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The Countercyclical Capital Buffer Rate

December 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: -1.1 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%.^{1,2}

Indicators Underpinning the Assessment of the CCyB Rate

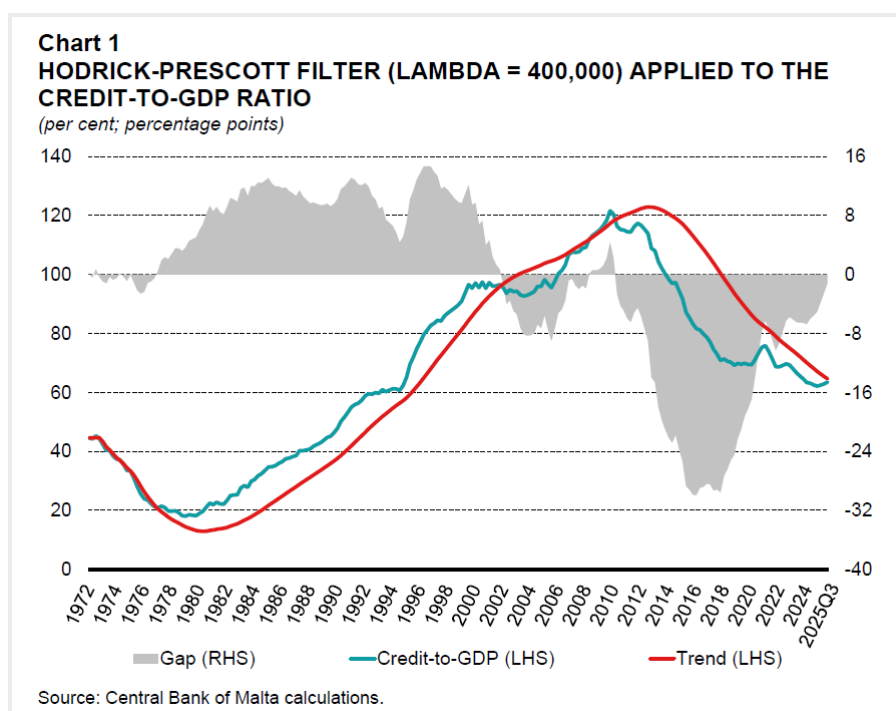
Credit-to-GDP Gap

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 narrowed further in the third quarter of 2025, reaching -1.1 percentage points, noticeably smaller than almost -6 percentage points reported in the same period last year, but still below the +2 percentage points activation threshold.⁴ Such development reflects a continued decline in the trend line, coupled with a modest increase in the credit-to-GDP ratio. The ratio rose by 0.6 percentage point to 63.5%, as credit continued to grow at a faster pace than nominal GDP (see Chart 1).

Credit Growth

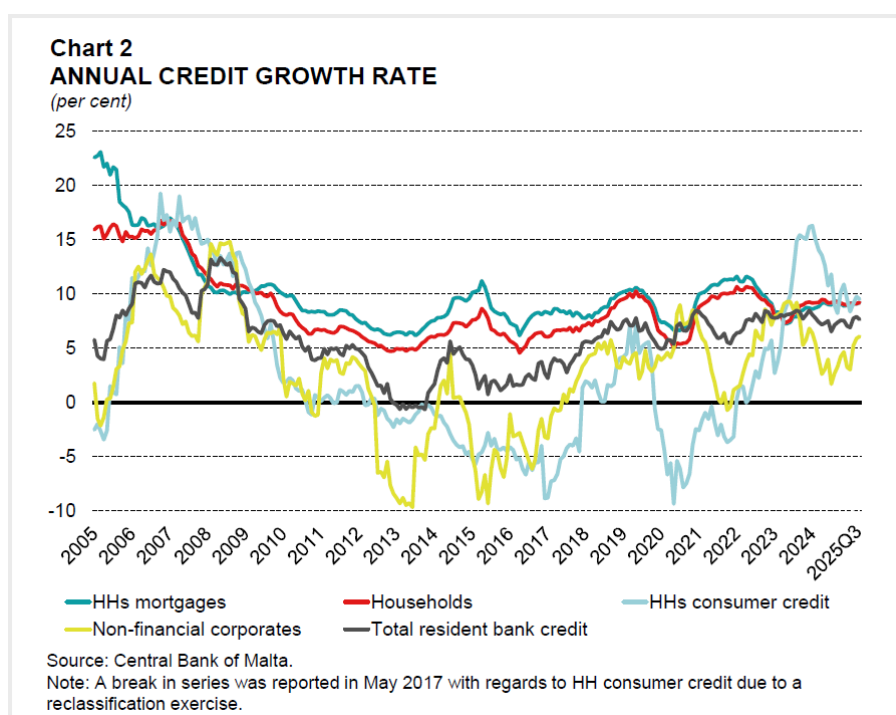
Following a slight slowdown, resident credit growth picked up momentum once again, up by 7.6% in September 2025, compared to 6.9% in the previous quarter and 7.2% in September 2024 (see Chart 2). This was primarily driven by faster growth in resident NFC lending which

