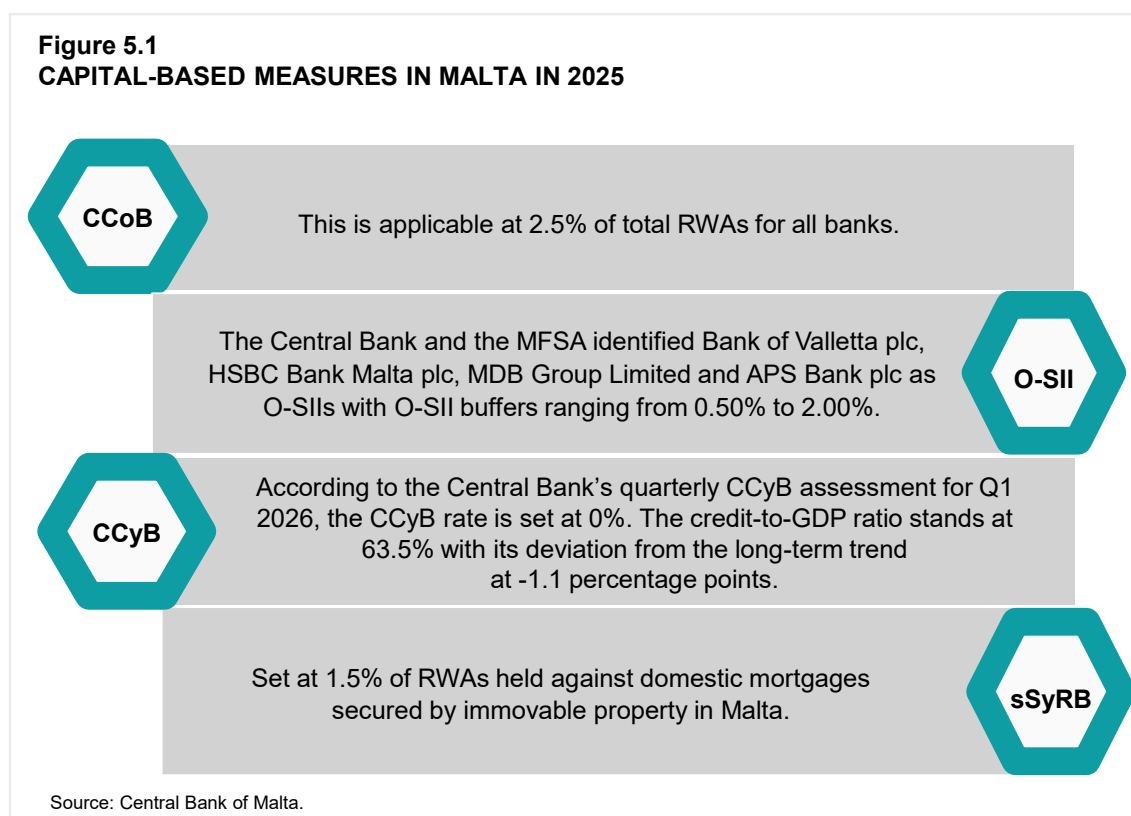


5. MACROPRUDENTIAL POLICY RESPONSE

During 2025, the Bank continued to pursue further its financial stability mandate by maintaining sufficient macroprudential policy space to strengthen the resilience of the financial system. This chapter provides an overview of the macroprudential measures in force during the year and highlights other significant developments at both the domestic and European levels.

5.1 Capital-based macroprudential measures

Capital-based macroprudential measures are an important component of the regulatory framework aimed at safeguarding financial stability. These tools enhance the resilience of financial institutions by mitigating systemic risks and helping banks absorb losses in case adverse shocks materialise. Figure 5.1 presents the capital buffer requirements applicable to domestic banks in 2025. The sSyRB is set to remain at 1.5% but will be applicable to all loans secured by immovable property. Consequently, both RRE and CRE will fall within the scope of the buffer, including loans to both legal and natural persons. This decision came into effect in July 2026.¹



5.1.1 O-SII Buffers

The Central Bank of Malta, in collaboration with the MFSA, conducts an annual assessment to identify domestic institutions classified as other systemically important institutions (O-SIIs) and determine their applicable capital buffer. The methodology used for this assessment is outlined in the [CBM-MFSA O-SII Policy Document](#). The Bank also evaluates the suitability and effectiveness of the applied O-SII buffers by monitoring developments in banking sector activity, cumulative O-SII scores, and how these buffers contribute to the resilience of the domestic banking sector. The buffer is designed to internalize part of the potential costs

¹ The statement of decision on the sSyRB can be accessed using the following link: [Statement-of-decision-2026.pdf](#) while the policy case to extend the sSyRB can be accessed through this link: [Box-6.pdf](#).

