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CENTRAL BANK OF MALTA

The Countercyclical Capital Buffer Rate

September 2026
Financial Stability Surveillance & Risk Assessment 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 (CCyB) rate: 0%.
- The relevant credit-to-GDP ratio: 65.3%; deviation from the long-term trend: +2.4 percentage points.
- The buffer guide: 0%.

Analysis

The CCyB is designed to strengthen banks' capital buffers during periods of rising cyclical systemic risks often associated with excessive credit growth and the accumulation of financial stability vulnerabilities. By increasing loss-absorbing capacity, the CCyB enhances the resilience of the banking system and helps mitigate the procyclicality of credit. In this regard, the buffer is built up during the upswing of the financial cycle and subsequently released in a downturn, allowing banks to absorb any losses without disrupting 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 the interaction with other macroprudential measures in place. At the current juncture, the Central Bank of Malta deems the existing macroprudential policy stance, including the Sectoral Systemic Risk Buffer (sSyRB) to be adequate, and the proposed buffer rate is to be maintained at 0%.^{1,2}

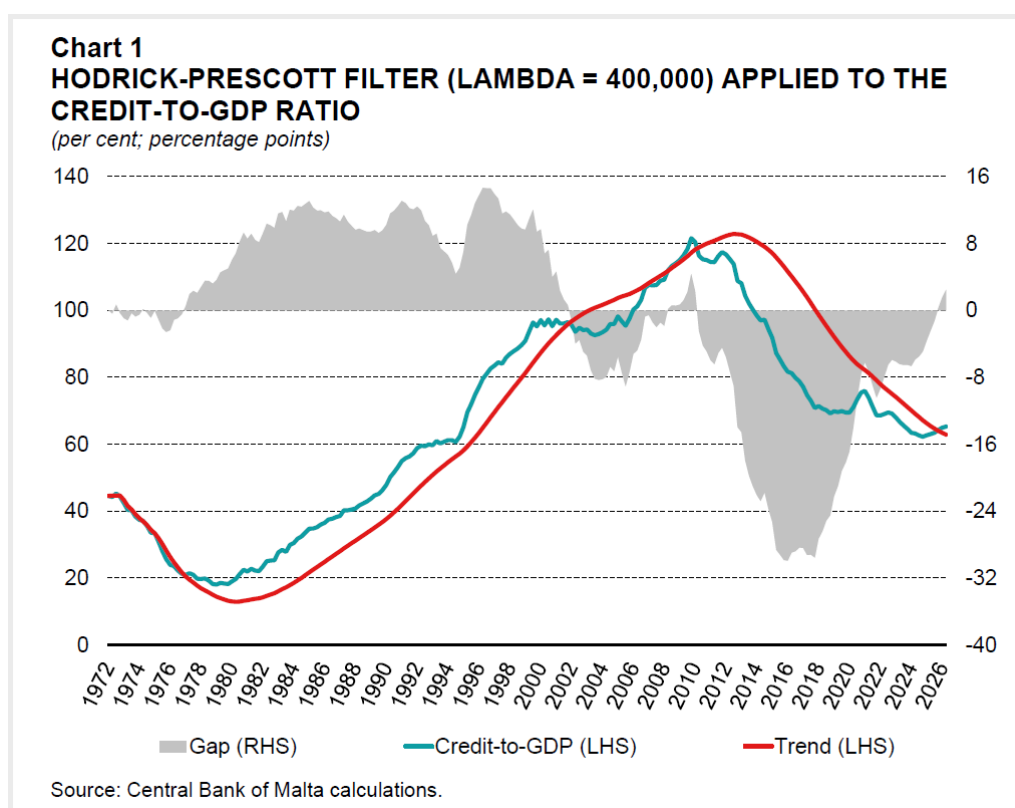
¹ ESRB/2014/1 - Recommendation on the Guidance for Setting Countercyclical Buffer Rates.

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.

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 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 second quarter of 2026, the credit-to-GDP gap expanded further into positive territory, reaching +2.4 percentage points, marginally exceeding the +2 percentage points mechanical activation threshold for the first time since the 2010.⁴ This development reflects a continued decline in the estimated trend, coupled with a modest increase in the credit-to-GDP ratio.

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

Overall, the credit-to-GDP ratio rose by 0.4 percentage point to 65.3%, as credit continued to expand at a faster rate than nominal GDP (see Chart 1).

