Malta

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IN A NUTSHELL

→ The economy began to recover from the effects of the pandemic assisted by the government's COVID-related support measures. In 2021, GDP rose by 10.4%, with the GDP level surpassing marginally its 2019 pre-pandemic level.

→ Residential property prices increased at an average annual rate of 5.3% during the first three quarters of the year, following the 3.4% increase recorded in 2020 as a whole.

→ Mortgages for house purchases continued to increase in 2021, reaching around EUR 6.5 bn.

MACROECONOMIC OVERVIEW

After the significant dips experienced in most economies as a result of the impact of the pandemic, economic activity locally increased significantly in 2021, following the strong decline in 2020. Thus, real GDP rose by 10.4%, after contracting by 8.3% a year earlier, with the expansion being largely underpinned by developments in domestic demand. The latter added 7.6 pps to GDP growth while the positive contribution of net exports was smaller. On the other hand, private consumption increased by 6.2%, after contracting by 10.2% in 2020, adding 2.8 pps to GDP growth. Meanwhile, net exports added 1.8 pps to GDP growth as exports outpaced imports. Also in 2021, government consumption grew by 6.1%, mainly due to higher outlays on compensation of employees and intermediate consumption. The latter partly reflected higher expenditure on health, which remained elevated due to treatment for COVID-19. The increase in outlays on compensation of employees reflected higher wages and allowances in the health sector as well as payment of arrears within public administration and defence following the signing of collective agreements.

During the first three quarters of 2021, employment expanded at an average annual rate of 2.0% compared to the 3.5% recorded during the corresponding period of 2020. This mostly reflected a year-on-year fall in employment in the first quarter of 2021 resulting from the impact of the pandemic. Employment continued to benefit from the ongoing normalisation of economic activity in the context of a tight labour market, although Government measures – such as the Wage Supplement Scheme – also provided support. Since then, employment levels recovered. The unemployment rate averaged 3.5% during the first three quarters of 2021, compared to 4.3% in the same period of 2020. Nevertheless, it continued to remain well below the average rate for the euro area, which stood at 8.0% in 2021 and also below the country's historical average.

Labour productivity rose by 7.7% in 2021, following a contraction of 10.8% in the previous year.

In the first three quarters of 2021, the general government registered a deficit of EUR 886.5 mn, EUR 76.2 mn lower when compared to the deficit recorded in the corresponding period of 2020. This was due to a significant increase in government revenue spurred by the economic recovery, which offsetted the rise in government expenditure. During the period under consideration, government expenditure remained elevated partly on account of COVID-related economic support measures and health-related outlays on testing, treatment and vaccination. When compared to the corresponding period a year earlier, government spending increased by EUR 328.5 mn or 7.6%.

When measured on a 4-quarter moving sum basis, the general government deficit-to-GDP ratio narrowed from 9.7% at end 2020 to 8.5% in the third quarter of 2021. Meanwhile, the government debt-to-GDP ratio continued to increase. Overall, it rose by 3.2 pps, compared to December 2020, reaching 56.6%. In contrast with 2020, when GDP had contracted sharply, the interest-growth differential exerted a debt-decreasing effect in the period reviewed.

In this period, the increases in deficit and debt ratio were more pronounced than those in the euro area. However, government's debt-to-GDP ratio remained well below that for the euro area.

HOUSING AND MORTGAGE MARKETS

The home-ownership rate continues to hover around the 80% mark i.e. 81.9% in 2021. The number of housing construction permits fell slightly in 2021 at 7,578 (7,837 in 2020 and 12,485 in 2019). Apartments were again by far the largest residential category, accounting for around 85% of new building permits issued in 2021.

Number of final deeds of sale by period of registration relating to residential property during 2021 rose significantly to 14,362 (11,057 in 2020 and 14,019 in 2019) with a relative value of EUR 3.1 bn (EUR 2.1 bn in 2020 and EUR 2.7 bn in 2019). The data presented covers the following property types: airspace, boathouse, bungalow, farmhouse, flat/apartment, garage, garden, house, maisonette, penthouse, plot of land, semi-detached villa, terraced house, 'terran' (groundfloor), urban tenement, and villa.

