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The Countercyclical Capital Buffer Rate

September 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: 63.1% and its deviation from the long-term trend: - 2.4 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%.^{1,2}

Indicators Underpinning the Assessment of the CCyB Rate

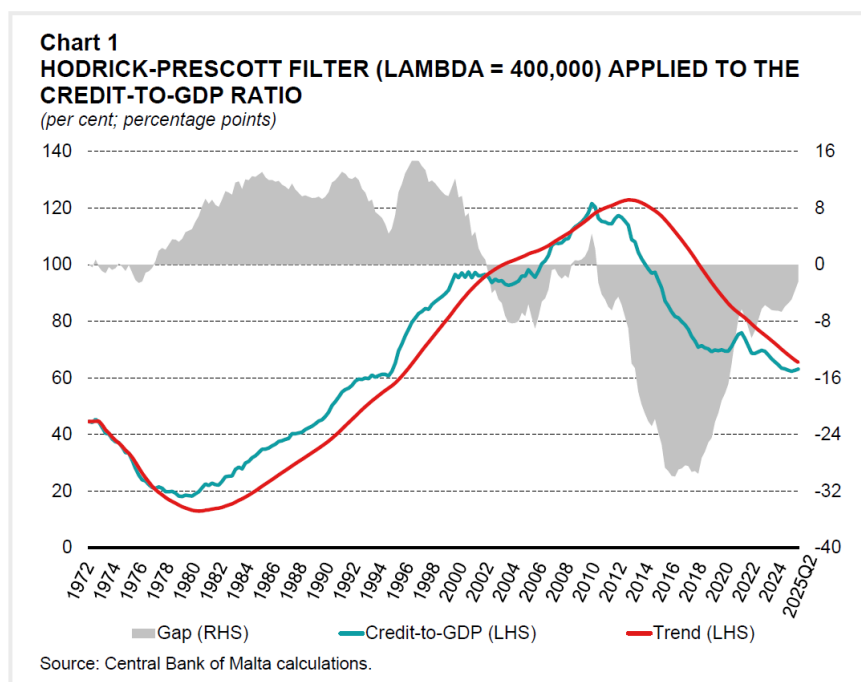
Credit-to-GDP Gap

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

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

² 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.³ 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 in the second quarter of 2025, reaching -2.4 percentage points. Although this remains below the +2 percentage points activation threshold, this reflects a continued decline in the trend line, coupled with a modest increase in the credit-to-GDP ratio. The ratio rose by 0.4 percentage point to 63.1%, as credit grew at a faster pace than nominal GDP (see Chart 1).

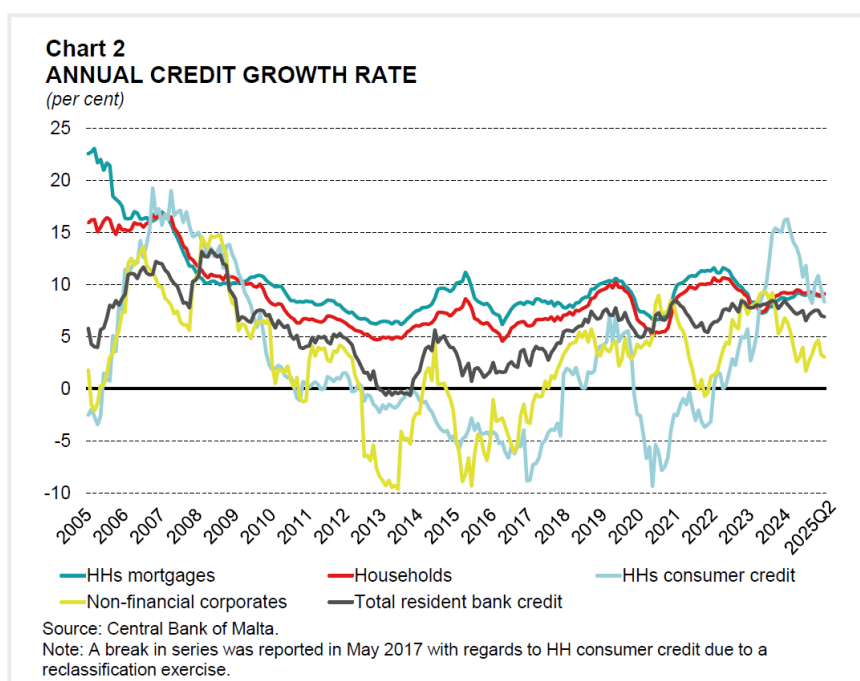
Credit Growth

Resident credit growth moderated to 6.9% in June 2025, down from 7.5% in the previous quarter and 8.1% in June 2024 (see Chart 2). This slowdown was primarily driven by slower growth in resident NFC lending which increased by 3.1%, lower than the 6.4% recorded a year earlier. Nevertheless, the rate remained higher than the 10-year average of 2.5%. Sectoral divergence persists, with growth concentrated in the accommodation and food services

³ 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.

