BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

The Countercyclical Capital Buffer Rate

March 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: 63.9% and its deviation from the long-term trend: -3.5 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 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%.[1,2]

Indicators Underpinning the Assessment of the CCyB Rate

Credit-to-GDP Gap

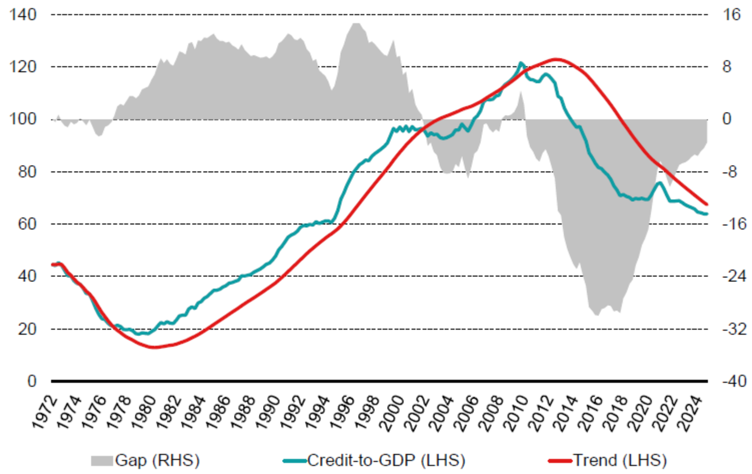
Based on the Basel Committee on Banking Supervision's (BCBS) Guidance for the setting of the CCyB, Chart 1 illustrates the results of the one-sided Hodrick-Prescott (HP) filter of the

[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 smoothened **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.

Chart 1
HODRICK-PRESCOTT FILTER (LAMBDA = 400,000) APPLIED TO THE CREDIT-TO-GDP RATIO
(per cent; percentage points)



Source: Central Bank of Malta calculations.

The credit-to-GDP gap continued to narrow to stand at -3.5 percentage points as at the end of 2024. Despite nearly a decade of continued narrowing, the gap remains below the +2 percentage points activation threshold. Meanwhile, 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 6.0% in 2024, reflecting robust growth in private consumption coupled with a surplus on the current account.

Credit Growth

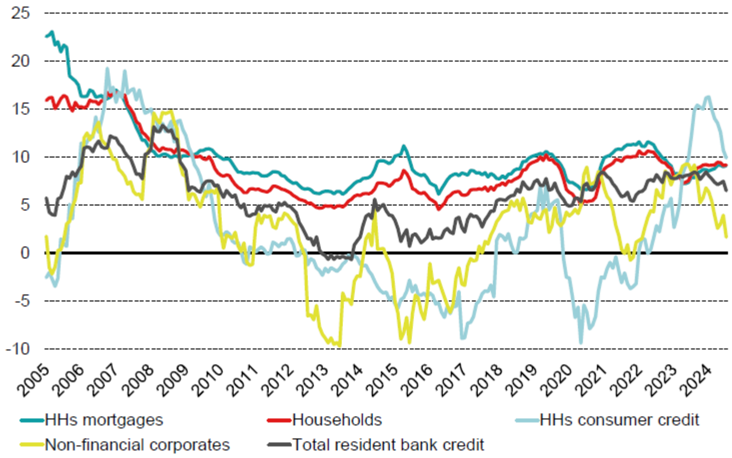
Resident credit grew continued to grow at a slower pace, up by 6.5% year-on-year in December 2024, 1.8 percentage points lower than in December 2023 (see Chart 2). The slowdown was driven by resident NFC lending, which rose by just 1.7%, significantly lower than the 8.6% a year earlier. As a result, such growth fell below the last 10-year average of 2.2%. The slowdown however masks significant divergences in the credit dynamics across sectors. Indeed, while lending towards the accommodation and food services activities, real

[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.

estate and construction sectors remained strong, rising by 8.8%, lending to the other NFC sectors contracted, with outstanding loans dropping by 5.7%.

In contrast, credit to households remained strong, up by 9.2%. The latter is mainly driven by mortgages, which grew by 9.1%, compared to 7.9% a year earlier, albeit still below the peaks reported post pandemic. During 2024, the number and value of final deeds of sale transactions by households rose by 4.0% and 10.2%, respectively. Moreover, the number of promises of sale agreements for the acquisition of residential real estate continued to increase, up by 2.3%. This could indicate that demand for credit will also remain sustained in the short-term. Meanwhile, consumer credit grew at a slower pace of 9.9%, following the double-digit growth rates reported since December 2023.

Chart 2
ANNUAL CREDIT GROWTH RATE
(per cent)

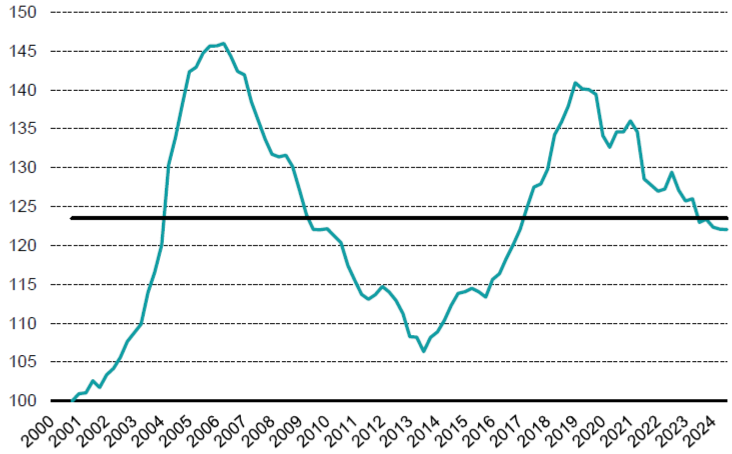


Source: Central Bank of Malta.
Note: A break in series was reported in May 2017 with regards to HH consumer credit due to a reclassification exercise.