Residential property prices continued to increase during the first three quarters of 2021. The NSO's Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – increased at an average annual rate of 5.3% during the first three quarters of the year, following the 3.4% increase recorded in 2020 as a whole. House price inflation was significantly lower than that in the euro area where it averaged 7.2% in the first nine months of 2021.

Mortgages to residents totalled around EUR 6.5 bn at the end of 2021, up from EUR 5.8 bn in 2020. The core domestic banks effectively extended over 65% of the credit provided (which includes mortgage loans) to households and individuals. In 2021 average interest rates (Annual Percentage Rate of Charge) on new residential loans continued to ease to 2.68% (2.99% in 2020) while the median loan-to-value ratio appears to have remained around 80%.

In recent years, various factors contributed to the attractiveness of property investment such as: an increase in disposable income; an influx of foreign workers which increased demand for property and a growth in tourism which led to a strong demand for private accommodation.

Residential property prices continued to be supported by several factors, including the low-interest rate environment as well as the various government schemes supporting the property market. Furthermore, property prices were also supported by the enhancement of government support in response to the pandemic. This includes for instance the reduction in tax rate and stamp duty to eligible transfers of immovable property. In particular, the property tax and stamp duty on the first EUR 400,000 of the value of the transfer were reduced to 5.0% and 1.5%, respectively. These measures were initially intended for final transfers made before 1 April 2021 but were later extended for promise of sale agreements entered into until 31 December 2021. Additionally, the Budget for 2021 extended or introduced more favourable terms on some existing schemes supporting this sector.

The Malta Citizenship by Investment scheme which allows foreigners to acquire Maltese citizenship, subject to certain conditions:

- a significant non-refundable investment – which in the case of the main applicant – EUR 600,000 (3-year residency) or EUR 750,000 (1-year residency) to the National Development and Social Fund (NDSF) set up by the Government of Malta and run by a board of trustees;
- either purchasing property in Malta for EUR 700,000 or more and maintaining ownership for 5+ years, or leasing a property for at least five years with a minimum annual rent of EUR 16,000;
- upon the applicant being approved in principle, he or she must donate at least EUR 10,000 to a local non-profit organisation;

also played a role in generating demand for local properties.

MORTGAGE FUNDING

Mortgage loans are mainly provided by the core domestic banks (together with 3 other smaller institutions), but predominantly through Bank of Valletta plc and HSBC Bank Malta plc, which account for almost 78% of the domestic retail market (as a percentage of total deposits). These latter banks rely mainly on resident deposits for funding, which in 2021 increased to almost EUR 23 bn for the whole banking sector. Local retail deposits provide ample liquidity to the core domestic banks and with a low loan-to-deposit ratio at 55.1% (as at end 2021), local banks do not need to resort to securitisation or covered bonds for funding purposes.

GREEN FUNDING

During the last few years, various banks from the core domestic banks cohort, launched a wide array of green energy loan products to assist customers finance the acquisition of equipment and fixtures such as solutions that generate renewable energy or increase energy efficiency – which include PV panels; green roof gardens; solar water collectors; space heating and hot water or cooling generation; insulation; interior and exterior apertures - double glazing and insulation; ventilation, heating or cooling and lighting systems; energy generation household storage and EV household charging stations.

