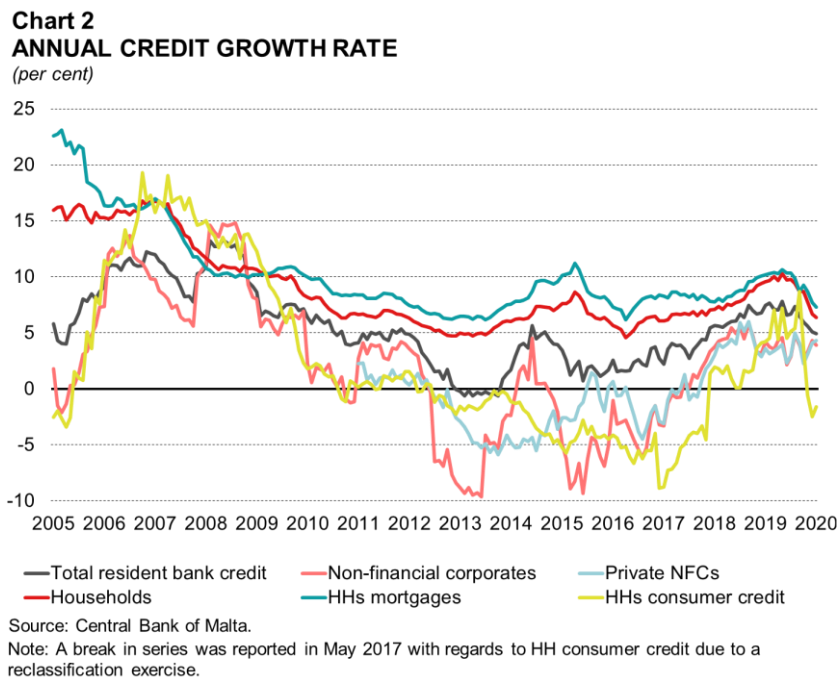
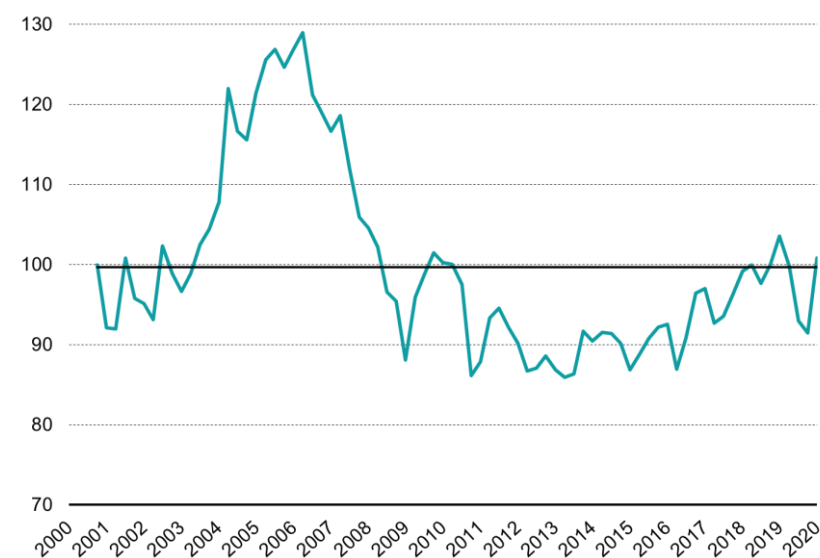


compared to the previous quarter while consumer credit contracted by 1.6% in 2020Q2, 5.2 percentage points lower when compared to March 2020 (see Chart 2). Meanwhile, NFC lending increased by 3.9% in June 2020, 2 percentage points higher than in the previous quarter.



During the first quarter of 2020, property prices rose by 5.6%, largely unchanged from the previous quarter but lower than in the same quarter the previous year. Property price growth started to decelerate prior to the pandemic but the uncertainty surrounding the COVID-19 pandemic, also caused a further slowdown in permits issued. Although the median advertised property price-to-income ratio increased since mid-2015, it remained well-below its peak in 2006 and in line with its long-term average since 2000 (see Chart 3).

Chart 3
MEDIAN PROPERTY PRICE TO INCOME RATIO



Source: Central Bank of Malta.
Note: Based on the Central Bank of Malta advertised property prices.

