BOX 1: MORTGAGE RELIANCE IN MALTA'S RESIDENTIAL PROPERTY MARKET[1]

Introduction

Residential mortgages represent a key link between the housing market, households and the domestic banking system. They constitute households' largest liability and an important component of banks' credit exposures. Understanding the extent to which property purchases rely on domestic bank mortgage credit is therefore relevant for assessing the transmission of monetary policy, credit conditions and macroprudential measures to the housing market.

This box measures estimated mortgage reliance on a transaction-count basis, as the ratio of new domestic bank mortgage contracts to registered property deeds between 2020Q4 and 2025Q4.[2] This ratio is calculated for different market segments, relying on administrative data on registered property deeds obtained from the NSO and new residential mortgage contracts granted by domestic banks, reported to the Central Bank of Malta through its Real Estate Reporting Return. The analysis finds that around 47% of all registered residential property transactions were associated with domestic bank mortgage credit, rising to around 64% for core housing transactions, indicating that reliance varies substantially across certain property types.[3] The analysis also shows considerable variation across locations. This heterogeneity is relevant for financial stability monitoring, since changes in interest rates, lending standards and borrower-based macroprudential measures are likely to affect different parts of the housing market unevenly.

Since individual mortgage contracts cannot be matched to specific property transactions, the estimates should be interpreted as indicators of financing patterns across groups defined by property types and locations, rather than as a classification of how each individual property purchase was financed. They do not capture household leverage, loan-to-value ratios, or banks' total property-secured exposures.

The analysis distinguishes between all residential property transactions and core housing transactions, defined as apartments, maisonettes, penthouses and houses. Garages and plots of land are treated separately because they exhibit distinct transaction characteristics and substantially lower mortgage reliance.

A grouped logit model is then used to estimate the mortgage-financed share within each market segment. This model approach accounts for differences in the number of transactions across market segments and enables comparisons after controlling for differences in property-type composition and common developments over time. The resulting model-adjusted estimates therefore facilitate comparisons of mortgage reliance across districts on a more comparable basis than the raw ratios alone. The robustness of these findings was also assessed using alternative modelling approaches, which yielded broadly consistent results. A complementary locality-level model examines how these financing patterns are associated with selected demographic, housing and household financial characteristics.

Mortgage financing is widespread, but not universal

Domestic bank mortgage credit plays an important role in Malta's residential property market, but it does not account for all transactions. Over the period under review, around 47% of all registered residential property transactions were associated with mortgage credit extended by domestic banks (see Chart 1a).

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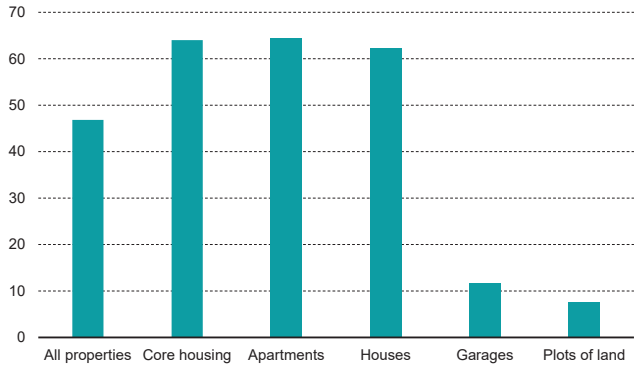
[1] Written by Mr Andrew Spiteri, Deputy Head within the Financial Stability Surveillance and Risk Assessment Department. The author would like to thank Ms Wendy Zammit, Mr Alan Cassar, Deputy Governors Oliver Bonello and Rita Schembri, and Governor Alexander Demarco for their valuable suggestions.

[2] This box draws on Spiteri, A. (2026), *Financing Residential Property Purchases in Malta: The Role of Domestic Bank Credit*, Central Bank of Malta *Working Paper* No. 11/2026. The working paper provides further details on the data, methodology, interpretation framework, and robustness checks.

[3] The underlying working paper also reports complementary value-based measures. Over the sample period, 59.5% of aggregate property value of core housing transactions is associated with a domestic bank mortgage, compared with mortgage reliance of 64.0% by transaction count.

When garages and plots of land are excluded, mortgage reliance rises to around 64% of core housing transactions. This increase largely reflects the very low mortgage reliance observed for garages and plots of land, while apartments and houses exhibit mortgage reliance of around 64% and 62%, respectively.

Chart 1a
MORTGAGE RELIANCE BY PROPERTY SEGMENT
(per cent)



Sources: Central Bank of Malta; NSO; Author's estimates.
Notes: Core housing includes apartments, maisonettes, penthouses and houses. Mortgage reliance is measured as new domestic bank mortgage contracts relative to registered deeds. Transactions classified as "other" are excluded.