Property market

Turning to the property market, transacted property prices rose by 6.9% in the third quarter of 2024, largely at the same rate since the last quarter of 2023. Such growth remained well-above other euro area countries, despite the latter recovered to grow by 2.6% in the third quarter of 2024. Housing affordability in Malta continued to improve marginally throughout the year, as the advertised property price-to-per capita income ratio went slightly below the long-term average (see Chart 3).

Chart 3
ADVERTISED PROPERTY PRICE-TO-PER CAPITA INCOME RATIO
(per cent)



Source: Central Bank of Malta.
Note: Based on the CBM advertised property price index. Refers to four-quarter moving average advertised property price index and annual disposable income per capita. 2000Q4 = 100.

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 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 nine months of 2024 due to higher indebtedness for both corporates and households. Notwithstanding, expressed as a share of GDP, private sector debt declined to 205.5% in September 2024, 0.7 percentage points lower than the level as at end-2023 reflecting the continued strong GDP growth (see Chart 4).

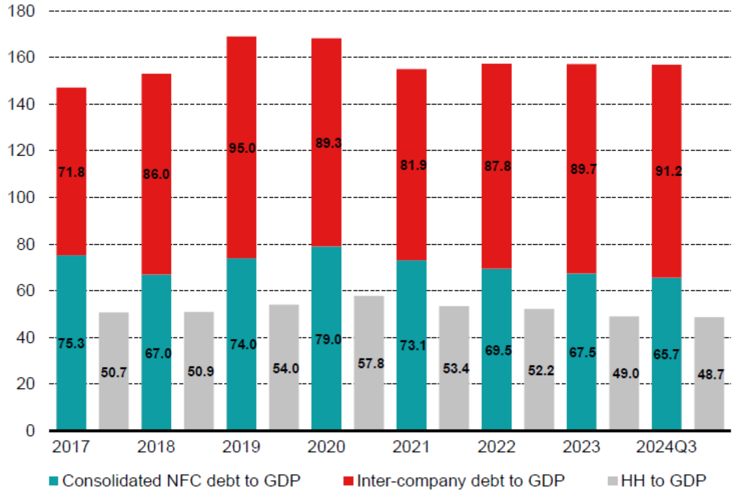
The household debt-to-GDP ratio decreased marginally by 0.4 percentage points to 48.7% in September 2024, thus remaining below the euro area average of 51.8%. Furthermore, household debt remained backed by significant net financial wealth which increased by 5.3% during the first nine months of 2024, to almost 149% of GDP. Households' financial wealth is mainly held in the form of cash and deposits, indicating high levels of liquidity. Household leverage proxied by the ratio of debt-to-assets did however increase slightly by 0.2 percentage

[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)](centralbankmalta.org)

points to 23.6%. Meanwhile, disposable income also grew by 6.1% in the first nine months of 2024, however the household debt-to-disposable income ratio still increased by 0.9 percentage points to 93.8% as at September 2024 due to a larger increase in household debt.

Meanwhile, NFC debt-to-GDP narrowed by 0.3 percentage points in the first nine months of 2024 to 156.9%. Given that intra-group debt is an essential element of NFC debt, on a consolidated basis, NFC indebtedness was limited to 65.7% of GDP, down by 1.8 percentage points from end-2023 and below the euro area average of 67.4%. NFC leverage stood at 23.8% in September 2024, below the euro area average of 25.5%.[5]

Chart 4
HOUSEHOLD AND CORPORATE DEBT TO GDP
(per cent)



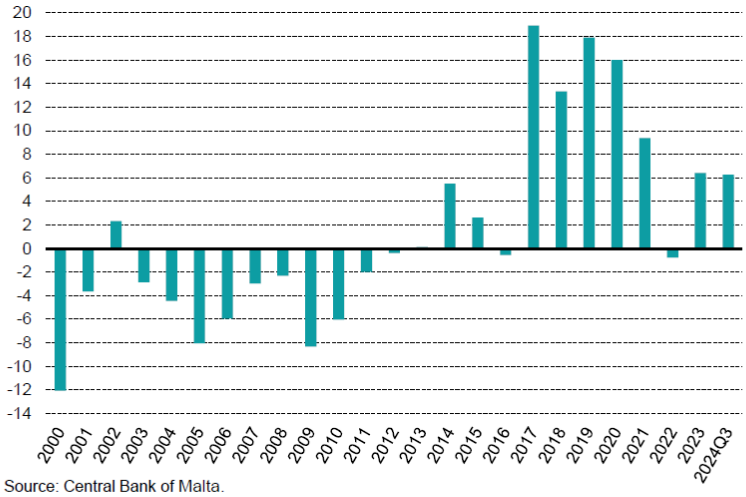
Sources: Central Bank of Malta; NSO.

Current Account

On the external front, the current account balance remained in surplus at 6.3% of GDP in September 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).[6]

[5] ECB Data Portal
[6] The current account balance as at September 2024 reflects 4-quarter moving sum figures.

Chart 5
CURRENT ACCOUNT BALANCE
(per cent)



Source: Central Bank of Malta.
Note: Based on four-quarter moving sum.

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 25.3% and 20.9%, respectively in December 2024. Meanwhile, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) stood at 366.6% and 184.4%, respectively, indicating abundant liquidity and stable funding conditions. The standardised bank credit-to-GDP gap is currently negative at -3.5 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.

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 strong contractions.