LIETUVOS BANKAS
EUROSISTEMA

Quarterly assessment of the financial cycle in Lithuania

Q2-3 2026

Contents

Introduction

The quarterly assessment of the financial cycle in Lithuania is a quarterly publication issued by Lietuvos bankas that assesses the state of the financial cycle in Lithuania and the level of cyclical systemic risk: the sustainability of trends in the credit and real estate (RE) markets, imbalances in the financial sector and the risk of their build-up or widening. The information provided in this review forms the basis for a regular assessment of the level of rates of the financial stability instruments used, such as the CCyB and the sectoral SyRB for the housing loan portfolio.[1]

Explanation of the key terms used in this publication

Financial cycle. The financial cycle refers to the development cycle of the financial system, comprising four phases: expansion (growth), deceleration, recession and recovery, defined by the overall evolution of the various indicators of the financial system (in particular, those reflecting trends in the credit and RE markets), which are related, for example, to the perception of the value of financial assets and RE, the perceived level of risk, the tightening or relaxation of lending standards and the resulting impact on the supply of credit, and the interplay between these phenomena. The literature generally considers that the financial cycle tends to last longer than the business cycle and can significantly amplify economic booms and deepen recessions. The application of the CCyB aims at increasing the resilience of the financial system and, to some extent, reducing its pro-cyclicality and, within the meaning of financial cycle, at reducing the size of fluctuations in the financial cycle, especially in the recession phase.

Systemic risk. Systemic risk is the risk of a disruption to the financial system or a part of the financial system, which could have significant adverse effects on the financial system and the economy. Two types of systemic risk are generally distinguished: cyclical and structural risks. Cyclical risk is related to the evolution of the financial cycle: it rises and falls as the financial cycle unfolds and is usually associated with changes in the supply of credit and in the risk assessment of financial system participants. Structural risk arises from the structural features of the financial system, such as the interconnectedness of financial system participants, concentration and the specific nature of business models.

[1] For more information, see Financial stability instruments.

Key messages

At the beginning of 2026, the financial cycle remains in an upswing, with lending growth remaining among the fastest in the EU, while the level of cyclical risk is also gradually rising.

- **Lending to non-financial corporations** continued to grow at a very strong pace. In the first quarter of 2026, the MFI corporate loan portfolio grew at an annual rate of 18.1%; however, when banks' leasing subsidiaries and other financial institutions are included, the annual growth of the financial sector's portfolio of loans to companies was slightly lower at 12.8%. Corporate lending growth in Lithuania remains among the highest in the EU, driven primarily by strong lending to the RE, energy and transport sectors.

- **Lending to households** grew at a historically high rate, with the pace remaining among the fastest in the EU. In the first quarter of 2026, the annual growth rate of the MFI household loan portfolio reached 15.7%, the fastest pace since the financial crisis. The housing loan portfolio continued to expand at a strong pace, while lending for consumption and other purposes was also robust: in the first quarter of 2026, the respective loan portfolios grew by 15.1% and 17.8% year on year. More recent MFI data for April and May show that growth in the portfolio of loans to Lithuanian residents for consumption and other purposes slowed (year-on-year portfolio growth stood at 13.2% in May), following an acceleration in early loan repayments in April as individuals withdrew funds from the 2nd pension pillar.

- From January to May 2026, the number of **housing sales** was broadly unchanged from the same period last year, and the market activity exceeded the 2015–2025 trend by 10–15%. The pace of new housing development accelerated significantly, however the growing share of unfinished housing development in the primary market (70% in Vilnius) indicates that shortages of completed housing can be expected in the short term. With market activity showing no signs of slowing down, prices are rising more rapidly: according to the Lietuvos bankas' RSHPI, the annual rate of housing price growth was above 15% in May 2026.

- In the first quarter of 2026, the **commercial RE** market recorded a 30% year-on-year increase in the number of transactions. However, with low-value transactions prevailing, investment flows remained among the lowest in the last decade, while office prices were stable.

RRE and CRE office segment prices continue to show moderate imbalances; however, if lending activity does not subside, imbalances would begin to emerge in the credit market within two to three quarters.

- **The levels of indebtedness of businesses and households** have risen faster than in most other EU countries over the past year. The MFI loan-to-GDP ratio stood at 40% in the first quarter of 2026, while the financial sector credit-to-GDP ratio was 45.9% (3.6 and 3.5 percentage point year-on-year increase, respectively). Such rapid growth, relative to the economy, already points to a likely increase in cyclical risk, although this risk is mitigated by the fact that the level of indebtedness among both businesses and households is low, significantly lower than the median for EU countries.[2]

- **There are no pronounced imbalances in the credit market but, if the pace of lending does not slow, they will begin to emerge as early as the start of 2027.** The gap between the MFI credit-to-GDP ratio and its long-term trend continues to narrow but remained negative in the first quarter of 2026 (at -0.4 percentage points). The broad credit-to-GDP gap re-entered negative territory at the end of 2025 but remains close to zero (at -0.2 percentage points). Projections indicate that, if current lending growth rates were to persist,[3]

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[2] At the end of 2025, the median financial sector credit-to-GDP ratio across EU countries stood at 73.2%.