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.

⁴ Source: Guidance for national authorities operating the countercyclical capital buffer

increased by 6.1%, notably higher than the 2.6% recorded a year earlier and the 10-year average of 2.5%. Sectoral divergence persists, with growth concentrated in property-related NFC sectors, being accommodation and food services activities, real estate and construction sectors, collectively grew by 10.2%, as well as the professional, scientific and technical activities sector which grew by 18.6%. Meanwhile, lending to the remaining NFC sectors contracted by 1.3%.

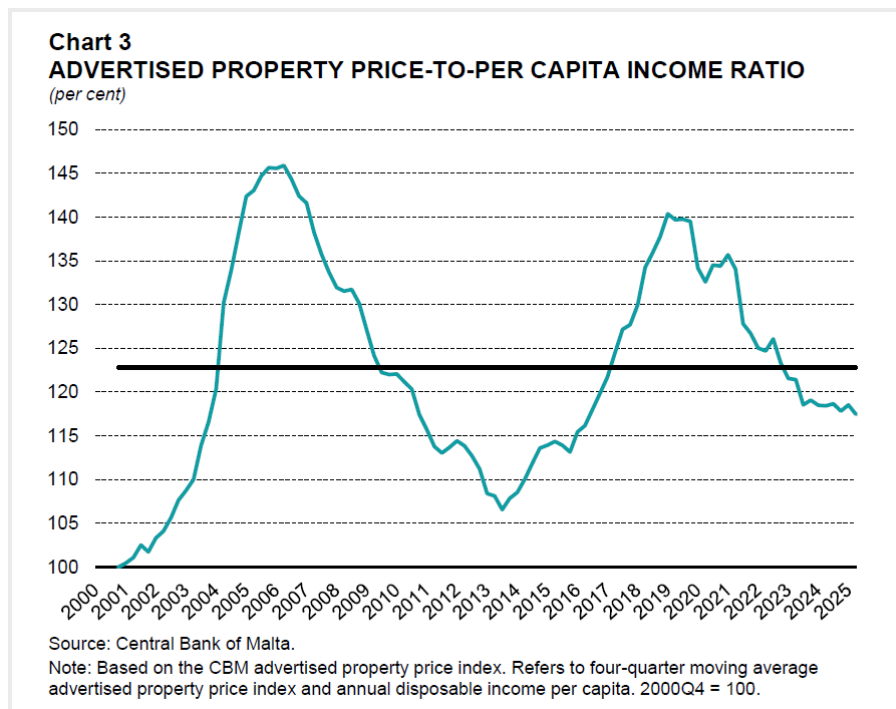
From the households' perspective, credit growth remained largely stable, growing at a strong 9.2%, compared to the 9.5% reported a year earlier. The slight slowdown was on account of consumer credit growth, which slowed down from 13.6% in September 2024 to 9.5% in September 2025. Indeed, lending to households remained mainly driven by mortgages, which grew steadily by 9.2%, albeit still below the double-digit levels seen post-pandemic. During the first eleven months of 2025, the number and value of final deeds of sale by households rose by 4.4% and 10.9%, respectively. Moreover, the number of promises of sale agreements involving households for the acquisition of residential real estate increased further by 4.5%. This indicates a sustained demand in the short-term.



