



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Cyclical risk developments in Malta

Financial Stability Report 2021
'Resilience in Uncertain Times'

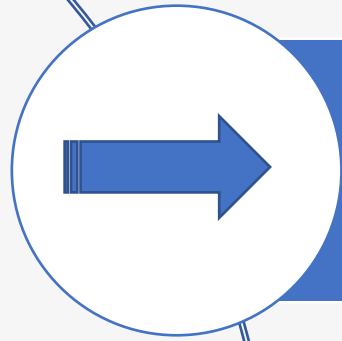
29 September 2022

Andrew Spiteri

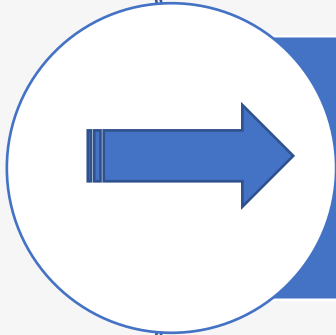
Manager

Financial Stability, Surveillance & Research Department

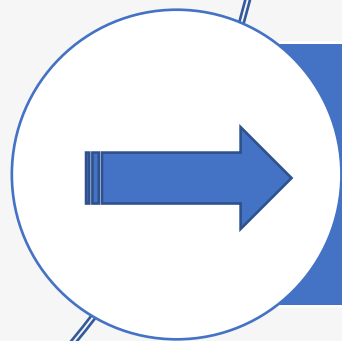
OUTLINE



Cyclical risks - rationale



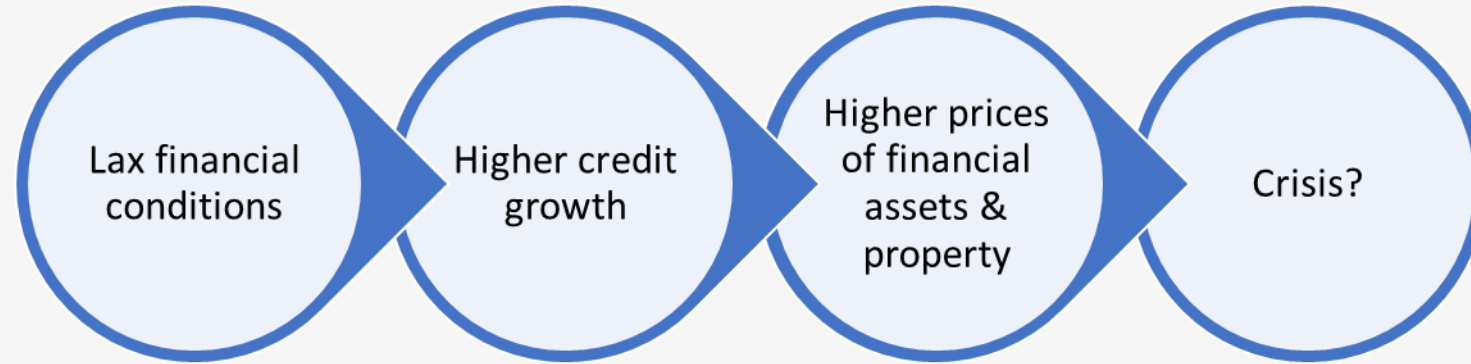
Cyclical analysis: Household, NFC and Property stretches



Concluding remarks

CYCLICAL RISKS - RATIONALE

**Expanding
phase of
financial
cycle**



STRETCHES - METHODOLOGY



Household Stretch

- Annual growth rate of mortgages
- Household debt-to-GDP
- Household debt-to-financial assets
- Household debt-to-disposable income



NFC Stretch

- Annual growth rate of NFC loans
- NFC consolidated debt-to-GDP
- NFC consolidated debt-to-financial assets



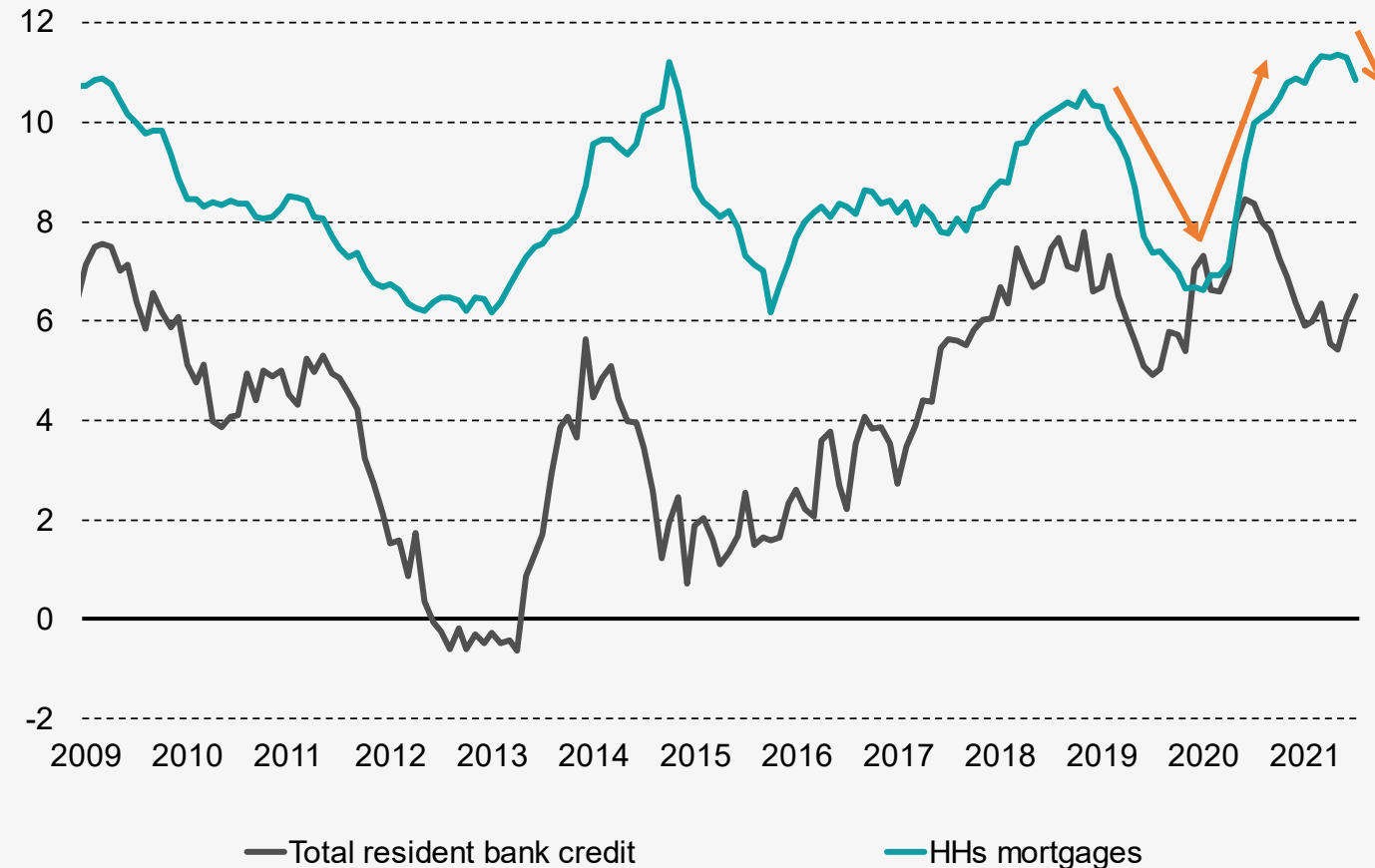
Property Stretch

- Annual property price growth
- Property misalignment index
- Price-to-per capita-income