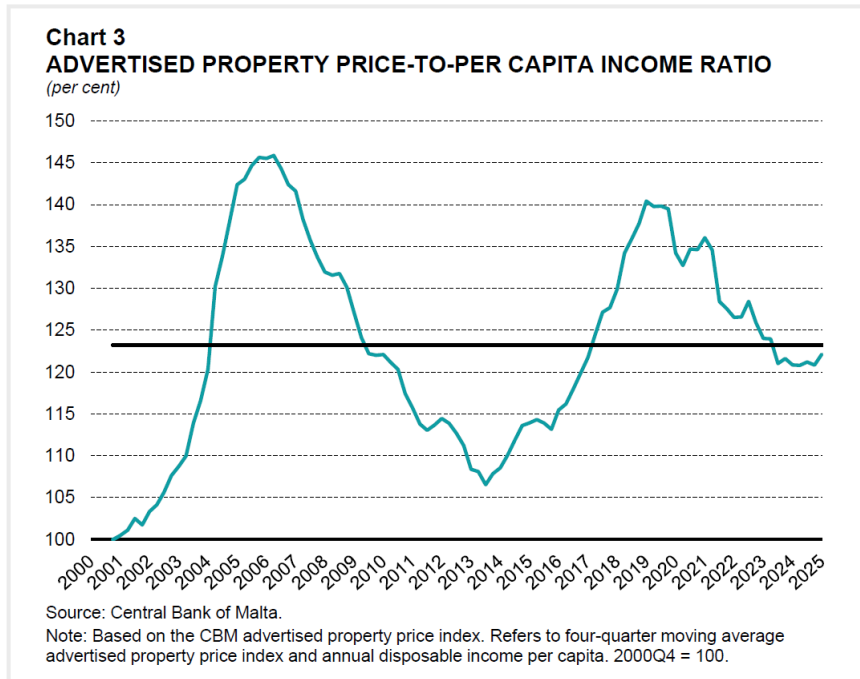
activities, real estate and construction sectors, which collectively grew by 8.1%. Meanwhile, lending to the remaining NFC sectors contracted by 2.4%.

From the households' perspective, credit growth remained strong, up by 9.1%, mainly driven by mortgage lending, which grew by 9.2%. This marks a 0.6 percentage points increase over a year earlier, albeit still below the double-digit levels seen post-pandemic. During the first eight months of 2025, the number and value of final deeds of sale by households rose by 2.5% and 8.9%, respectively. Moreover, the number of promises of sale agreements involving households for the acquisition of residential real estate increased further, up by 4.4%. This indicates a sustained demand in the short-term. Meanwhile, consumer credit slowed slightly to 8.4%, following a period of double-digit growth between December 2023 and November 2024.



Property market

Turning to the property market, transacted property prices rose by 5.7% in the first quarter of 2025, 1.0 percentage points lower than the rate reported in the first quarter of 2024. As a result, such growth became much closer to the average of other euro area countries which grew by 5.4%. Housing affordability in Malta, as estimated by the advertised property price-to-per capita income ratio remained below the long-term average despite a slight increase (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.⁴ These measures safeguarded the balance sheets of both banks and households. Delinquency rates on resident mortgages remained stable in the first half of 2025, whereas compensation of employees continued to improve.

Household and Corporate Debt

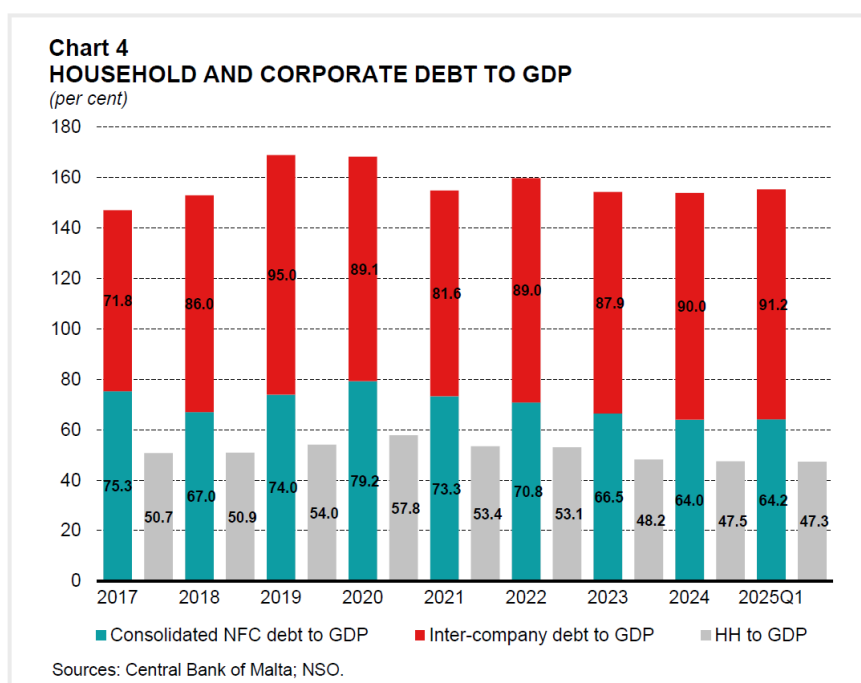
In the first quarter of 2025, private sector debt increased driven primarily by higher indebtedness for corporates and, to a lower extent also households. As a share of GDP, private sector debt rose to 202.7% as at March 2025, 1.2 percentage points higher than end 2024 (see Chart 4). This reflects a stronger increase in private sector debt compared to economic activity.

