Malta

Following the strong growth in 2022 and despite continued geopolitical risks due to the war in Ukraine and rising inflation, economic activity moderated but still exceeded that in the euro area. Real GDP grew by 5.6% (8.1% a year earlier), with a large positive contribution from net exports offsetting a negative contribution from domestic demand. The latter's increase, which was over and above its 2021 and pre-pandemic levels, was the main factor in GDP growth for 2022 adding 10.9 percentage points over the previous year. The seasonally-adjusted unemployment rate published by Eurostat averaged 4.3% in 2020, higher than the average of 3.6% recorded in 2019 but lower than pre-2017 levels.

In the first three quarters of 2023, the general government deficit declined significantly compared to the corresponding period of 2022 to €295.9 million, €337.2 million lower than the corresponding period of 2022. When measured on a four-quarter moving sum basis, the deficit-to-GDP ratio narrowed from 5.6% as at end-2022 to 3.4% in the third quarter of 2023. Meanwhile, the government debt-to-GDP ratio fell by 2.0 percentage points compared to December 2022, to 49.6% of GDP. The general government net financial worth also improved as the share of financial assets in GDP rose by 0.8 percentage points to 28.9%, as at end September 2023.

The average rate of Harmonised Index of Consumer Prices (HICP) inflation was 5.6%, down from 6.1% in 2022. Though still high by historical standards, HICP inflation fell since the second quarter of the year. Consequently, inflation eased from 6.8% in January 2023 to 3.7% by December 2023.

Over the past three decades, the banking sector in Malta has grown from essentially just four retail banks serving the local population to 21 (operative) licensed banks as at the end of 2023, only three of which are Maltese majority owned. Thus, the ownership of the other banks originates from various EU and non-EU jurisdictions, including Austria, Belgium, Greece, Kuwait, Qatar, Turkey and the United Kingdom. As such, over 60% of the banking sector's total assets of around €46 billion are foreign owned.

The sector is very diverse in terms of inter-linkages with the domestic economy, and can be split into three groups, according to the extent of linkage with the Maltese economy: core domestic banks; non-core domestic banks and internationally oriented banks.

There are six core domestic banks, whose assets (€32.8 billion) represented 169% of Malta's GDP. The core banks employ 81% of the sector's workforce numbering around 5,532 employees. Two of these banks are the local market leaders, holding around 64% of this cohort's assets, and their branch and ATM networks contribute to over 80% of the branches/offices of the core banks in the Maltese islands. In fact, the local banking sector maintains a strong physical presence and financial access in the market. This is highlighted by the average of 23.51 branches per 100,000 adults in 20219 (Euro area: 16.78) and the number of ATMs per 1,000 km2 for Malta at 613 (Euro area: 115).

The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans mainly to Maltese residents In fact, customer deposits, of which resident deposits comprise the largest proportion, financed around 85% of the core banks' balance sheets in 2023.

Their loan-to-deposit ratio stood at 58.9% in 2023, well below the euro area average of approximately 96%. On the asset side, exposures to the households' and individuals' sector continue to constitute the largest sector to which the core domestic banks are exposed to. In fact, over 90% of all exposures by the aggregate banking sector to this economic sector were advanced by the core domestic banks. At the same time, the latter continued to apply prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Additionally, their investment portfolios continued to be widely diversified in well-rated securities.

Overall, the core domestic banks are characterised by a sound capital base (Tier 1 capital adequacy to risk-weighted assets of 20.2%) and high liquidity. Additionally, in 2023 several factors contributed to a significant increase in the core domestic banks' profitability, amongst which: the ECB's rise in interest rates significantly increased the net interest income for Malta's banks particularly since such higher interest rates were not fully passed on to depositors; the cost of borrowing for both the personal (such as mortgage loans) and corporate sectors, remained low due to the limited pass-through by banks; hence Malta's economy continued growing without experiencing the easing arising from the ECB's rate hikes and the larger banks benefited from economies of scale, allowing them to spread the cost of compliance across diversified balance sheets, revenue streams, and customer bases.

There are six "non-core domestic banks", whose assets of around €3.7 billion represented 19.1% of Malta's GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, while the linkages with the domestic economy remained limited, both resident assets and resident liabilities picked up momentum somewhat as these banks continued to penetrate the domestic market. With a Tier 1 capital adequacy ratio of 20.4%, well in excess of the requirement, these banks have a good shock-absorbing capacity to cover any potential deterioration in asset quality. Considering also their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

Twelve internationally oriented banks, some of which are subsidiaries and branches of large international institutions, have almost no links to the domestic economy (less than 10% of their assets are domestic). Their combined assets of around €9.9 billion represented 51% of Malta's GDP. These banks fund themselves mainly through the wholesale market or through their parent banks, and deal mainly with intra-group activities. Overall, this group is also very well capitalised, has strong liquidity and remains profitable.

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Sources: Central Bank of Malta (CBM) Annual Report 2023; CBM Financial Stability Report 2023; Malta Financial Services Authority Annual Report 2023; EY - The Future of Banking in Malta (2024); CBM database; NSO website. Additional information on the local banking sector may be accessed from this link: https://www.maltabankers.org/future-of-banking-in-malta-report/