HH STRETCH

ANNUAL CREDIT GROWTH RATE

(per cent)



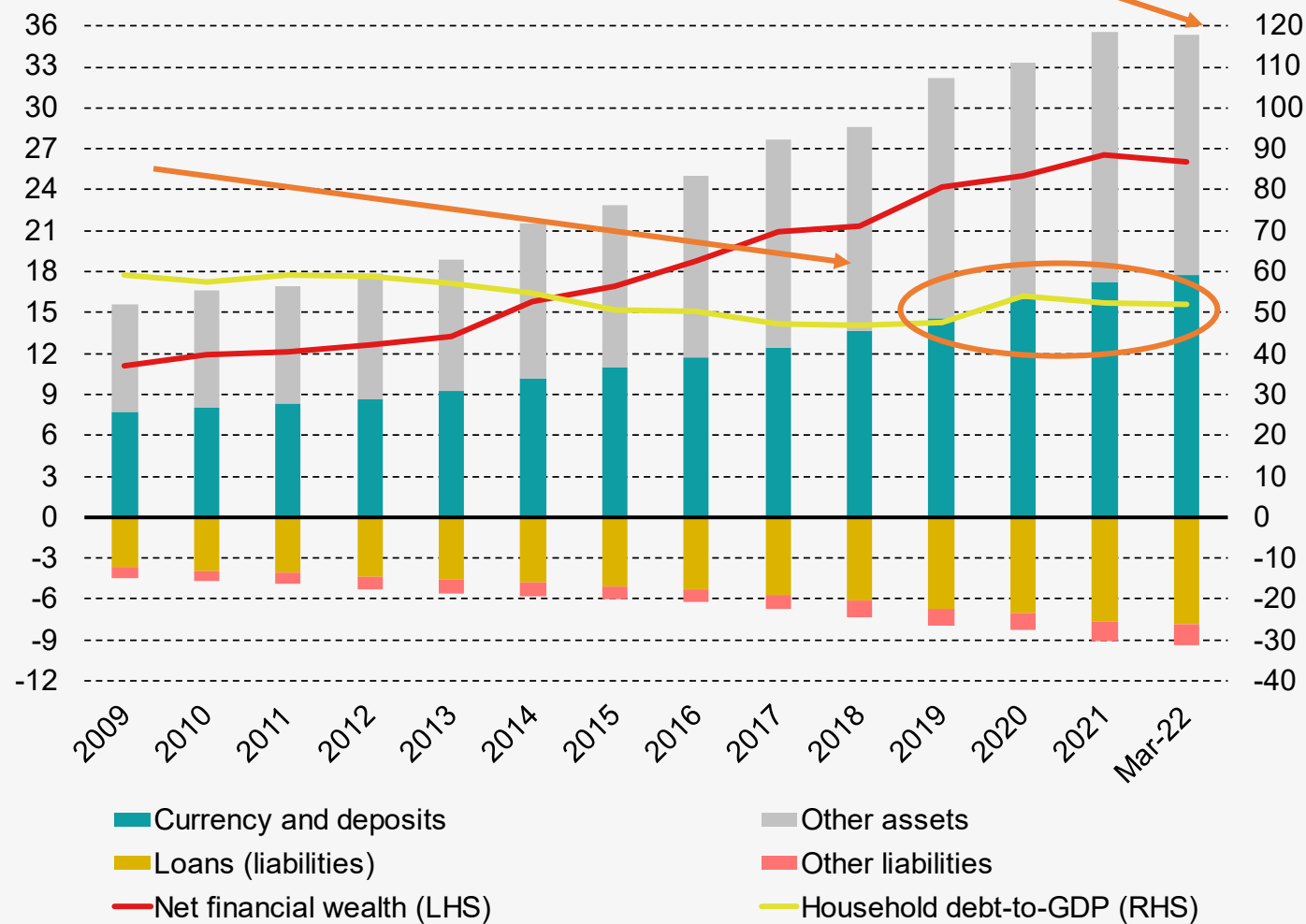
- Initial stages of the pandemic brought with it a slowdown in mortgage growth rate.
- Prompt policy response led to resumed momentum in mortgage growth.
- Such developments may – in part – be transitory. Mortgage growth decelerated slightly by July 2022.

Source: Central Bank of Malta.

HH STRETCH

NET HOUSEHOLD FINANCIAL WEALTH

(EUR billions; per cent)