The household debt-to-GDP ratio decreased marginally by 0.2 percentage points to 47.3%, remaining below the euro area average of around 51%. Household debt remained supported by significant net financial wealth which went up by 2.5% in the first quarter of 2025 to 146.9% of GDP. This wealth is mainly held in the form of cash and deposits, indicating high levels of

⁴ 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)

liquidity. After several years of growth, household leverage, measured by the debt-to-assets ratio, decreased by 0.3 percentage point to 23.5% in March 2025. In contrast, since disposable income grew by only 0.5% during the same period, this fell short of the growth in household debt, resulting in the household debt-to-disposable income ratio to rise by 0.5 percentage points to 92.4%.

NFC debt-to-GDP ratio increased by 1.4 percentage points during the first quarter of 2025 to 155.4%. This increase was mainly driven by intra-group debt, which remains an important component of NFC debt. On a consolidated basis, NFC indebtedness growth was more contained, reaching 64.2% of GDP, just 0.2 percentage points higher than in December 2024, and below the euro area average of 67.1%. NFC leverage stood at 23.5% in March 2025, unchanged from December 2024, and slightly below the euro area average of 25.7%.⁵

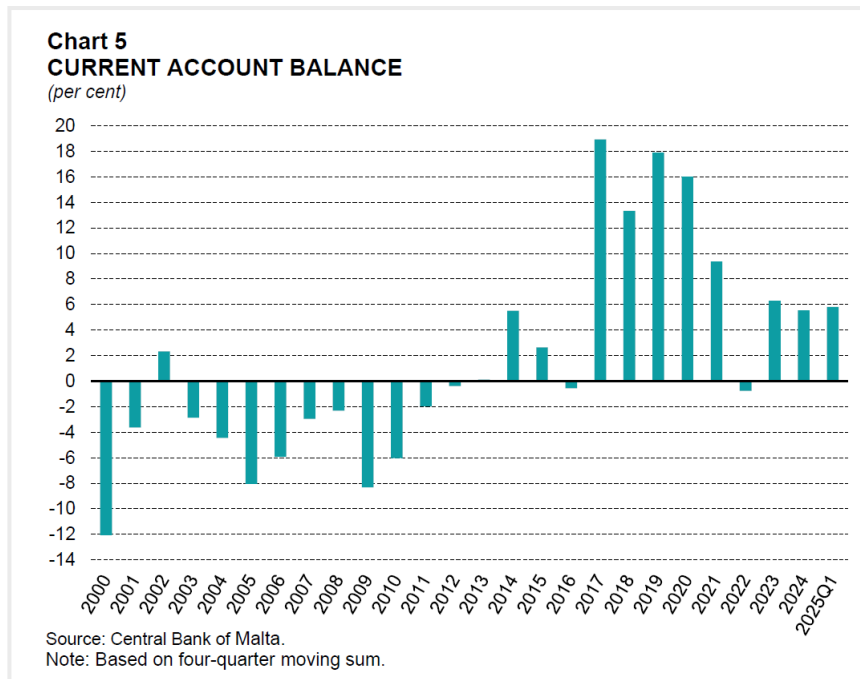


Current Account

On the external front, at 5.8% of GDP, the current account balance remained in surplus in the first quarter of 2025 exclusively due to a robust surplus on services which more than fully offset net outflows particularly stemming from primary income and trading of goods (see Chart 5).⁶

⁵ ECB Data Portal

⁶ The current account balance as at March 2025 reflects 4-quarter moving sum figures.



Conclusion

The core domestic banks continued to report healthy aggregate capital levels, ample liquidity, and while profitability moderated, this remained sound and above euro area levels. Their Total Capital Ratio and Common Equity Tier 1 (CET1) capital ratio stood at 26.5% and 21.1%, respectively in June 2025. Meanwhile, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at around 403% and 183%, respectively, indicating abundant liquidity and stable funding conditions.

The standardised bank credit-to-GDP gap narrowed significantly in recent years but is still negative at -2.4 percentage points, which 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 slowed down and 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 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.