1. MACROPRUDENTIAL RISK ASSESSMENT AND POLICY RESPONSE

1.1 Macroprudential risk assessment

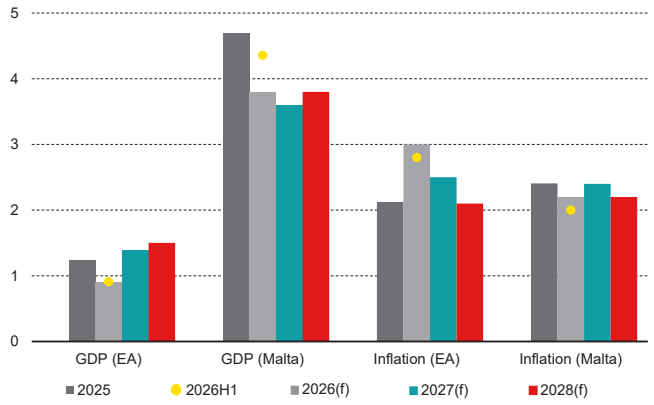
The external macro-financial risk environment remained characterised by elevated geopolitical tensions, heightened TPU and renewed volatility in energy and financial markets during the first half of the year. Against this backdrop, however, the global economy continued to display resilience, with economic activity holding up despite these shocks.[1] At the same time, these developments contributed to renewed inflationary pressures and uncertainty around the outlook and bouts of financial market volatility, while risks to global growth remained tilted to the downside. Although Malta, as a small and open economy, remains exposed to external shocks, the domestic financial system remained resilient. Nevertheless, the evolving external environment warrants continued vigilance, given the potential for external shocks to spill over into the domestic economy, potentially challenging financial stability.

1.1.1 Macroeconomic developments

Economic activity in the euro area remained subdued but stable in the first half of 2026, with real GDP expanding by 0.9% compared with the same period of 2025 (see Chart 1.1).[2] Growth was supported primarily by services and manufacturing, including technology and defence-related industries, as well as AI-related investment and inventory accumulation, the latter partly reflecting precautionary stock building amid supply-chain concerns.[3] Household consumption continued to support activity, benefiting from resilient labour market and wage growth, although consumption growth moderated amid higher energy prices and uncertainty. Public investment, including projects financed through the Recovery and Resilience Facility, also supported demand. By contrast, construction investment remained weak, while export growth and competitiveness challenges limited the contribution from external demand. Economic growth is expected to remain modest in the near term. The Middle East conflict and disruptions to energy supplies through the Strait of Hormuz contributed to upward inflationary pressures during the first six months of the year, driven mainly by energy prices. Services inflation made a more limited contribution, although it remained elevated amid persistent wage and domestic cost pressures. Against this background, the European Central Bank (ECB) raised its key interest rates by 25 basis points in both June and September of this year. These increases brought the deposit facility rate to 2.50% effective from 16 September 2026.

Economic activity in Malta remained robust in the first six months of the year. While real GDP growth moderated from 4.7% in the corresponding period of 2025 to around 4.4%, Malta continued to rank among the fastest-growing economies in the euro area. Domestic demand remained the main driver of growth, underpinned by strong consumption growth, favourable labour market conditions and continued government expenditure.[4] From a sectoral perspective, growth was driven by services, particularly wholesale and retail trade, transportation, accommodation and food services, as activity in the tourism industry remained buoyant. In contrast to the euro area, Harmonised Index of Consumer Prices (HICP) inflation in Malta fell to 2.0% in June 2026, and

Chart 1.1
ECONOMIC GROWTH AND INFLATION DEVELOPMENTS
(annual growth rate; per cent)

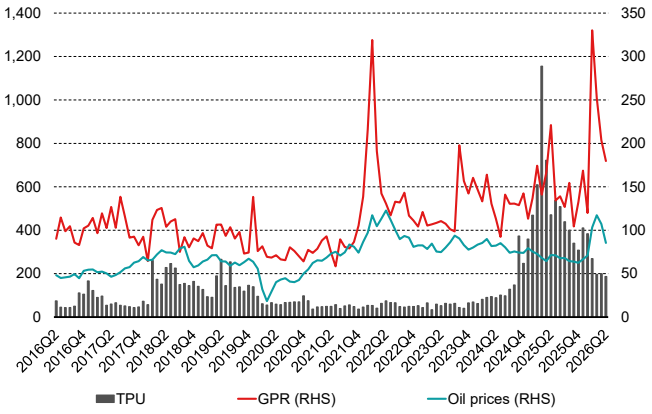


Sources: Eurostat; ECB; and Central Bank of Malta.
Note: Annual figures for 2026 onwards represent forecasts.

[1] Source: IMF World Economic Outlook, Resilience under strain, urgent choices, October 2026.
[2] Source: Eurostat.
[3] Source: *Economic Bulletin*, Issue 5/2026.
[4] Source: Central Bank of Malta, *Quarterly Review* 2026:3; *Economic Update* 7/2026 and *Outlook for the Maltese Economy* 2026:2.

stood below that of the euro area. Looking ahead, inflation is expected to rise modestly by year-end, with upward pressures stemming mainly from services and food. Services inflation is expected to remain elevated, reflecting continued strength in domestic demand and robust tourism activity.

Chart 1.2
GEOPOLITICAL RISK, TRADE UNCERTAINTY AND OIL PRICES



Source: "The Economic Effects of Trade Policy Uncertainty", Caldara et al. (2020) and "Measuring Geopolitical Risk", Caldara and Iacoviello (2022).
Note: Oil Price refers to the price of Brent crude oil in US dollars per barrel.

1.1.2 Geopolitical and trade-related uncertainty

Geopolitical risks remained elevated during the first half of 2026, with the escalation of conflict in the Middle East, the ongoing war in Ukraine and persistent trade frictions adding to uncertainty surrounding the euro area outlook. Concerns about disruptions to energy infrastructure and key shipping routes also contributed to higher and more volatile oil and gas prices, raising the prospect of renewed inflationary pressures. The Geopolitical Risk Index (GPR) rose sharply following the US–Israeli strikes on Iran at the end of February, surpassing the previous 2021 peak (see Chart 1.2). Although the index subsequently retreated, it remained elevated throughout the first half of the year, amid continued geopolitical tensions and heightened uncertainty surrounding the global economic outlook.

These tensions also affected global energy markets, particularly through concerns over disruptions to energy infrastructure and key shipping routes. Brent crude oil prices increased markedly, at times reaching their highest levels since 2022, before moderating on expectations of a gradual easing in supply constraints.[5] Similar pressures were evident across other energy markets, including natural gas and refined products, raising the risk that higher wholesale energy costs could feed through to electricity prices and broader inflationary pressures.

The TPU Index gradually receded from the exceptional levels recorded in 2025, as the parameters of the new US tariff regime became clearer. Nevertheless, geopolitical fragmentation and protectionist policies continued to weigh on global trade and investment, with potentially adverse implications for export-oriented euro area firms. From a financial stability perspective, these developments could weaken corporate earnings and debt-servicing capacity, particularly among trade-sensitive and energy-intensive firms, while increasing the risk of abrupt repricing in financial markets.

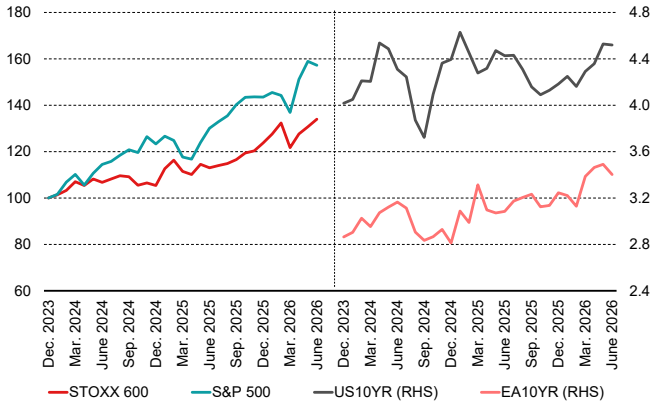
1.1.3 Financial market developments and asset valuations

Global financial markets experienced episodes of pronounced volatility during the first half of 2026, reflecting shifts in monetary policy expectations, geopolitical tensions and large swings in energy prices. Despite this volatility, equity markets recorded strong gains over the period. The S&P 500 rose by 9.6%, supported by resilient corporate earnings and continued investor optimism surrounding AI, which sustained demand for semiconductor and other technology stocks (see Chart 1.3). Gains were concentrated in the second quarter, despite episodes of heightened risk aversion linked to the Middle East conflict. Nevertheless, valuations remained elevated, with market capitalisation increasingly concentrated among a small number of large US technology firms.