Sources: inter alia CBM Annual Report and Financial Stability Report 2021, NSO website and CBM website Monetary and Banking Statistics

	MALTA 2020	MALTA 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-8.3	10.4	5.4
Unemployment Rate (LSF), annual average (%) (1)	4.3	3.5	7.0
HICP inflation (%) (1)	0.8	0.7	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	81.9	81.9	70.0
Gross Fixed Investment in Housing (annual change)(1)	-21.3	4.2	6.6
Building Permits (2015=100) (2)	198.6	192.0	134.0
House Price Index – country (2015=100) (2)	125.1	129.8	1452*
House Price Index – capital (2015=100) (2)	n/a	n/a	146.1*
Nominal house price growth (%) (2)	0.4	3.7	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	5,824	6,459	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	13,462	14,884	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	62.8*
Gross residential lending, annual growth (%) (2)	n/a	n/a	12.2
Typical mortgage rate, annual average (%) (2)	2.6	2.7	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

MALTA FACT TABLE

Which entities can issue mortgage loans in your country?	Main issuers of mortgage loans within the local banking sector are the 6 core domestic banks namely: APS Bank Ltd; Bank of Valletta plc; BNF plc; HSBC Bank Malta plc; Lombard Bank Malta plc, MeDirect Bank (Malta) plc; plus 3 other banks, FCM Bank Ltd FIMBank plc and Izola Bank p.l.c.
What is the market share of new mortgage issuances between these entities?	Not available
Which entities hold what proportion of outstanding mortgage loans in your country?	As an approximation, HSBC Bank and Bank of Valletta (BOV) account for 74% of domestic retail bank-ing (total assets) in Malta. All core domestic banks' (plus the 3 other above-mentioned banks') mortgage and consumer credit loans to household and individuals totalled around EUR 8.9 bn as at end 2021, with most of this figure comprising mortgages. In 2021, the share of mortgage lending granted by the core domestic banks rose to 53.7% of resident loans when compared to 51.2 % in 2020. The CBM's Financial Stability Report for 2021 (FSR) reported various interesting insights from the perspective of exposure to mortgages, in a Business Lending Survey that featured 4 banks representing 90% of overall domestic credit. In fact, it was observed that during the second half of 2021, domestic participant banks tightened credit standards for mortgages, mainly due to lower risk tolerance and tightening of lending standards while with respect to mortgage terms and conditions, in the last quarter of 2021, domestic participant banks reported some net tightening through a lower loan-to-value (LTV) ratio owing to higher risk perceptions and lower risk tolerance. Finally, the FSR noted that following the strong domestic mortgage demand during the second half of 2020 aided by the pandemic related fiscal incentives, developments were more contained in the first half of 2021, with demand declining in the second half of 2021. Maltese respondents noted that borrowers were using more of their own funds to purchase property, coupled with uncertainty on property market developments going forward.
What is the typical LTV ratio on residential mortgage loans in your country?	It appears that the median loan-to-value (LTV) ratio for RRE lending remained contained at around 80%.
How is the distinction made between loans for residential and non-residential purposes in your country?	The banks in Malta clearly differentiate between mortgages for residents and commercial/business loans involving property development. Moreover, with the implementation in 2018 by the Central Bank of Malta in 2019 of CBM Directive No. 16 – Regulation on Borrower Based Measures, a minimum standard was set by means of which the resilience of lenders and borrowers could be strengthened against the potential build-up of vulnerabilities which could result in financial losses to both parties stemming from potential unfavourable economic developments. The Directive includes borrower based macroprudential measures such as caps to loan-to-value (LTV) ratios at origin, stressed debt service-to-income (DSTI) limits, and amortization requirements. These measures distinguish between Category I borrowers who comprise purchasing their primary residential property and Category II borrowers who comprise purchasing their second or additional residential property or buy-to-let properties.
What is/are the most common mortgage product(s) in your country?	In Malta borrowers can choose both fixed and variable rate mortgages, with capital and interest payable over the term of the loan. A moratorium on capital repay¬ments can normally be agreed for an initial number of years, during which interest only is repaid.
What is the typical/ average maturity for a mortgage in your country?	The maximum maturity granted in Malta is linked to the retirement age. 40-year mortgages to Category I borrowers are only issued on condition that the mortgage is repaid before the borrower reaches the age of 65.