The credit-to-GDP gap is a broad-based measure which signals deviations of aggregate credit from its long-term trend and does not identify the underlying components or sectors driving the positive deviation. For this reason, the assessment is complemented by a wider set of indicators to provide a more granular understanding of the sources, composition and nature of emerging cyclical imbalances.^{5,6}

Credit Growth

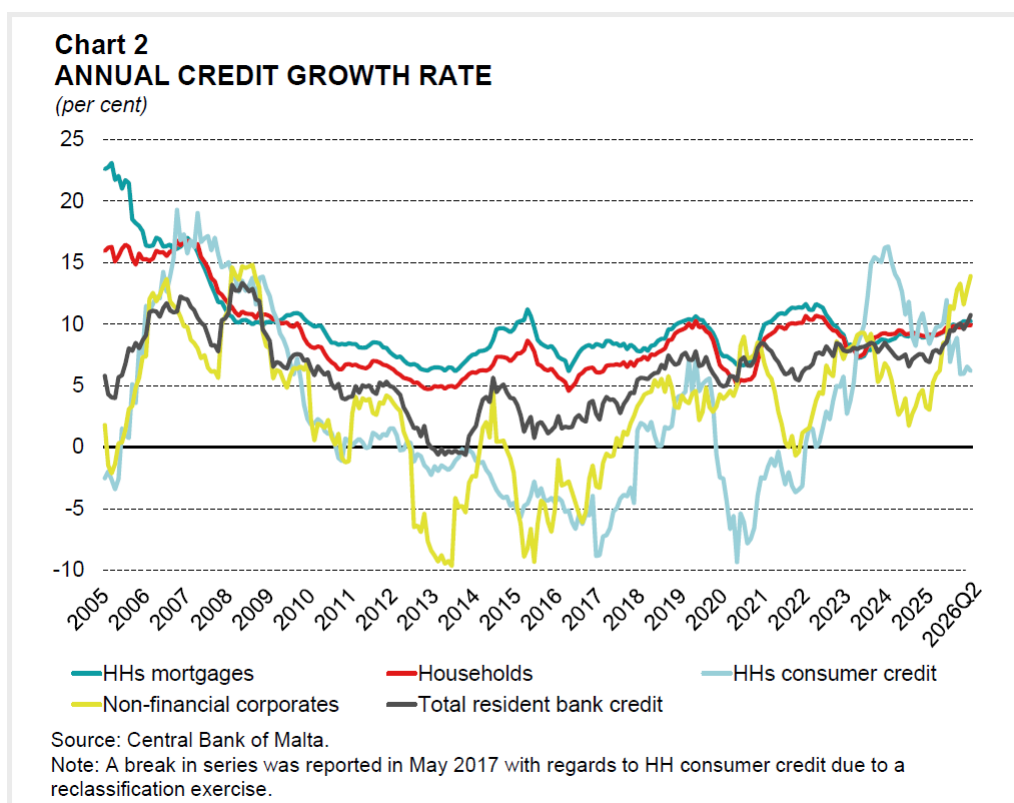
Resident credit growth expanded by 10.7% in June 2026, somewhat higher than the 10.1% reported in the previous quarter and 3.8 percentage points higher than in June 2025 (see Chart 2). This acceleration was mainly driven by both mortgage lending, which contributed to around 52% of the increase, followed by corporate lending, which contributed around 44%. A marked increase in lending to resident NFCs was observed, which expanded by 13.9%, well above the 3.0% recorded a year earlier and the 10-year average of 4.1%. The pickup in NFC lending growth remained concentrated in property-related NFC sectors, namely real estate and construction sectors, and the accommodation and food services activities, which collectively grew by 18.6%. Nevertheless, credit growth became more broad-based, with lending to the remaining NFC sectors rising by 8.3%, compared with a year-on-year contraction in June 2025.

From the households' perspective, credit growth accelerated to 9.9%, up from 9.1% a year earlier. The increase was driven primarily by mortgage lending, which continued to grow, up by 10.2%, compared with 9.2% in the previous year, though still below the peaks observed in the post-pandemic period. Delinquency rates on resident mortgages continued to decline, with the NPL ratio reaching just 1% in June 2026, while compensation of employees continued to improve.

