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The Countercyclical Capital Buffer Rate

March 2026
Financial Stability Surveillance & Risk Analysis 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: 64.4% and its deviation from the long-term trend: +0.4 percentage points
- The buffer guide: 0%

Analysis

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

In its regular assessment, the Central Bank of Malta evaluates the deviation of credit-to-GDP from its long-term trend, together with a broad set of supplementary indicators which include other additional variables related to the current account balance, private sector credit and other banking sector indicators. It also employs expert judgement while considering interaction with other macroprudential measures in place. At the current juncture, the Central Bank of Malta deems the existing macroprudential policy 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

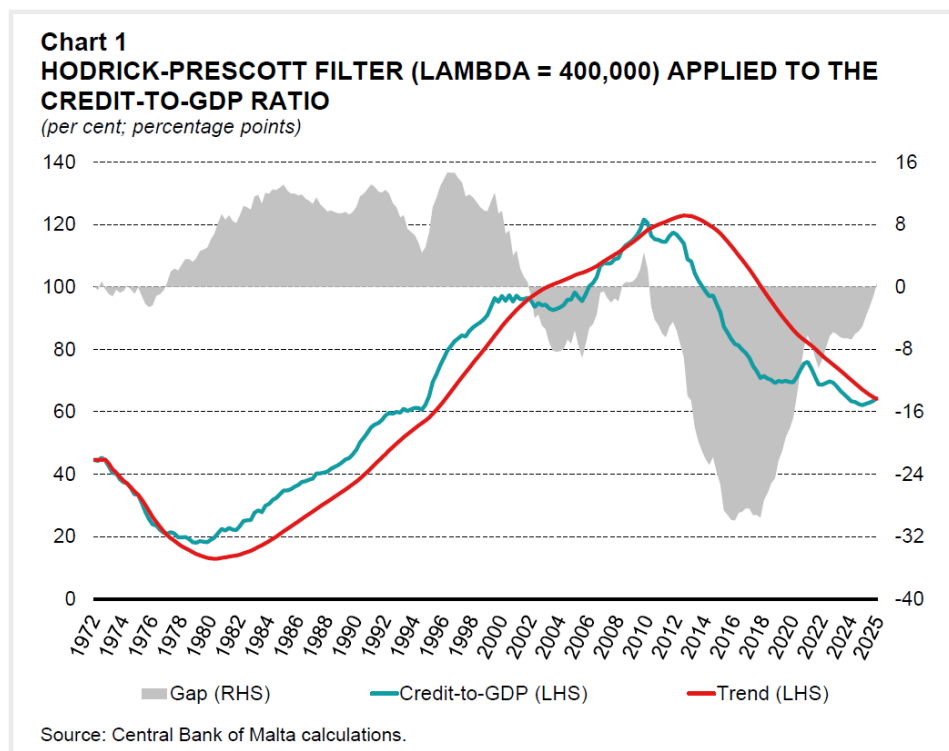
Credit-to-GDP Gap

Based on the Basel Committee on Banking Supervision's (BCBS) Guidance for the setting of the CCyB, Chart 1 presents 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 estimated trend represents the smoothed long-term evolution of credit-to-GDP ratio, which is plotted alongside the actual series. The resulting gap, measured as the difference between the two, is depicted in the light grey histogram which is plotted on the right-hand axis.



In the last quarter of 2025, the credit-to-GDP gap turned positive for the first time since 2010, reaching +0.4 percentage points, albeit still below the +2 percentage points activation threshold.⁴ This development reflects a continued decline in the estimated trend, coupled with a modest increase in the credit-to-GDP ratio. Overall, the credit-to-GDP ratio rose by 1.0 percentage point to 64.4%, as credit continued to expand at a faster rate than nominal GDP (see Chart 1).

