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UPDATE OF DEEP-DIVE ANALYSIS INTO MORATORIA UPTAKE IN MALTA

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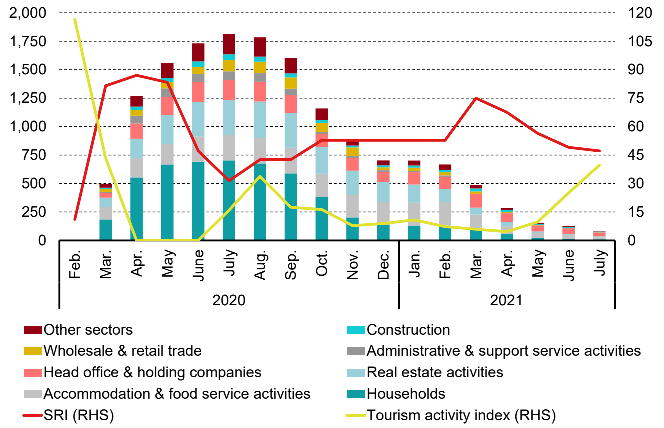
BOX 1: UPDATE OF DEEP-DIVE ANALYSIS INTO MORATORIA UPTAKE IN MALTA[1]

This Box updates the analysis featured in Box 6 of the FSR 2020, with data up to July 2021. The analysis focuses on the same main sectors of economic activity, which have been mostly impacted by the COVID-19 pandemic investigated in Box 6 of the 2020 FSR, namely:

i. Households;
i. Accommodation and food service activities (NACE code I);
iii. Real estate activities (L);
iv. Administrative and support service activities (N);
v. Professional, scientific and technical activities (M – 70.1);
vi. Financial and insurance activities (K – 64.2);
vii. Wholesale and retail trade (G);
viii. Construction (F);
ix. Head offices (M – 70.1) and holding companies (K – 64.2).[2]

Chart 1 illustrates the loan moratoria uptake by sector, the Stringency Index (SRI) reflecting the degree of containment measures on a scale from 0 (no restrictions) to 100 (full containment) and the tourism activity index as the ratio of monthly inbound tourists to corresponding monthly pre-COVID-19 figures.[3] Compared to April 2021, the share of active loan moratoria continued to decline further from €285 million to €80 million, equivalent to 0.6% of the total loan portfolio of the 11 banks that have granted EBA-compliant loan moratoria since the issuance of Central Bank of Malta's Directive No. 18. Meanwhile, the SRI continued its decline from March 2021 as further containment measures were gradually eased. At the same time, while inbound tourism remained low compared to pre-COVID-19 figures, the tourism activity index began increasing from 5% recorded in April 2021 of the corresponding monthly pre-COVID-19 levels (i.e. as at April 2019), to reach 40% by July 2021.[4] The improvements in economic

Chart 1
MONTHLY DISTRIBUTION OF LOANS WITH ACTIVE MORATORIA, STRINGENCY INDEX (SRI) AND TOURISM ACTIVITY INDEX
(EUR millions; index)



Source: Central Bank of Malta.

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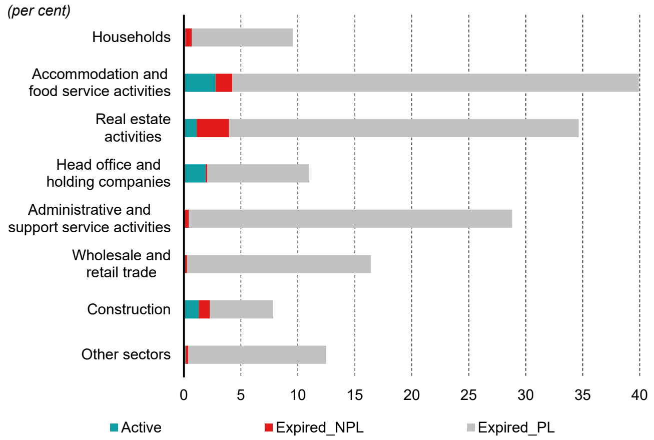
[2] The use of loan moratoria by the professional, scientific and technical activities, and the financial and insurance activities consisted of head offices (M - 70.1) and holding companies (K - 64.2), respectively. Since these are similar in nature, the dynamics of these two sectors are discussed simultaneously as 'head office and holding companies'.

