



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

## **The Countercyclical Capital Buffer Rate**

*December 2024*  
*Financial Stability 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: 64.0% and its deviation from the long-term trend: -4.3 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 that are associated with the build-up of systemic risk. This enhances the resilience of the banking system and counters 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 and expert judgement related to the current account balance, private sector credit and other banking sector indicators. It also considers 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 used in the Assessment of the CCyB rate**

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

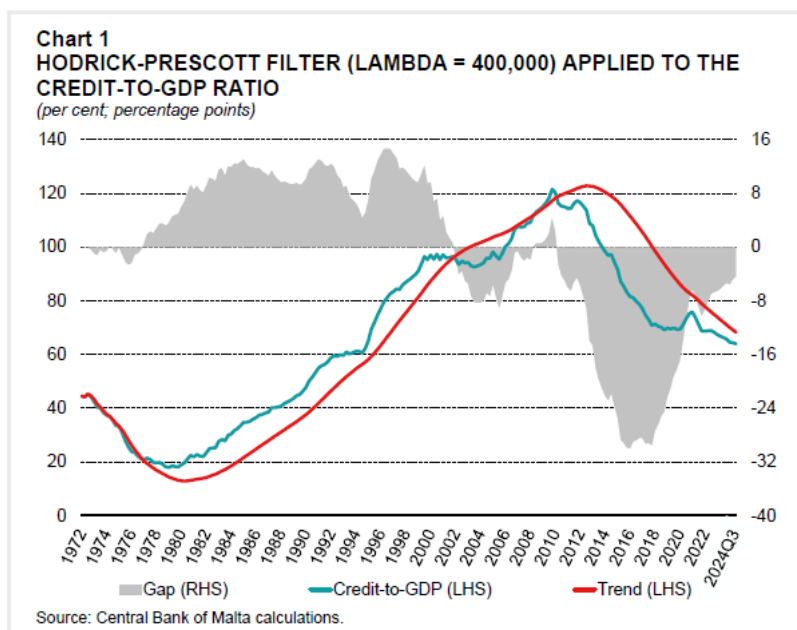
Based on the Basel Committee on Banking Supervision (BCBS) Guidance for the setting of the CCyB, Chart 1 illustrates the results of the one-sided Hodrick-Prescott (HP) filter of the

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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.



In September 2024, the credit-to-GDP gap narrowed further to -4.3 percentage points, but remaining below the +2 percentage points activation threshold, while the credit-to-GDP ratio decreased marginally by 0.5 percentage points to 64.0% as nominal GDP grew at a stronger pace than credit (see Chart 1). Real GDP grew annually by 6.7% in September 2024, reflecting robust growth in private consumption coupled with a surplus on the current account which was partly offset by lower gross capital formation.

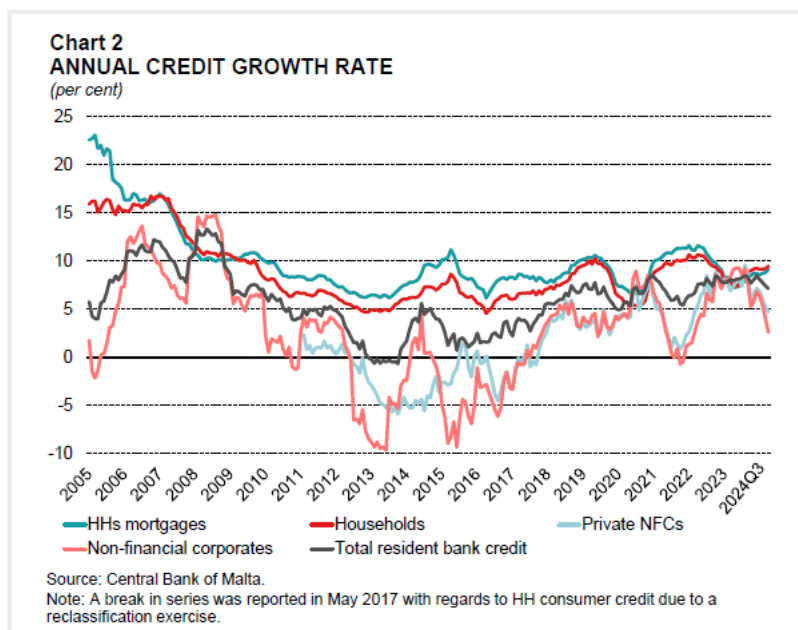
## Credit Growth

Resident credit grew by 7.2% year-on-year in September 2024, somewhat slower than the 8.1% reported in the previous quarter and 8.0% in September 2023 (see Chart 2). Such growth continued to be largely driven by credit to households which increased strongly by 9.5%. The latter is mainly driven by mortgages, which grew by 9.2%, up from 8.6% reported in the previous quarter, albeit still below the peaks reported post pandemic. During the first ten months of 2024, the number and value of final deeds of sale transactions by households rose

<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.