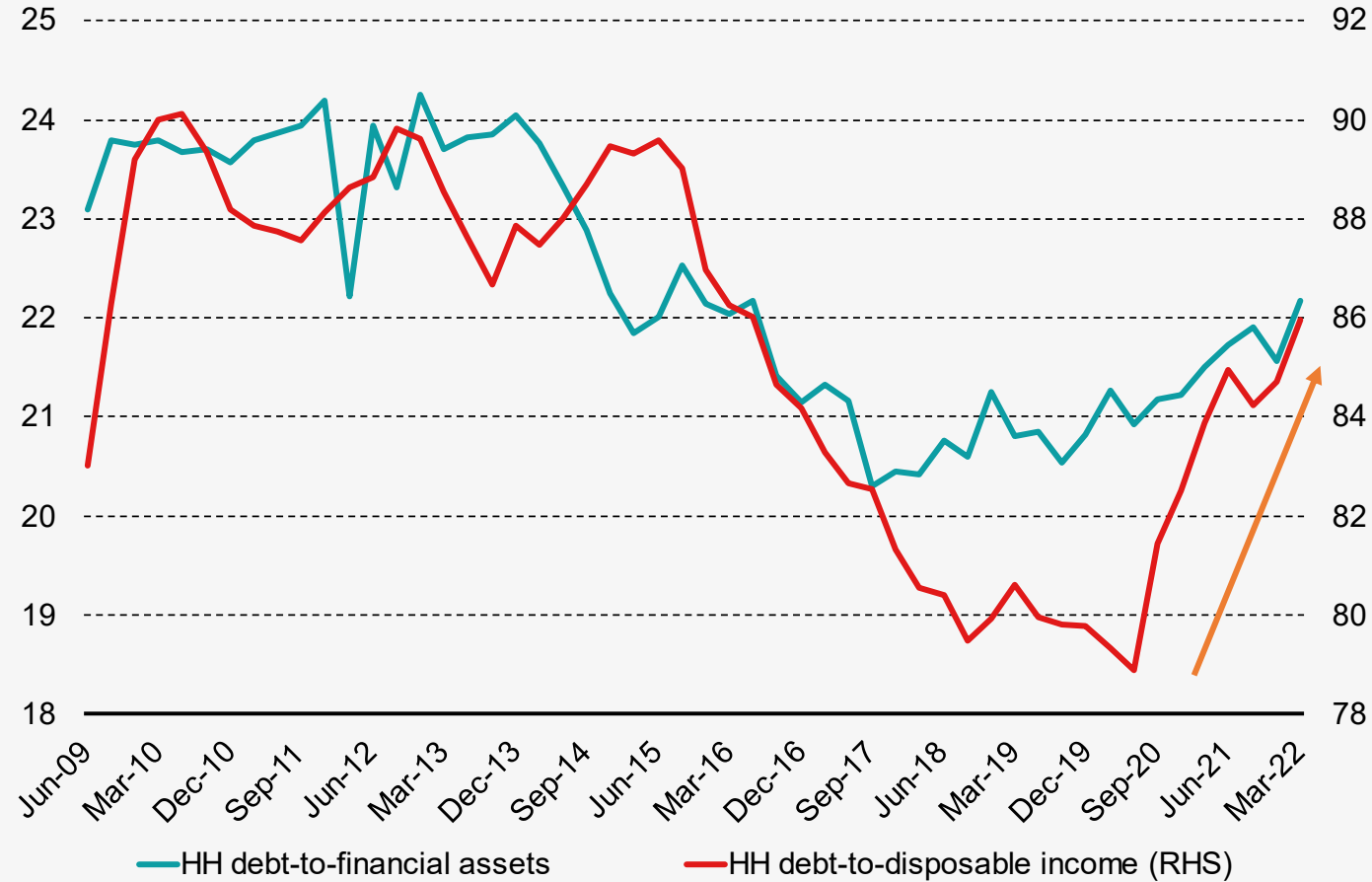
Source: Central Bank of Malta.

- HH debt-to-GDP was on a decelerating path, but the pandemic-induced drop in GDP led to a slight reversal.
- HH's balance sheet remained strong, despite a slight drop in net financial wealth in March 2022.

HH STRETCH

HOUSEHOLD DEBT (LOANS) TO FINANCIAL ASSETS AND DISPOSABLE INCOME

(per cent)



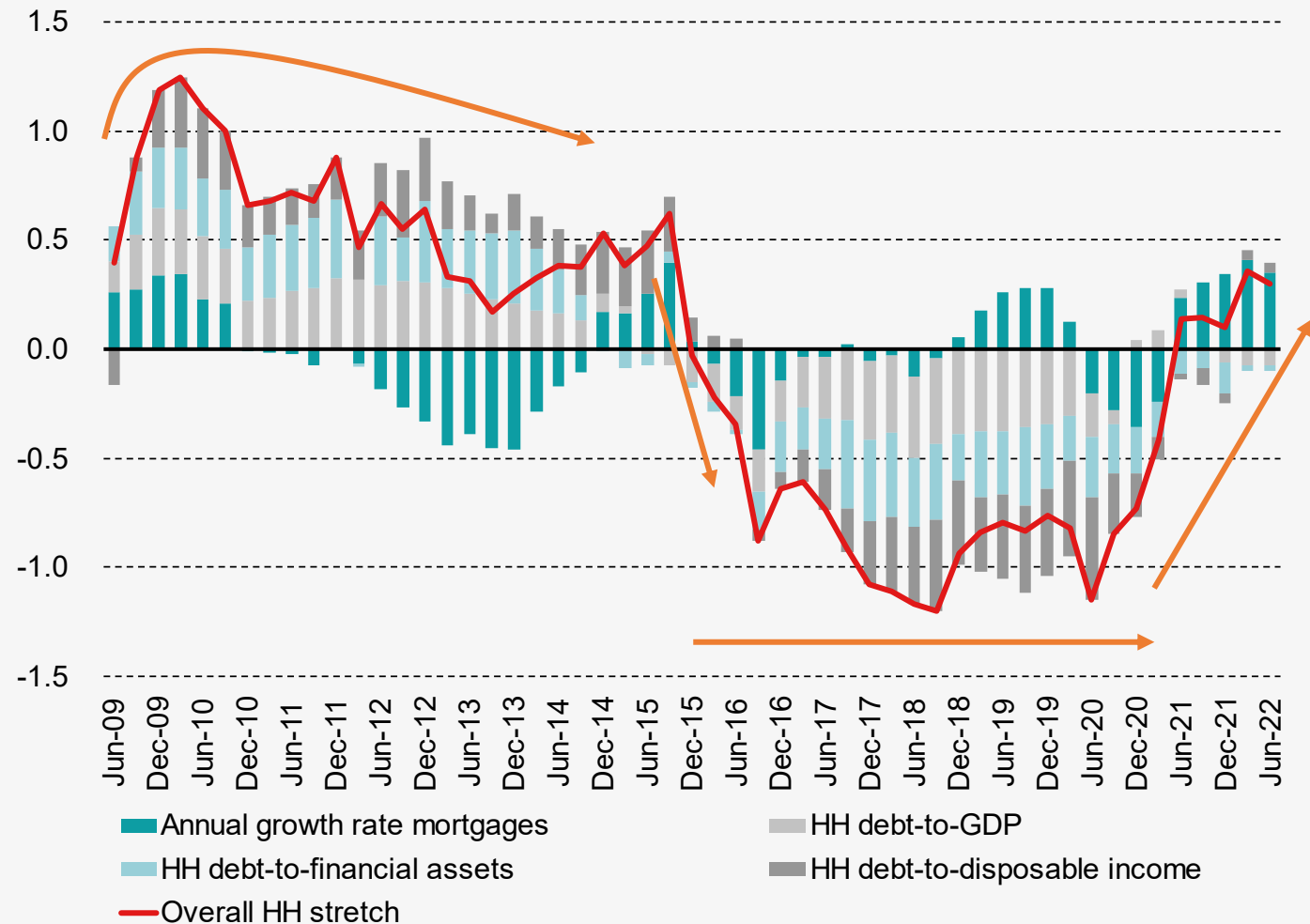
➤ Potential concerns reflecting increasing household leverage.

Source: Central Bank of Malta.