Table 5.1
LIST OF IDENTIFIED O-SIIs AND CORRESPONDING O-SII BUFFER RATES FOR 2026

Institution	O-SII score (bps)	2026 O-SII rate
Bank of Valletta plc	2,848	2.00%
HSBC Bank Malta plc	1,431	1.25%
MDB Group Limited	1,264	1.00%
APS Bank plc	796	0.50%

Source: Central Bank of Malta.

associated with the failure of an O-SII and serves as a first line of defence against possible losses. Table 5.1 above shows the O-SII scores of the four credit institutions designated as O-SIIs for the period under review, along with their respective buffer rates.

These rates remain unchanged for the period under review. The buffers are determined in line with the current calibration methodology, with expert judgement applied whenever appropriate. Further details are provided in the latest published Statement of Decision.² Bank of Valletta plc, HSBC Bank Malta plc, and MDB Group Limited are all meeting their respective fully loaded O-SII buffer requirements and have not recorded any changes to their buffer rates following this year's O-SII assessment.³ APS Bank plc has also reached a fully loaded O-SII buffer rate of 0.50% from 1 January 2026.⁴ Accordingly, these institutions are requested to continue maintaining their respective fully loaded O-SII buffer rates throughout 2026.

5.1.2 Countercyclical Capital Buffer (CCyB)

The CCyB is a Basel III capital-based macroprudential instrument that operates as a time-varying capital requirement. It requires banks to hold additional CET1 capital, typically ranging from 0% to 2.5% of RWAs, and is activated 12 months following its announcement, and can be released immediately in downturns. Introduced under Basel III and transposed into EU law via the Capital Requirements Directive (CRD), the CCyB complements the capital conservation buffer (CCoB), by addressing procyclicality in the financial system.

The buffer serves a dual macroprudential objective. Its primary purpose is to protect the banking sector from periods of excessive aggregate credit growth that are often linked to the build-up of system-wide risk. As cyclical systemic risks rise, banks should build capital to strengthen resilience ahead of potential losses. When conditions deteriorate, releasing the buffer helps limit the risk that capital requirements constrain credit supply, thereby supporting lending to the real economy and reducing the likelihood of procyclical deleveraging.

The CCyB may also help moderate the financial cycle during the build-up phase. However, this “lean-ing against the wind” effect is considered a secondary benefit rather than the main aim. This reflects the international consensus that macroprudential buffers are primarily designed to enhance resilience rather than to directly stabilise the economy, distinguishing them from monetary policy tools (ECB/ESRB, 2025).

The Central Bank of Malta, under Directive No. 11, is the national competent authority responsible for setting the CCyB rate. This tool was adopted in 2016 and has remained at 0%, reflecting persistently negative Basel credit-to-GDP gaps and quarterly assessments that have not indicated an accumulation of cyclical systemic risk. The Bank is further developing its CCyB framework by combining the standard Basel indicators with additional domestic risk metrics and forward-looking analyses, while retaining a guided-discretion approach. In line with the responsibilities assigned by Directive No. 11 and the CRD

² The [2026 statement of decision on the Identification of O-SIIs and the related capital buffer calibration](#).

³ When a bank is newly designated as an O-SII, or where its buffer rate increases following a move to a higher bucket, a transitional period is applied to allow for the gradual build-up of the applicable buffer requirement. This is then deemed to be fully phased-in upon completion of the transition period.

⁴ The buffer rate for the year 2025 amounted to 0.4375%.

framework to regularly assess macroprudential instruments and buffer settings, the framework is currently being reviewed and strengthened, with a focus on more tailored cyclical indicators and sector-specific credit gaps to better inform future decisions on the use and level of the buffer.

5.2 Borrower-based measures

As highlighted in the [Interim FSR 2025](#), banks were required, for the second time since the introduction of Directive 16 in July 2019, to submit their external audit reports. Overall, external auditors noted that banks continued to comply with the Directive's requirements, which supports the supervisory and internal assessments underpinning the framework.

On 23 January 2026, the Bank launched a [public consultation](#) proposing to replace the current 40% stressed Debt Service to Income (sDSTI) limit, which applies to both legal and natural persons, with a 1.3x stressed Debt Service Coverage Ratio (sDSCR) for legal persons engaged in RRE lending, including buy-to-let (BTL).⁵ This change recognizes that, for legal persons, repayment capacity is better captured by a debt service coverage ratio (DSCR) based on business cash flows than by a debt service to income (DSTI) limit based on gross income. In this case, debt service is assessed against earnings before interest, tax, depreciation and amortisation (EBITDA), which excludes non-cash charges, whereas households continue to be assessed on gross income without such adjustments. The measure further applies a stressed interest rate of 1.5% and conservative haircuts to projected income streams to ensure prudent risk management.