[5] Oil prices surged once again especially in September 2026, mostly due to the Houthi forces attack on Saudi Arabia's East–West pipeline.

At the same time, the rapid expansion of AI-related infrastructure investment is increasingly reliant on debt financing as investment requirements outpace firms' internally generated cash flows.[6] This could extend AI-related vulnerabilities from equity into credit markets. Potential spillovers to the euro area could arise from investors' sizeable holdings of US technology equities and the growing issuance of euro-denominated bonds by major technology and cloud-computing firms. European equities also performed strongly, with the STOXX Europe 600 increasing by around 8.3% and reaching record highs, supported by improved risk sentiment, technology-related gains and expectations of resilient corporate earnings.

Chart 1.3
FINANCIAL MARKET DEVELOPMENTS
(Index; Dec.2023 = 100; per cent)



Sources: Investing.com; ECB.
Note: The equity indices and the EA 10-year bond yield represent end of month data observations, while the US 10-year bond yield represent the average of the month.

Government bond markets also experienced heightened volatility as investors reassessed the outlook for inflation and monetary policy. The escalation of the Middle East conflict and the associated energy-price shock contributed to higher inflation expectations and sovereign yields, alongside changing monetary-policy expectations. Elevated government financing needs and political uncertainty in key advanced economies put further pressure on government bond yields. By end-June 2026, benchmark ten-year sovereign yields rose to 3.4% in the euro area and 4.5% in the United States. Despite episodes of market volatility, the ten-year sovereign spreads remained broadly stable, following a slight widening earlier in the year.

1.1.4 Public debt sustainability

Concerns about euro area public debt sustainability remained a key source of financial stability risk amid modest growth, higher sovereign financing costs and mounting structural expenditure pressures. The euro area general government debt-to-GDP ratio rose to 88.8% as at the end of June, up from 87.3% as at end 2025. Debt ratios remained particularly elevated in Greece, Italy, France, Belgium and Spain, with all these countries except Greece recording further increases during the first half of the year. Higher defence and ageing-related expenditure, together with the refinancing of debt issued during the low-interest-rate period, are expected to raise fiscal and interest burdens. At the same time, high debt levels and rising issuance needs could increase sensitivity to shifts in investor sentiment, with an abrupt rise in sovereign yields potentially amplifying sovereign-bank nexus risks through valuation losses on banks' and non-bank financial intermediaries' sovereign bond holdings.[7]

Malta's public debt ratio remained comparatively low, although the persistent fiscal deficit and associated increase in nominal debt warrant continued monitoring. General government debt stood at 47.0% of GDP, at end-June 2026, up from 46.3% at end-2025, and well below both the euro-area average and the 60% Treaty reference value. While the favourable debt-to-GDP position continues to provide fiscal space, a further rise in energy prices could lead to a wider fiscal deficit unless compensating revenue or expenditure measures are implemented. In the absence of such compensating measures, debt and interest expenditure would rise, reducing fiscal space for future shocks.

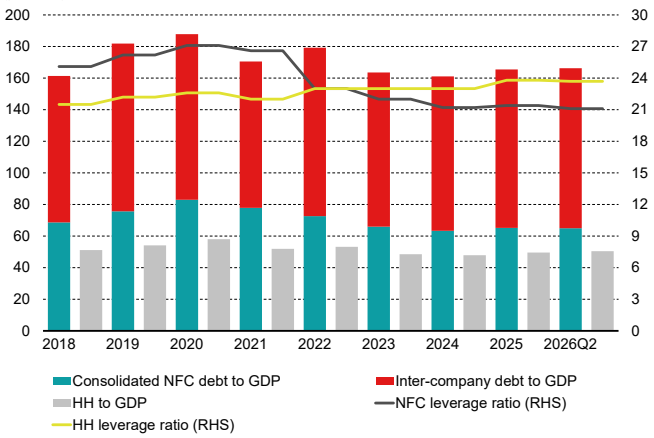
1.1.5 Private sector indebtedness

Private-sector balance sheets in the euro area remained broadly resilient during the first half of 2026, although the more challenging macro-financial environment increased downside risks. The consolidated debt-to-GDP

[6] Source: BIS: Financing the AI boom: from cash flows to debt.
[7] ECB – *Financial Stability Review*, May 2026.

ratio of euro area non-financial corporations (NFCs) remained broadly unchanged at 66.1% in the second quarter of 2026.[8] At the same time, corporate profitability weakened and financing conditions became less supportive as the year progressed. Banks tightened corporate credit standards, while lending conditions became less favourable amid higher interest rates.[9] Euro area household indebtedness remained contained and broadly stable, with household debt standing at 50.1% of GDP in the second quarter of 2026. The household debt-to-income ratio remained broadly unchanged at 80.3%, suggesting that aggregate household leverage remained stable.

Chart 1.4
HOUSEHOLD AND CORPORATE DEBT
(per cent)



Sources: Central Bank of Malta; NSO.

In Malta, comparatively contained private-sector indebtedness continued to provide a degree of resilience against external risks. NFC consolidated debt stood at 65.0% of GDP in June 2026, having decreased slightly since 2025, and remaining below the corresponding euro area ratio (see Chart 1.4). Despite edging up slightly since end 2025, the aggregate leverage ratio also remained comparatively low at 21.1%, below the euro area average.[10] Nonetheless, favourable aggregate indicators may conceal vulnerabilities among highly leveraged firms and sectors with significant bank borrowing, particularly where rising debt or refinancing needs coincide with weaker profitability. Maltese households' balance sheets also remained comparatively resilient during the first half of 2026, with the NPL ratio on resident household loans standing at just 1.2% in June 2026. Household debt rose marginally to 50.4% of GDP in June 2026, from 49.6% at end-2025 but remaining below that of the euro area. Meanwhile, the household leverage ratio increased to almost 24%, slightly exceeding the euro area average. Risks are mitigated by sizeable aggregate financial buffers, with net financial wealth amounting to around 153.9% of GDP and the savings rate standing at around 19% in 2025, exceeding the euro area average.[11] Nevertheless, these buffers may not be evenly distributed across indebted households. Against a backdrop of continued growth in housing credit and rising leverage, some households may become more vulnerable to adverse shocks, particularly in the event of a weakening labour market or a decline in real disposable income.

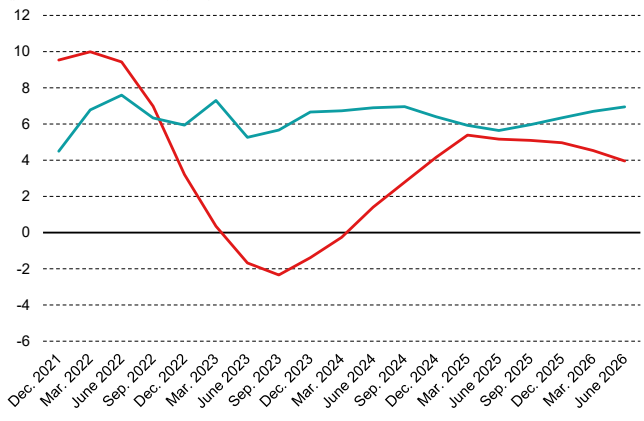
1.1.6 Real estate market developments

Euro area real estate markets continued their recovery into early 2026, although developments became increasingly heterogeneous and downside risks remained material. Residential real estate (RRE) prices increased by 4.0% year-on-year in the second quarter of 2026, down from 5.0% in December 2025 (see Chart 1.5). In the July 2026 Bank Lending Survey, banks reported a marked decline in net demand for housing loans in the second quarter of 2026, while credit standards tightened further, mainly because of higher risk perceptions and lower risk tolerance.[12] These developments point to a possible moderation in housing credit growth and indicate greater caution among banks amid a less favourable and more uncertain macro-financial environment.