Meanwhile, consumer credit growth eased further, slowing from 8.4% in June 2025 to 6.2% in June 2026.

⁵ [Measuring the Credit Gap for Maltese Private Corporations using the Hamilton Filter](#)

⁶ [Special Feature: Cyclical Risk Dynamics](#)

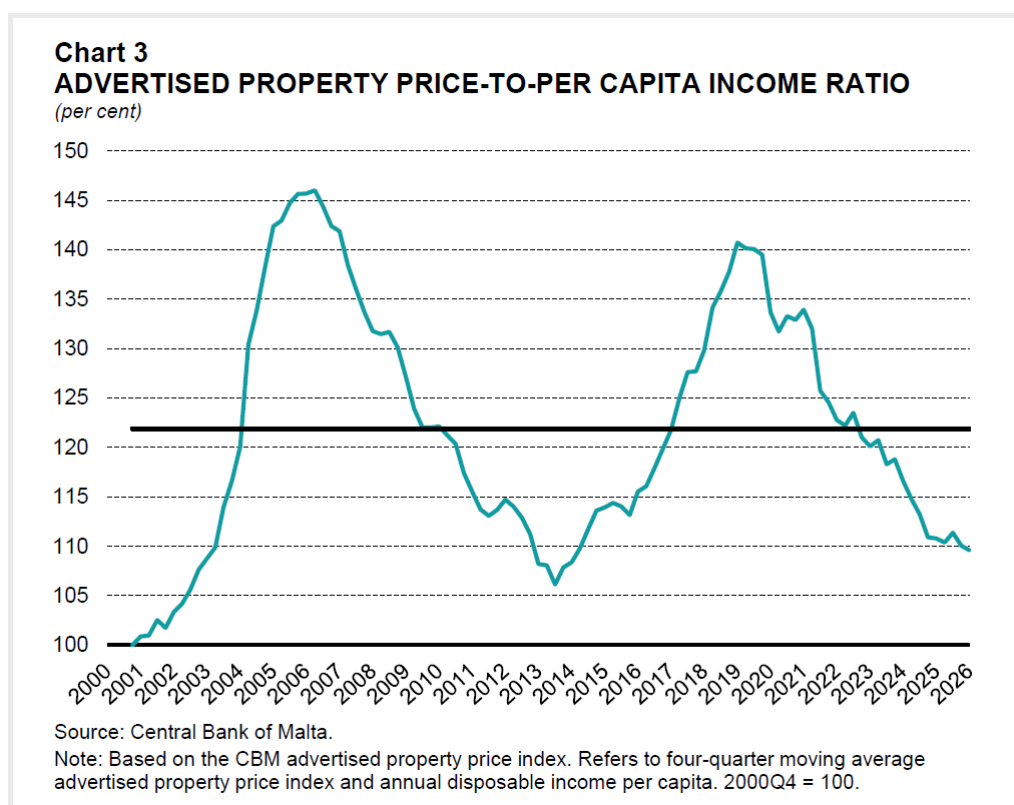


Property market

Turning to the property market, transacted property prices rose by 6.7% in the first quarter of 2026, 0.8 percentage points higher than the rate reported in corresponding period of last year. As a result, house price growth in Malta exceeded the 4.7% average observed across the euro area.⁷ Housing affordability, measured by the advertised property price-to-per capita income ratio, remained below the long-term average. This reflects a sustained downtrend since the onset of the pandemic, with a marginal decline of 0.5 percentage point compared with the previous quarter (see Chart 3).

Property demand remained resilient. During the first eight months of 2026, the number of final deeds of sale and promises of sale agreements involving households for the acquisition of residential real estate continued to rise, increasing by 7.7% and 4.3%, respectively, pointing towards sustained demand in the near term. This demand is being met by strong supply conditions, with dwelling permits increasing by almost 19% in the first half of 2026 compared to the same period last year.

⁷ Source: Eurostat - [Housing price statistics](#)



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.⁸ Together, these measures supported the resilience of both banks and households' balance sheets.