Credit Growth

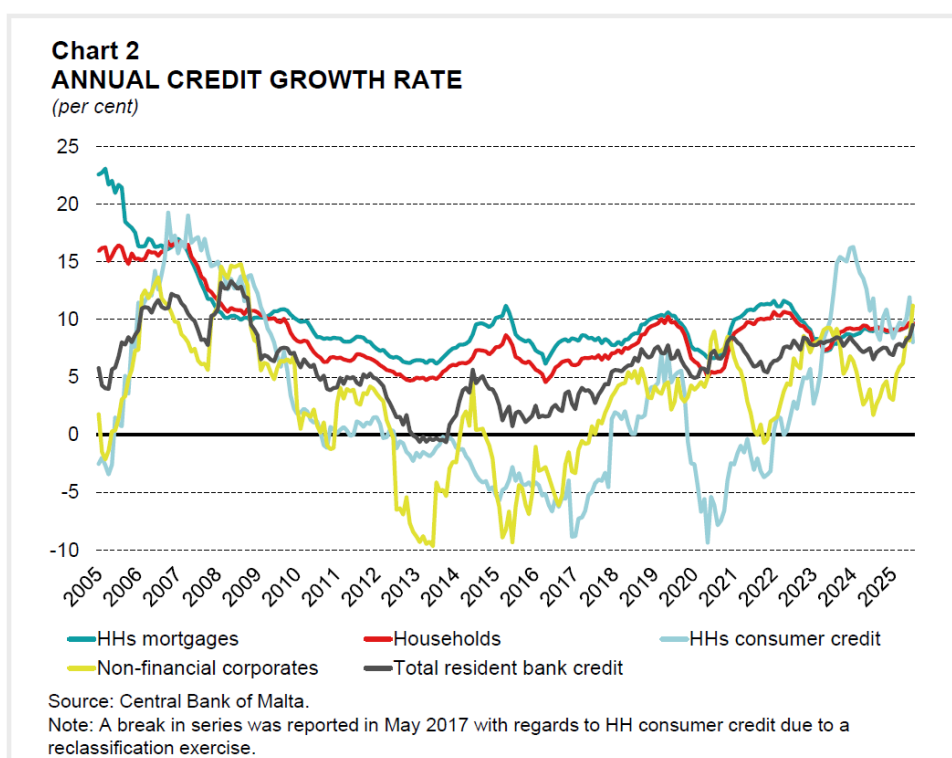
Resident credit growth regained momentum, rising by 9.5% in December 2025, compared to 7.6% in the previous quarter and 6.5% in December 2024 (see Chart 2). This acceleration was

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

primarily driven by a marked increase in lending to resident NFCs, which expanded by 11.2%, well above the 1.7% recorded a year earlier and the 10-year average of 3.2%. Although the pickup in NFC lending was more broad-based, sectoral divergence persisted. Growth remained concentrated in property-related NFC sectors, namely accommodation and food services activities, real estate and construction sectors, which collectively grew by 13.9%, and accounted for about two-thirds of the increase in NFC lending.

From the households' perspective, credit growth accelerated to 9.7%, up from 9.2% a year earlier. The increase was driven primarily by mortgage lending, which continued to grow steadily at 9.8%, compared with 9% the previous year, though still below the double-digit levels observed in the post-pandemic period. Meanwhile, consumer credit growth eased, slowing from 11.8% in December 2024 to 8.0% in December 2025.



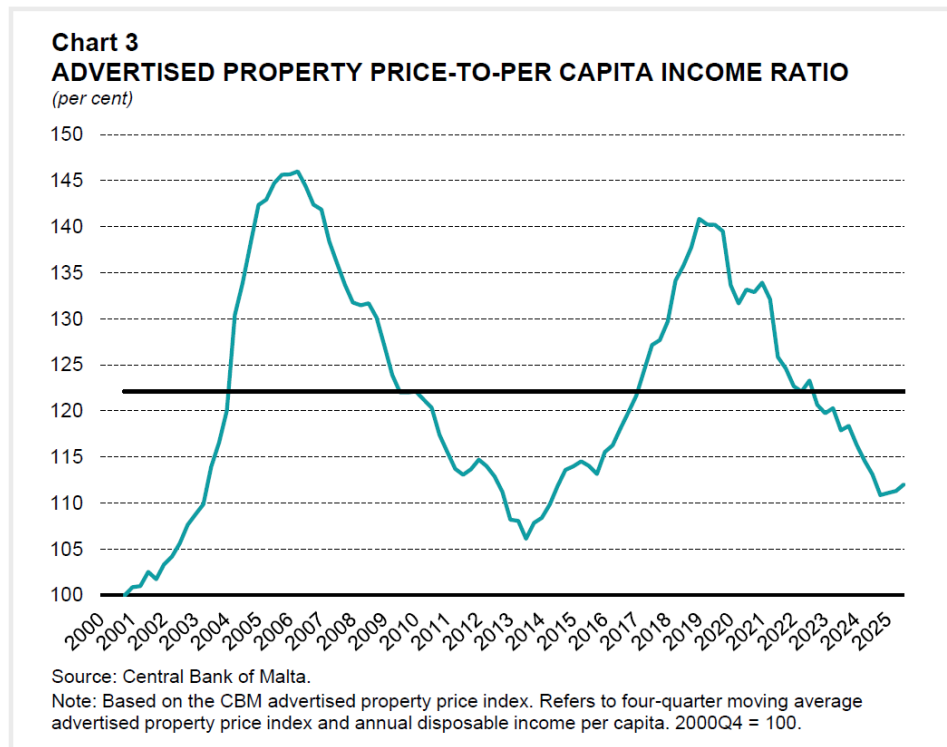
Property market

Turning to the property market, transacted property prices rose by 5.7% in the third quarter of 2025, 1.3 percentage points lower than the rate reported in the same quarter of the previous year. As a result, house price growth in Malta moved closer to the average observed across other euro area countries, which stood at 5.1%.⁵ Housing affordability, measured by the advertised property price-to-per capita income ratio, remained below the long-term average.