[8] Source: ECB data.
[9] Source: Press release: *July 2026 euro area bank lending survey and Survey on the Access to Finance of Enterprises: lending conditions tightened*.
[10] The leverage ratio is calculated as the share of debt over financial assets.
[11] Sources: National Statistics Office (NSO); Eurostat.
[12] Source: Press release: *July 2026 euro area bank lending survey*.

After stabilising towards the end of 2025 and early 2026, sentiment in the Commercial Real Estate (CRE) market weakened during the second quarter, reflecting heightened geopolitical uncertainty and renewed inflation concerns. Investment activity remained subdued in the second quarter of 2026, and weaker demand for CRE lending weighed on investor appetite and investment enquiries flattened, with the net balance declining to 0% from +4% in the previous quarter.[13,14] Structural challenges remained particularly pronounced for office and non-prime commercial properties, where hybrid working, high vacancy rates and the costs of meeting higher energy-efficiency standards continued to weigh on valuations.

Chart 1.5
RRE PRICES
(per cent; year-on-year growth)



Source: Eurostat.

At the domestic level, housing market activity remained buoyant with RRE prices rising by 6.9% year-on-year in the second quarter of 2026, up from 6.3% as at end 2025. Transaction activity was similarly strong, with the number and value of final deeds of sale involving households increasing by 6.3% and 9.4%, respectively. The number of promises-of-sale agreements involving households rose by 4.8% over the same period. Indicators of prospective supply also strengthened, with building permit applications and the number of approved dwellings increasing by 4.9% and 18.7%, respectively, during the period under review.[15] While these developments partly reflected strong underlying housing demand and an expanding supply pipeline, the combination of strong increases in property prices, rapid mortgage credit growth and increasing household leverage warrants continued monitoring. Residential mortgage lending increased by 10.2% year-on-year in June 2026, outpacing nominal economic activity, while mortgages continued to account for a substantial share of banks' lending portfolios. Risks are partly mitigated by borrower-based measures and prevailing lending standards, with average loan-to-value (LTV) and loan-service-to-income (LSTI) ratios of around 76% and 25%, respectively. The Bank's house price misalignment indicator continues to suggest that house prices remained broadly in line with fundamentals, with the house-price-to-per-capita income ratio remaining below its historical average.

A comprehensive assessment of domestic CRE developments remains constrained by the limited and insufficiently granular price and transaction data. Nevertheless, risks associated with the banks' CRE exposures appear contained, supported by prudent lending standards. For CRE loans granted during the first half of 2026, the weighted average LTV and LSTI ratios stood at 53.5% and 25.1%, respectively, while the weighted average loan-to-income ratios were 2.7 times. These loans represented just 1.9% of the total number of loans granted by the banking sector during the period, and 5.5% of the corresponding credit volume.

1.1.7 Risk outlook and emerging risks

The outlook points to a gradual improvement in euro-area macroeconomic conditions and continued robust growth in Malta, although risks remain tilted to the downside. Euro area real GDP growth is projected to reach 1.4% in 2027 and 1.5% in 2028, supported by a gradual recovery in domestic demand and an improvement in external conditions, while inflation is projected to ease towards the ECB's 2% medium-term target by 2028.[16] In Malta, growth is projected to remain robust over the medium term at around 3.7% over

[13] Source: Europe Commercial Property Monitor – Q2 2026.
[14] ECB, *Financial Stability Review*, May 2026.
[15] Source: NSO.
[16] ECB staff macroeconomic projections for the euro area, September 2026.

the 2026–2028 projection horizon, supported mainly by private consumption, investment and net exports.[17] Following the decline in HICP inflation to 2.0% in June 2026, inflation is projected to rise moderately during the rest of the year, averaging 2.2% in 2026 and 2.4% in 2027, before moving close to 2% in 2028.

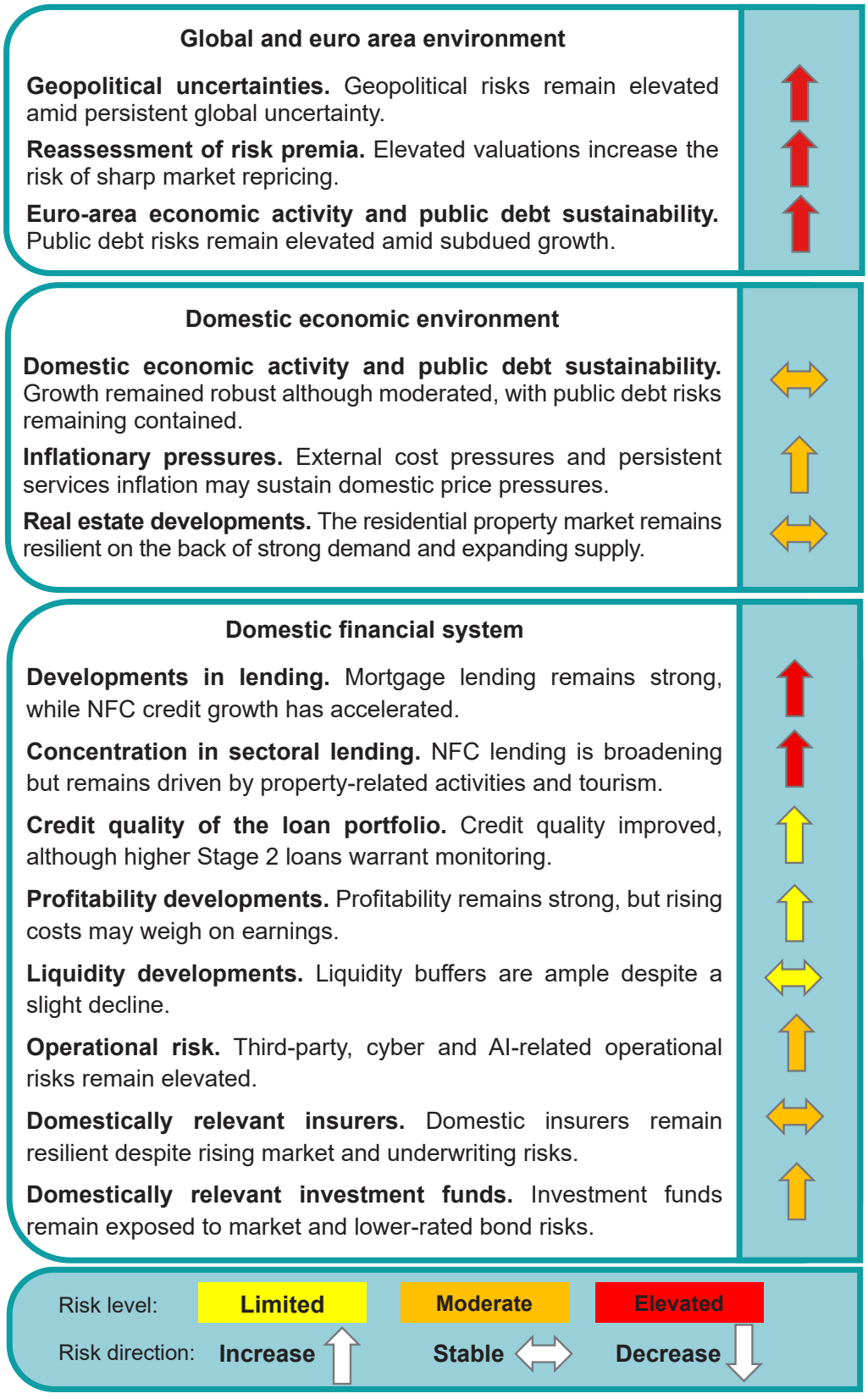
In the euro area, the principal downside risks arise from a further escalation of geopolitical tensions, renewed energy and commodity-price shocks, and disruption to global trade. Such developments could weaken growth, sustain inflationary pressures and lead to tighter-than-expected monetary and financial conditions. In this environment, rising sovereign yields and debt-servicing costs could intensify debt-sustainability concerns, particularly in highly indebted countries with limited fiscal space. Additional expenditure pressures related to defence, an ageing population and the green transition could further constrain public finances and contribute to wider sovereign spreads. Meanwhile, elevated financing costs could weaken corporate profitability and households' debt-servicing capacity. A simultaneous deterioration in corporates' and households' balance sheets could increase credit losses and reinforce adverse interactions between the real economy and the financial system.