Property market

Turning to the property market, transacted property prices rose by 5.6% in the second quarter of 2025, 1.2 percentage points lower than the rate reported in the second quarter of last year. As a result, such growth became much closer to the average of other euro area countries

which grew by 5.1%.⁵ Housing affordability in Malta, as estimated by the advertised property price-to-per capita income ratio remained below the long-term average following a slight decrease over the previous quarter and a more sustained downtrend since the outbreak of the COVID-19 pandemic (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.⁶ These measures safeguarded the balance sheets of both banks and households. Delinquency rates on resident mortgages remained stable in the first nine months of 2025, whereas compensation of employees continued to improve.

Household and Corporate Debt

In the first half of 2025, private sector debt increased driven by higher indebtedness for both households and corporates. As a share of GDP, private sector debt remained quite stable at

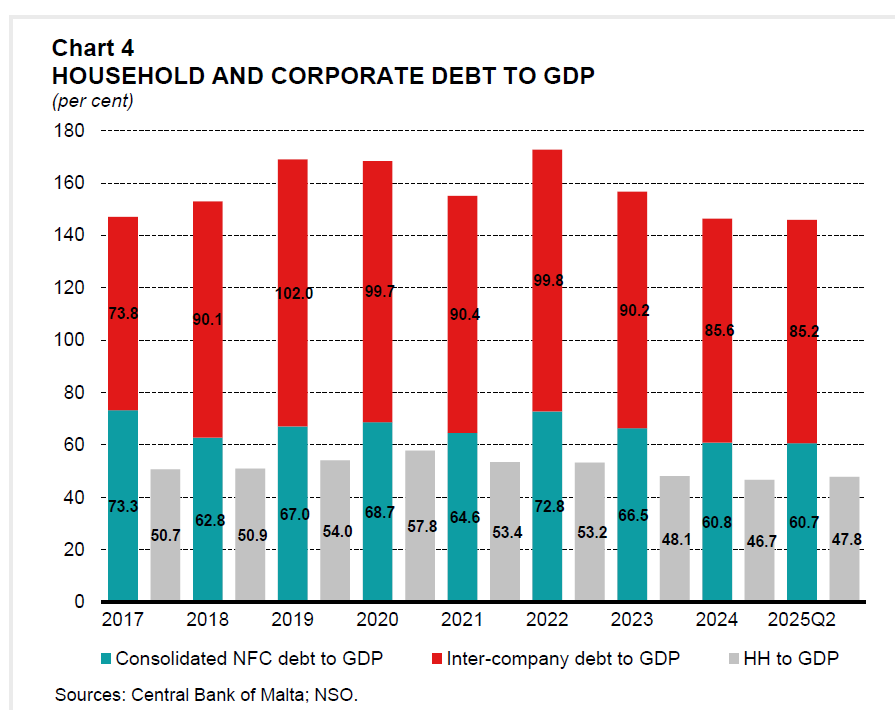
⁵ Source: Eurostat - [Housing price statistics](#)

⁶ 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)

193.7% as at June 2025, just 0.6 percentage point higher than end 2024 (see Chart 4). This reflects a slightly stronger increase in private sector debt compared to economic activity.

