



**BANK ĊENTRALI TA' MALTA**  
**EUROSISTEMA**  
**CENTRAL BANK OF MALTA**

## **The Countercyclical Capital Buffer Rate**

*June 2025*  
*Financial Stability Surveillance & Research Department*

## **The Countercyclical Capital Buffer (CCyB)**

In line with Article 136(7) of EU Directive 2019/878, transposed in the Central Bank of Malta's Directive 11 "Macro-prudential Policy", the Central Bank of Malta is hereby notifying its decision on the applicable buffer rate.

### **Notification**

- The applicable countercyclical capital buffer rate: 0%
- The relevant credit-to-GDP ratio: 63.5% and its deviation from the long-term trend: -3.1 percentage points
- The buffer guide: 0%

### **Analysis**

The aim of the countercyclical capital buffer (CCyB) is to strengthen banks' capital buffers during periods of excessive credit growth, which are associated with the build-up of systemic risk. This enhances the resilience of the banking system and helps counter the pro-cyclicality of credit. In this regard, the CCyB is built during the upswing of the financial cycle and is released in a downturn to absorb any losses that may arise, without interrupting the supply of credit to the real economy.

In its assessment, the Central Bank of Malta looks at the deviation of credit-to-GDP from its long-term trend together with other additional variables related to the current account balance, private sector credit and other banking sector indicators. It also employs expert judgement while considering other macro-prudential policies in place with the aim to address cyclical risk. At the current juncture, the Central Bank of Malta deems its macroprudential stance to be adequate and the proposed buffer rate is to be maintained at 0%.<sup>1,2</sup>

## **Indicators Underpinning the Assessment of the CCyB Rate**

### **Credit-to-GDP Gap**

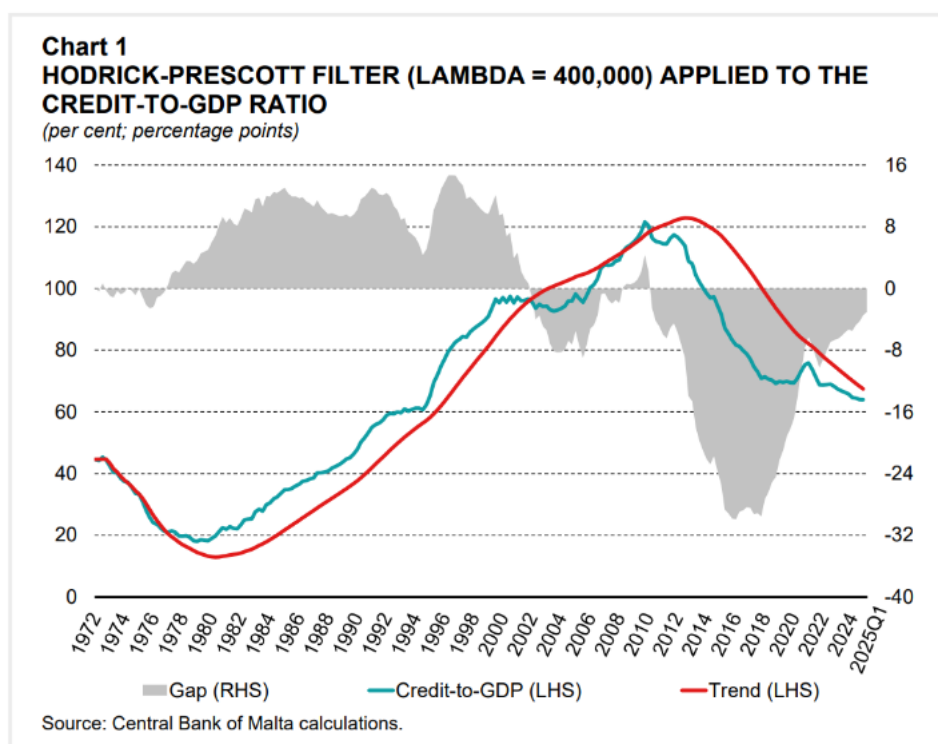
Based on the Basel Committee on Banking Supervision's (BCBS) Guidance for the setting of the CCyB, Chart 1 illustrates the results of the one-sided Hodrick-Prescott (HP) filter of the

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<sup>1</sup> ESRB/2014/1 - Recommendation on the Guidance for Setting Countercyclical Buffer Rates.