[3] The SRI was chosen as it focuses exclusively on containment measures. This index was developed by Blavatnik School of Government and the University of Oxford (as part of the Oxford COVID-19 Government Response Tracker – OxCGRT). In collaboration with the Bank, the OxCGRT now also includes a timeseries for the Government's COVID-19 response (see Sant, 2021).

[4] In order to take into account the seasonality of tourist arrivals, the tourism activity index presents the volume of inbound tourists for the reference month as a share of the volume recorded during the corresponding month of 2019. Thus, while the tourism activity index increases by circa 8 times from 5% to 40% between April 2021 and July 2021, the increase is scaled to consider also the fact that tourist arrivals were higher in July 2019 compared to April 2019. Indeed, by directly comparing the number of tourist arrivals, the figure for July 2021 is almost 11 times higher than the number of tourist arrivals recorded in April 2021.

conditions as represented by the SRI and tourism activity index, paired with the overall decline in active moratoria, indicate a sounder financial position for borrowers to continue honouring their obligations.

Chart 2
SHARE OF MORATORIA IN LOAN PORTFOLIOS AS AT JULY 2021 – 11 BANKS IN SCOPE
(per cent)



Source: Central Bank of Malta calculations.

Chart 2 presents the sectoral share of moratoria to total loans granted by the 11 banks in scope. The share of active moratoria (teal/green bars) has decreased substantially over the last 3 months, with no active moratoria in the administrative and support service activities. Furthermore, negligible shares of loan moratoria were registered for households, wholesale and retail trade, the “other sectors”, real estate activities and the construction sector.

Although the share of active moratoria is highest for the accommodation and food service activities sector given the low levels of tourism activity, active moratoria in this sector have also reduced significantly from 12% in April to under 3% by July.

Out of all expired moratoria, the vast majority remain classified as performing. Indeed, loans with expired moratoria becoming NPLs (red bar), remains a very small proportion of the overall sectoral loan portfolio. New NPLs post moratoria expiration, amount to 0.67% of total loans of the 11 banks in scope. Expressed as a share of all loans that had been granted moratoria, expired moratoria turning NPLs amount to 5.8% of household loans (compared to 4.9% in April 2021) and 4.7% of NFC loans (up from 3.4%). Overall, expired moratoria turning NPLs amount to 4.9% of total loans granted a moratorium (up from 3.7%). Despite the minor increases compared to April 2021, the share still remains rather low at under 5%. Moreover, the stress test presented in Box 6 of the 2020 FSR can be deemed as a sufficiently adverse scenario for the assessment of potential cliff-edge effects by shocking the system through a five-fold conservative assumption of 25% of total loans with moratoria becoming NPLs. Furthermore, only a negligible amount of moratoria is expected to remain active after December of this year.

To support NFCs that might continue needing assistance after the moratorium expires, the MDB announced in March 2021 that “regular loan repayments (interest and capital) of bank loans to businesses approved on or prior to 23 March 2021” are also eligible costs for financing under the CGS. This means that loan repayments from expiring moratoria could be financed via CGS loan facilities. Nevertheless, the uptake of new facilities under the MDB’s CGS since March 2021 has been contained, indicating minimal transfer of credit risks associated with expiring moratoria onto the CGS.

Given: (a) the overall resilience demonstrated by banks; (b) the substantial decline in active moratoria which in the vast majority are expected to expire by end 2021; and (c) the relative stability in the volume of loans granted under the CGS scheme, the risk of cliff-edge effects from loans becoming NPLs upon expiration of moratoria continues to be deemed negligible in terms of both probability of occurrence and impact.