sector contributed 8.1 per cent to total GVA, as against 7.9 per cent and 8.2 per cent recorded during 2011 and 2012 respectively.



Source: NSO

Employment in Financial and Insurance activities

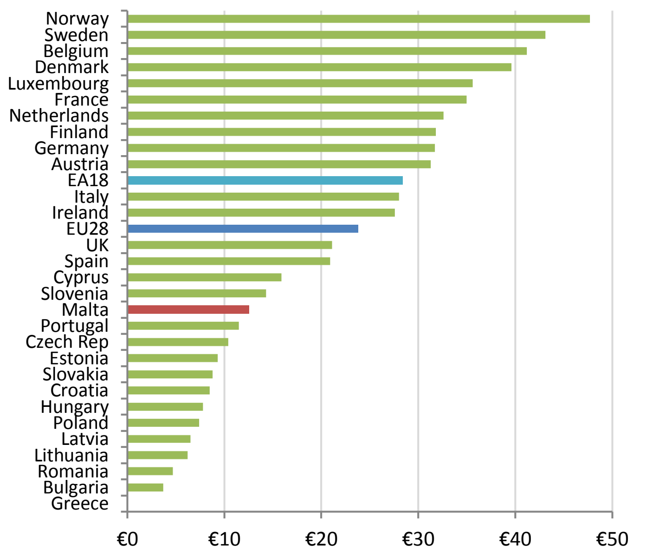
Employment within the financial and insurance sector amounted to 8,200 as at 2013, which relates to 4.7 per cent on total employment. In comparison to the previous year, employment in the financial services sector amounted to 4.5 per cent on total employment. The employment ratio of financial and insurance activities on total employment in Ireland, Luxembourg and the United Kingdom amount to 5 per cent, 13 per cent, and 4 per cent respectively.



Source: Eurostat

Estimated hourly labour cost for the business economy in 2013

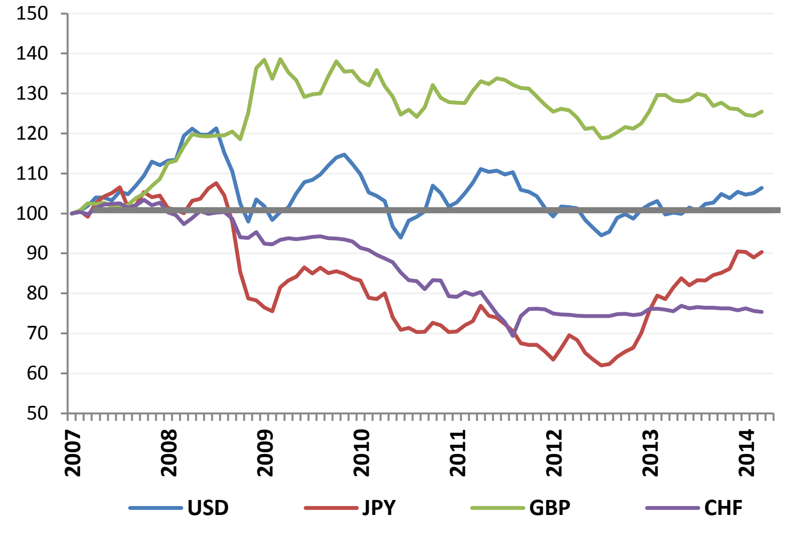
The estimated hourly labour cost for the business economy considers both wages and non-wage costs such as social contributions. In 2013 the hourly labour costs in Malta stood at EUR 12.60, whereas the average rate in the Euro Area and EU28 was EUR 28.40 and EUR 23.80 respectively. Malta's hourly labour cost is less than half that of the Euro Area average.