HH STRETCH

HOUSEHOLDS' SECTOR STRETCH

(z-score)



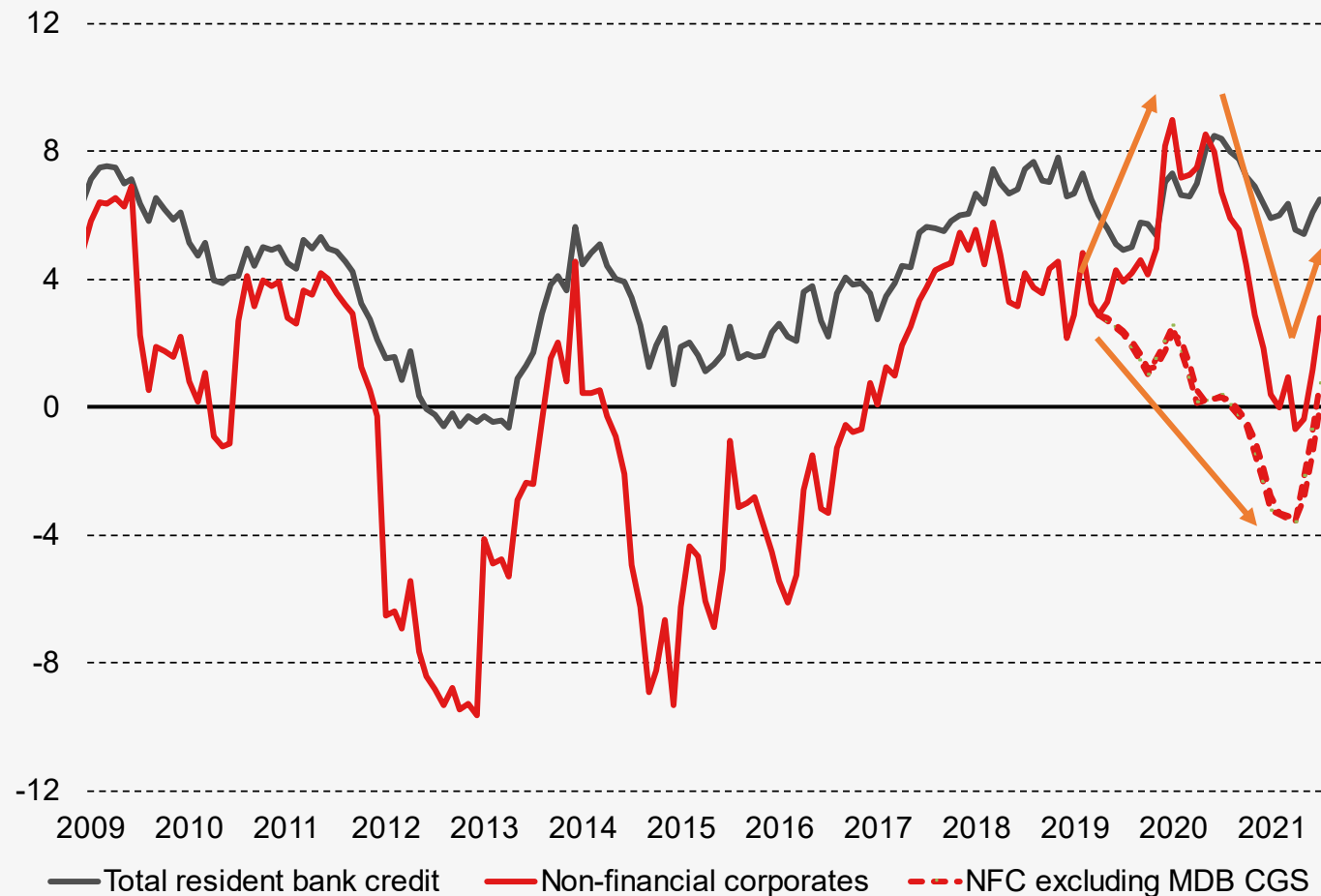
Source: Central Bank of Malta calculations.

- The household sector score turned negative in 2015.
- Such trend persisted up until 2020, when both credit and debt picked up momentum.
- In early 2021, the household score turned positive once again, suggesting higher risks.

NFC STRETCH

ANNUAL CREDIT GROWTH RATE

(per cent)



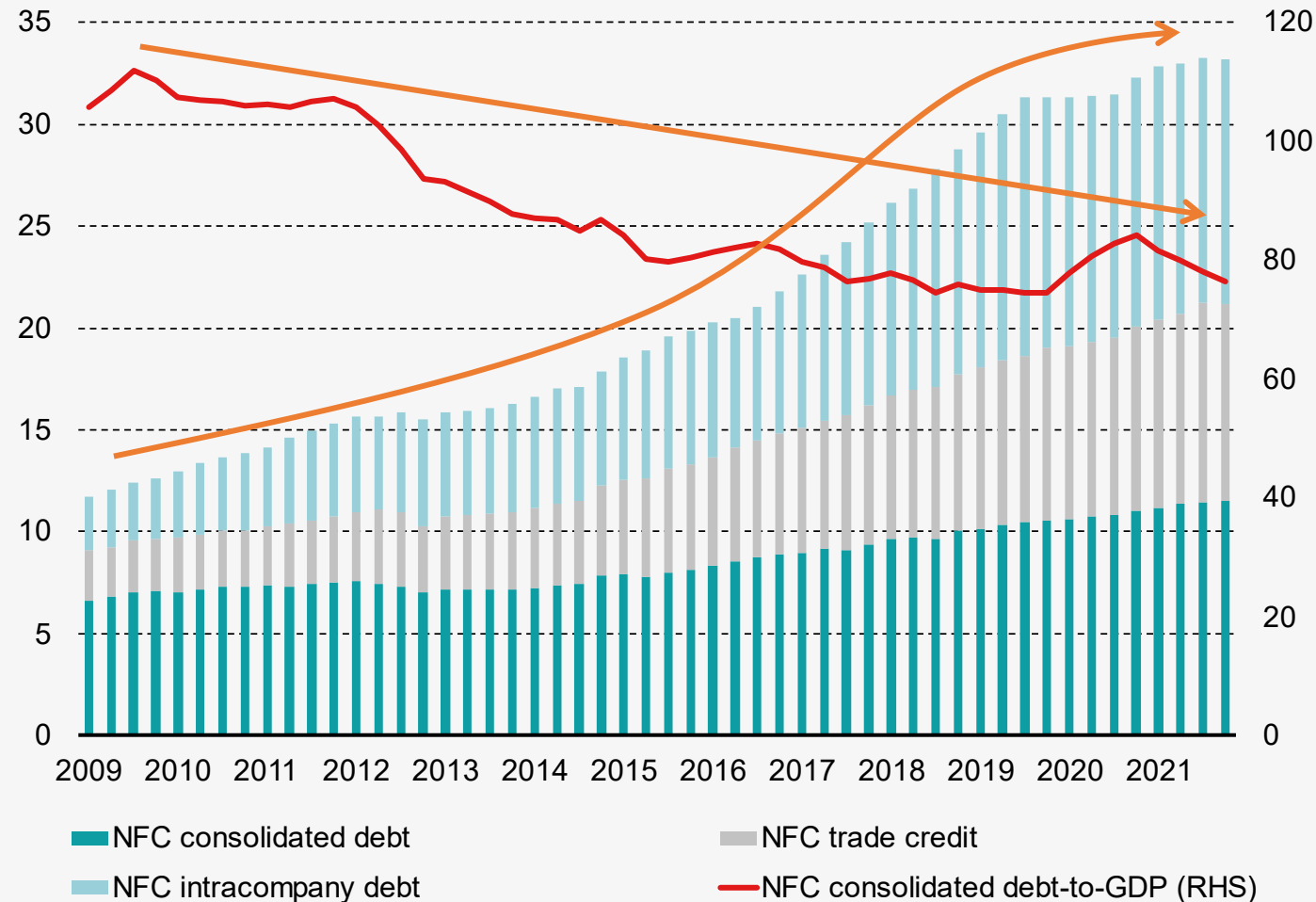
Source: Central Bank of Malta.