<sup>2</sup> The analysis is based on the guidelines issued by the European Systemic Risk Board (ESRB) and Bank of International Settlements (BIS) as well as the experience of relevant international and European authorities.

credit-to-GDP ratio for Malta.<sup>3</sup> The trend represents the smoothed **credit-to-GDP** plotted on the left-hand axis together with the actual series. The gap between the two is reflected in the light grey histogram which is plotted on the right-hand axis.



The credit-to-GDP gap continued to narrow to stand at -3.1 percentage points in the first quarter of 2025. Despite nearly a decade of continued narrowing, the gap remains below the +2 percentage points activation threshold. Meanwhile, the credit-to-GDP ratio decreased by 0.4 percentage point to 63.5%, as nominal GDP grew at a stronger pace than credit, reflecting higher private consumption and a surplus on the current account (see Chart 1).

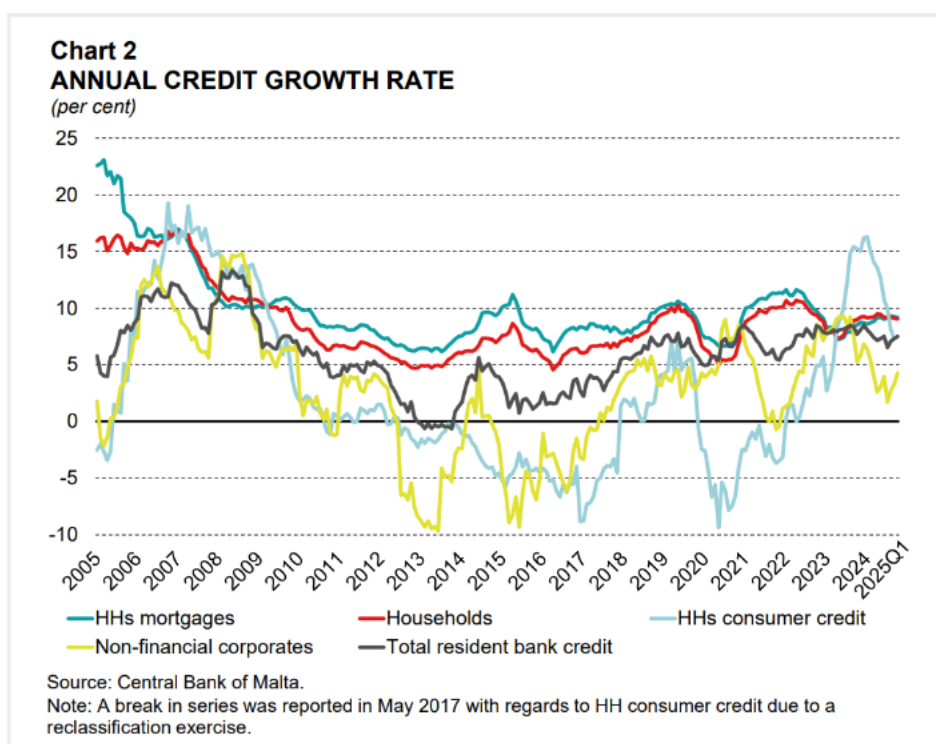
## Credit Growth

Resident credit grew by 7.5% in March 2025, somewhat faster than the 6.5% reported in the previous quarter and almost in line with the 7.7% reported in March 2024 (see Chart 2). This development was driven by credit to households which increased strongly by 9.1%, largely driven by mortgages. The latter grew by 9.2%, 0.7 percentage point higher than the growth rate reported a year earlier, albeit still below the double-digit levels reported post-pandemic.

<sup>3</sup> Credit represents total bank credit. CRD IV Article 136 (2a) states that “an indicator of growth of levels of credit within that jurisdiction” shall be used by the Authority. Although Drehmann (2013) showed that credit gaps based on total credit outperform those based on bank credit as early warning indicators for banking crises, this might not be so relevant for Malta given that the domestic economy is strongly reliant on bank credit and therefore the use of total bank credit is highly appropriate for this purpose. Furthermore, the time series for total credit contains breaks in the data over time, which could lead to unreliable estimations.