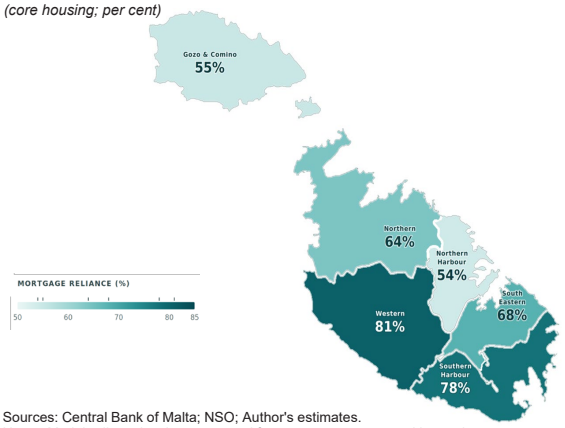
The presence of a sizeable share of transactions not associated with domestic bank mortgage credit indicates that housing market activity is only partly dependent on this channel. Such transactions may be financed through own funds, accumulated savings, housing equity, family financial assistance or other non-bank financing arrangements.

Mortgage reliance differs considerably across districts

The most prominent finding is the degree of spatial heterogeneity in mortgage reliance. Focusing on core housing transactions, the Western and South Eastern districts exhibit the highest reliance on domestic bank mortgage credit, while Northern Harbour and Gozo and Comino display the lowest reliance. To assess whether these differences persist after accounting for variations in transaction composition and developments over time, the grouped logit model described above is used to derive model-adjusted estimates. Property-type indicators control for differences in the mix of transactions across districts, while quarter indicators absorb developments common to the housing market in each period, including movements in financing conditions and the broader macroeconomic environment. The resulting probabilities therefore enable mortgage reliance to be compared across districts on a more consistent basis.

The model-adjusted estimates suggest that mortgage reliance for core housing is around 81% in the Western district and 78% in the South Eastern district. By contrast, the corresponding estimates are around 54% in Northern Harbour and 55% in Gozo and Comino. The Northern and Southern Harbour districts lie closer to the national average, with model-adjusted mortgage reliance of around 64% and 68%, respectively (see Figure 1a).

Figure 1a
MORTGAGE RELIANCE ACROSS ADMINISTRATIVE DISTRICTS OF MALTA AND GOZO
(core housing; per cent)



Sources: Central Bank of Malta; NSO; Author's estimates.
Notes: Model-adjusted estimates control for property-type composition and common quarter-specific effects. Core housing includes apartments, maisonettes, penthouses and houses.

These differences are economically meaningful. The model-adjusted mortgage-financed share in the Western district is around 26 percentage points higher than in Gozo and Comino, while the South Eastern district is around 23 percentage points higher. This suggests that the domestic bank mortgage credit channel is materially stronger in some parts of the housing market than in others.

The lower mortgage reliance in Northern Harbour and Gozo and Comino is consistent with differences in buyer composition and housing use. Northern Harbour has a comparatively high share of foreign residents and a relatively high concentration of apartments, while Gozo and Comino has a higher prevalence of properties used as non-main residences. These features may point to a greater role for rental-oriented, investment, second-home or equity-financed purchases. Conversely, the higher reliance observed in the Western and South Eastern districts is consistent with a stronger owner-occupied housing structure. Since individual buyer characteristics and purchase purposes are not observed, these interpretations should be treated as descriptive context rather than causal evidence.

Locality-level indicators provide supporting context

The complementary model examines whether differences in mortgage reliance across localities are associated with selected demographic, housing and household financial characteristics. The results indicate that localities with higher foreign population shares tend to exhibit lower mortgage reliance, while localities with higher owner-occupation tend to display higher reliance. Household Finance and Consumption Survey-based locality-level income and wealth proxies provide additional context: income is positively associated with estimated mortgage reliance, while wealth is negatively associated with it. These variables are area-level proxies and do not measure the characteristics of the actual buyers involved in the transactions. The results should therefore be interpreted as descriptive conditional associations rather than causal evidence.

Implications for financial stability and policy transmission

These findings have implications for the transmission of financial conditions and macroprudential policy to the housing market. In districts and localities where purchases are more commonly financed through domestic bank mortgage credit, housing demand is likely to respond more directly to changes in borrowing costs, credit availability and the Bank's borrower-based macroprudential measures. This applies particularly to higher-reliance districts such as the Western and South Eastern districts, where a larger share of transactions passes through the regulated mortgage-origination channel.

By contrast, in lower-mortgage-reliance locations, housing-market adjustment may occur less through new domestic mortgage origination and more through other channels, including rental demand, foreign demand, demographic developments, investment motives, accumulated wealth or housing equity. Lower mortgage reliance does not necessarily imply lower risk. Rather, it points to a different transmission mechanism and a potentially different sensitivity to credit-based policy measures.

Overall, the analysis suggests that Malta's housing market should not be viewed as a single homogeneous mortgage-sensitive market. Mortgage credit is important, particularly for core housing, but reliance on domestic bank mortgage credit differs substantially across locations and property segments. This heterogeneity matters for financial stability analysis, as changes in interest rates, lending standards and borrower-based measures are likely to transmit unevenly across the housing market.