Malta

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IN A NUTSHELL

- → After the post pandemic growth surge in 2021, the economy still continued to grow, by 6.9%.
- → While Russia's war in Ukraine caused new supply disruptions and an energy crisis, the Government's decision to keep energy prices stable helped keep overall inflation below the Euro area average.
- → Residential property prices continued to increase during the first three quarters of 2022 at an average annual rate of 6.9% following the 5.1% increase recorded for 2021 as a whole.
- → Mortgage lending grew by 9.8% in 2022, reaching around EUR 7.1 bn.

MACROECONOMIC OVERVIEW

Economic activity moderated following the strong growth in 2021, partly as a result of heightened geopolitical risks due to the war in Ukraine and rising inflation. Despite this, growth still exceeded that in the Euro area, at 6.9% (11.8% in 2021). Once again, growth was driven mainly by domestic demand which increased more than in 2021 and pre-pandemic levels and adding 10.9 pps to GDP growth.

Imports grew by 9.7% and exports increased by 6.4%. The decline in net exports reduced GDP growth by 4.0 pps. The negative contribution reflected a strong widening in the goods deficit (in volume terms), compared to 2021. This offset an improvement in the services balance.

Government consumption grew by 2.4%, (6.9% in2021) due to lower growth in spending on intermediate consumption and compensation of employees. In 2021, both these components were boosted by pandemic-related spending, such as outlays on treatment and additional allowances. These base effects offset a decline in revenue from sales, which is netted against consumption expenditure. Overall, government consumption added 0.5 pps to annual GDP growth.

During the first three quarters of 2022, the labour force expanded by 4.3%, a faster pace than the 1.6% recorded during the corresponding period for 2021. Employment grew by 5.0% in the first three quarters (2.4% in 2021) and exceeding the average increase of 3.3% since 2003. According to the Labour Force Survey (LFS) the unemployment rate averaged 2.9% during the first three quarters of 2022, compared to 3.5% in the same period of 2021. Nevertheless, the rate remained well below that of 6.7% registered in the Euro area.

Labour productivity rose by 0.8% in 2022, following a rise of 8.6% in the previous year when activity rebounded from the pandemic shock.

In the first three quarters of 2022, the general government registered a deficit of EUR 631.0 mn, a reduction of EUR 234.4 mn since the corresponding period of 2021. This was due to a significant increase in revenue, offsetting that in government expenditure. As a result, the primary deficit narrowed from EUR 737.9 mn in the first three quarters of 2021 to EUR 509.7 mn in the corresponding period of 2022.

The general government deficit-to-GDP ratio narrowed from 7.5% at end-2021, to 5.4% in the year to end of Q3 (the final figure for the whole year is not available at time of publication). Despite this improvement, the deficit in the first three quarters of the year remained well above the 3% European Union's, albeit suspended, Stability and Growth Pact rules. Financing needs also reflected debt-decreasing deficit-debt adjustments. As a result, the government debt-to-GDP ratio declined by the third quarter of 2022. Overall, it fell by 2.0 pps compared to December 2021, reaching 53.1% of GDP. This is well below the Euro area average.

The average rate of consumer price inflation (HICP) was 6.1%, well above the 0.7% in the previous year. The rise in inflation occurred in an environment of elevated international price pressures, lingering supply bottlenecks and renewed trade disruptions following the outbreak of the war in Ukraine. Inflation has continued to increase since May 2021.

HOUSING AND MORTGAGE MARKETS

The home-ownership rate rose to around 83%. The number of housing construction permits rose in 2022 to 9,599 (7,578 in 2021 and 7,831 in 2020). Apartments were again by far the largest residential category, accounting for almost 70% of new building permits issued in 2022.

The number of residential property sales was 14,331 (14,368 in 2021) or EUR 3.3 bn (EUR 3.2 bn in 2021).

Residential property prices continued to increase during the first three quarters. 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 6.9% during the first nine months, following 5.1% in 2021 as a whole. House price inflation was lower than that in the Euro area, where it averaged 8.6% in the first three quarters of 2022.

Mortgages to residents for house purchases totalled around EUR 7.1 bn at the end of 2022, up from almost EUR 5.5 bn in 2021. The core domestic banks extended well over 90% of the credit provided to households and individuals (which includes mortgage loans). The median LTV ratio was 80% (2019). In 2022 average interest rates on new residential loans eased slightly to 2.67% (2.80% in 2021).