During the first five months of 2025, the number of final deeds of sale by households fell by 1%, however their value rose by 7.4%. Moreover, the number of promise of sale agreements involving households for the acquisition of residential real estate increased further, up by 3.4%. However, this reflects a slowdown in the growth rate, indicating that while demand for credit should remain sustained in the short-term, this may moderate. Meanwhile, consumer credit grew at a slower, albeit still strong pace of 7.5%, following the double-digit growth rates reported between December 2023 and November 2024.

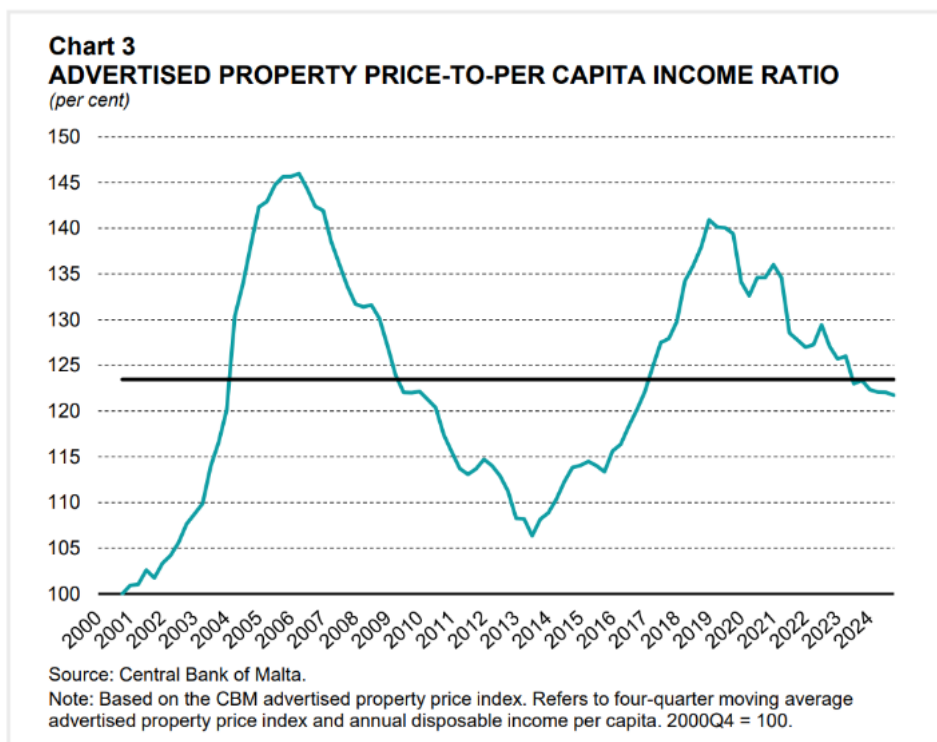
Moreover, in March 2025, resident NFC lending recovered from the slow down reported in the previous two quarters, rising by 4.3%, a faster pace than the 1.7% recorded in the previous quarter, albeit 1.0 percentage points slower than in March 2024. Such growth is higher than the last 10-year average of 2.3%. Diverging developments across sectors remained, with growth being mainly driven by the real estate, construction and accommodation and food services activities, which together rose by 11.7%. Meanwhile, lending to the remaining NFC sectors contracted by 3.4%.



## Property market

Turning to the property market, transacted property prices rose by 5.2% in the fourth quarter of 2024, 1.5 percentage points lower than the rate reported in the last quarter of 2023. Such growth remained above that of other euro area countries, with the latter growing by 4.2% in the last quarter of 2024. Housing affordability in Malta continued to improve marginally

throughout the year, as the advertised property price-to-per capita income ratio went slightly below the long-term average (see Chart 3).



Meanwhile, banks adhered to the Borrower-Based Measures, which include conservative haircuts and loan-to-value ratios. Additionally, the implementation of the sectoral Systemic Risk Buffer (sSyRB) continued to mitigate any potential vulnerabilities that could stem from the residential real estate market.<sup>4</sup> These measures safeguarded the balance sheets of both banks and households. Delinquency rates on resident mortgages decreased further in the first quarter of 2025, whereas compensation of employees continued to improve.

