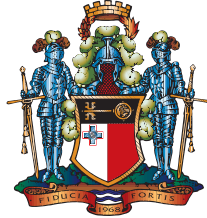




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LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS FROM MAINTENANCE PERIOD 1 TO MAINTENANCE PERIOD 8 OF 2025

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CBM Staff Insights 11/2026

Abstract

This report reviews liquidity conditions in the Maltese banking system and the monetary policy operations conducted by the Central Bank of Malta across eight maintenance periods between February 2025 and February 2026. The period was marked by four reductions in the European Central Bank's key interest rates, reflecting easing inflationary pressures. Excess liquidity in Malta remained high but declined slightly overall, fluctuating mainly due to banks' use of the Eurosystem's standing facilities. Autonomous liquidity factors were generally liquidity-absorbing, driven primarily by volatile government deposits and, to a lesser extent, movements in net foreign assets and net assets denominated in euro. Participation in open market operations increased compared to the previous year, while holdings under the Asset Purchase Programme (APP) and Pandemic Emergency Purchase Programme (PEPP) continued their gradual, predictable decline as reinvestments ceased. Overall, liquidity conditions remained stable.

Keywords: Excess liquidity; Monetary policy operations; Autonomous liquidity factors.

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS FROM MAINTENANCE PERIOD 1 TO MAINTENANCE PERIOD 8 OF 2025¹

Introduction

This report analyses the liquidity conditions in the Maltese banking system, and the monetary policy operations conducted by the Central Bank of Malta, as part of the Eurosystem's single monetary policy framework. The analysis covers eight maintenance periods (MPs), starting from 5 February 2025 and ending on 10 February 2026.²

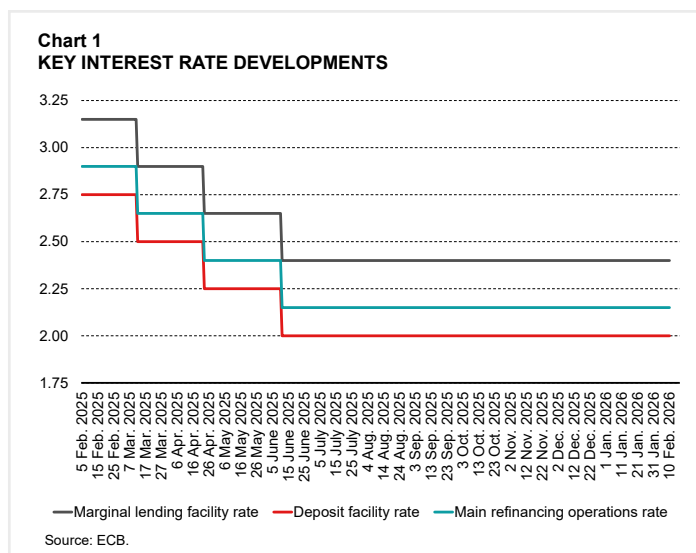
Key ECB rates

Consistent with the Governing Council's price stability mandate, the European Central Bank (ECB)'s key interest rates were cut four times during the review period, as inflation was on track to converge sustainably towards its 2% target over the medium term. This followed four cuts in 2024.

The first rate cut of 25 basis points came into effect at the start of the review period on 5 February 2025. This was followed by three additional cuts of 25 basis points each, on 12 March, 23 April, and 11 June 2025. Consequently, by the end of the review period, the rates on the overnight deposit facility, the main refinancing operation (MRO), and the marginal lending facility (MLF) stood at 2.00%, 2.15% and 2.40%, respectively (see Chart 1). The ECB policy rate cuts were the result of a marked and sustained deceleration in euro area inflation, which declined to 1.9% by May 2025, falling below the ECB's 2% medium-term target. This disinflationary trend, combined with persistently subdued economic growth, provided the Governing Council with a data-driven rationale to recalibrate its monetary stance. The rate cuts rendered monetary policy less restrictive, thereby supporting credit conditions while maintaining confidence that inflation will remain consistent with the price-stability objective.

