

## The Central Credit Register of the Republic of Malta, a Survey of Primary Publicly Accessible Sources

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### Abstract

*This paper shows the information publicly accessible which describes the foundation, the ruling framework and the usage regarding the Central Credit Register of Malta. Since 2016, the foundation of this dataset, there is no academic paper, publication from any Private Bank or Jurisprudence regarding the Central Credit Register in Malta. Only public primary sources are available, mainly the official publications delivered by the actors involved in the development of the Central Credit Register of Malta. The Central Bank of Malta, which also manage the Dataset, is the entity from where most of the information come.*

**Keywords:** Malta, Central Credit Register, AnaCredit, Central Bank, ECB, IMF, WB

### Research purpose

The research question of this paper is the following:

Which is the State of the Art of the Maltese Central Credit Register?

The Central Credit Register of the Republic of Malta was created in 2016, after 7 years of existence, except for two contributions (Altavilla, Laeven, Peydró, 2020; Lentini, 2021) the author arrived at the conclusion that there is simply no paper nor jurisprudence studying such tool in this Country, a condition that it can be unpleasant for a Sovereign Country. This study tries to see in a more structured manner what are the actual documents describing this infrastructure.

The methodology adopted is website archival research based on the official publications available on the websites of the Public and Private Institutions involved, as well as the University of Malta repository and the Malta Court of Justice; it was not used any web-scraping algorithm, nevertheless up to now there is no evidence of high magnitude of material. Moreover, it is supposed that any publication relevant for such tool

is available in a digital format and not just in paper. Chapter 2 illustrates what the author has found. Chapter 3 shows some consequences from this type of information. Chapter 4 provides a structured list of the legislations and documents found, as well as their repositories.

The author arrived at the conclusion that this method does not provide an exhaustive picture of the functioning of this infrastructure. It is naïve believing that in a Sovereign Country affair there are simply not further rules and practices followed by the involved parties, although this information is not detected through this method. For the purpose of this article, the author identifies the presence of the following dilemma, but no further answer is delivered:

- Was Regulatory framework crafted not in a fully detailed manner due to the absence of public available theoretical information; or
- Is just a peer-review failure, practitioner's rules are tackling such problems, but they are not published, hence hidden to any outsider's analysis (even non-academic like any lawyer)?
- **Regulatory Framework**

The legal definition of the Central Credit Register (the “CCR”), is provided in the Central Bank of Malta Act, Article 24 (1):

*There shall be established a Central Credit Register (hereinafter referred to as "Register") at the Bank with non-anonymised granular information on actual and contingent exposures arising from credit and other facilities granted to natural or legal persons or entities, either resident or non-resident in Malta.*

Directive no. 14 “Central Credit Register” includes more details regarding the functioning of this dataset and especially the list of all the variables. The Central Bank of Malta Act, Article 24, was established with the Parliament Act IX.2016.3 and then implemented by the Parliament Act XXX.2020.5. On the contrary, the Directive nr. 14 has been updated three times since 15 February 2016. Directive nr. 15 refers to CCR for the functioning to give access to Credit Reference Agencies to issue credit score and Directive nr. 8 for searching the existence of any credit claim related to monetary policy functions.

Since 2015, the Central Bank of Malta includes in its Annual Reports the development of such reforms. These are not limited to a Public Credit Register, but also include the establishment of the first Credit Reference Agency (CRA) in December 2021, the settlement of AnaCredit (together with other Euro Area countries), the integration with other registries and in particular the land registry as per IMF recommendations, and the willingness to comply with the World Bank Doing Business Recommendation (program suspended in 2021 due to data irregularities), as Prof. Scicluna's intervention in the Parliament refers. Article IV Report of the IMF since 2014 make explicit reference to the settlement and the functioning of this tool especially for the improvement of financial access of SMEs.

World Bank strongly supports the establishment of such datasets, its Credit Reporting Knowledge Guide of 2019 describes the state of the art of Credit Reporting all around the World. Credit report can be managed

on a private basis (credit bureau) or on a public one (credit registry); the latter idea is not a very old creation. Civil law countries use to adopt public credit registries, whilst common laws private credit bureaus.

According to what is a “Credit Register”, the first one may change. The first public credit registry still in operation was set up in 1934, in Germany; although the French dataset (set up in 1946) was the first one aimed to assess creditworthiness. Private bureaus are much older and they were more focused on assessing borrower’s creditworthiness, or at least understanding if customers used not to pay their old obligations. If at the beginning mutual society were more successful, from the 60s’ of the XX century credit agencies become more relevant in the issuance of credit score (Bennet, 2012).