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

This reflects a sustained downtrend since the onset of the pandemic, despite a slight uptick compared with the previous quarter (see Chart 3).

Property demand remained resilient. The number of final deeds of sale and promises of sale agreements involving households for the acquisition of residential real estate continued to rise in 2025, increasing by 4.5% and 6.3%, respectively. This momentum persisted in the first two months of 2026, indicating sustained demand in the near term. However, this demand is being met by strong supply condition, with dwelling permits increasing by around 40% in 2025.



Meanwhile, banks continued to comply with the Borrower-Based Measures, which include conservative haircuts and prudent loan-to-value limits. In addition, the ongoing implementation of the sectoral Systemic Risk Buffer (sSyRB) helped mitigate potential vulnerabilities stemming from the residential real estate market.⁶ Together, these measures supported the resilience of both banks and household balance sheets. Delinquency rates on resident mortgages continued to decline, with the NPL ratio reaching just 1% in December 2025, while compensation of employees continued to improve.

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)

Household and Corporate Debt

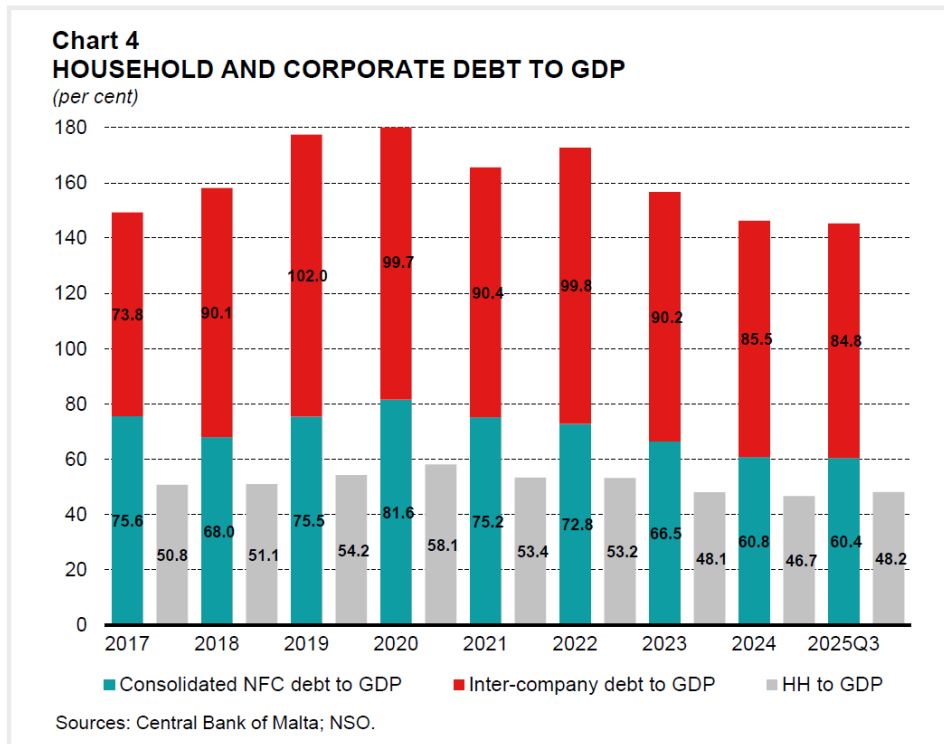
In the third quarter of 2025, private sector debt increased driven by higher indebtedness among both households and corporates. As a share of GDP, private sector debt remained broadly stable at 193.5% as at September 2025, just 0.5 percentage point higher than end 2024 (see Chart 4). This reflects a slightly stronger increase in private sector debt relative to economic activity.