Source: Eurostat news release 49/2014

Exchange rate index movements of EUR against other currencies (Jan 2007 is base year = 100)

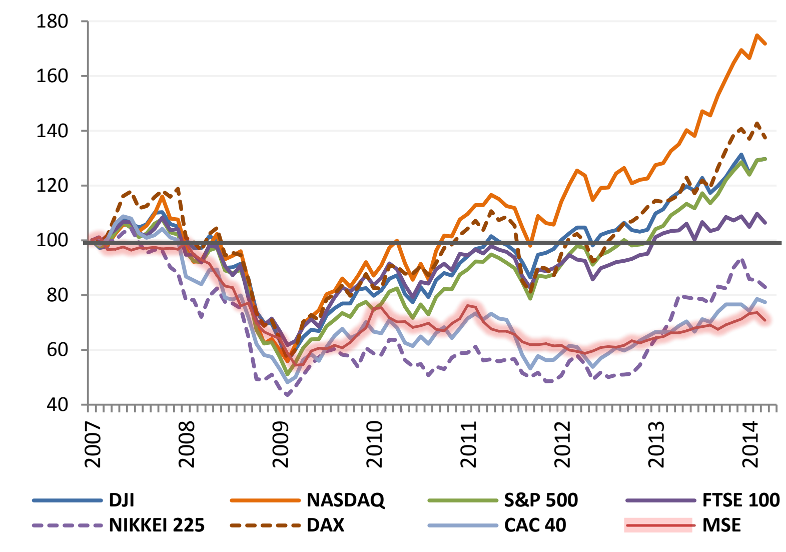
The chart indicates the exchange rate movements of major currencies against the euro. January 2007 was set as the base year. An increase in the index of another currency implies a euro appreciation whereby euro currency buys more units of the foreign currency; whereas a decrease in another currency index implies a euro depreciation whereby euro currency buys fewer units of the foreign currency.



Source: European Central Bank

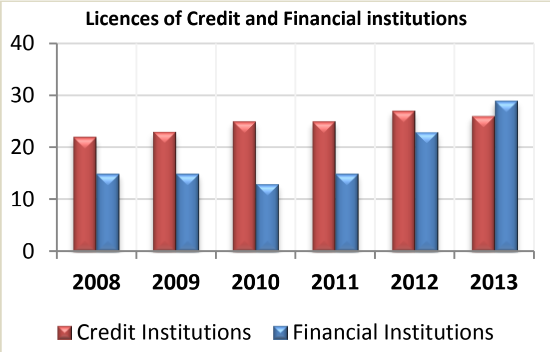
Key stock market indices value (Jan 2007 is base year = 100)

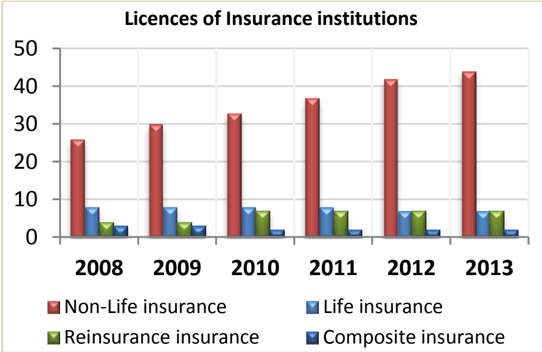
Key stock indices summarises the performance of major groupings of stocks. Each of the indices tracks the performance of a specific basket of stocks representing a particular market or sector. In order to monitor performance of stock indices, a base year at 100 was taken as from January 2007.

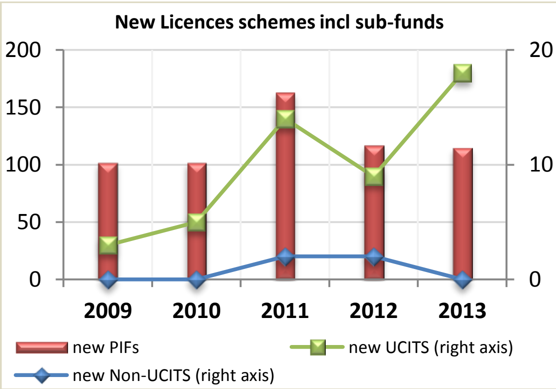


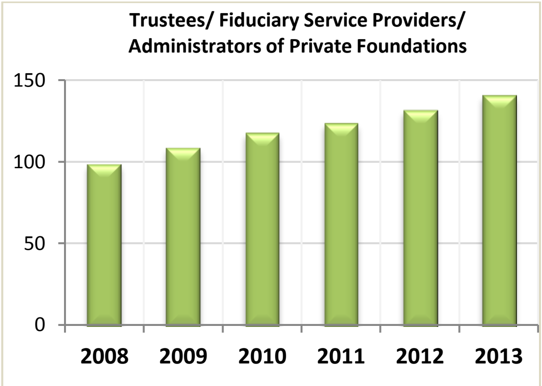
Source: Yahoo! Finance; Malta Stock Exchange