Household and Corporate Debt

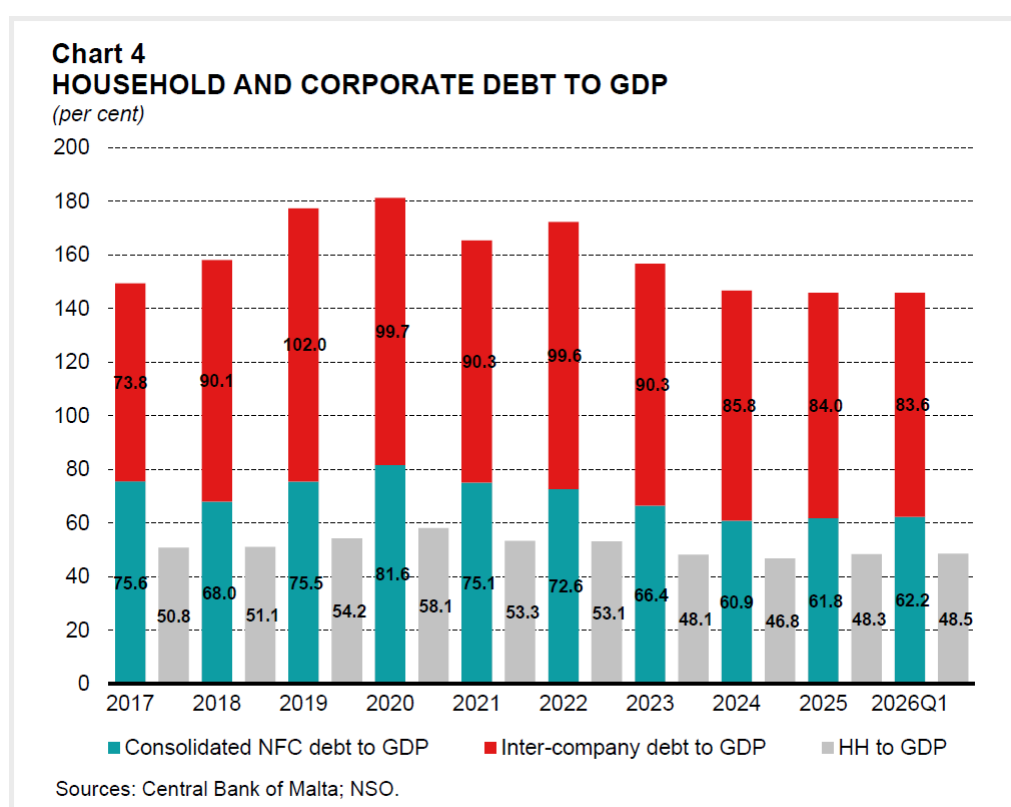
In the first quarter of 2026, private sector debt increased, driven by higher indebtedness of both corporates and households. As a share of GDP, private sector debt increased marginally to 194.4%, 0.2 percentage point higher than in December 2025 (see Chart 4). This reflected a slightly stronger increase in private sector debt relative to economic activity.

The household debt-to-GDP ratio increased by 0.2 percentage point to 48.5% in March 2026, though it remained below the euro area average of just over 50%. Household debt continued to be supported by sizable net financial wealth which increased by 1.9 percentage points to 147.2% of GDP. Wealth is mainly held in cash and deposits, indicating high liquidity buffers.

⁸ 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 loans secured by immovable property. [Sectoral Systemic Risk Buffer - Central Bank of Malta \(centralbankmalta.org\)](https://www.centralbankmalta.org)

Household leverage, measured by the debt-to-assets ratio, also increased by 0.5 percentage point to 23.7% in March 2026. Moreover, household debt grew at a faster pace than disposable income, contributing to a half a percentage point increase in the household debt-to-disposable income ratio, which reached 85.8%, somewhat above the euro area average of 82.0%.⁹

Although NFC debt increased by 1.6% over the previous quarter, the NFC debt-to-GDP ratio remained fairly stable at 145.8% in March 2026, as NFC debt increased in line with GDP. On a consolidated basis, NFC indebtedness was more contained. Despite a marginal increase of 0.4 percentage point to 62.2% of GDP, consolidated NFC indebtedness remained below the euro area average of 65.6%. NFC leverage stood at 22.6% in March 2026, 0.5 percentage points higher than a year earlier, and below the euro area average of 25.5%.¹⁰