Domestically, while data on GDP released after the cut-off date for projections point to some upside risks to the outlook in the near term, further out the risk assessment is more balanced. On the downside, prolonged geopolitical tensions and supply-chain disruptions could weaken external demand and raise imported cost pressures, with adverse repercussions for Malta's export-oriented sectors, investment and households' consumption. Renewed increases in international energy and commodity prices could also intensify inflationary pressures and raise the fiscal cost of maintaining stable domestic energy prices. Conversely, employment and wage growth could prove stronger than currently projected, supporting households' disposable income and private consumption. Moreover, faster adoption of AI and related technologies could generate productivity gains that are not fully captured in the baseline projections, supporting potential output and partly offsetting the expected moderation in labour-force growth.

Euro area banks, including Maltese banks, enter this period with strong aggregate capital and liquidity positions. Nevertheless, weaker economic conditions could increase credit losses, particularly among highly leveraged, trade-sensitive and energy-intensive firms and, at the wider euro-area level, through exposures to vulnerable CRE segments. A sustained rise in sovereign yields and wider risk premia could also generate valuation losses and increase wholesale funding costs. Within the wider financial system, interconnectedness between banks and non-bank financial institutions (NBFIs), liquidity mismatches in investment funds and continued expansion of private credit could amplify market corrections and transmit stress across sectors.[18,19] These cyclical risks may be compounded by growing reliance on digital infrastructure and critical third-party providers, which could increase operational vulnerabilities and concentration risks where key services are provided by a limited number of firms. The increasing use of AI may introduce additional model, governance and cyber risks, including those arising from model errors, data dependencies and common reliance on a limited number of technology providers. Climate-related risks could also affect the financial system through physical losses and transition-related adjustments, with implications for asset valuations and borrower creditworthiness. These vulnerabilities could become more systemic where they interact with geopolitical tensions, energy disruptions or abrupt asset-price corrections.

[17] Central Bank of Malta, *Outlook for the Maltese economy* 2026:3.
[18] ECB – Press release, *Financial stability vulnerabilities remain elevated as geoeconomic shock unfolds*, May 2026.
[19] ECB – Assessing the macroprudential impact of liquidity management tools for investment funds: a system-wide analysis, May 2026.

Figure 1.1
SUMMARY OF RISK OUTLOOK – 12-MONTH RISK OUTLOOK



BOX 1: MORTGAGE RELIANCE IN MALTA'S RESIDENTIAL PROPERTY MARKET[1]

Introduction

Residential mortgages represent a key link between the housing market, households and the domestic banking system. They constitute households' largest liability and an important component of banks' credit exposures. Understanding the extent to which property purchases rely on domestic bank mortgage credit is therefore relevant for assessing the transmission of monetary policy, credit conditions and macroprudential measures to the housing market.

This box measures estimated mortgage reliance on a transaction-count basis, as the ratio of new domestic bank mortgage contracts to registered property deeds between 2020Q4 and 2025Q4.[2] This ratio is calculated for different market segments, relying on administrative data on registered property deeds obtained from the NSO and new residential mortgage contracts granted by domestic banks, reported to the Central Bank of Malta through its Real Estate Reporting Return. The analysis finds that around 47% of all registered residential property transactions were associated with domestic bank mortgage credit, rising to around 64% for core housing transactions, indicating that reliance varies substantially across certain property types.[3] The analysis also shows considerable variation across locations. This heterogeneity is relevant for financial stability monitoring, since changes in interest rates, lending standards and borrower-based macroprudential measures are likely to affect different parts of the housing market unevenly.

Since individual mortgage contracts cannot be matched to specific property transactions, the estimates should be interpreted as indicators of financing patterns across groups defined by property types and locations, rather than as a classification of how each individual property purchase was financed. They do not capture household leverage, loan-to-value ratios, or banks' total property-secured exposures.

The analysis distinguishes between all residential property transactions and core housing transactions, defined as apartments, maisonettes, penthouses and houses. Garages and plots of land are treated separately because they exhibit distinct transaction characteristics and substantially lower mortgage reliance.

A grouped logit model is then used to estimate the mortgage-financed share within each market segment. This model approach accounts for differences in the number of transactions across market segments and enables comparisons after controlling for differences in property-type composition and common developments over time. The resulting model-adjusted estimates therefore facilitate comparisons of mortgage reliance across districts on a more comparable basis than the raw ratios alone. The robustness of these findings was also assessed using alternative modelling approaches, which yielded broadly consistent results. A complementary locality-level model examines how these financing patterns are associated with selected demographic, housing and household financial characteristics.

Mortgage financing is widespread, but not universal

Domestic bank mortgage credit plays an important role in Malta's residential property market, but it does not account for all transactions. Over the period under review, around 47% of all registered residential property transactions were associated with mortgage credit extended by domestic banks (see Chart 1a).

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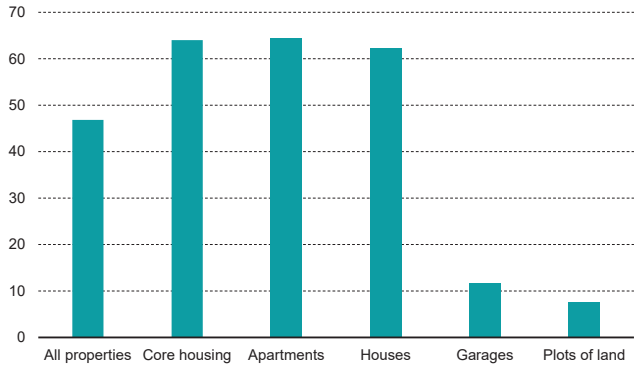
[1] Written by Mr Andrew Spiteri, Deputy Head within the Financial Stability Surveillance and Risk Assessment Department. The author would like to thank Ms Wendy Zammit, Mr Alan Cassar, Deputy Governors Oliver Bonello and Rita Schembri, and Governor Alexander Demarco for their valuable suggestions.

[2] This box draws on Spiteri, A. (2026), *Financing Residential Property Purchases in Malta: The Role of Domestic Bank Credit*, Central Bank of Malta *Working Paper* No. 11/2026. The working paper provides further details on the data, methodology, interpretation framework, and robustness checks.

[3] The underlying working paper also reports complementary value-based measures. Over the sample period, 59.5% of aggregate property value of core housing transactions is associated with a domestic bank mortgage, compared with mortgage reliance of 64.0% by transaction count.

When garages and plots of land are excluded, mortgage reliance rises to around 64% of core housing transactions. This increase largely reflects the very low mortgage reliance observed for garages and plots of land, while apartments and houses exhibit mortgage reliance of around 64% and 62%, respectively.

Chart 1a
MORTGAGE RELIANCE BY PROPERTY SEGMENT
(per cent)



Sources: Central Bank of Malta; NSO; Author's estimates.
Notes: Core housing includes apartments, maisonettes, penthouses and houses. Mortgage reliance is measured as new domestic bank mortgage contracts relative to registered deeds. Transactions classified as "other" are excluded.

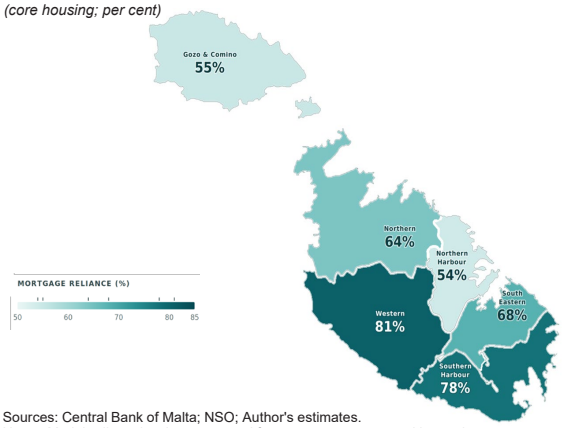
The presence of a sizeable share of transactions not associated with domestic bank mortgage credit indicates that housing market activity is only partly dependent on this channel. Such transactions may be financed through own funds, accumulated savings, housing equity, family financial assistance or other non-bank financing arrangements.