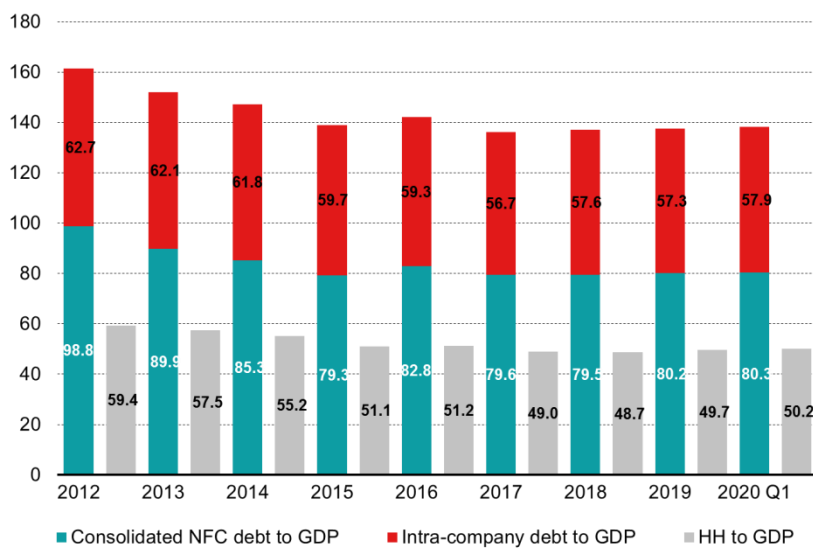
The conservative haircuts and loan-to-value ratios applied by banks help to mitigate any potential vulnerability that could stem from the real estate market, safeguarding both the banks' and households' balance sheet. Moreover, delinquency rates on resident mortgages have traditionally been low, whereas compensation of employees remained healthy despite dropping somewhat in Q2 2020 on the back of negative repercussions from the COVID-19 pandemic. Overall, on balance, financial stability risks stemming from the housing market remained contained also taking into consideration the fiscal and the latest policy measures including the implementation of moratoria and government guarantee schemes which are expected to ease some of the pressures on corporates and households alike.

Household and Corporate Debt

During the first quarter of 2020, private sector debt increased owing to higher corporate indebtedness and to a lower extent household debt. Expressed as a share of GDP, private sector debt rose by 1.2 percentage points compared to end 2019 to 188.4% (see Chart 4). The household debt-to-GDP increased by 0.5 percentage point to 50.2%, remaining below the euro area average. Meanwhile corporate debt-to-GDP edged slightly higher to 138.2%. Given that intra-group debt is an important element of NFC debt, on consolidated basis NFC indebtedness stood at a more contained rate of 80.3% of GDP, slightly below the euro area average. Furthermore, at about 183%, NFCs have a strong financial position with financial assets significantly exceeding their debt. Also, the leverage ratio of NFCs declined by 0.6

percentage point in 2020Q1 to 31.8% sustaining the downward trend reported for a number of years, to now stand just below the euro area average of 34.8% in March 2020. Moreover, households' net financial wealth remained strong mainly held in the form of cash and deposits.

Chart 4
HOUSEHOLD AND CORPORATE DEBT TO GDP
(per cent)

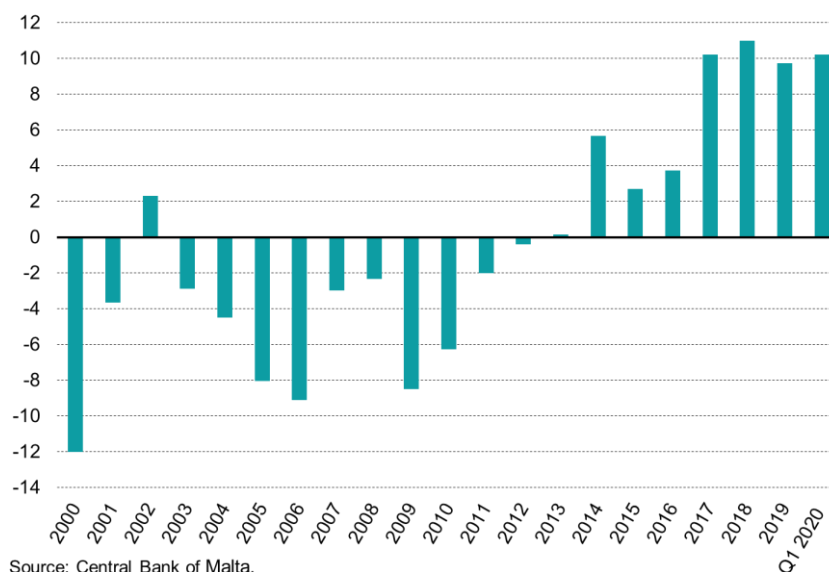


Sources: Central Bank of Malta; NSO.
Note: Based on four-quarter moving sum.

Current Account

On the external front, the current account remained in surplus at 10.2% of GDP in March 2020, indicating that Malta is not currently resorting to external debt financing (see Chart 5).

Chart 5
CURRENT ACCOUNT TO GDP
(per cent)



Source: Central Bank of Malta.
 Note: Based on four-quarter moving sum.

The core domestic banks entered the COVID-19 outbreak with healthy capital levels, liquidity and profits. The Total Capital Ratio and Common Equity Tier 1 capital ratio standing at 19.7% and 17.2%, respectively in March 2020. Liquidity remained ample with core domestic banks’ Liquidity Coverage Ratio standing at 357.4% in March 2020 and thus exceeding the regulatory requirement of 100%, indicating ample liquidity and stable funding as deposits continued to flow in, further building up the banks’ liquidity buffer. This is buttressing further banks’ resilience to the crisis and in their role in providing credit to the economy.

All the relevant quantitative and qualitative information assessed were judged to convey strong indications that at the current juncture, the CCyB rate for Malta should continue to be set at zero. This is also in view of the current developments and the economic slowdown envisaged due to COVID-19. The standardised bank credit-to-GDP gap is currently negative at -10.0 percentage points, which is well below the reference threshold of 2 percentage points as indicated in the BCBS guidance.