No international credit register exists. There are only two of public credit reporting projects on an international level, built in both case in a regional monetary union: the BCOEA public credit register (West Africa Economic and Monetary Union) and the AnaCredit project for the Euro area (Israël, Damia, Bonci, Watfe, 2017; World Bank, 2019).

As per Opinion CON/2015/20, the ECB acknowledges that the Maltese Central Credit Register belongs to the credit reporting underlying the AnaCredit project as made explicit at Point (b) of the Decision ECB/2014/6 of 24 February 2014. AnaCredit is not viewed as a “European Central Credit Register”, because it is not released for creditworthiness assessment, differently from any Euro Area National Credit Register.

Different from AnaCredit, Maltese CCR added 4 different indicators of distress due to Covid-19 pandemic identifying two government programs. Anticipated by the private initiative of commercial banks, Ministry of Public Health’s Article 5 of the Legal Notice 142/2020 grants a moratorium, hence deferral of payments of capital and interest from credit facilities granted by credit and financial institutions, for a period of six months, the eligibility criteria of which are defined by the Central Bank (Articles 6, 7) in Directive 18 which was issued for the first time the 13 April 2020. The European Commission Decision S.A.56843 (2020/N), coherently with its Temporary Framework (C 911, 20.3.2020, p. 1–9), allowed a maximum budget of 350,000,000 € for a guaranteed schema to be managed by Malta Development Bank in relation to new working capital loans. Moratoria reached its peak on summer 2020 (July 2020 the most) and it falls through months, finishing at the end of 2021, on the contrary the Guarantee Scheme continued to grow until June 2022. A careful reader may notice that the Directive no. 14 was updated officially only the 15 October 2020; whilst as per the Financial Stability Report 2020, pag. 119, data regarding the abovementioned measures were collected since March 2020.

The Central Bank of Malta Act defines the official purposes of such data collection:

- *Centralisation of information on credit;*
- *Analysis of the stability of the financial system;*
- *Implementation of monetary policy;*
- *Compilation of statistics;*

- *Facilitating the assessment of credit risk.*

International sources have been adopted for the foundation of such program (Djankov, Caralee McLiesh, Shleifer, 2005; Israël, Damia, Bonci, Watfe, 2017) and in particular there are two recommendations (IMF, 2019):

- *Continue closing the data gaps, including for existing loan data, commercial real estate price indices, and granular data on intercompany lending;*
- *Expand the CCR by integrating the Survey on Residential and Commercial Real Estate Lending Practices, while evaluating benefits of a further integration with EU-level initiatives.*

CCR is a crucial tool to address data gaps initiative (ESRB/2016/14) focusing on capital structure of the borrowers. As this recommendation explains in its preamble, one of the causes of the Great Recession crisis was the effect of real estate on the financial system, indeed creating a series of harmonized indicators was viewed as a useful idea. Central Bank of Malta implemented such reform through Directive nr. 16, imposing the following thresholds.

**Table 2: Directive nr. 16, paragraphs 8 - 18**

<b>Category I borrowers (paragraph 6f): First Time Buyers or innovators of a Primary Residence</b>	<b>Category II borrowers: All the other categories</b>
<i>Maximum Maturity: 40 years LTV-O <math>\leq</math> 90% (Speed Limit = 10%) DSTI-O <math>\leq</math> 40% (shock 150 bps)</i>	<i>Maximum maturity: 25 years LTV-O <math>\leq</math> 75% (Speed Limit = 20%) DSTI-O <math>\leq</math> 40% (shock 150 bps)</i>
<i>Maturity threshold can be superseded as per paragraph 18, thereby as long as it can be proved the existence of a stable income.</i>	
<i>LTV-O: Loan to Value at Origination; Speed Limit: how many loans (as a percentage of the portfolio) can be exempted from such measure; DSTI-O (Debt Service-To-Income at Origination): The percentage of income devoted to pay back the exposure, and how much it changes if the interest rate suddenly raises up of 150 bps.</i>	

## **Conclusion and Implication**

Paucity of publicly available information does not imply that those private and public institutions which are involved in the functioning of this registry do not assess what is not publicly declared and it cannot be pretended that it is carried a perpetual audit, although it would be a very important question to be addressed. There is no documentation coming from outsider (academia, freelancer, lawyers), but just from some of those public entities involved somehow in the development of such database (Central Bank of Malta, Parliament of the Republic of Malta, ECB, IMF, WB).