Mortgage reliance differs considerably across districts

The most prominent finding is the degree of spatial heterogeneity in mortgage reliance. Focusing on core housing transactions, the Western and South Eastern districts exhibit the highest reliance on domestic bank mortgage credit, while Northern Harbour and Gozo and Comino display the lowest reliance. To assess whether these differences persist after accounting for variations in transaction composition and developments over time, the grouped logit model described above is used to derive model-adjusted estimates. Property-type indicators control for differences in the mix of transactions across districts, while quarter indicators absorb developments common to the housing market in each period, including movements in financing conditions and the broader macroeconomic environment. The resulting probabilities therefore enable mortgage reliance to be compared across districts on a more consistent basis.

The model-adjusted estimates suggest that mortgage reliance for core housing is around 81% in the Western district and 78% in the South Eastern district. By contrast, the corresponding estimates are around 54% in Northern Harbour and 55% in Gozo and Comino. The Northern and Southern Harbour districts lie closer to the national average, with model-adjusted mortgage reliance of around 64% and 68%, respectively (see Figure 1a).

Figure 1a
MORTGAGE RELIANCE ACROSS ADMINISTRATIVE DISTRICTS OF MALTA AND GOZO
(core housing; per cent)



Sources: Central Bank of Malta; NSO; Author's estimates.
Notes: Model-adjusted estimates control for property-type composition and common quarter-specific effects. Core housing includes apartments, maisonettes, penthouses and houses.

These differences are economically meaningful. The model-adjusted mortgage-financed share in the Western district is around 26 percentage points higher than in Gozo and Comino, while the South Eastern district is around 23 percentage points higher. This suggests that the domestic bank mortgage credit channel is materially stronger in some parts of the housing market than in others.

The lower mortgage reliance in Northern Harbour and Gozo and Comino is consistent with differences in buyer composition and housing use. Northern Harbour has a comparatively high share of foreign residents and a relatively high concentration of apartments, while Gozo and Comino has a higher prevalence of properties used as non-main residences. These features may point to a greater role for rental-oriented, investment, second-home or equity-financed purchases. Conversely, the higher reliance observed in the Western and South Eastern districts is consistent with a stronger owner-occupied housing structure. Since individual buyer characteristics and purchase purposes are not observed, these interpretations should be treated as descriptive context rather than causal evidence.

Locality-level indicators provide supporting context

The complementary model examines whether differences in mortgage reliance across localities are associated with selected demographic, housing and household financial characteristics. The results indicate that localities with higher foreign population shares tend to exhibit lower mortgage reliance, while localities with higher owner-occupation tend to display higher reliance. Household Finance and Consumption Survey-based locality-level income and wealth proxies provide additional context: income is positively associated with estimated mortgage reliance, while wealth is negatively associated with it. These variables are area-level proxies and do not measure the characteristics of the actual buyers involved in the transactions. The results should therefore be interpreted as descriptive conditional associations rather than causal evidence.

Implications for financial stability and policy transmission

These findings have implications for the transmission of financial conditions and macroprudential policy to the housing market. In districts and localities where purchases are more commonly financed through domestic bank mortgage credit, housing demand is likely to respond more directly to changes in borrowing costs, credit availability and the Bank's borrower-based macroprudential measures. This applies particularly to higher-reliance districts such as the Western and South Eastern districts, where a larger share of transactions passes through the regulated mortgage-origination channel.

By contrast, in lower-mortgage-reliance locations, housing-market adjustment may occur less through new domestic mortgage origination and more through other channels, including rental demand, foreign demand, demographic developments, investment motives, accumulated wealth or housing equity. Lower mortgage reliance does not necessarily imply lower risk. Rather, it points to a different transmission mechanism and a potentially different sensitivity to credit-based policy measures.

Overall, the analysis suggests that Malta's housing market should not be viewed as a single homogeneous mortgage-sensitive market. Mortgage credit is important, particularly for core housing, but reliance on domestic bank mortgage credit differs substantially across locations and property segments. This heterogeneity matters for financial stability analysis, as changes in interest rates, lending standards and borrower-based measures are likely to transmit unevenly across the housing market.

1.2 Macroprudential regulatory developments

1.2.1 Capital-based macroprudential measures

As part of its macroprudential toolkit, the Central Bank of Malta applies a range of capital-based macroprudential measures aimed at safeguarding the stability and resilience of the Maltese financial system. These measures strengthen the capacity of financial institutions to absorb losses by addressing systemic vulnerabilities and mitigating the potential impact of adverse economic and financial shocks.

Other Systemically Important Institution Buffers

During the first half of 2026, the Bank conducted the Other Systemically Important Institution (O-SII) buffer exercise to assess whether the institutions previously identified as O-SIIs continued to meet the relevant criteria and to determine the corresponding buffer rates. The scores and applicable buffer rates for the identified O-SIIs are presented in Table 1.1. Compared with the previous exercise, no changes were observed other than in the institutions' respective scores. These changes, however, did not materially affect the O-SII rankings. Following discussions with the ECB and the European Systemic Risk Board (ESRB), the banks were informed of the outcome of the review on a bilateral basis. The results have been published in a CBM-MFSA Statement of Decision, with the buffer rates taking effect from January 2027.

Table 1.1
LIST OF IDENTIFIED O-SIIs AND CORRESPONDING O-SII BUFFER RATES FOR 2026

Institution	O-SII score (basis points)	2026 O-SII rate
Bank of Valletta plc	2,975	2.00%
HSBC Bank Malta plc	1,427	1.25%[1]
MDB Group Limited	1,298	1.00%
APS Bank plc	828	0.50%

Source: Central Bank of Malta.

[1] HSBC Bank Malta plc qualifies for the provisions of Article 131(8) of CRD, which results in the capping of its 1.50% O-SII buffer rate to 1.25%.

Sectoral Systemic Risk Buffer (sSyRB)

In January 2023, the Central Bank of Malta in collaboration with the Malta Financial Services Authority (MFSA) decided to set a sectoral SyRB of 1.5% applied on risk-weighted assets (RWAs) held against domestic mortgage exposures to natural persons secured by RRE. Following a phased-in approach, the buffer's fully loaded rate became applicable at end of March 2024. This buffer was then extended to cover all mortgages secured by immovable property in Malta after internal frameworks and risk assessments were pointing towards an increase in the broader real estate risk profile of MT banks. The buffer thus was extended to all risk-weighted assets secured by immovable property in Malta, whether residential or commercial in nature and covering both natural and legal persons. The revised framework became applicable as from June 2026. As a result of this extension, the releasable buffers have increased and now cover 0.81% of Total Risk Exposure Amount (TREA) for core banks. The financial system's loss absorption capacity has therefore become stronger with banks being more resilient to potential adverse macro-economic shocks.

Countercyclical Capital Buffer (CCyB)

The CCyB was adopted in 2016 and has remained at a rate of 0%, reflecting persistently negative Basel credit-to-GDP gaps alongside quarterly assessments that were indicating that vulnerabilities did not warrant the activation of a positive CCyB rate.

The Bank is currently reviewing its CCyB calibration framework, with a view to incorporate more tailored cyclical indicators and domestic risk metrics that go beyond the standard Basel indicators. The enhanced assessment is supported by a range of cyclical risk indicators such as the Cyclical Systemic Risk Indicator (cSRI) and the Bank's semi-structural credit gap.

The Bank will be consulting with the industry on the outcome of this ongoing review.

1.2.2 Borrower-based measures

As outlined in the Bank's *Financial Stability Report 2025*, the most recently amended CBM Directive No. 16 came into force on 26 March 2026. The main change was the replacement of the previous 40% stressed debt service-to-income (sDSTI) limit applicable to legal persons with a 1.3x stressed Debt Service Coverage Ratio requirement for legal persons engaged in RRE lending, including buy-to-let activities. The measure remains consistent with the sDSTI and considers a stressed interest rate of 1.5% over and above the prevailing applied rate, together with conservative haircuts to projected income streams to ensure prudent risk management. The aim is to align further the regulatory framework with prevailing best practices, while maintaining an appropriate balance between safeguarding financial stability and preserving adequate market flexibility.