Excess liquidity

Throughout the eight MPs under review, excess liquidity in the Maltese banking system remained characterised by high, albeit declining levels of excess liquidity. Excess liquidity is defined as the amount of deposits placed by credit institutions at the overnight deposit



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² MP2025 01 (5 February – 11 March); MP2025 02 (12 March – 22 April); MP2025 03 (23 April – 10 June); MP2025 04 (11 June – 29 July); MP2025 05 (30 July – 16 September); MP2025 06 (17 September – 4 November); MP2025 07 (5 November – 22 December); MP2025 08 (23 December – 10 February 2026).

facility of the Eurosystem, net of the recourse to the MLF, together with the current account holdings, net of the minimum reserve requirements (MRR) i.e. excess reserves.

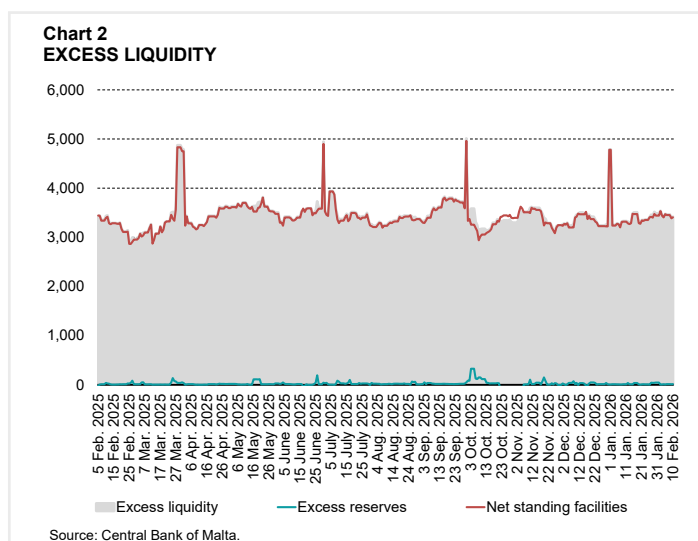
At the beginning of the first MP, excess liquidity stood at €3,424.6 million, with €3,443.2 million in overnight deposits offsetting a €18.6 million shortfall of reserves, as banks were still adjusting their positions to be in line with the MRRs for MP1. Over the period under review, excess liquidity declined marginally by €5.1 million, and stood at €3,419.5 million by 10 February 2026, consisting of €3,406.9 million in overnight deposits and €12.6 million in excess reserves. On average, daily excess liquidity stood at €3,441.8 million, reaching a peak of €5,011.8 million on 30 September 2025. This spike was primarily driven by one bank’s significant one-day participation in the overnight deposit facility at quarter-end, reflecting its regular practice of executing short-term transactions that are promptly unwound.

Daily average excess reserves stood at €21.7 million during the period, exhibiting only limited fluctuations. These variations included instances of one bank fulfilling its minimum reserve requirement around a narrow time window within the MP, and then transferring all funds to the deposit facility for the rest of the MP. In addition, another bank closed the last MP with a shortfall of reserves.³

Developments in excess liquidity also reflect the use of standing facilities, which serve as monetary policy instruments that facilitate the provision and absorption of overnight liquidity. The Eurosystem provides two types of standing facilities: the MLF and the overnight deposit facility. The MLF allows counterparties to quickly cover short-term liquidity needs. On the other hand, the deposit facility allows counterparties to deposit funds overnight with the Eurosystem.

During the reporting period, there was some utilisation of the MLF by local credit institutions. The total marginal lending utilisation throughout the reviewed period, amounted to €269.6 million. A majority share of this usage occurred around June 2025, following the implementation of the Eurosystem Collateral Management System (ECMS). Most of the recourse to the facility during this period was automated, rather than deliberate, reflecting a transitional phase as counterparties adjusted to the new system.