- NFC credit picked up momentum in 2020.
- Driven by the MDB CGS, as otherwise credit growth would have decelerated.
- As the MDB CGS impact wore off, NFC credit decelerated significantly, picking-up marginally in H1 2022.

NFC STRETCH

NFC DEBT

(EUR millions; per cent)



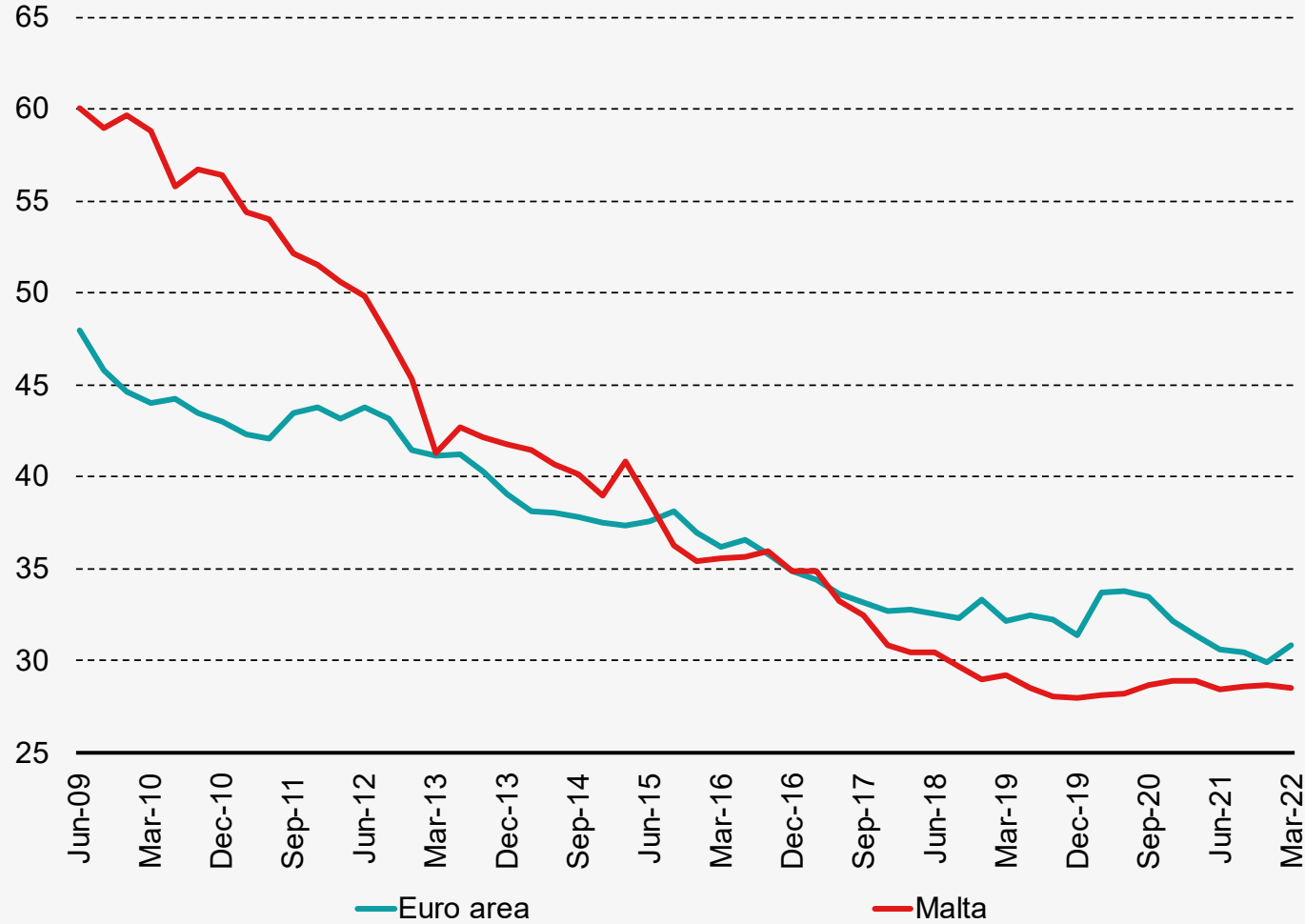
Source: SDW, Central Bank of Malta Calculations.

- Corporate debt continued to increase, in part driven by intracompany loans and trade credit.
- However, as a share of GDP, consolidated NFC debt has been on a declining trend, except for 2020 due to a drop in GDP.

NFC STRETCH

NFC LEVERAGE – NFC CONSOLIDATED DEBT TO ASSETS RATIO

(per cent)