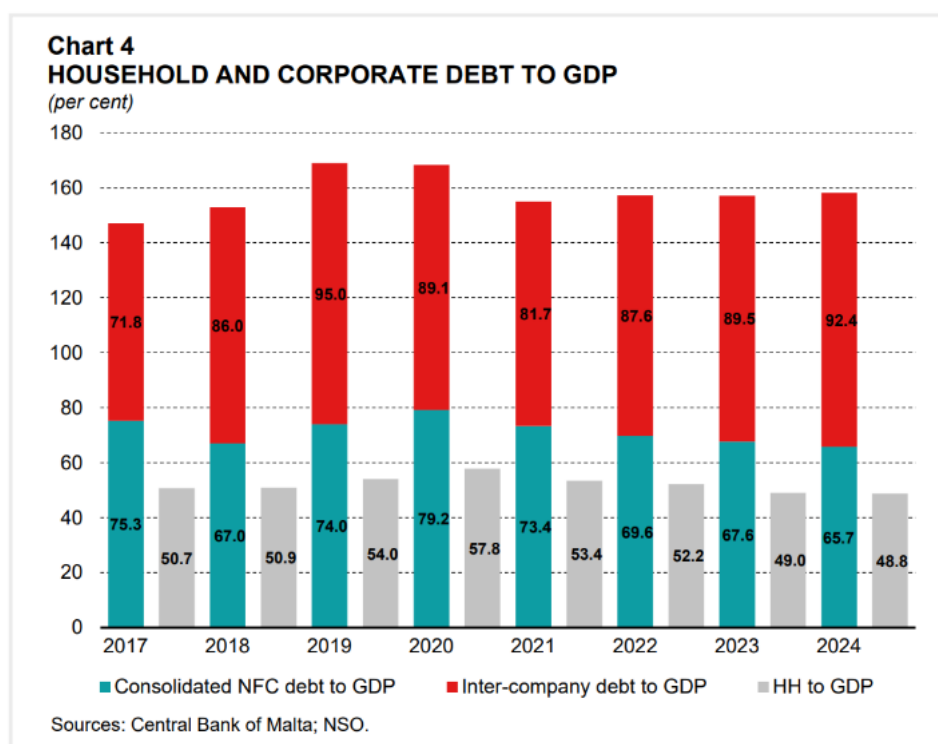
### Household and Corporate Debt

Private sector debt increased in 2024 due to higher indebtedness for corporates and to a lower extent households. Expressed as a share of GDP, private sector debt rose to 206.9% as at end-2024, 0.8 percentage point higher than the level in 2023 reflecting the larger increase in private sector debt compared to economic activity (see Chart 4).

<sup>4</sup> On the 19th of January 2023, the Central Bank of Malta in collaboration with the Malta Financial Services Authority (MFSA) under the auspices of the Joint Financial Stability Board (JFSB) decided to set a Sectoral Systemic Risk Buffer (sSyRB) of 1.5% which is to be applied on the amount of risk-weighted assets held against domestic mortgages exposures to natural persons and secured by residential real estate (RRE).  
[Sectoral Systemic Risk Buffer - Central Bank of Malta \(centralbankmalta.org\)](https://www.centralbankmalta.org)

The household debt-to-GDP ratio decreased marginally by 0.3 percentage points to 48.8% in 2024, remaining below the euro area average of 51.5%. Furthermore, household debt remained backed by significant net financial wealth which went up by 7.2% in 2024 to 149.3% of GDP. Households' financial wealth is mainly held in the form of cash and deposits, indicating high levels of liquidity. Household leverage proxied by the ratio of debt-to-assets did however increase slightly by 0.2 percentage point to 23.6%. While disposable income grew by 8.5% in 2024, this fell short of the growth in household debt resulting in the household debt-to-disposable income ratio to rise by 0.2 percentage point to 93.1%.