Over the eight MPs reviewed, the daily average overnight deposits stood at €3,421.7 million, reaching a peak of €4,962.3 million on 30 September 2025. This is due to the aforementioned bank depositing relatively large amounts in the deposit facility at every end of the quarter (see Chart 2).



³ This breach was triggered by technical rather than financial factors. Nevertheless, the Central Bank of Malta invoked the applicable non-compliance procedure.

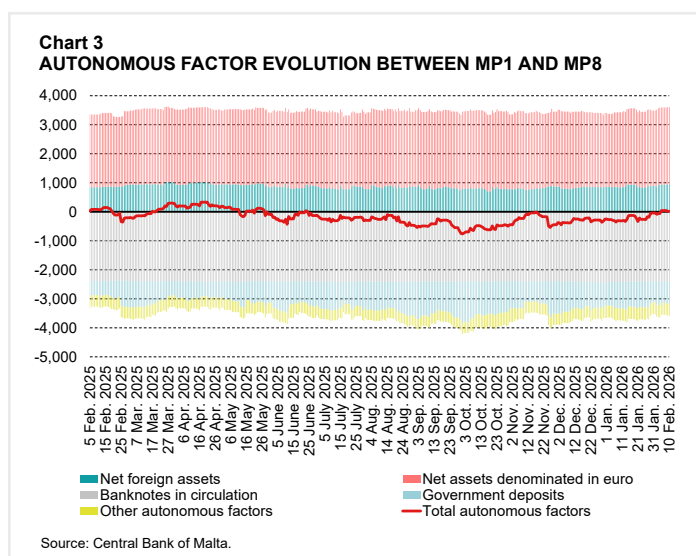
By the end of MP8, excess liquidity in Malta was equivalent to around 14% of GDP. This compares with 15% in the euro area. When expressed as a share of GDP, Malta's excess liquidity was the tenth highest in the euro area.⁴

Autonomous liquidity factors

Autonomous liquidity factors are balance sheet items of the central bank that are neither monetary policy operations nor credit institutions' current account holdings. Since the transactions underlying these factors involve central bank money, they can either provide or absorb liquidity.^{5,6} Increases in central bank assets inject liquidity into the banking system, while increases in central bank liabilities absorb liquidity, and vice versa.

Autonomous factors were net liquidity absorbing throughout most of the period under review. However, during some instances autonomous factors turned liquidity providing. During the eight MPs reviewed, on average autonomous factors were liquidity absorbing and stood at (€182.3 million).

Autonomous factors did fluctuate throughout the period, amounting to €29.2 million on 5 February 2025 and decreasing slightly to €16.1 million by 10 February 2026. The shifts in autonomous factors from liquidity-providing to liquidity-absorbing throughout the period, were mostly stemming from fluctuations in government deposits and to a lesser extent net assets denominated in euro and net foreign assets. Fluctuations in government deposits stemmed from the standard issuances and maturities of Malta Government bonds as well as high non-residential CIR receipts⁷ and the consequent non-residential CIR refunds. The fluctuations in net assets denominated in euro and net foreign assets were a result of normal trading activities which are dependent on market conditions (see Chart 3).



Monetary policy instruments

Open market operations

The Eurosystem's open market operations include standard refinancing operations which are liquidity-providing operations through which the Eurosystem supplies euro liquidity to eligible euro area credit institutions against eligible collateral. Such operations consist of the MRO, which usually has a frequency and duration of one week, and longer-term refinancing operations (LTRO) which have a maturity of three months and are conducted monthly.

⁴ The cut-off date for GDP data used in the analysis on the excess liquidity-to-GDP ratio is 5 June 2026.

⁵ Liquidity-providing factors include net foreign assets and net assets denominated in euro.

⁶ Liquidity-absorbing factors consist of government deposits, banknotes in circulation and other autonomous factors.