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

Moreover, residential property prices continued to be supported by a number of factors, including low interest rates and government schemes supporting the residential property market, some of which were modified during the year. For example, as part of its response to COVID-19, in June 2020, the Government lowered the property tax rate and stamp duty on eligible transfers of immovable property from 9 June 2020 until 1 April 2021. In particular, the property tax and stamp duty on the first EUR400,000 of the value of the transfer were reduced to 5.0% and 1.5%, respectively. Furthermore, the Budget for 2021 extended more favourable terms on a number of existing schemes supporting the property market.

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 (largest 6 banks, whose business is almost exclusively undertaken with local residents), predominantly Bank of Valletta plc and HSBC Bank Malta plc, which account for almost 70% of the domestic retail market (as a percentage of total deposits held by the core domestic banks). The core domestic banks rely mainly on resident deposits for funding, which in 2022 increased to almost EUR 27 bn. Local retail deposits provide ample liquidity to the core domestic banks and with a loan-to-deposit ratio as low as 55.2% (as of June 2022), they do not need to resort to securitisation or covered bonds.

GREEN FUNDING

During the last 2-3 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 2022, CBM Interim Financial Stability Report 2022, NSO website and CBM website Monetary and Banking Statistics

	MALTA 2021	MALTA 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	11.7	7.1	3.5
Unemployment Rate (LSF), annual average (%) (1)	3.4	2.9	6.2
HICP inflation (%) (1)	0.7	6.1	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	81.9	82.6	69.1
Gross Fixed Investment in Housing (annual change)(1)	4.2	-3.5	1.5
Building Permits (2015=100) (2)	192.0	241.3	125.8
House Price Index – country (2015=100) (2)	135.4	144.5	164.6*
House Price Index – capital (2015=100) (2)	n/a	n/a	163.8*
Nominal house price growth (%) (2)	3.7	6.7	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	6,459	7,910	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	14,884	18,047	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	71.5
Gross residential lending, annual growth (%) (2)	n/a	n/a	-6.5
Typical mortgage rate, annual average (%) (2)	3.0	2.9	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, 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 68% of the total assets held by the core domestic banks. The latter's mortgage and consumer credit loans to household and individuals totalled around EUR 9.8 bn as at end 2022, with most of this figure comprising mortgages. In 2022, a deceleration in loans to households which mainly reflected slower growth in lending for house purchases was noted. In fact, mortgage lending grew by 9.8% in 2022 when compared with a 10.9% increase in 2021. The CBM's Interim Financial Stability Report for 2022 (FSR) published an interesting Special Feature titled: The Effect of Rising Interest Rates on Households' Mortgage Repayment Capabilities; which provided interesting technical insights into how potential increases in interest rates on mortgages would eventually test households' loan repayment capabilities. The Feature aims to identify potential groups of borrowers which could be vulnerable to hypothetical interest rate hikes of up to 250 basis points. New loans data was used spanning between 2020Q4 and 2022Q2. In the main, borrower-based metrics remained healthy up to an interest rate shock of 150 basis points, in line with the requirements of the Central Bank of Malta's Directive No. 16.18 However, further interest rate hikes up to a maximum of 250 basis points would burden households' repayment capabilities with around a quarter of the loans' exceeding 40% for the loan service-to-income (LSTI). The article may be found through the link below: *https://www.centralbankmalta.org/site/Publications/Interim-FSR-2022.pdf?revcount=1473*
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 has 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 by the Central Bank of Malta in 2019 of CBM Directive No. 16 – Regulation on Borrower Based Measures (BBMs), 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. Paragraph 19 of the said Directive on BBMs, states that domestic banks' compliance with the Directive is to be verified annually by the internal auditor of the reporting lender, and by an external auditor at the end of the financial year of the third year of application of the Directive, and every third year thereafter. In view that 2021 was the third year of application of the Directive, banks were required to submit their external audit reports for 2021, which were received by the CBM during the course of 2022. The CBM analysed the reports, provided feedback as well as requested clarifications from the relevant banks as deemed required. Overall, the banks were found to be compliant with the provisions of the Directive.
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 1.85 times (in 2022) GDP, provide over 95% of bank lending to residents in Malta and collect around 97.5% of total resident customer 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;

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.

What is the level (if any) of government subsidies for house purchases in your country?

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