Furthermore, during 2026, banks submitted the results of their internal audit reports to enable the Bank to assess banks' compliance with the Directive, referring to activities conducted during the 2025 financial year. This is in accordance with the requirements set out in Directive No. 16 as well as CBM Guidelines on Internal Audit Reports. Overall, these reports indicate that the banking sector generally continues to comply with the requirements of Directive No.16 as internal auditors consistently concluded that borrower-based limits relating to LTV-O, stressed DSTI-O, and loan maturity caps amongst others, were being applied appropriately, and that control frameworks remain broadly effective.

1.2.3 Other measures

Voluntary Reciprocation

During the first half of 2026, only one measure was proposed for reciprocation. This related to a sSyRB of 1%, increasing to 2% from 1 July 2026 to 30 June 2027 and to 3.5% from 1 July 2027. The buffer targets all relevant exposures to NFCs operating in the construction and real estate sector in Austria. Following its assessment, the Bank decided not to reciprocate this measure on the grounds that Maltese banks' exposures to the relevant sectors in Austria were immaterial. Moreover, the Central Bank of Malta maintained its existing stance of non-reciprocation with respect to previously identified measures eligible for reciprocation.

Other developments

European Commission Communication on the competitiveness of the EU banking sector

On 17 July 2026, the European Commission published a Communication on the competitiveness of the EU banking sector, outlining measures aimed at strengthening the Single Market for banking.

This Communication, a key pillar of the Commission's Savings and Investments Union Strategy, seeks to promote a more integrated, efficient and competitive banking sector capable of supporting Europe's economy by financing growth, innovation, and strategic priorities. The initiative is underpinned by a more balanced regulatory framework that enables banks to take prudent risks while maintaining resilience, improving services to households and businesses, preserving financial stability, and fostering sustainable economic growth.

The Communication follows a targeted consultation on EU banking competitiveness launched by the European Commission in February 2026.[20] The Central Bank of Malta actively contributed to these discussions both at the European level and domestically. At the national level, the Bank worked closely with the MFSA and the Ministry for Finance to prepare and submit a joint response to the consultation, reflecting the views of the Maltese authorities.

Beyond its contribution to the European Commission's targeted consultation, the Bank continues to play an active role in ongoing discussions at different international fora including at the ESRB, the ECB as well as the European Banking Authority (EBA), on measures to enhance the competitiveness and efficiency of the

[20] The ECB, the ESRB and the EBA submitted responses to the European Commission's consultation. Their respective responses are available on the websites of the ECB, ESRB and EBA.

European banking sector. The Bank also supports the Ministry for Finance on similar discussions taking place at Ecofin. Furthermore, the Bank is also engaged in the ongoing review of the European Banking regulatory framework. Specific attention is being given to recommendations concerning the capital buffer framework, including the interaction between microprudential, macroprudential and Minimum Requirement for Own Funds and Eligible Liabilities requirements. Looking ahead, the European Commission is expected to present a package of measures in the first quarter of 2027. The Central Bank of Malta maintains that the objective of these reforms should be better regulation with a simpler, more proportionate, and efficient framework that remains fully effective in safeguarding financial stability. Any proposed reforms should therefore be supported by robust impact assessments and result in a genuine reduction in regulatory complexity, rather than merely shifting complexity elsewhere within the framework or creating unintended consequences for supervisory effectiveness and financial stability.

BOX 2: BANK PROFITABILITY-AT-RISK: LINKING CYCLICAL SYSTEMIC RISK TO FUTURE BANK PROFITABILITY IN MALTA[1]

Introduction

The *at-risk* concept has become widely used as a forward-looking framework for quantifying the potential adverse impact of uncertain future events. This article applies it to bank profitability in Malta, measuring how weak profitability could become under adverse outcomes, given the prevailing level of cyclical systemic risk and other macro-financial conditions, thereby providing an input to the assessment of the capital banks may need to address the materialisation of such a scenario.

Cyclical systemic risk typically builds during periods of buoyant credit growth, rising leverage and stretched asset valuations. When these imbalances unwind, credit losses, weaker business volumes and asset repricing can reduce bank earnings and, in turn, capital. This can weaken banks' ability to absorb shocks and sustain credit supply at a time when the economy needs it most. Building on the Growth-at-Risk literature (Adrian et al., 2019), Lang and Forletta (2020) examine how cyclical systemic risk affects the lower tail of future bank profitability in a large panel of European banks, using quantile regressions that estimate this effect separately at different percentiles of the profitability distribution rather than only at its mean. The authors express low-end profitability outcomes in risk-weighted capital-ratio units through their Bank Capital-at-Risk (BCaR) measure, thereby linking cyclical-risk assessment to capital-buffer calibration.[2]

This article adapts the *at-risk* framework to Malta. Using data on core domestic banks, it estimates a location-scale panel quantile local projection (QLP) model (Koenker and Bassett, 1978; Jordà, 2005; Machado and Santos Silva, 2019) that relates banks' future pre-tax returns on assets (ROA) to the cSRI (Vella, 2024) which takes the place of the domestic cyclical systemic risk indicator (d-SRI) (Lang et al., 2019) used by Lang and Forletta (2020).[3] The cSRI is a summary indicator with forward-looking properties that provides information about the accumulation of cyclical systemic risk over time. It captures domestic credit, debt-servicing and housing-market developments and is already used within the Bank's broader risk-regime assessment.[4]

These quantile bank-level forecasts are aggregated into Bank Profitability-at-Risk (BPaR), which is a measure of downside bank profitability. Negative values indicate projected losses, whereas positive values indicate that profitability remains positive even in case of adverse outcomes. In other words, BPaR indicates how low the profitability of the core domestic banking sector could fall in case of unfavourable circumstances, given current macro-financial conditions. Unlike traditional regression models, which estimate the effect of cyclical systemic risk on average profitability, it captures the fact that this effect is stronger and more persistent for weak outcomes.

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[2] BCaR measures the change in banks' capital ratio implied by a low quantile of future profitability, given the prevailing level of cyclical systemic risk.

[3] The analysis focuses on core domestic banks, the main providers of credit to Maltese households and firms and whose business model centres on traditional intermediation with the domestic economy.

[4] The cSRI combines four sub-indicators using principal component weights estimated on Maltese data: two-year real bank credit growth, the four-quarter change in the debt-service-to-income ratio, the house-price-to-income-per-capita ratio and two-year real total debt growth. The indicator is available at quarterly frequency from 2006Q1, and its first principal component accounts for a large share of the common variation in the four sub-indicators. Vella (2024) shows that it is a suitable forward-looking gauge of cyclical systemic risk in Malta. Real GDP growth and the spread of government bond yields capture business-cycle conditions.

Estimating how cyclical systemic risk affects future bank profitability

The approach builds on a strand of research that models how cyclical systemic risk shapes future bank profitability in case of adverse events. This method was originally applied to the Growth-at-Risk concept, where systemic financial conditions are linked to the distribution of future GDP growth (Adrian et al., 2019) and has since been extended to BCaR (Lang and Forletta, 2020; Passinhas and Pereira, 2023; De Nora et al., 2025). In this latter framework, cyclical systemic risk is treated as a state variable that shifts the conditional distribution of future pretax ROA, with particular attention to downside profitability where losses erode capital and therefore threaten bank resilience.

Building on these contributions, the framework estimates a location-scale panel QLP model that links several quantiles of future bank profitability to the current level of cyclical systemic risk. The object of interest is the conditional quantile function of bank-level pre-tax ROA at a given horizon h, evaluated at quantiles τ. It is conditioned on the current value of the cSRI, bank characteristics, and macro-financial variables.

Bank profitability is projected on the basis of the current cSRI, while controlling for bank-specific and macro-financial factors. The QLP model is estimated based on a panel formed by considering six core domestic banks observed over 31 quarters (2018Q4–2026Q2). The dependent variable is pre-tax ROA for each quarter, while bank-specific controls, commonly found to influence profitability, include the logarithm of total assets (size), the net interest margin (business model), the cost-to-income ratio (efficiency), NPLs over total loans (asset quality), RWA over total assets (risk-taking), and the Tier 1 capital ratio (capitalisation).[5] The model also includes bank fixed effects, which absorb unobserved bank characteristics that are broadly stable over the sample period, such as business models, risk appetite and the quality of management and risk controls.