The household debt-to-GDP ratio increased by 1.5 percentage points to 48.2% in September 2025, though it remained below the euro area average of almost 51%. Household debt continued to be underpinned by sizable net financial wealth which increased by 4.2% in the first nine months of the year to 147.7% of GDP. This wealth is mainly held in cash and deposits, indicating high liquidity buffers. Household leverage, measured as the debt-to-assets, also increased by 0.5 percentage point to 23.5% in September 2025. Moreover, household debt grew at a faster pace than disposable income, contributing to a 1.7 percentage points increase in the household debt-to-disposable income ratio, which reached to 84.9%, slightly above the euro area average of 82.4%.⁷

Meanwhile, NFC debt-to-GDP ratio retreated slightly by 1.0 percentage point to 145.3% in September 2025, as NFC debt increased at a slower pace than economic growth. On a consolidated basis, NFC indebtedness was more contained, easing to 60.4% of GDP, and remaining below the euro area average of almost 66%. NFC leverage stood at 21.8% in September 2025, 0.5 percentage points lower than a year earlier, and below the euro area average of 25.8%.⁸

⁷ Source: ECB Data Portal

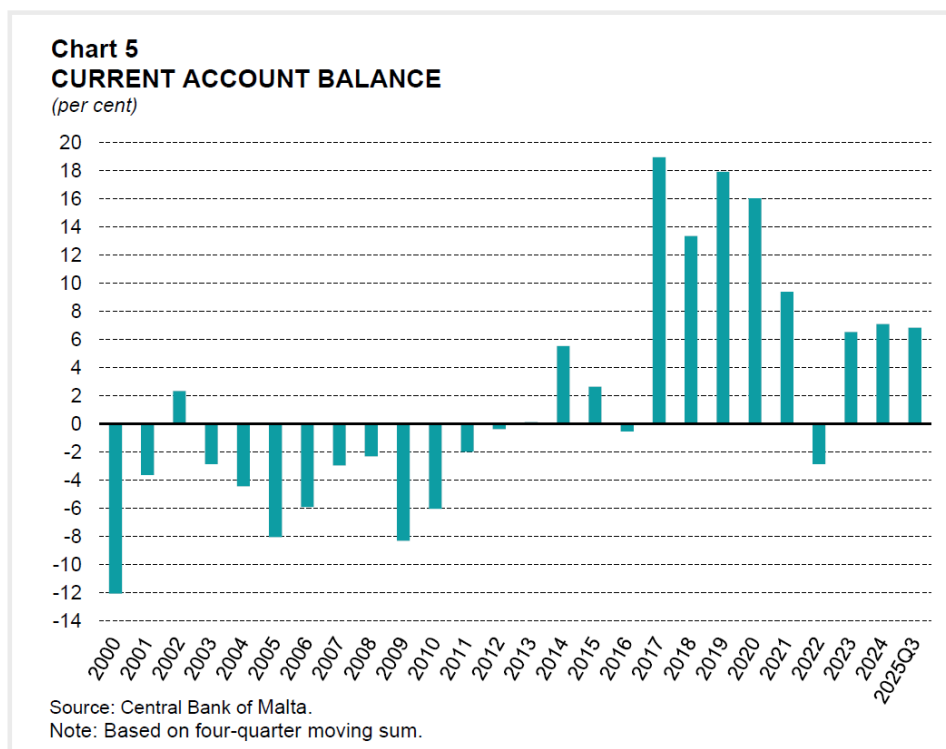
⁸ See footnote 7



Current Account

On the external front, the current account balance remained in surplus in the third quarter of 2025, standing at 6.8% of GDP. This was driven exclusively by a robust surplus on services which more than fully offset net outflows recorded in both trading of goods and primary income (see Chart 5).⁹

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



Conclusion

The core domestic banks continued to report healthy aggregate capital position and ample liquidity in 2025. Profitability remained sound and generally in line with euro area levels. As at December 2025, the Total Capital and Common Equity Tier 1 (CET1) capital ratios stood at 27.6% and 21.4%. Liquidity metrics also remained exceptionally strong, with the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) standing at around 374% and 187%, respectively, signalling abundant liquidity and stable funding conditions.

This time round the standardised bank credit-to-GDP gap turned positive, reaching 0.4 percentage points. Nevertheless, this remains below the reference threshold of +2 percentage points reference threshold as outlined in the BCBS guidance. Supplementary indicators similarly point to cyclical risks being mainly driven by mortgage lending, risks that are already being addressed with the sSyRB and the Borrower-Based Measures. Although NFC credit growth accelerated in recent quarter, it remained largely concentrated in property-related sectors, with the increase in some other sectors more contained. For this reason, the sSyRB will be extended to cover all property-related exposures.

The full set of relevant quantitative and qualitative information convey the message that at the current juncture, the CCyB rate for Malta should remain at 0%. The Bank will keep this stance under review and will remain vigilant on the emerging cyclical trends in non-property related lending in its assessment of the sources and nature of cyclical vulnerabilities.