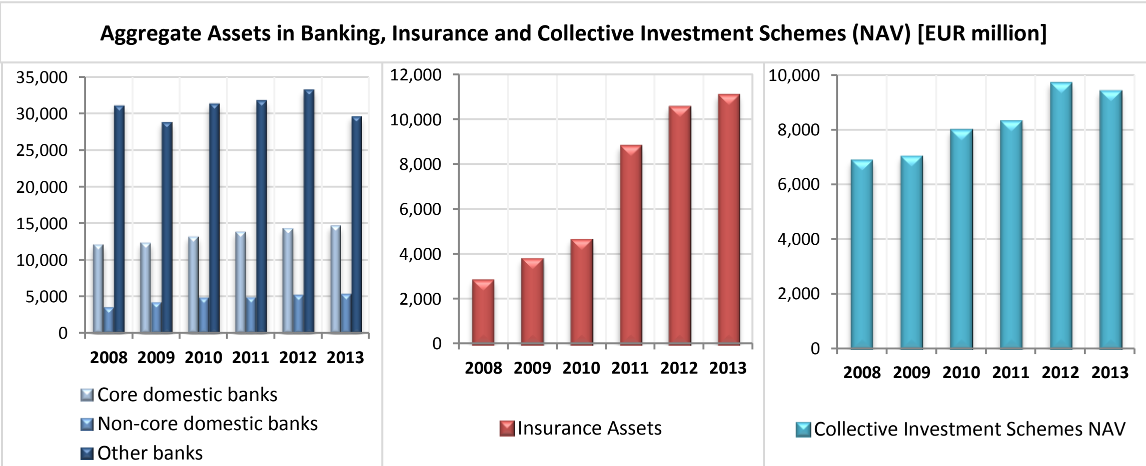
Licences and Assets of Financial institutions











Source: Malta Financial Services Authority

As at end 2013, the number of credit institutions totalled to 26, one less than that recorded during the previous year. Licences issued to financial institutions continued to register strong growth increasing by a further 6 licenses since 2012 totalling to 29 as at end of 2013. These consisted of 19 payment institutions and 6 electronic money institutions. The Banking sector retains the largest share of assets within Malta’s financial services sector totalling to EUR 49,715 million as at end 2013. Over 70 per cent of these bank assets belong to foreign institutions having minimal interaction with the domestic economy.

The insurance sector expanded further during 2013 with the registration of two new non-life insurance businesses totalling to 44 at end of year. Licences with respect to life, composite and reinsurance insurance licences remained the same as per previous year registering 7, 2, and 7 licences respectively. Total assets in the insurance sector grew by 5 per cent during 2013, totalling to EUR 11,077 million at end of year.

Collective Investment Schemes (CISs) also registered growth during 2013 whereby 133 new schemes (including sub-funds) were issued during the year. Professional Investor Funds (PIFs) continue to be the strongest form of CIS, recording 115 new PIFs as at end of 2013. Furthermore, UCITS funds grew by 18 funds during the year. The aggregate Net Asset Value (NAV) of CISs stood at EUR 9,400 million as at end of 2013.

Rating indexes

World Economic Forum - The Global Competitiveness Report – Malta's rankings

	2010-2011	2011-2012	2012-2013	2013-2014
Global Competitiveness Index rank	50	51	47	41
Availability of financial services	33	33	34	27
Affordability of financial services	30	28	32	27
Financing through local equity market	9	23	24	25
Ease of access to loans	12	12	17	15
Soundness of banks	10	12	13	14

Source: World Economic Forum - The Global Competitiveness Report

Malta's Sovereign Credit Rating

	Moody's ratings	Standard & Poor's ratings	Fitch ratings
2008	A1	A	A+
2009	A1	A	A+
2010	A1	A	A+
2011	A2	A	A+
2012	A3	A-	A+
2013	A3	BBB+	A
2014	A3	BBB+	A

Source: Central Bank of Malta – Financial Stability report

Economic Outlook for Malta

Malta's economy continued to outperform that of the Euro Area average during 2013. Economic growth is projected to accelerate further during 2014 as domestic demand gains momentum becoming a main driver for growth. Household consumption is projected to rise mainly due to improving labour market conditions as well as due to reductions in the utility tariffs. Real GDP growth is forecasted to reach 2.3 per cent during 2014 and 2015. For such growth to be sustainable, further measures promoting productivity and labour market participation is required.