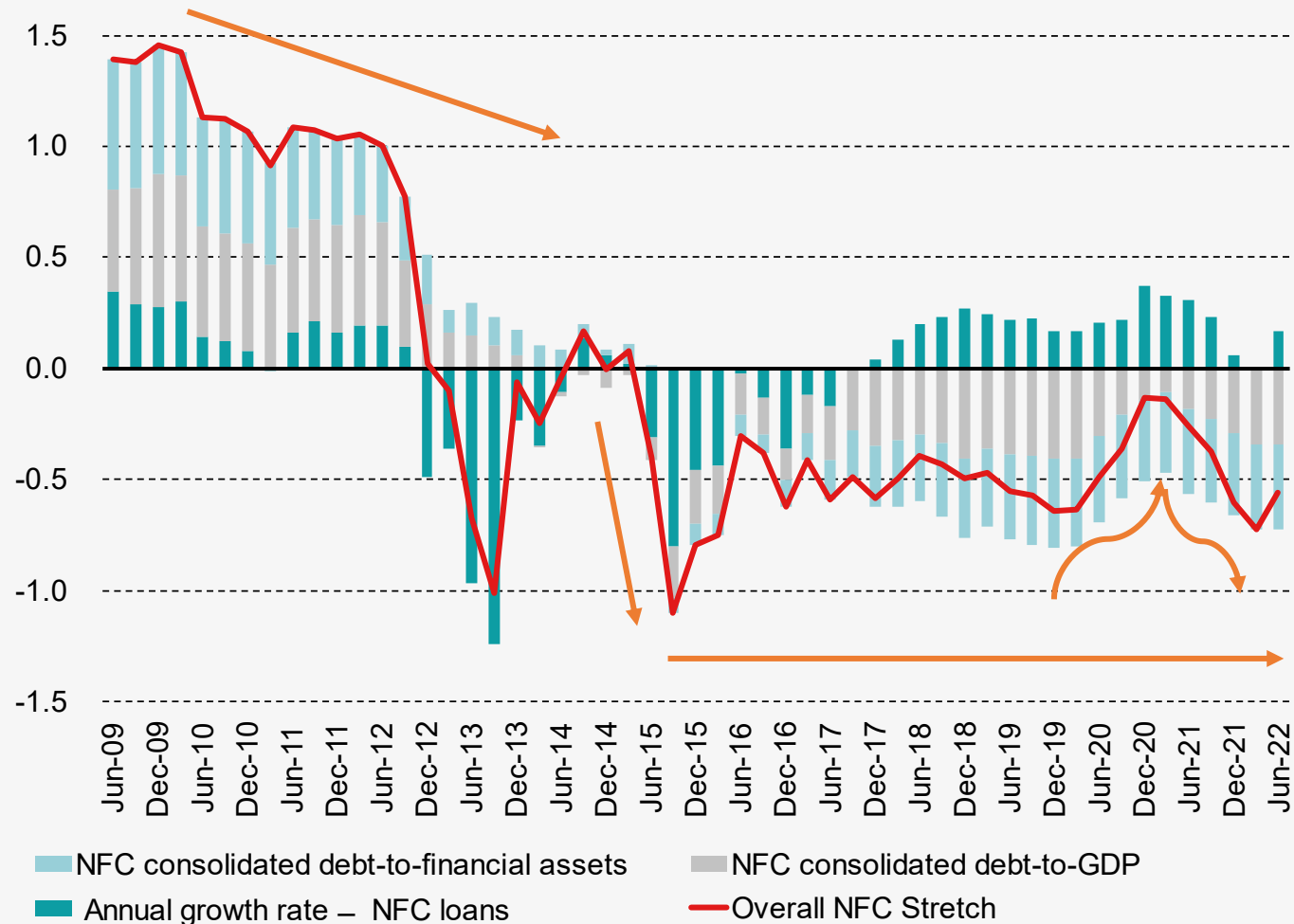
Source: SDW.

➤ NFC leverage remained contained during the pandemic years after contracting significantly in previous years.

NFC STRETCH

NON FINANCIAL CORPORATES' SECTOR STRETCH

(z-score)



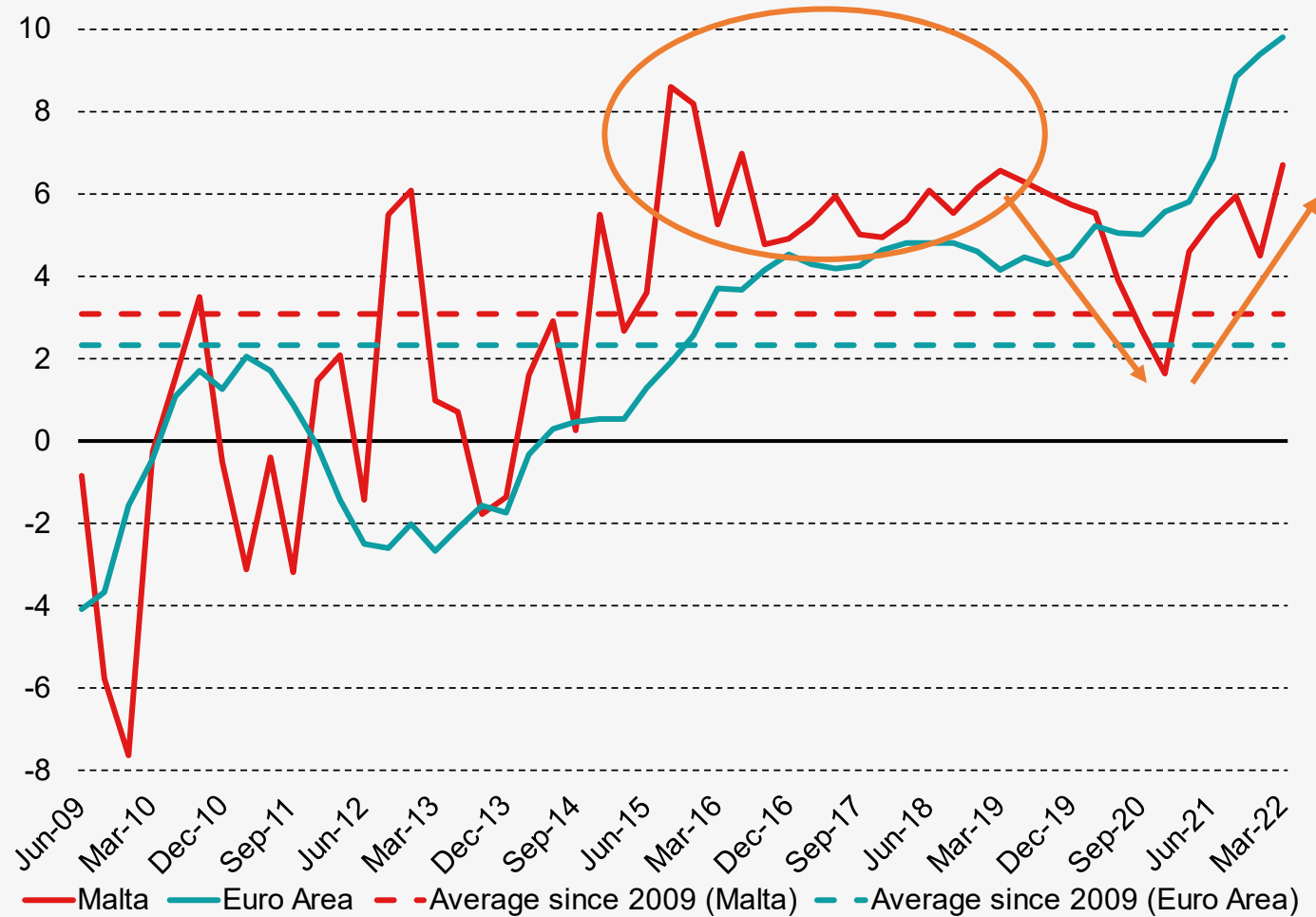
Source: Central Bank of Malta calculations.