The regulatory framework is not fully exhaustive because it does not provide the meaning of the concepts is referring to. There is no further explanation of the purposes of such collection beside those highlighted in the Central Bank of Malta Act art. 24, it appears to be a circular logic rhetorical fallacy between the

meaning of the concept of “Exposure” as per Directive 14 point no. 5 and the “Type of Exposure” as in the Annex II of the same directive, it is not detailed any further the share of responsibility for each actor involved as per Directive 14 point no. 7, it is not detailed the right of access to other institution as per Directive 14 point 22.d, if the category of “Type of Exposure”, “Market Value of Residential Property”, “Market Value of Commercial Property”, “Extendible Value of Residential Property”, “Extendible Value of Residential Property”, and “Interest Rate Type” as per Annex I have a specific definition considering that the other variables are explicitly referred to other body of laws and the last statement of the Article 5, Directive 14. For the usage as an evidence tool, the Centralisation of Credit Information is crucial in order to aggregate data, although it is not the primary source of information and, as long as it is possible, it is preferable obtaining the same information from the various bank issuers; there are around 20 operating Banks in Malta, indeed it would not be difficult in a court case replacing the information of such record with the original account statements. The Centralisation of Credit Information implies the concentration of such information from Banks and Financial Institution to a unique entity (in this case the Central Bank). Stiglitz, Weiss (1981), Pagano, Jappelli (1993) and Padilla, Pagano (1997) provides explanation of the preference for a Credit Registry instead of Banking Secrecy. Centralisation of credit information for credit risk assessment is negatively correlated with the openness of an economy (a condition which can be accepted for Malta) because the more the borrowers are operating abroad, the less a National Registry is effective in assessing the creditworthiness of a borrower. It is positively correlated with the magnitude of borrowers with multiple lenders, because the credit history is not centralized in one single institution (one Bank) but in various ones. Finally, centralisation cost is negatively associated with the number of Banks

In any case, the Maltese CCR and the AnaCredit dataset can detect a proxy of this magnitude matching the borrower identifier for each lender and comparing with the unmatched ones hence if all banks use the same identifier for the same borrower or it is possible reconciling multiple identifiers (like Tax Number with ID Card for Natural Persons) associated with the same entity.

## Review of Legislation and Resources

### Summary

Legal Reference of the Republic of Malta		
Central Bank of Malta Act	Article 24	Article 24 A
<i>by the Parliament Acts</i>	<i>IX.2016.3</i>	<i>XXX.2020.5</i>
Directives	Directive nr. 14	Directive nr. 15
<i>granted by the Central Bank of Malta Act</i>	Point 2, Article 24	Point 3, Article 24 A
Legal Reference of International Organization		
ECB	Opinion (CON/2015/20); Decision (2014/6)	Opinion (CON/2019/02)
IMF	Country Report No. 19/349; Annex IV (2019 – 2020 – 2021 – 2022)	
WORLD BANK	Doing Business Report (2013 – 2020)	

## **Maltese Legislative Sources**

Central Bank of Malta Act, Chapter 104 of the Law of Malta.

<https://legislation.mt/eli/cap/204/eng/pdf>

Central Bank of Malta, Directive no. 11

<https://www.centralbankmalta.org/site/About-Us/Legislation/Directive-11.pdf?revcount=432>

Central Bank of Malta, Directive no. 14.

<https://www.centralbankmalta.org/site/About-Us/Legislation/Directive-14.pdf?revcount=1102>

Central Bank of Malta, Directive no. 15.

<https://www.centralbankmalta.org/site/About-Us/Legislation/Directive-15.pdf?revcount=6663>

Central Bank of Malta, Directive no. 16

<https://www.centralbankmalta.org/site/About-Us/Legislation/Directive-16-2021.pdf?revcount=2636>

Central Bank of Malta, Directive no. 18

<https://www.centralbankmalta.org/site/About-Us/Legislation/Directive-18.pdf?revcount=5045>

Central Bank of Malta, (2015 – 2021), Annual Reports.

<https://www.centralbankmalta.org/annual-reports>

Central Bank of Malta, Financial Stability Reports

<https://www.centralbankmalta.org/financial-stability-report>

Ministry of Public Health of Malta, Ministry of Finance, Legal Notice 142/2020, “Moratorium on Credit Facilities in Exceptional Circumstances Regulations”

<https://legislation.mt/eli/ln/2020/142/eng>

## **Maltese Primary Resources**

Parliament of Malta, Minutes, Secondary session, Sitting No.: 346 - Tuesday, 19-Jan-2016 06:00 PM

<https://parliament.mt/en/12th-leg/plenary-session/ps-346-19012016-0600-pm/>

Parliament of Malta, Transcript, Consideration of Bills Committee, Meeting No.: 092 - Wednesday, 03-Jun-2020 04:00 PM

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European Central Bank, Opinion (CON/2019/02).

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European Systemic Risk Board, Recommendation (ESRB/2016/14),

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European Systemic Risk Board, Recommendation (ESRB/2019/3)

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