Malta

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IN A NUTSHELL

- → Real GDP grew 5.6% (8.1% a year earlier) due to net exports.
- → Inflation moderated due to lower non-energy prices as government policy kept energy prices fixed.
- → Residential property prices rose at an average annual rate of 5.2% (for Q3 2023, following 6.7% in 2022).
- → Mortgage lending grew by 7.8% to EUR 7.7 bn.

MACROECONOMIC OVERVIEW

Following the strong growth in 2022 and despite continued geopolitical risks due to the war in Ukraine and rising inflation, economic activity moderated but still exceeded that in the euro area. Real GDP grew by 5.6% (8.1% a year earlier), with a large positive contribution from net exports offsetting a negative contribution from domestic demand. The latter's increase, which was over and above its 2021 and pre-pandemic levels, was the main factor in GDP growth for 2022 adding 10.9 pps over the previous year.

Imports grew by 4.6% and exports by 8.7%. Net exports added 7.3 pps to annual real GDP growth. This reflected a smaller trade deficit in goods (in volume terms), which in part reflected a reduction in aircraft imports, and a higher surplus from trade in services.

In 2023, government consumption grew by 3.3% (1.9% in 2022) due to higher spending on intermediate consumption and compensation of employees. Overall, government consumption added 0.6 pps to growth.

The labour force expanded by 5.1% in the first nine months of 2023, faster than the 4.3% in the same period of 2022. Employment grew by 5.4%, (5.0% in the corresponding period in 2022), exceeding the average increase of 3.4% since 2003. According to the Labour Force Survey (LFS), the unemployment rate averaged 2.6% during the first three quarters (compared to 2.9% in the same period of 2022). Nevertheless, the rate remained well below the Euro area average of 6.5%.

As of September 2023, 111,030 there were foreign workers, up from 89,549 in September 2022, rising in all types of occupation, the largest increases in absolute terms – amounting to just over half the total level increase – were in elementary occupations and in services and sales jobs. These were also the two most prevalent jobs held by foreign employees.

Labour productivity declined by 0.8% in 2023, following a 2.0% rise in the previous year. Productivity growth turned negative as employment rose at a faster pace compared to 2022, while GDP growth slowed.

In the first three quarters of 2023, the general government deficit declined significantly compared to the corresponding period of 2022 to EUR 295.9 mn, EUR 337.2 mn lower than the corresponding period of 2022. When measured on a four-quarter moving sum basis, the deficit-to-GDP ratio narrowed from 5.6% as at end-2022 to 3.4% in the third quarter of 2023. Meanwhile, the government debt-to-GDP ratio fell by 2.0 pps compared to December 2022, to 49.6% of GDP. The general government net financial worth also improved as the share of financial assets in GDP rose by 0.8 pps to 28.9%, as at end September 2023.

The average rate of Harmonised Index of Consumer Prices (HICP) inflation was 5.6%, down from 6.1% in 2022. Though still high by historical standards, HICP inflation fell since the second quarter of the year. Consequently, inflation eased from 6.8% in January 2023 to 3.7% by December 2023.

HOUSING AND MORTGAGE MARKETS

The home-ownership rate rose to almost 75%. The number of constructions permits declined to 8,112 after increasing significantly in 2022 (9,599). Apartments were again by far the largest residential category, almost 87% of new building permits.

At 12,179 (14,331 in 2022) the number of house sales fell significantly although the relative value remained virtually unchanged at EUR 3.2 bn (EUR 3.3 bn in 2022).

Residential property prices continued to increase during the first three quarters of 2023. The NSO's Property Price Index (PPI) – based on actual sales of apartments, maisonettes and terraced houses – increased at an average annual rate of 5.2% during the first three quarters of the year, following a 6.7% increase in 2022 as a whole.

Mortgages to residents for house purchases totalled around EUR 7.7 bn at year end, from around EUR 7.1 bn in 2022. The core domestic banks extended well over 90% of credit to households and individuals (which includes mortgage loans). The median loan-to-value ratio fell slightly to 76.5%. Average interest rates on new residential loans increased slightly in 2023 to 2.69% (2.67% in 2022). This is so because Maltese commercial banks have only passed on to a limited extent interest rate increases via mortgage rates and lending rates for non-financial corporations, when compared to the other Euro area countries.

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.

The Malta Citizenship by Investment scheme, which allows foreigners to acquire Maltese citizenship, subject to certain conditions, also played a role in generating demand for local properties.

MORTGAGE FUNDING

Mortgage loans are mainly provided by the core domestic banks, predominantly Bank of Valletta plc and HSBC Bank Malta plc, with 66% of the domestic retail market (based on percentage of deposits). These latter banks rely mainly on resident deposits for funding, which in 2023 increased to almost EUR 28 bn. Local retail deposits provide ample liquidity to the core domestic banks and with a loan-to-deposit ratio as low as 58% (as of June 2023), such banks do not need to resort to issuing covered bonds nor to securitising assets on a material basis.