The household debt-to-GDP ratio increased by 1.1 percentage points to 47.8% in June 2025, although remaining below the euro area average of almost 51%. Household debt remained supported by significant net financial wealth which went up by 3.2% in the first half of the year to 148.6% of GDP. This wealth is mainly held in the form of cash and deposits, indicating high levels of liquidity. Household leverage, measured by the debt-to-assets ratio, also increased by 0.2 percentage point to 23.2% in June 2025. In addition, the growth rate of household debt also exceeded that of disposable income resulting in the household debt-to-disposable income ratio to also rise by 0.8 percentage points to 89.2% in June 2025, somewhat higher than the 82.5% for the euro area.⁷

Meanwhile, NFC debt-to-GDP ratio retreated slightly by 0.5 percentage point during the first half of 2025 to 145.9%, as NFC debt increased at a slower pace when compared to economic growth. On a consolidated basis, NFC indebtedness was more contained, standing stable at almost 61% of GDP, and below the euro area average of 66.3%. NFC leverage stood close to 22% in June 2025, unchanged from December 2024, and below the euro area average of 26.1%.⁸

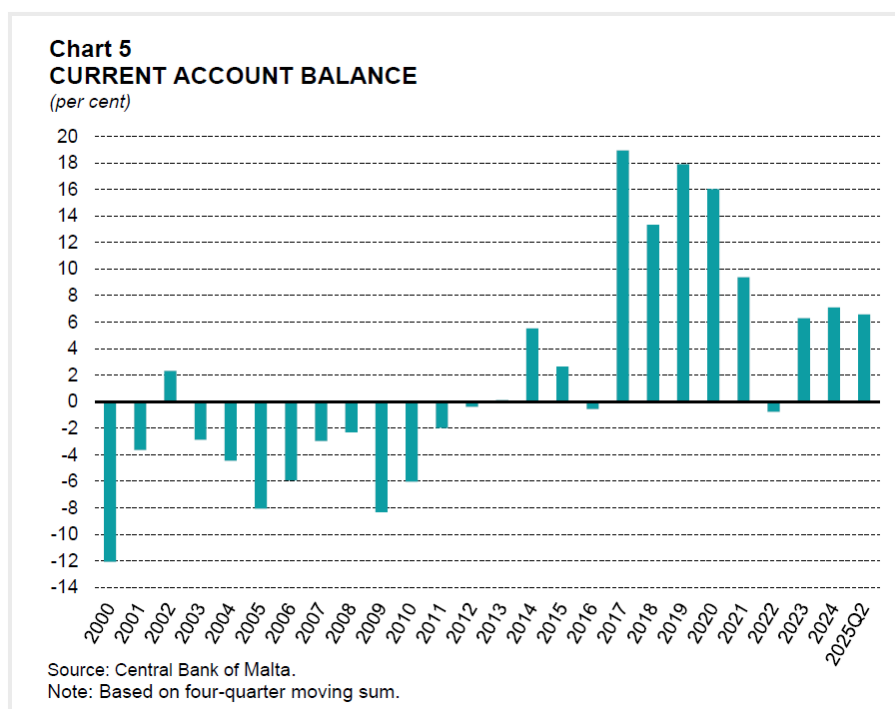


⁷ Source: ECB Data Portal

⁸ See footnote 7

Current Account

On the external front, at 6.6% of GDP, the current account balance remained in surplus in the second quarter of 2025 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).⁹



Conclusion

The core domestic banks continued to report healthy aggregate capital levels, ample liquidity, and while profitability moderated, this remained sound and generally in line with euro area levels. Their Total Capital Ratio and Common Equity Tier 1 (CET1) capital ratio stood at 26.6% and 21.1%, respectively in September 2025. Meanwhile, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at around 362% and 185%, 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 -1.1 percentage points, and below the reference threshold of +2 percentage points as indicated in the BCBS Guidance. Furthermore, supplementary indicators also show that cyclical risks are mainly being driven by mortgage lending, which are being addressed with the sSyRB and the Borrower-based Measures. Despite the recent acceleration in NFC credit growth, this remained largely driven by property-related sectors as credit growth in most other

⁹ The current account balance as at June 2025 reflects 4-quarter moving sum figures.

sectors remained weak. It is for this reason that the sSyRB is planned to be extended to cover all property-related exposures. It is currently subject to a formal notification process with the ECB and ESRB, as well as final endorsement by the Joint Financial Stability Board.¹⁰

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.

¹⁰ Source: [Central Bank of Malta Interim FSR 2025](#)