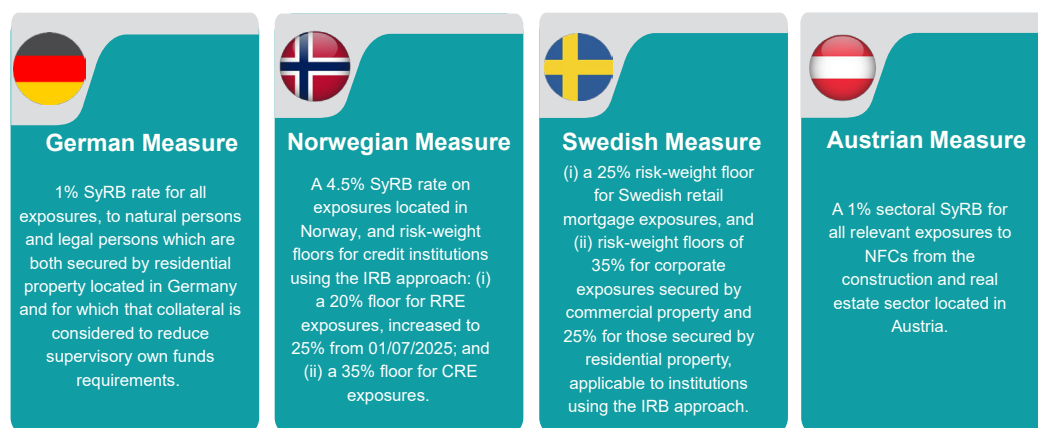
On 26 March 2026, the Bank published a [feedback statement](#) with its response to the comments received during the consultation. The [amended Directive 16](#), which came into effect on the same date, seeks to align further the regulatory framework with prevailing best practices, while maintaining an appropriate balance between safeguarding financial stability and preserving adequate market flexibility.

5.3 Other domestic measures

5.3.1 Voluntary reciprocity

In line with the ESRB Recommendation on the assessment of cross-border effects and voluntary reciprocity for macroprudential measures (ESRB/2015/2), the Bank reviews policy measures recommended for reciprocity by other EU Member States. During 2025, four countries issued recommendations for reciprocity, which are summarised in Figure 5.2. The Bank conducted internal assessments to determine its stance on

Figure 5.2
RECIPROCATION REQUESTS ANALYSED DURING 2025



Source: Central Bank of Malta.

⁵ The DSCR is the reciprocal of the DSTI.

these measures and concluded that it would not reciprocate. This decision was based on the immateriality of exposures within the domestic banking sector and/or the inapplicability of the proposed measures to the local financial system. The Bank also kept its stance unchanged with respect to previously activated measures recommended by other Member States.⁶

5.3.2 Material third countries

The materiality assessment of third countries is determined based on three criteria outlined in Article 4 of the ESRB Decision on the assessment of materiality of third countries (ESRB/2015/3): (i) risk-weighted exposures, (ii) original exposures, and (iii) defaulted exposures. The Bank kept its list of material third countries for the period Q2 2026-Q2 2027 unchanged, namely the United Kingdom and the United Arab Emirates. The Bank has informed both the ESRB and domestic banks of its determination that the CCyB rates set by the respective authorities in these jurisdictions remain appropriate. Consequently, no additional macroprudential capital buffer top-ups are deemed necessary.

5.3.3 CBM Directive 11

Following the publication of the amended CRD and CRR, the Bank transposed the relevant provisions into [Central Bank of Malta Directive No. 11 on Macroprudential Policy](#). To this end, on 5 May 2025, the Bank launched a four-week public consultation to present the proposed amendments. The amendments to Directive No. 11 primarily clarify the shared responsibility between the Bank and the MFSA in assessing property related risk weights. They also explicitly reference the option of using the SyRB to address climate-related risks. In addition, the amendments specify that Commission approval is not required when capital buffer rates remain unchanged or are reduced. The amendments also introduce the European Single Access Point (ESAP), which is an EU-wide information platform, where O-SII data must now be uploaded, with MFSA acting as Malta's single collection body.

In July 2025, the Bank issued a [feedback statement](#) addressing the points raised by stakeholders. In line with CRD VI implementation timelines, the amendments to Directive No. 11 became applicable on 19 December 2025, following publication of the revised Directive, while the updated CRR provisions have been in force since 1 January 2025.

⁶ Central Bank of Malta: [Reciprocity](#).