The employment rate is forecasted to grow further by 2.1 per cent during the forthcoming year. This would primarily be driven by additional participation of female and old age workers in the labour market. Unemployment is set to remain constant during 2014 and 2015 at 6.5 per cent. Recently the Ministry for Education and Employment launched the National Employment Policy whereby a number of schemes and initiatives have been put forward targeting labour market frictions and fragilities from both an economic and social aspect. Moreover, the Policy will drive Malta's labour market towards 2020 targets as established by the EU.

HICP inflation experienced a sharp downward trend during 2013 and this is expected to persist during the first half of 2014. Inflation is forecasted to slowly rebound during 2014 driven by services and food prices which will be supported by an increase in household consumption. However the increase will be moderate due to an expected reduction in energy inflation in view of the lower utility tariffs. Inflation is expected to accelerate from 1 per cent as registered during 2013 to 1.7 per cent in 2014.

Malta's fiscal position is expected to improve further, in line with the reduction in government deficit as registered during 2013. Government deficit is expected to fall to 2.5 per cent of GDP during 2014 in view of a boost in revenues and restrictions from the expenditure side. This reflects a marginal decrease in government deficit as compared to 2.8 per cent registered during 2013. With respect to Debt-to-GDP, it is projected to decrease to 72.5 per cent of GDP during 2014 as against 73 per cent registered during 2013. Consequently it is expected to decrease further to 71.1 per cent in 2015.

The financial system in Malta remained stable throughout the year and is expected to remain this way in the forthcoming year. Financial stability through effective supervisory practices was significant in maintaining a robust financial services sector. The banking sector, being the largest financial activity in terms of assets, was able to endure economic and financial market shocks that emanated from the Euro Area as well as internationally. Core domestic banks continued to register high profitability and solvency ratios as well as maintained a stable liquidity position, with deposits remaining the main source of funding. Total assets of core banks declined slightly during the year from 214 per cent of GDP as at 2012 to 210 per cent as at 2013. Non-performing loans increased during the first half of 2013 however stabilised in the second half of the year. Other activities within Malta’s financial services sector also performed well, especially with respect to financial institutions which experienced an increase in licences in both payment and electronic money institutions. Insurance and collective investment schemes developed rapidly during the year experiencing growth in aggregate assets.

Banking Union – *the European Banking reform*

The Monetary Union was primarily designed as a single currency embedded by the Stability and Growth Pact to ensure stability, having all other economic and financial stability policies as well as financial services supervision under the sovereignty of member states. As the financial and Eurozone debt crisis deepened various weaknesses within this framework were noticeable. The need for a deeper financial institutional framework in Europe was urgently required in view of the increasingly interconnected elements surrounding the Monetary Union.

In response to the deficiencies especially with respect to the lack of regulatory integration within member states banking systems, the European Commission in tandem with Governments of member states agreed in June 2012 to create the ***Banking Union***. This is set to complete the economic and monetary union framework designed to safeguard financial stability and subdue any potential impacts of bank failures. The Banking Union will be made up of three complementary building blocks:

- Single Rulebook
- Single Supervisory Mechanism
- Single Resolution Mechanism

Single Rulebook

The European Council in June 2009 recommended the setting up of a unified banking regulatory framework which all financial institutions within the EU must adhere to. The ***Single Rulebook*** consists of a set of legislative texts that lays out among other things bank capital requirements, enhance depositors' protection, and the management of bank failures.