- The NFC sector score turned negative in 2015.
- It remained in negative territory, thereafter, mainly due to lower debt.
- The temporary contraction in end 2020, early 2021 was driven by the MDB CGS scheme.

PROPERTY STRETCH

PROPERTY PRICES

(per cent; annual growth rates)



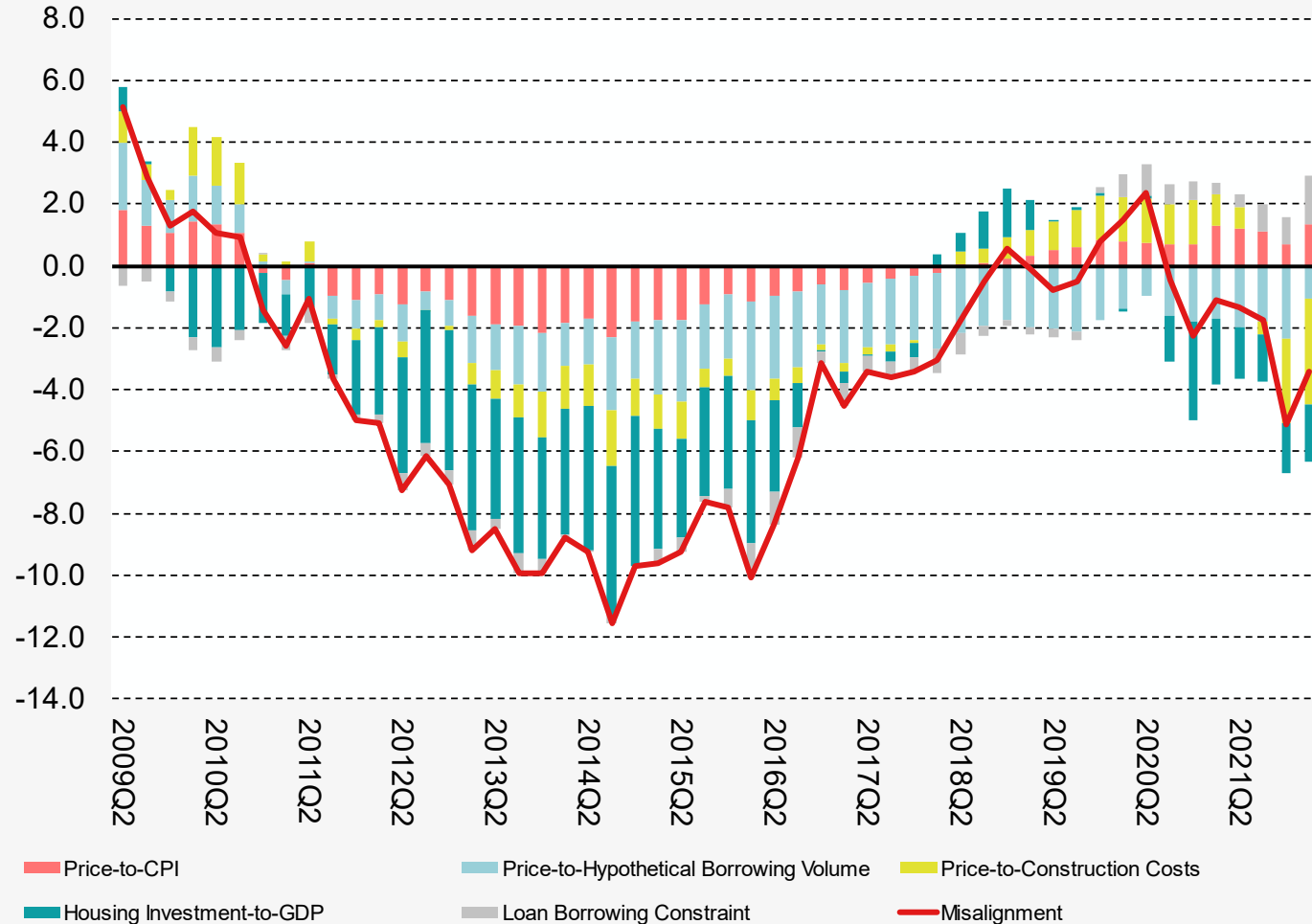
Source: Eurostat.

- Historically, property price growth stood above the euro area average.
- The pandemic however resulted in a slowdown in growth rate.
- Property price growth resumed momentum to stand above average.

PROPERTY STRETCH

HOUSE PRICE MISALIGNMENT INDEX

(percentage points; based on transaction prices)



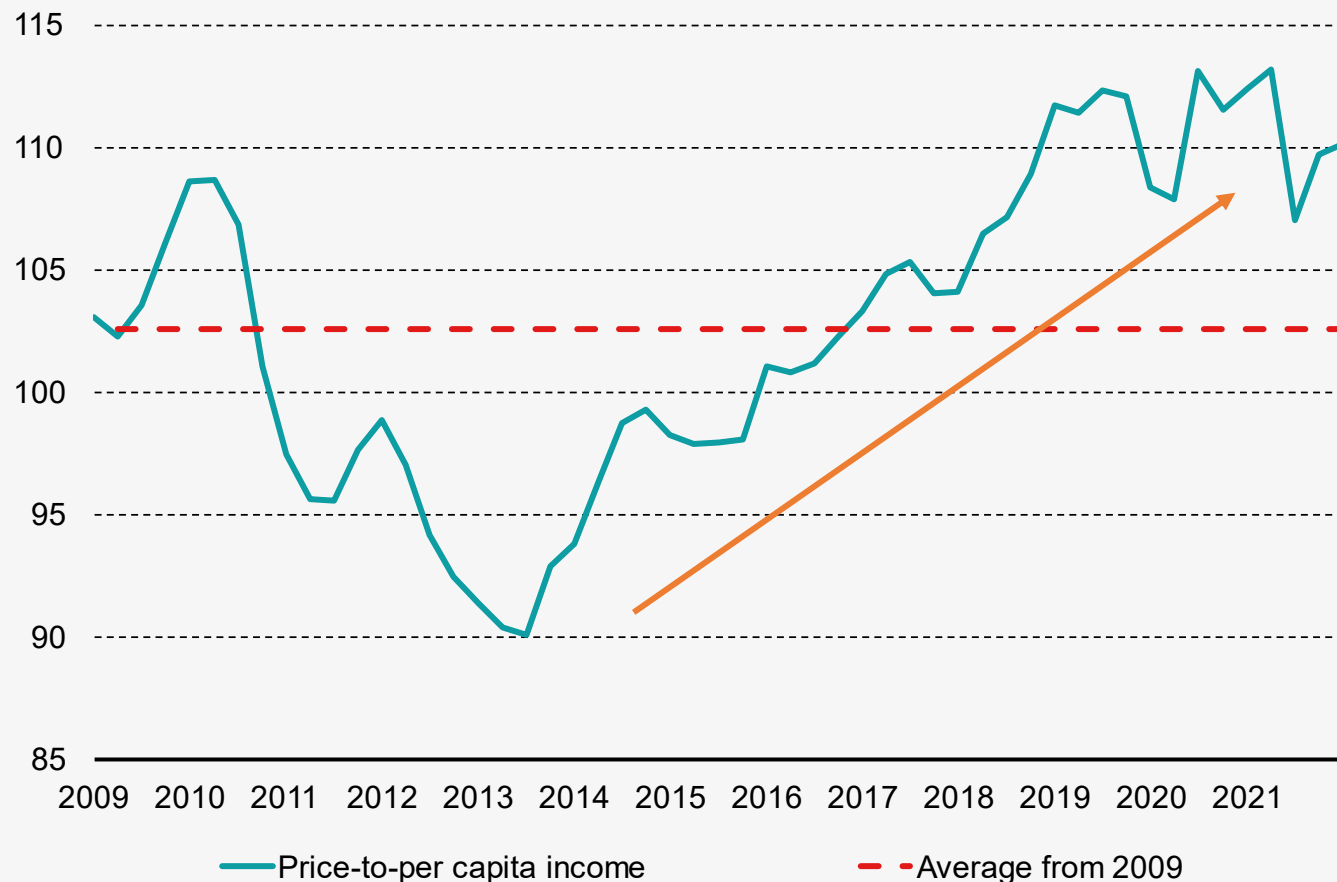
Source: CBM estimates.