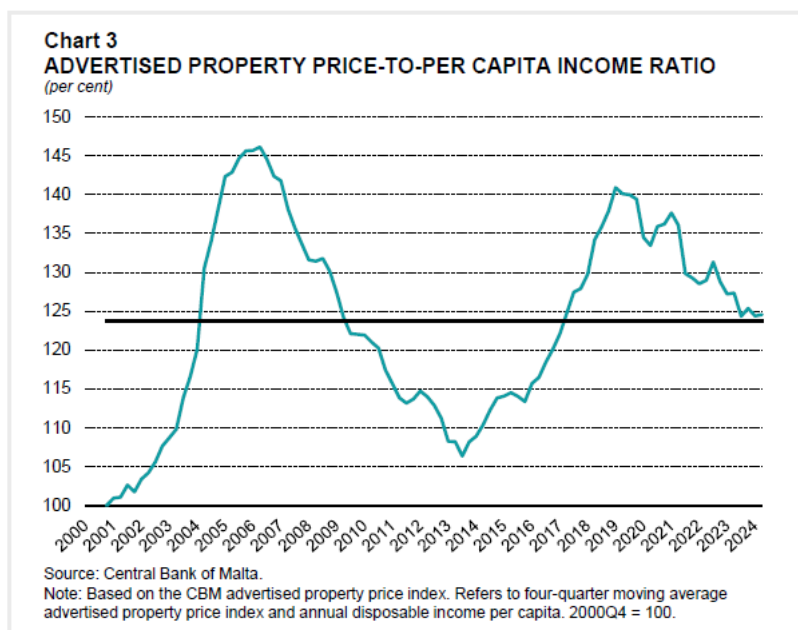
by 4.5% and 9.6%, respectively, as compared to the same period in the previous year. Moreover, the number of promises of sale agreements involving for the acquisition of residential real estate continued to increase, up by 3.5% during the first ten months of 2024. This could indicate that demand for credit will also remain sustained in the short-term.

Meanwhile resident NFC lending increased, but at 2.6%, this stood at a slower pace than the 6.4% recorded in June 2024, and 6.5 percentage points lower than in September 2023. Yet, such growth remains slightly above the historical average of 2.2%, over the last 10 years. The slowdown is driven by diverging developments across sectors. Growth was mainly driven by the accommodation and food services activities, followed by the real estate and construction, and wholesale and retail trade. Meanwhile, lending to other sectors such as the professional, scientific and technical activities, and to a lower extent the transportation and storage, and manufacturing sectors contracted.



## Property market

Turning to the property market, transacted property prices increased by an annual 7.0% in the second quarter of 2024, up by 0.2 and 1.7 percentage points when compared to the previous quarter and the second quarter of 2023, respectively. Such growth remained well-above the rest of the euro area, where on average prices rose by 1.8% in the second quarter of 2024. Housing affordability in Malta improved marginally over the first half of the year, with the advertised property price -to-per capita income ratio remaining largely unchanged close to 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 third quarter of 2024, whereas compensation of employees continued to improve.

### Household and Corporate Debt

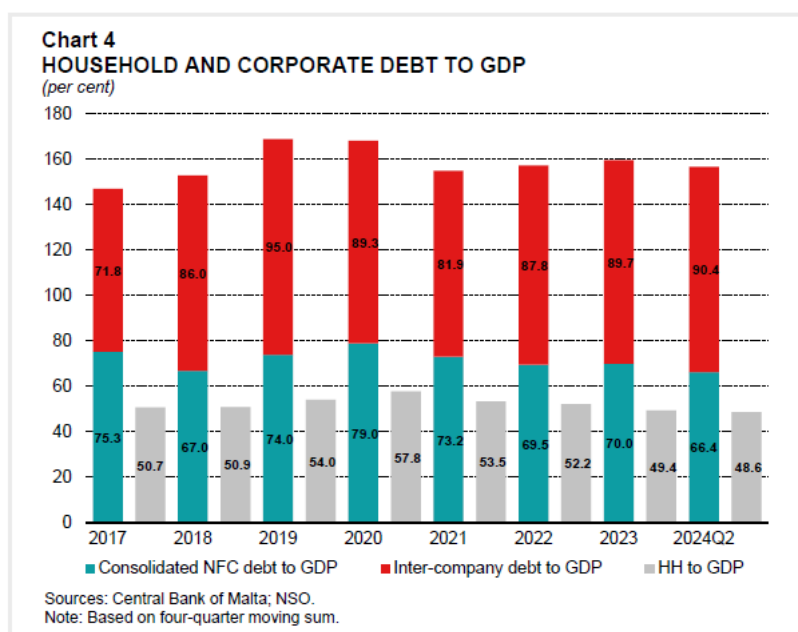
Private sector debt increased in absolute terms in the first half of 2024 due to higher indebtedness for both corporates and households. Notwithstanding, expressed as a share of GDP, private sector debt declined to 205.4% in June 2024, 3.7 percentage points lower than the level as at end-2023 reflecting the continued strong GDP growth (see Chart 4).