The ***Capital Requirements Regulation and Directive (CRR/CRD IV)*** implements Basel III standards on bank capital into the EU legal framework, ensuring uniform application by all banks in EU Member States. This legislative package regulates banks activities and prudential framework governing the whole EU internal market, setting capital reserves and liquidity requirements for banks. The package entered into force on 1 January 2014, however certain aspects will be phased-in between 2014 to 2019.

The ***Deposit Guarantee Scheme (DGS)*** acts as a safety net for bank account holders in case of bank failure. The original Directive was adopted in 1994 setting a minimum harmonisation approach, such that significant differences among member states existed as to the level of coverage, scope of covered depositors and products, and pay-out delays. Through the Directive of March 2009, the Council decided that Member States must increase coverage of their DGS to at least €50,000 initially, and then to a uniform level of €100,000 by the end of 2010. The DGS Directive, has been reviewed with the aim of harmonising and simplifying the Directive in order to improve protection of deposits, maintain depositor confidence, and strengthen the safety net. The DGS (Recast) Directive - 2014/49/EU was published in the EC Journal on 12 June 2014. The new funding requirements stipulate that the contributions to DGS will be based on the amount of covered deposits and the degree of risk incurred by the respective member. The revised DGS will be able to better fulfil its obligations towards depositors, and in case of a bank failure, deposits will be given much faster access thus enhancing confidence and safeguarding financial stability.

The ***Bank Recovery and Resolution Directive (BRRD)*** require banks to prepare recovery plans to overcome financial distress, while Authorities are required to lay out plans to resolve failed banks. Binding rules on bail-in are provided by the BRRD putting shareholders and debt holders as the forefront payers when banks are in difficulty, hence avoiding that taxpayers will bear the costs. Such a timely resolution should avoid the cascading of problems between financial institutions thus safeguarding the Union's financial stability. As from January 2016 National resolution funds set up under BRRD will be transferred and replaced by the ***Single Resolution Fund (SRF)***. The fund, with a target level of €55 billion, will ensure the availability of medium-term funding to enable the bank to continue operating while it is being restructured.

The Singe Rulebook, apart from setting a unified legal framework will above all set mutual standards with respect to regulatory definitions and methodologies of key indicators. Through such regulatory uniformity amongst member states, regulatory divergences and uncertainties will be narrowed laying a level playing field for banks operating in the Single Market.

Single Supervisory Mechanism (SSM)

As interconnectedness between financial institutions and markets across the Euro Area intensifies, the need for a centralised supervisory mechanism keeps growing. The European Council agreed on setting up a ***Single Supervisory Mechanism (SSM)*** framework whereby the ECB will be the supervisor of all banks in the Euro Area in cooperation with National Supervisory Authorities as from November 2014. ECB's supervisory and monetary roles will be separated by means of distinct decision-making bodies. The degree of direct day-to-day supervision by the ECB will be based according to the size of the bank having assets over EUR 30 billion or constituting at least 20% of their home country's GDP, or also those banks which requested or received direct public financial assistance from the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM). However the ECB may eventually request for the direct supervision of any other bank it deems of being a threat to financial stability. The ECB is undertaking an Asset Quality Review and a Stress Test exercise in coordination with the European Banking Authority on those banks over which it will be having direct oversight. National supervisors will still play a pivotal role in banking supervision as they will be responsible for the day-to-day verifications and assistance to ECB's supervisory role; day-to-day supervision of less significant banks; supervision of credit institutions from third countries establishing a branch or providing cross-border services in the EU; and payments services supervision.

Single Resolution Mechanism (SRM)

Bank resolution had a disproportionate impact on member states' real economies and taxpayers during the financial crisis. Complementing the Single Supervisory Mechanism, the Commission announced the setup of a ***Single Resolution Mechanism (SRM)*** which will limit contagion risk to other parts of the economy and to other member states in cases of bank difficulties. The SRM will enter into force on January 2015, whereas bail-in and resolution functions would apply from January 2016. A bank would be placed into a resolution scheme once it is notified that the bank is failing or likely to fail, or also if no private sector arrangement could avert such failure, or also the bank's failure would have repercussions on financial stability. The SRM builds on the measures and tools laid down in the Bank Recovery and Resolution Directive by providing a robust framework that allows for prompt and coordinated resolution action.

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