What is/are the most common ways to fund mortgage lending in your country?	Mortgage funding in Malta remains mainly deposit-based. Core domestic banks, with assets of about 1.89 times (in 2021) GDP, provide over 90% of bank lending to residents in Malta, and collect around 74% of total banking deposits.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	In Malta, there is a 5% Duty on Documents (Stamp Duty) on purchases and one final withholding tax of 8% on the value of the property when sold. 5% Duty on Documents calculated on the purchase price of the immovable property. If the Buyer is a European Union Citizen declaring on deed that he shall reside in the property being purchased as his sole ordinary residence, then the preferential rate of 3.5% is applied on the first EUR 150,000 of the price. In respect of transfers of immovable property, made on or after the 5th November 2013 but before the 1st July 2015, no duty shall be chargeable on the first EUR 150,000 of the aggregate value of the consideration paid for the acquisition of such property, provided that this is the first immovable property acquired inter-vivos by such person. More information is found on http:// www.notariesofmalta.org/taxinfo.php With effect from 1 January, 2015 the current sys¬tem consisting of both a 12% final withholding tax on the sales value or 35% tax on the profit or gain was replaced by one final withholding tax of 8% on the value of the property sold subject to the following exceptions: • transfers of immovable property acquired prior to 2004 are subject to a final withholding tax of 10% of the sales value (down from 12%); • transfers of immovable property by non-property traders within the first five years of acquisition are subject to a final withholding tax of 5% of the Sales Value;
What is the level (if any) of government subsidies for house purchases in your country?	The Maltese Housing Authority currently provides the following schemes: (a) Grant to Assist Owners in the Construction and/or Completion or Rehabilitation of their First Home; (b) Installation of lifts in Government owned residential blocks/entrances; (c) Rent Subsidy in Private Rented Residences; (d) Scheme for Persons with Disability; (e) A Scheme to encourage residents of apartments/terraced houses and maisonettes owned by the Housing Authority and the Government Property Department to become owner occupiers and continue using the property as their ordinary residence; (f) Subsidy on Adaptation Works in Residences occupied by Owners or Tenants; (g) Subsidy on Adaptation Works related to dangerous structures in Private Dwellings Held on Lease or Emphyteusis; (h) Redemption of Ground Rent, (i) Equity Sharing Scheme which applies for persons over the age of 40, who intend to buy their residence by purchasing at least 50% of the property whilst the rest will have to be purchased by them at later stage (j) a scheme which includes an allocation of funds specifically for the restoration of streetscapes that are located within Urban Conservation Areas (UCAs). As in previous years, the scheme is also open to owners of privately owned residential properties situated within Urban Conservation Areas (UCAs) and Grade 1 and Grade 2 scheduled buildings (k) a Scheme to entertain proposals from owners of vacant residential property who wish to lease their property to the Housing Authority for the purpose of social housing. The Maltese Housing Authority embarked on a EUR 50 mn project which involved a EUR 25 mn financ¬ing from the European Investment Bank. The project concerned the financing of investments in social housing in the years 2016-2020 foreseen by the country's social housing programme that will be implemented by the national housing authority. EIB funding will concern retrofitting and new construction of social housing and associated infrastructure facilities. The housing investments will need to satisfy the EIB's eligibility criteria for urban renewal and sustainable cities and communities. The project will contribute to the alleviation of the current shortages in social housing supply in Malta. The project is expected to contribute to (i) the reduc¬tion of the shortage in social housing supply in Malta; (ii) improving the quality of existing social housing stock; (iii) potentially reducing energy consumption of the existing building stock; (iv) promoting social inclusion of low-income households; (v) the implemen¬tation of the housing strategy developed by Maltese municipalities. Housing construction typically gener¬ates significant employment both directly through construction and indirectly through consumables purchased by residents. The project therefore has potential to contribute significantly to sustainable growth and employment. Source: EIB web site: https://www.eib.org/en/projects/pipelines/all/20150802