The household debt-to-GDP ratio decreased marginally by 0.7 percentage points to 48.6% in June 2024, thus remaining below the euro area average of 52.2%. Furthermore, household debt remained backed by significant net financial wealth which increased by 1.7% during the first half of 2024, to almost 149% of GDP. Households' financial wealth is mainly held in the form of deposits, indicating high levels of liquidity. Household leverage proxied by the ratio of debt-to-assets remained quite stable at 24.0%. Meanwhile, disposable income also grew by

<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)

3.0% in the first half of 2024, however the household debt-to-disposable income ratio still increased by 1.1 percentage points to 96.1% as at June 2024 due to a larger increase in household debt.

Meanwhile, NFC debt-to-GDP fell by 2.9 percentage points in the first half of 2024 to 156.7%. Given that intra-group debt is an essential element of NFC debt, on a consolidated basis, NFC indebtedness was limited to just over 66% of GDP, down by 3.6 percentage points from end-2023 and below the euro area average of 69.3%. NFC leverage stood at around 24% in June 2024, below the euro area average of 27.3%.<sup>5</sup>

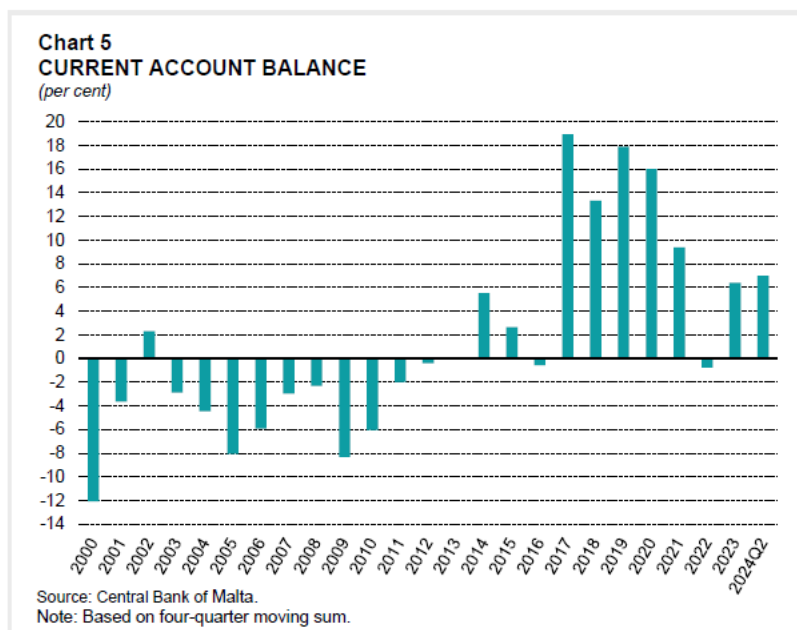


## Current Account

On the external front, the current account balance remained in surplus at 7.0% of GDP in June 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>

<sup>5</sup> ECB Data Portal

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



The core domestic banks continued to report healthy aggregate capital levels, ample liquidity, as well as improved profitability. Their Total Capital Ratio and Common Equity Tier 1 (CET1) capital ratio stood at 24.2% and 20.6%, respectively in September 2024. Meanwhile, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at 352.8% and 179.6%, respectively, indicating abundant liquidity and stable funding conditions. 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%, also given that this macroprudential tool is perceived to impact all sectors, which at this stage remains unwarranted. The standardised bank credit-to-GDP gap is currently negative at -4.3 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, while NFC credit growth continued to slow down with heterogeneous developments reported across sub-sectors.