⁷ Tax payments by non-resident entities/individuals on income and chargeable gains arising in Malta.

At the start of the review period, outstanding open market operations stood at €3.0 million, consisting of €2.0 million in the MRO and €1.0 million in the three-month LTROs. By the end of MP8, though, the outstanding balance reached €65.0 million (see Chart 4).

Participation by individual Maltese counterparties in MROs during the eight MPs ranged from €1.0 million to €65.0 million, with no participation recorded in one week in February 2025. Additionally, participation in LTROs was limited, with local counterparties taking part in only three operations from the twelve operations held over the review period, with amounts ranging between €10.0 million and €20.0 million.

Overall, during the review period, the volume of liquidity injected into the domestic banking system through open market operations amounted to €1,927.9 million; with €1,885.9 million in MROs and €42.0 million in the three-month LTRO. This represents an increase when compared to the eight MPs in 2024 with liquidity injected totalling to €389.5 million; with €388.5 million through the MRO and €1.0 million through the LTRO.

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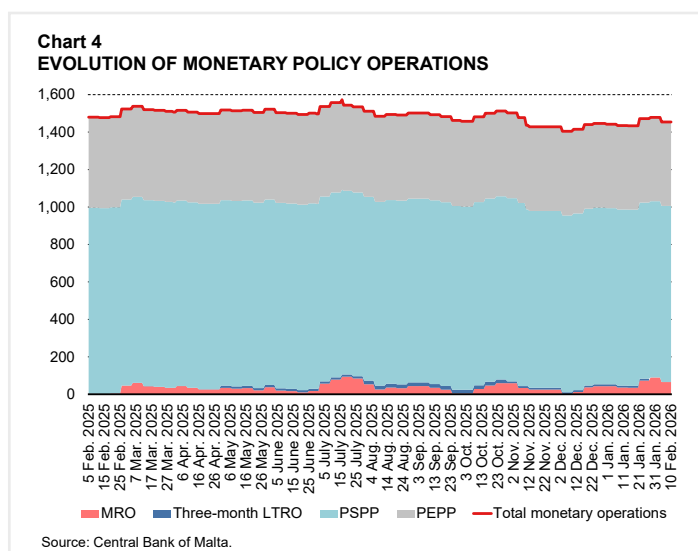
Asset purchases

As at 10 February 2026, outstanding assets held under the ECB's APPs amounted to €1,388.8 million, down from €1,476.5 million as at 5 February 2025. Over the review period, the average outstanding balance stood at €1,441.2 million.

During the period under review, securities acquired through the Public Sector Purchase Programme (PSPP) as part of the APP continued to decline at a measured and predictable pace, as the Eurosystem stopped reinvesting the principal payments from maturing securities in July 2023. These holdings stood at €993.1 million at the start of MP1 and decreased to €940.8 million by the end of MP8 driven by maturing securities and quarterly portfolio revaluations.

Holdings under the PEPP also declined over the review period, as the Eurosystem stopped reinvesting the principal payments from maturing securities in December 2024. PEPP holdings, therefore, decreased from €483.4 million at the start of MP1, to €448.0 million by the end of MP8, reflecting both maturities and quarterly valuation effects.

Overall, the CBM's holdings of securities under the Eurosystem's PSPP and PEPP declined by €87.7 million since the start of MP1, implying a net absorption of liquidity during the period reviewed (see Chart 4).



Conclusion

During the period under review, liquidity conditions remained broadly stable, with no significant changes observed. Key ECB interest rates declined during the first half of the period and remained unchanged from June 2025 onwards. Excess liquidity in Malta also remained elevated, although it declined slightly over the review period.

At the same time, autonomous factors fluctuated between liquidity-providing and liquidity-absorbing positions at various points in time, with government deposits being the most volatile component. As regards open market operations, participation by local counterparties increased compared with the previous year, while both the PSPP and PEPP portfolios continued to decline at a gradual and predictable pace.