5.4 European regulatory developments

<p>Capital Requirements Regulation</p>	<p>The revised CRRIII, which transposes the final Basel III standards into EU law, has been applicable since 1 January 2025. While the majority of the new prudential requirements entered into force as scheduled, the implementation of the revised market risk framework under the Fundamental Review of the Trading Book (FRTB) has been formally deferred through Commission delegated acts, reflecting concerns about international alignment and the global level playing field.</p> <p>Alongside the application of CRRIII and the transposition of the accompanying CRDVI, regulatory work remains ongoing. Throughout 2025, the EBA continued to operationalise the new framework through a substantial programme of regulatory technical standards, ITS and guidelines – covering areas such as supervisory reporting, disclosures, operational risk, the output floor, internal governance and third country branches – to promote consistent and effective implementation across Member States.</p>
<p>Governing Council proposes simplification of EU banking rules</p>	<p>On 11 December 2025, the ECB published the recommendations of the Governing Council's High-Level Task Force (HLTF) on Simplification, which examined how to reduce unnecessary complexity in the EU's regulatory, supervisory and reporting framework for banks. The HLTF's work focused on identifying rules that may impose excessive burdens, limit banks' competitiveness, or hinder their ability to support the real economy.</p> <p>To address these issues, the Task Force put forward a set of high-level policy recommendations aimed at simplifying the framework while ensuring that the resilience of the European banking system is fully preserved and that Microprudential, Macroprudential and Resolution competent authorities remain able to meet their objectives effectively. The recommendations are built on four core principles: i) maintaining current levels of resilience; ii) preserving the effectiveness of prudential oversight; iii) encouraging greater EU wide harmonization in areas where diverging national rules create complexity; and iv) upholding international cooperation, including the full and consistent implementation of Basel III.</p> <p>The ECB has submitted these proposals to the European Commission, which is preparing a report on the overall state of the EU banking system for publication by the end of 2026.</p> <p>The CBM is actively contributing to these discussions and supports the overarching goal of simplifying the EU banking framework.</p>
<p>European Commission launches the Savings and Investment Union strategy</p>	<p>On 19 March 2025, the European Commission adopted its strategy for the Savings and Investments Union (SIU), a major initiative aimed at improving how the EU's financial system channels household savings into productive investments. The goal is to give EU citizens wider access to capital markets and provide companies with better financing opportunities. This, in turn, can help increase citizens' wealth, support economic growth, and strengthen the EU's competitiveness.</p> <p>By developing more integrated capital markets, alongside a unified banking system, the SIU aims to better match savings with investment demands.</p> <p>Additionally, this initiative builds on and brings together the objectives of the Capital Markets Union (CMU) and the Banking Union (BU), with the ambition of creating a more competitive and resilient EU financial system. These matters were extensively discussed during a meeting at the Bank with the European Commissioner for Financial Stability, Financial Services and the CMU, Ms Maria Luís Albuquerque, who visited the CBM as part of her broader outreach to key national stakeholders during her visit to Malta.</p>
<p>EU Crisis Management and Deposit Insurance framework</p>	<p>On 25 June 2025, the European Parliament and the Council reached an agreement on the Commission's proposal to review the bank crisis management and deposit insurance (CMDI) framework. This reform represents a significant milestone in advancing the BU. It aims to strengthen financial stability while reducing the likelihood that taxpayer funds are used to rescue failing banks.</p> <p>The revised framework enhances the capacity of resolution authorities to manage the failure of small and medium-sized banks by broadening the scope of resolution where this is in the public interest. As a result, more banks will be able to exit the market in an orderly manner, for example through a sale to another institution, rather than being liquidated, thereby limiting economic disruption in the event of bank failures. The reform also reinforces depositor protection across the European Union, while recognising the specific characteristics of national banking sectors and ensuring a level playing field.</p> <p>On 20 April 2026, the legal texts were published in the Official Journal of the European Union.⁽¹⁾</p>
<p>⁽¹⁾ BRRD: Directive (EU) 2026/806 of the European Parliament and of the Council of 30 March 2026 amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and funding of resolution action and Directive 2014/24/EU as regards valuation services in resolution.</p> <p>SRMR: Regulation (EU) 2026/808 of the European Parliament and of the Council of 30 March 2026 amending Regulation (EU) No 806/2014 as regards early intervention measures, conditions for resolution and funding of resolution action.</p> <p>DGSD: Directive (EU) 2026/804 of the European Parliament and of the Council of 30 March 2026 amending Directive 2014/49/EU as regards the scope of deposit protection, the use of deposit guarantee schemes funds, cross-border cooperation, and transparency.</p>	