- The CBM's house price misalignment index turned negative in 2011. The gap narrowed somewhat in recent years.
- Currently prices could be below fundamentals, although some of the components are still positive.

PROPERTY STRETCH

MEDIAN PROPERTY PRICE-TO-PER CAPITA INCOME RATIO

(per cent)



➤ The price-to-per capita income has been on an increasing trend since 2014, indicating that affordability is weakening.

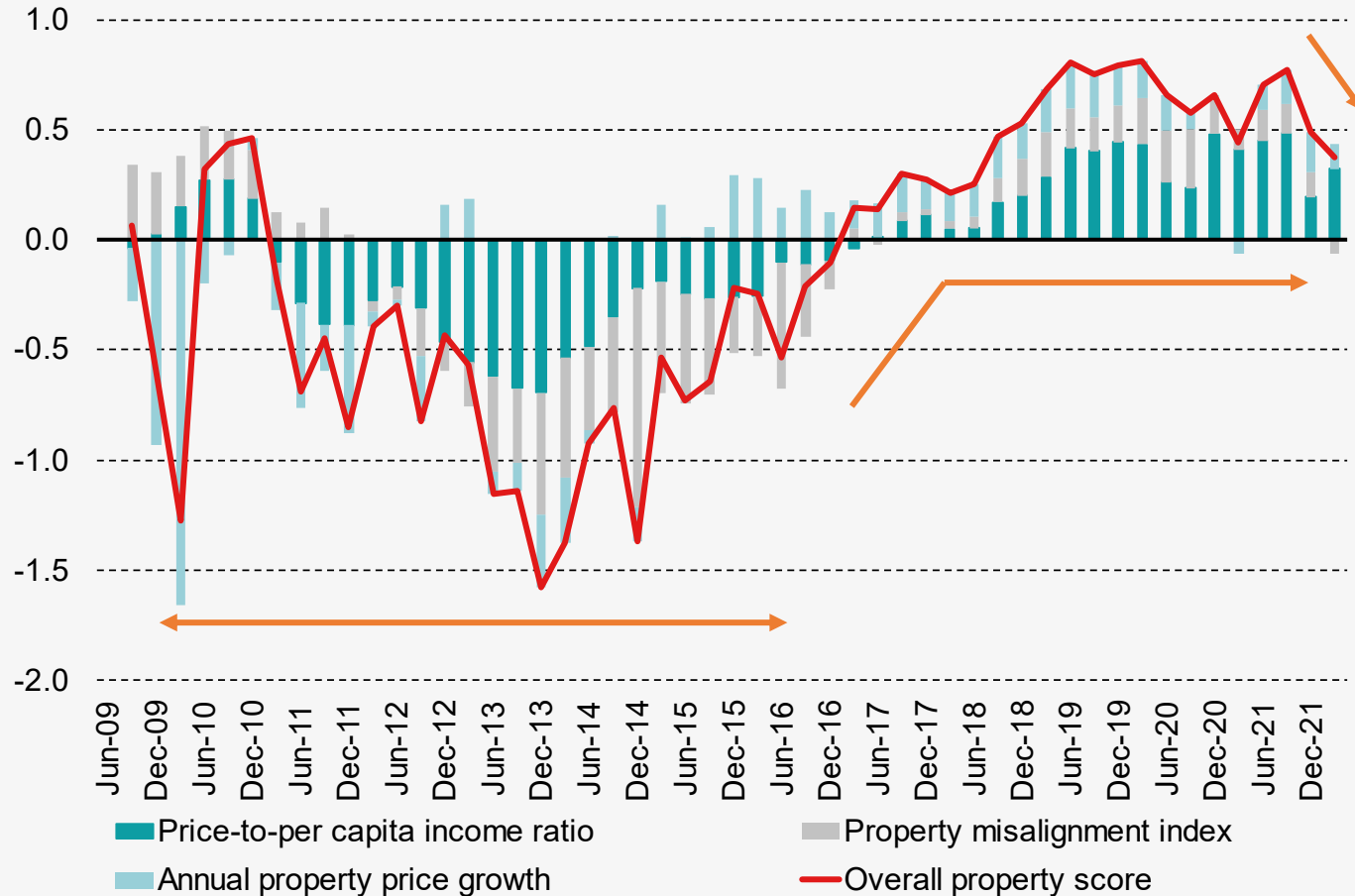
Source: Central Bank of Malta.

Note: Based on the Central Bank of Malta advertised property prices. Refers to 4-quarter moving average with 2000Q4 = 100.

PROPERTY STRETCH

PROPERTY MARKET STRETCH

(z-score)



Source: Central Bank of Malta calculations.

Note: Property misalignment index as estimated by the Central Bank of Malta. Price -to-per capita income refers to 4-quarter moving average

- The property stretch score turned negative between 2010 and 2016.
- On the back of rising property prices, the property stretch turned positive since 2017 .
- The property stretch gap narrowed, but remained positive indicating above average risk.

CONCLUDING REMARKS

- Cyclical risks are associated with the financial cycle and tend to build up gradually well in advance of financial crises.



Household sector

- Increased cyclical risks, through strong mortgage growth and higher household indebtedness.



Property sector

- Risks mainly channeled by the strong growth in property prices and housing affordability.



NFC sector

- NFC sector lending remained weak, while NFC leverage decreased.



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Thank you

