BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

STATEMENT OF DECISION ON THE IMPLEMENTATION OF A SECTORAL SYSTEMIC RISK BUFFER ON RRE DOMESTIC MORTGAGES IN MALTA

1.0 Background

The Systemic Risk Buffer (SyRB) is a macroprudential tool emanating from Article 133 of the CRD framework which in turn has also been transposed in the Central Bank of Malta Directive no.11 on Macroprudential Policy. As per Article 133(1) of CRDV, the SyRB can be used "to prevent and mitigate macroprudential or systemic risks not covered by Regulation (EU) No 575/2013 and by Articles 130 and 131 of this Directive, in the meaning of a risk of disruption in the financial system with the potential to have serious negative consequences to the financial system and the real economy in a specific Member State."

Article 133(1) also outlines that "Each Member State may introduce a systemic risk buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector on all or a subset of exposures." The SyRB can also be applied to a subset of institutions. These characteristics enhance the flexibility and targeted nature of the SyRB, making it an ideal measure in addressing specific systemic risks emanating from a particular sector without impacting other sectors/institutions which are recovering and/or where no vulnerabilities are prevailing.

2.0 Statement of Decision

On 19th January 2023, the Central Bank of Malta in collaboration with the Malta Financial Services Authority (MFSA) under the auspices of the Joint Financial Stability Board (JFSB) decided to set a Sectoral Systemic Risk Buffer (sSyRB) of 1.5% which is to be applied on the amount of risk-weighted assets held against domestic mortgages exposures to natural persons and secured by residential real estate (RRE). Exposures also include buy-to-let loans (for residential purposes) secured by RRE, granted to natural persons. The buffer is applicable to all credit institutions in Malta which are in the business of extending such credit domestically. The aim of the sSyRB is to address systemic cyclical and concentration risks related to the exposure of the domestic banking system to the RRE sector risk via mortgage loans to households.

The sSyRB requirement shall be complied with at the country's highest consolidation level. The implementation of the sSyRB entails a phased-in approach, as depicted in table 1 below.

Table 1: Phase-in details of the 1.5% sSyRB

% Rate of the sSyRB:	**Implementation as at:**
1%	End-September 2023
1.5%	End-March 2024

The review of the measure will take place at least every two years in accordance with the provisions of CRDV and as transposed in CBM Directive No.11. In addition, regular review of the underlying risks being addressed by the sSyRB will take place which in turn will assess the adequacy or otherwise of the buffer. As a result, if deemed necessary, the sSyRB might be reviewed before the stipulated period of two years.

3.0 Applicability of the measure

The 1.5% sSyRB is applicable to domestic RRE mortgages secured by domestic RRE collateral. Exposures also include buy-to-let loans (for residential purposes) secured by RRE, granted to natural persons. Thus, the amount of buffer in terms of CET 1 capital that banks are required to hold, will depend on the proportion of risk weight assets reflecting such exposures. Furthermore, as mentioned above, the 1.5% sSyRB is applicable to credit institutions, at the highest level of consolidation in Malta.

The CBM reserves the right to review the scope and applicability of the sSyRB in line with the evolving market developments and risk landscape.

This Decision is effective from 28th March 2023, with its first phase of implementation being end September 2023, and fully phased-in as of end March 2024.