GREEN FUNDING

During the last few years, various domestic banks, launched a wide array of green loan products to finance the acquisition of equipment and fixtures for example to generate renewable energy or increase energy efficiency. This 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 2023, CBM Interim Financial Stability Report 2023, NSO website and CBM website Monetary and Banking Statistics

	MALTA 2022	MALTA 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	8.1	5.6	0.4
Unemployment Rate (LSF), annual average (%) (1)	2.9	3.1	6.1
HICP inflation (%) (1)	6.1	5.6	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	82.6	n/a	69.2
Gross Fixed Investment in Housing (annual change) (1)	-2.9	-7.3	-3.1
Building Permits (2015=100) (2)	241.3	n/a	94.0
House Price Index - country (2015=100) (2)	142.2	155.3	170.2*
House Price Index - capital (2015=100) (2)	n/a	n/a	165.1*
Nominal house price growth (%) (2)	6.7	9.2	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	7,910	8,353	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	15,183	15,410	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	n/a	n/a	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	-26.6
Typical mortgage rate, annual average (%) (2)	2.9	2.9	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, 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. *Implementation of a Sectoral Systemic Risk Buffer (sSyRB) locally* - As per the Statement of Decision on the Implementation of a sSyRB for Malta, the Central Bank of Malta (CBM) together with the MFSA, following the recommendation of the Maltese Joint Financial Stability Board, decided to set a sSyRB of 1.5% with effective date being that of 28 March 2023. The aim of the sSyrB is to address the prevailing cyclical and concentration risk related to domestic banks' exposures to the RRE sector risk via mortgage loans to households. The buffer is applicable on the amount of RWAs held against domestic mortgages to natural persons and secured by domestic RRE collateral. Buy-to-let residential loans to natural persons secured by RRE collateral are also in scope of the buffer. The buffer is applicable to all domestic credit institutions which are engaged in mortgage lending, with the sSyRB's first phase of implementation being end September 2023 (1% rate), and fully phased-in (1.5% rate), as of end March 2024.
What is the market share of new mortgage issuances between these entities?	Not available By way of academic research on issues driving mortgage lending locally, in 2023 the CBM published an interesting Working Paper - WP/06/2023 Financialisation of the Maltese household? Household debt dynamics, the mortgage market, and housing in Malta authored by Dylan Cassar – which provides a comprehensive assessment of household debt dynamics in Malta between 2010 and 2020. Drawing on the Household Finance and Consumption Survey, the author argues that a process of financialisaton of the household is underway on the Maltese islands, primarily via the mortgage market. This process is characterised by (I) financial extension, in which more households partake in mortgage finance in their entry to homeownership, and (II) financial intensity, in which households accumulate more debt in accessing the property market. In explaining this process, the author claims, firstly, that mortgage finance represents an 'alternative' channel to older dominant institutional entryways to homeownership. Secondly, Maltese households are engaging in financial intensification in order to stretch their purchasing power in the property market, and possibly to maintain a standard of living comparable to older generations'. While this is the case for the average Maltese household, results point to some heterogeneity across different households, as younger and lower-income households are relatively more indebted, though the latter are also being driven out of the property market in the context of rising property prices. The paper sets out a novel agenda for scholarship in the Maltese context, namely, to put under scrutiny the increasingly central place of finance in Maltese society. https://www.centralbankmalta.org/site/Reports-Articles/2023/WP-06-2023.pdf?revcount=8250
Which entities hold what proportion of outstanding mortgage loans in your country?	As an approximation, HSBC Bank and Bank of Valletta (BOV) account for 73.4% of the total assets (December 2023) held by the core domestic banks. The latter's mortgage and consumer credit loans to household and individuals totalled around EUR 8.3 bn as at end 2023, with most of this figure comprising mortgages. Despite growing at a slower pace from that registered in 2022, mortgages still expanded by 7.6%. As a result, loan concentration risks remained present, with resident mortgages accounting for just above 55% of resident customer loans.
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 76.5%.
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 line with Article 19 of Directive No. 16 on borrower-based measures, lenders are required to submit internal audit reports on an annual basis, as a verification of compliance with the Directive. During the first quarter of 2023, the CBM communicated a set of Guidelines for Directive No.16 Internal Audit reports to domestic credit institutions. The aim of these Guidelines is to ensure that checks applied by the respective banks' auditors in their internal assessments are consistent, and to standardise the processes across the reporting banks, thus ensuring better adherence to Directive No. 16. In 2023, the CBM analysed the reports for the financial year 2022 where all banks were deemed compliant with the requirements 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 predominantly deposit based. Core domestic banks, with assets of about 1.51 times (December 2023) GDP, provide over 95% of bank lending to residents in Malta and collect around 97% 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;

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