

Housing debt burden and affordability from bank loan data



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Recently I was asked whether I am concerned about the rise in public debt to over €11bn

I explained that the level of public debt in euro terms is meaningless without comparing it to the level of economic activity, which signals the potential tax revenue that a government can generate from it, and hence its ability to repay.

This equally applies to personal debt of individuals and families. Household debt in Malta predominately relates to borrowing to purchase one's own residence. The Central Bank of Malta has recently published data on bank lending to natural persons to purchase their own residence at the inception of the loan contract.

Such data shows that it is not only youths that have been piling more debt in euro terms to purchase their own residence between 2021 and 2024, but all age groups. Indeed, during this period the median debt related to the purchase of a residence of those aged between 18 and 25 years increased by €42,000, whereas the debt of those over 50 years increased by a third more at almost €56,000!

This increase in debt in euro terms is hardly surprising when the general price level, including that of property, is generally expected to rise each year. Indeed, at the Eurosystem, our primary objec-



tive is that the average general price level, including that for shelter services, increases by 2% each year. Therefore, as prices rise, it is only natural that one also expects new personal debt to acquire goods and services, including housing, to rise in euro terms over time.

Just as public debt in euro terms provides no indication about its sustainability, similarly for individuals or families, their personal debt alone is insufficient to signal the burden piled on them or their ability to repay.

As a macro-prudential authority, the Central Bank of Malta had launched Directive 16 in 2019 on the regulation of borrower-based measures. This Directive introduced constraints on banks in their lending to individuals to purchase their residence, mainly through loan-to-value and debt-service-to-income limits, with the aim of safeguard-

ing customers from being over-stretched in their borrowing from banks, and to preserve the resiliency of domestic banks from potential loan delinquencies. Indeed, as has been the case for decades, loan default rates on such kind of lending continues to be very low.

The bank lending data to natural persons to purchase their residence published by the Central Bank of Malta shows that the median value of loan-financed properties once completed increased by 16.3% between 2021 and 2024 to €285,000, with that for apartments rising by 18.5% to €272,500.

However, bank loans represent one side of the coin. To assess housing affordability, one needs to compare how such property values compare to income earned by natural persons. Borrowing households predominantly comprise either single persons in

full-time employment, or couples, with either both in full-time employment, or one working on reduced hours, or possibly not at all engaged in market work. For this purpose, with respect to income, I use data published by Eurostat on the average full-time adjusted salary of an individual, where for Malta this increased from €28,329 in 2021 to €33,499 in 2024. It is worth noting that such data refers to gross wages and therefore, does not factor the impact of personal income tax cuts and other incentives to first-time buyers.

The data shows that the median value of loan-financed properties once completed was 8.7 times the average full-time adjusted salary of an individual in 2021, whereas in 2024 this eased slightly to 8.5 times. The same measure with respect to the median value of loan-financed purchases of apartments was stable at 8.1

times during this period, while that for houses rose from 14.5 times to 15.8 times. This indicates that, overall, those resorting to bank borrowing to purchase their residence have not experienced a deterioration in affordability if their income evolved in line with the annual average full-time adjusted salary, although affordability to purchase a house deteriorated.

Bank lending data of the Central Bank of Malta also provides information on the median value of the loan sanctioned by banks, which may not be fully utilised by borrowers. The data shows that in the case of apartments, the median value of the amount of loans sanctioned remained stable at around 78% of the median value of the properties at loan contract inception between 2021 and 2024, while for all type of properties it decreased slightly from around 77% to 75% during this period.

These indicators, based on some 24,412 loan contracts involving natural persons resorting to borrowing from banks to finance the purchase of their residence, suggest that both affordability and the debt burden on such purchases remained stable between 2021 and 2024. However, affordability to purchase houses appears to have declined, reflecting increased scarcity of houses relative to other dwelling types. Nevertheless, according to Eurostat's Housing in Europe 2025 edition, in 2024 at 2.2, Malta recorded the highest number of rooms per person in the household within the EU, despite having an average household size of 2.4 persons slightly higher than the EU average of 2.3.

As in the past, becoming a homeowner involves personal sacrifices, and developments in property values continue to make it a challenge, particularly for those on low income and solely self-reliant to acquire their residence, without any support from other family members or from state-funded social housing schemes, with the latter remaining important for social inclusion, as such persons may also have difficulties in accessing bank finance.

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