Furthermore, country-level macro-financial variables are included to capture aggregate drivers of bank profitability. Besides the cSRI (in real terms), which is the main variable of interest, the explanatory variables also include real GDP growth and the spread of government bond yields, measured as the difference between the three-month Euribor and the ten-year Maltese government bond yield. Relying on bank-level and macro-financial information together helps limit the extent to which losses arising from cyclical systemic risk are confounded with unrelated macroeconomic shocks or structural changes in the banking sector.

Over the estimation window, from 2018Q4 to 2026Q2, the cSRI completed approximately one full financial cycle (Chart 2a). It rose from around zero in late 2018 to approximately 1.9 in 2021Q1. It then declined steadily, reaching a trough of about -1.1 in 2024Q3, before rising again to around 0.5 in 2026Q1. The underlying drivers of the two increases differ. During the COVID-19 pandemic, the cSRI increase was initially driven by the house-price-to-income ratio component, and from 2021Q2 by stronger growth in total debt. The more recent increase is driven instead by strong bank credit and total debt growth, partly offset by a smaller contribution from the house-price-to-income ratio. This recent trend therefore suggests a more conventional and credit-driven build-up of vulnerabilities.

Chart 2b shows that developments in bank profitability have been far from uniform across institutions. During the COVID-19 pandemic, the median bank's quarterly pre-tax ROA decreased and turned marginally negative in late 2020. At the same time, the weakest banks recorded sizeable losses, pulling the lower end sharply into negative territory and turning the average profits negative. In other words, the shock did not weigh evenly on the system. Most banks remained profitable, while

[5] These variables separate the contribution of cyclical systemic risk from that arising from each bank's business model and other forms of idiosyncratic risk.

Chart 2a
cSRI OVER TIME
(index)

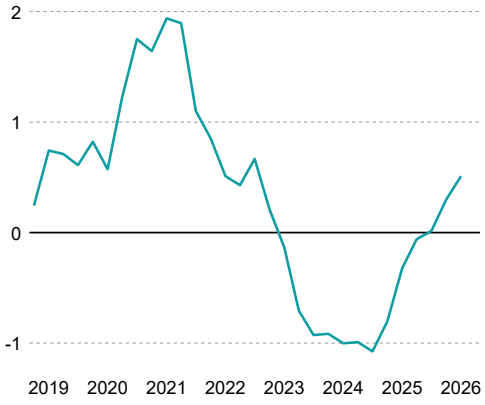
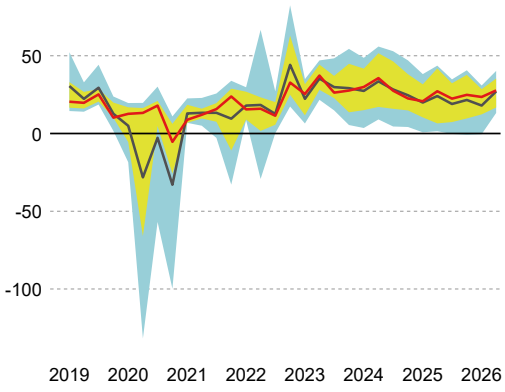


Chart 2b
ROA DISTRIBUTION OVER TIME
(basis points of quarterly pre-tax ROA)





Sources: Central Bank of Malta; ECB Statistical Data Warehouse; Eurostat; authors' calculations.
Notes: Chart 2a shows the real cSRI. Chart 2b shows the mean, median, 25th – 75th and 10th – 90th percentile ranges of quarterly pre-tax ROA across Maltese core domestic banks.

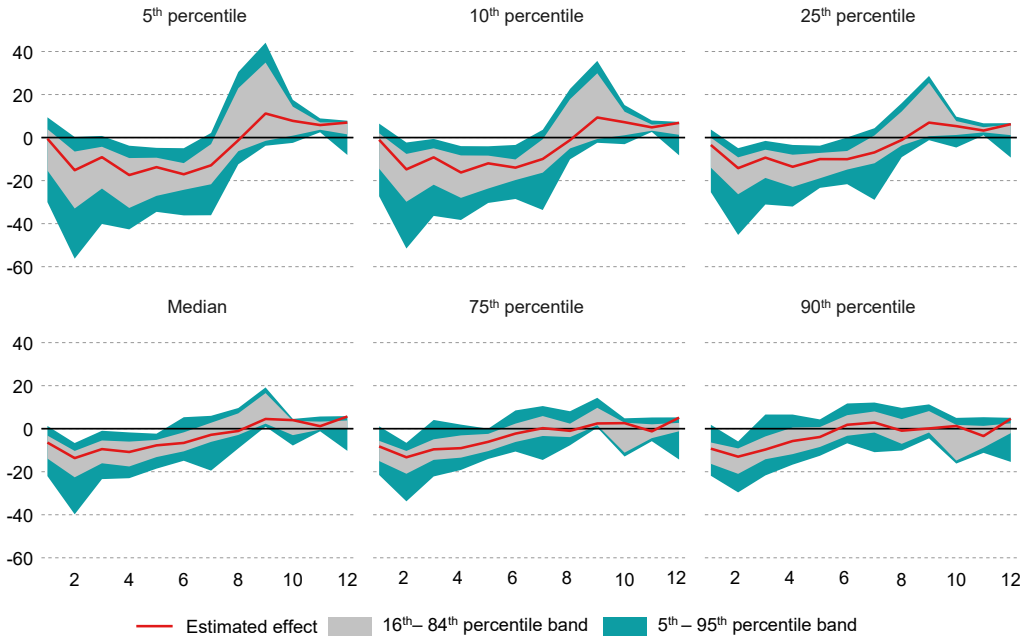
the deterioration was concentrated among a small number of institutions. Looking at the average alone would therefore give an incomplete picture, which is why this article models the full distribution of profitability, with particular attention to its lower end and expresses results in terms of quantiles. Profitability subsequently recovered, peaking in 2023–2024 as monetary policy tightening boosted net interest income (NII). It has since moderated, and estimated outcomes at the lower end of the distribution have moved closer to zero.

Chart 2c illustrates how future bank profitability responds when cyclical systemic risk rises, distinguishing between weak, typical and strong profitability outcomes. Specifically, it reports the effect of a one-unit increase in the cSRI on selected quantiles of future pre-tax ROA. The main insight is that higher cyclical risk does not affect all outcomes in the same manner. Whilst profitability initially falls across the board, the decline is larger and more persistent at the weak end of the distribution. This justifies the use of quantile techniques, as they capture the asymmetric nature of adverse or extreme impacts.

The response unfolds in three stages. In the short run, the decline is broadly uniform. Two quarters ahead, quarterly pre-tax ROA is about 13–15 basis points lower at each quantile considered. However, as the horizon lengthens, the responses start to diverge. Six quarters ahead, the estimated effect is around -17 basis points at the 5th percentile and -14 basis points at the 10th, compared with -6 basis points at the median and negligible effects at the 75th and 90th percentiles. In other words, while typical and strong outcomes are already recovering, weak outcomes remain depressed. By the end of the second year, the negative effects have disappeared, and the estimated responses turn positive, consistent with the subsequent recovery in profitability, although the estimates remain imprecise.

The key takeaway is that weak outcomes take longer to recover, with the largest lower-tail effects four to six quarters ahead. An analysis based only on average profitability would understate the losses that could arise in adverse outcomes. The timing is also relevant for policy considerations. Because these effects build over several quarters, the cSRI provides an early signal, leaving time to assess emerging vulnerabilities and, where warranted, to act before the effects on profitability materialise.

Chart 2c
MARGINAL EFFECT OF CYCLICAL SYSTEMIC RISK ON SELECTED QUANTILES OF THE DISTRIBUTION OF FUTURE BANK PROFITABILITY
(basis points of quarterly pre-tax ROA; horizon in quarters)



Sources: Central Bank of Malta; authors' calculations.
Notes: Panel QLP with bank fixed effects for the bank-level pre-tax ROA at horizon t+h on the cSRI, controlling for several other bank-specific and macro-financial variables at time t. Bands from a time-block bootstrap.