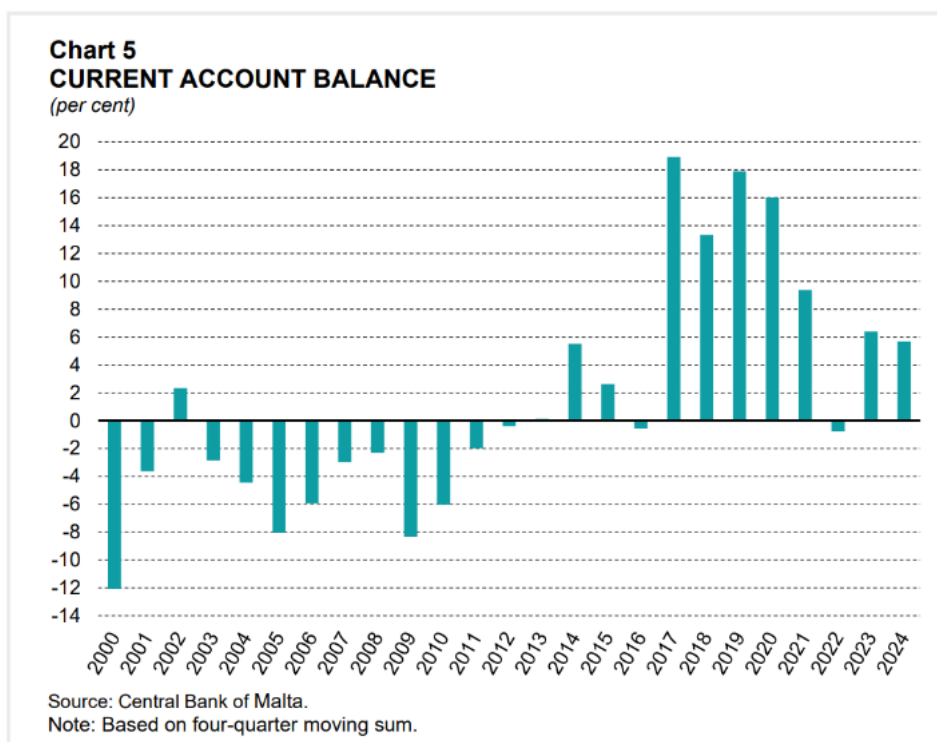
NFC debt-to-GDP increased by 1.1 percentage points during 2024 to 158.2%. This was mainly driven by intra-group debt which is an important component of NFC debt. Indeed, on a consolidated basis, NFC indebtedness rose by a more contained 6.2% and remained limited to 65.7% of GDP. However, this ratio is still lower than in end-2023 and below the euro area average of 67.2%. NFC leverage stood at 23.5% in 2024, also below the euro area average of 25.7%.<sup>5</sup>



<sup>5</sup> ECB Data Portal

## Current Account

On the external front, at 5.7% of GDP, the current account balance remained in surplus as at end 2024 exclusively due to a robust surplus on services which more than fully offset net outflows particularly stemming from trading of goods and primary income (see Chart 5).<sup>6</sup>



The core domestic banks continued to report healthy aggregate capital levels, ample liquidity, as well as improved profitability, albeit at a slower rate than the previous year. Their Total Capital Ratio and Common Equity Tier 1 (CET1) capital ratio stood at 25.3% and 21%, respectively in December 2024. Meanwhile, in March 2025, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at 353.7% and 176.5%, respectively, indicating abundant liquidity and stable funding conditions. The standardised bank credit-to-GDP gap is currently negative at -3.1 percentage points, which, while narrowed, is still below the reference threshold of +2 percentage points as indicated in the BCBS Guidance. Furthermore, supplementary indicators also show that cyclical risks are being driven by mortgage lending, which are being addressed with the sSyRB and the Borrower-based Measures. NFC credit growth despite increasing, remained mainly driven by the property-related sectors as credit growth in other sectors remained weak.

All the relevant quantitative and qualitative information assessed were judged to convey strong indications that at the current juncture, the CCyB rate for Malta should continue to be set at

<sup>6</sup> The current account balance as at December 2024 reflects 4-quarter moving sum figures.

0%, given that this macroprudential tool is perceived to impact all sectors, which at this stage remains unwarranted. This is especially the case given the strong divergences in the credit dynamics at sub-sector level, with some NFC sectors reporting contractions.