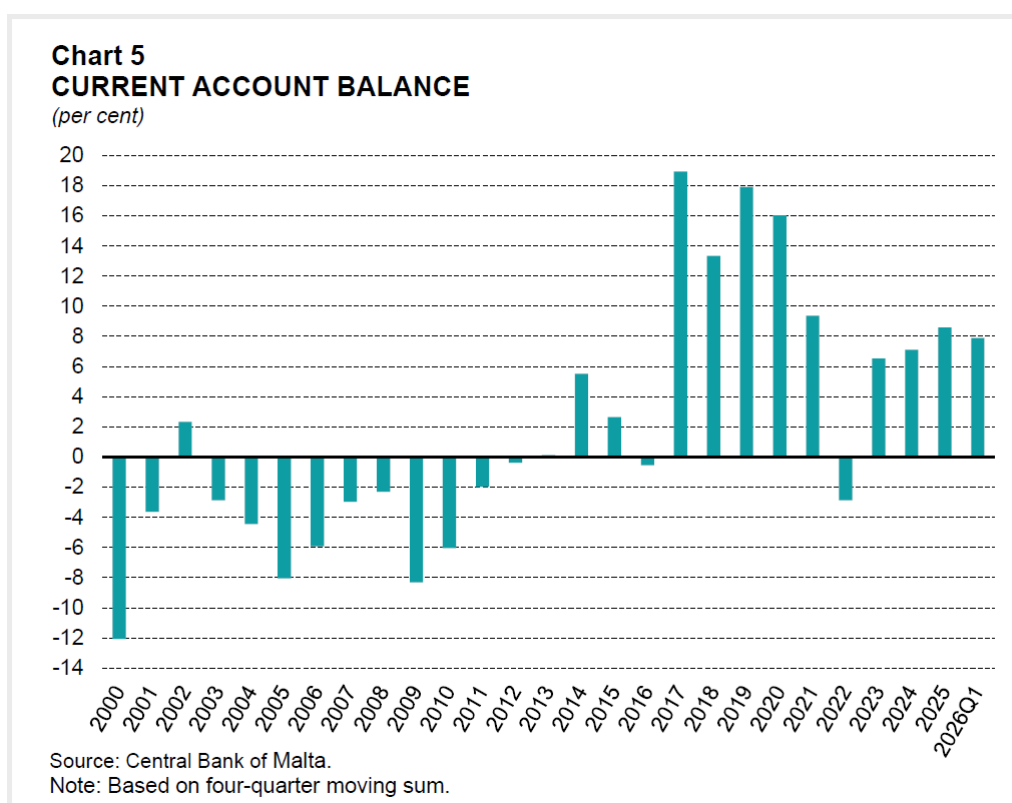


Current Account

On the external front, the current account balance remained in surplus in the first quarter of the year, standing at 7.9% 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 and secondary income (see Chart 5).

⁹ Source: ECB Data Portal

¹⁰ See footnote 9



Conclusion

The core domestic banks continued to report healthy aggregate capital position and ample liquidity buffers well into 2026. Profitability remained sound, with broadly stable post-tax ROA and ROE at 0.8% and 8.7% respectively in June 2026, generally in line with euro area levels. Further to this, the Total Capital and Common Equity Tier 1 (CET1) capital ratios stood at 26.4% and 20.8%. Liquidity metrics also remained exceptionally strong, with the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) standing at around 369% and 187%, respectively, signalling abundant liquidity and stable funding conditions.

The standardised bank credit-to-GDP gap widened further, reaching 2.4 percentage points. However it remained relatively and recent, and several mitigating factors remain in place, including generally contained household and consolidated corporate indebtedness, low mortgage arrears, strong household financial wealth, and the banking sector's robust capital and liquidity positions.

Overall, while recent indicators point to a strengthening of cyclical conditions, the current evidence is not yet sufficiently conclusive to warrant a positive activation of the CCyB, particularly in light of the existing targeted macroprudential measures already in place, including the sectoral Systemic Risk Buffer and borrower-based measures. Nonetheless, the Bank will continue to closely monitor cyclical developments and assess their implications for

the evolution of systemic risk. At the current juncture the Bank considers it appropriate to maintain the CCyB rate for Malta at 0%.

The Bank will keep this stance under close review and will remain vigilant to any emerging cyclical trends, including in non-property related sectors. Going forward, the Bank will continue to assess the sources, sustainability and prospective evolution of cyclical vulnerabilities to determine the appropriate macroprudential policy response should the evidence indicate a further and sustained build-up of systemic risk.