Some caveats apply when interpreting the results. First, the sample period does not include a domestic banking crisis. The estimates therefore reflect how profitability has responded to cyclical risk in the absence of such an event. This implies that losses in a systemic crisis, when shocks would be larger and spread across many banks at once, could be more severe than those captured in these results. Second, some of the weakest outcomes in the sample reflect bank-specific events, such as one-off impairments or provisions, which add to the variation in the lower end of the distribution without being directly related to systemic risk. Third, the relatively short time span also leaves fewer projection origins at longer horizons; thus, estimates beyond two years should be interpreted with greater caution. Finally, the results show that profitability tends to move together with the cSRI, which makes the analysis useful for anticipating risks, but it does not isolate the effect of systemic risk on its own. Although the model controls for bank-specific characteristics and macro-financial conditions, periods of rising cyclical risk tend to coincide with other developments that also affect bank profits, and such controls can only partly disentangle these effects. The results should therefore be read as indicating what typically happens to profitability when the cSRI rises, rather than as a precise measure of what an increase in systemic risk would cause in isolation.

Translating the estimates into a forward-looking measure of downside risk to banks' profitability

The second part of the framework turns the estimated model into a forward-looking measure of downside risk to bank profitability, which is called BPaR. While the previous section examined how profitability responds to a change in the cSRI, this section uses the same estimates to summarise, at the level of the core domestic banking sector, how weak bank profitability could become in adverse

outcomes, given the conditions observed today. Since the responses to cyclical risk differ across the distribution, the measure is built from the predicted lower quantiles of profitability rather than from its expected value, which would miss the asymmetry documented above.

BPaR at time t and horizon h is defined as the asset-weighted average of banks' predicted 5th percentiles for quarterly pre-tax ROA h quarters ahead:

$$BPaR_{t+h} = \sum_{i=1}^{N_t} \frac{a_{i,t}}{\sum_{k=1}^{N_t} a_{k,t}} \widehat{Q}_{\pi_{i,t+h}}\left(0.05 \,\middle|\, \Omega_{i,t}\right) \quad (1)$$

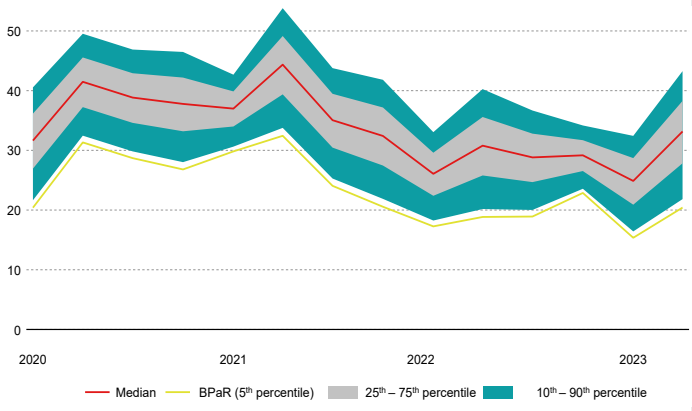
where $\pi_{i,t+h}$ denotes the quarterly pre-tax ROA of bank i in quarter $t + h$, $\widehat{Q}_{\pi_{i,t+h}}\left(0.05 \middle| \Omega_{i,t}\right)$ is its predicted 5th percentile, obtained from the QLP model estimated at horizon h. $\Omega_{i,t}$ is the information set available at t, comprising the cSRI, the bank-specific and macro-financial controls and bank fixed effects. N_t is the number of banks at t and $a_{i,t}$ denotes the total assets of bank i, so that each bank is weighted by its share of sector assets at each point in time. BPaR is a measure of conditional downside profitability. A negative value denotes a projected loss, whereas a positive value indicates that the model projects banks to remain profitable even at the adverse conditional quantile, that is, under severe scenarios.

Dividing each bank-level quantile by the bank's average risk weight (RWA over total assets), $\overline{rw}_{i,t}$, before aggregation, translates BPaR into percentage points of the risk-weighted capital ratio, giving the Malta-only equivalent of BCaR of Lang and Forletta.[6] Intuitively, a loss equal to 1% of total assets reduces capital by the same amount. For a bank whose RWA are half of its total assets, that loss lowers the capital ratio by 2 percentage points.

Chart 2d shows the 12-quarter-ahead BPaR for Malta between 2020Q1 and 2023Q2. It also shows the median, the 25th–75th and 10th–90th percentile ranges of the conditional distribution. For each origin quarter t, BPaR shows the asset-weighted average across banks of the predicted 5th percentile of quarterly pre-tax ROA twelve quarters ahead, conditional on the cSRI and the bank-level variables observed at t.

BPaR remained positive throughout the period. Even under an adverse outcome, the core domestic banking sector was projected to remain profitable three years ahead. Its level nonetheless varied considerably. BPaR peaked at about 31–33 basis points of total assets for origins in 2020Q2 and 2021Q2, then declined from mid-2021. It reached its lowest level, about 15 basis points, in 2023Q1, before recovering to around 20 basis points in 2023Q2. Notably, the highest readings coincide with the quarters when the cSRI peaked. At this horizon,

Chart 2d
THREE-YEAR-AHEAD BPaR OF CORE DOMESTIC BANKS
(basis points of total assets; quarterly pre-tax ROA, 12 quarters ahead)



Sources: Central Bank of Malta; authors' calculations.
Notes: Asset-weighted averages of the bank-level conditional quantiles of quarterly pre-tax ROA 12 quarters ahead, dated at the forecast origin. BPaR is the 5th percentile.

[6] BPaR describes downside risk to earnings, while BCaR expresses the same risk in capital-ratio units.

the estimated effect of the cSRI turns slightly positive, consistent with the recovery in profitability that follows the initial adverse impact (see Chart 2c). Over the period shown, the gap between typical and weak profitability outcomes remained broadly stable, at around 6 to 13 basis points. Movements in BPaR therefore mainly reflected changes in overall profitability rather than a disproportionate worsening of the weakest outcomes. In other words, downside risk to profitability rose and fell with the system as a whole, with no sign of weaker outcomes becoming detached from the rest.

Conclusions

This article examines whether Malta's cSRI provides early information on the distribution of future profitability of core domestic banks. It looks not only at typical outcomes, but also at the weakest ones, by considering the lower end of the profitability distribution of banks, thereby capturing the potential behaviour of bank profitability under adverse macro-financial conditions.

When cyclical systemic risk rises, profitability tends to fall across the board in the following quarters. Two quarters ahead, a one-unit increase in the cSRI is associated with quarterly pre-tax ROA roughly 13 to 15 basis points lower, in typical and weak outcomes alike. Over time, however, the picture changes. While typical and strong outcomes recover relatively quickly, weak outcomes remain depressed for longer. In practical terms, a build-up in cyclical risk does not simply dent profitability for a short while. It leaves banks exposed to poor results for an extended period, reducing the earnings they can rely on to absorb losses, thereby weakening their first line of defence.

The difference in scale is substantial. Six quarters ahead, the estimated decline at the 5th percentile is around 17 basis points, nearly three times the 6 basis points for the median, while in the upper part of the distribution, that is, in favourable outcomes, the effect is negligible. An assessment based only on average or typical profitability would therefore understate the risks stemming from cyclical vulnerabilities, which is why estimates across the whole distribution are particularly useful for financial stability analyses.

Bringing these estimates together, BPaR offers a simple gauge of how weak the profitability of the core domestic banking sector could become if conditions turned out to be unfavourable. Over the period examined, the measure remained positive: even in an adverse outcome, the sector was expected to stay profitable, rather than record losses that would erode its capital. Its movements also largely mirrored those of overall profitability, suggesting that the weakest outcomes have so far not drifted away from the rest of the system.

The timing of these effects is also informative. Since the strongest impacts on weak outcomes emerge four to six quarters ahead, current readings of the cSRI shed light on the resilience of bank profitability over the following one to two years. They thus provide an early indication of how today's cyclical risk could weigh on banks' capacity to absorb losses, before such a potential adverse outcome occurs. This analysis could accordingly serve as one of several inputs into macroprudential policy assessments, including assessments of the level of loss-absorbing capacity that may be appropriate to preserve financial-system resilience, though it should not be used mechanically or in isolation to determine a capital-buffer requirement.

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