[3] The calculations assume that credit portfolios would grow at the latest available annual growth rates (Q4 2025 for broad credit and Q1 2026 for MFI credit). It is also assumed that the nominal GDP would grow in line with the April 2026 macroeconomic projections of Lietuvos bankas.

the broad credit-to-GDP gap would reach the 2 percentage point threshold, which signals an increased cyclical risk, in a few quarters, around the beginning of 2027.

- **With house prices rising more rapidly, a moderate (5–10%) overvaluation of housing prices is observed**. The gap between prices and fundamentals is largely driven by housing sales prices, which have outpaced inflation and housing rental prices over the past decade (by approximately 65%, 90–100% and 170%, respectively, since 2015). On the other hand, most of the increase in housing prices can be explained by wage growth, with personal net income rising by about 180% since 2015. The price imbalances are currently at moderate levels but are likely to increase in the near future, given the growing market activity and tight supply of completed housing.

- **Price overvaluation has decreased in the Vilnius office segment, which is more vulnerable due to oversupply.** Prices for Vilnius Class A offices are overvalued by around 10%, while the risk of a price correction has decreased as market activity has picked up. However, some moderate imbalances still persist. Moreover, the office segment is more vulnerable due to oversupply: the office vacancy rate in Vilnius stood at 12% in the first quarter of 2026 (for retail and industrial premises, the rates were 2% and 5%, respectively).

The available indicators suggest that the overall level of cyclical risk is increasing from a moderate towards a medium level. The level of cyclical risk in the household sector remains high, while in the corporate sector it remains moderate. However, the indicators monitored suggest that, if current lending trends persist, imbalances may begin to emerge in the corporate sector as well by the start of next year which would raise the level of cyclical risk in this sector to medium. This would mean that the overall level of cyclical risk in both sectors is approaching a medium level of cyclical risk. According to the CCyB framework applied in Lithuania (see Chart 13), a medium level of cyclical risk is consistent with a CCyB rate above 1%.

Against the backdrop of the ongoing upswing in the financial cycle and the expected further build-up of cyclical risk, the Board of Lietuvos bankas has decided to increase the CCyB rate from 1.0% to 1.25%. The increased buffer rate will take effect following the standard 12-month implementation period, on 1 August 2027. Given that changes to the CCyB rate become effective only after one year, decisions regarding its calibration place considerable emphasis on a forward-looking assessment of cyclical risk to ensure that banks accumulate sufficient capital in a timely manner as risks build up. In this context, the CCyB rate has been raised by a moderate 0.25 percentage points. The development of the financial cycle and the adequacy of the CCyB rate will continue to be assessed on a quarterly basis. If rapid credit growth continues and cyclical risk remains at a medium level, the CCyB rate may be increased further in order to ensure that credit sector resilience remains consistent with the evolving risk environment.

The increase in the CCyB rate to 1.25%, in an environment characterised by strong bank profitability and favourable macroeconomic conditions, is expected to have only a limited impact on lending activity and borrowing costs. At the same time, the benefits arising from stronger credit sector resilience and a reduced likelihood of future credit-related disruptions are expected to outweigh any short-term costs. The higher CCyB rate will enable banks to accumulate approximately €60 million[4] in additional capital. The combination of robust economic conditions and strong profitability provides favourable conditions for building up resilience without materially affecting either the availability or the cost of credit.

It should also be noted that a 2% SyRB applies to housing loan portfolios exceeding €50 million, reflecting the elevated level of systemic risk associated with the residential real estate sector. As part of the regular

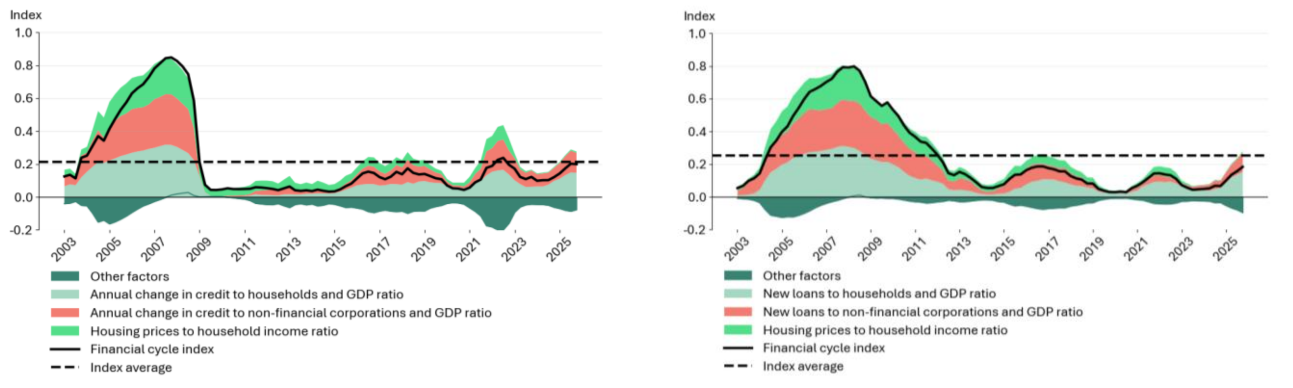
[4] According to the data for the first quarter of 2026, the amount of the capital increase covers only banks licensed in Lithuania and Central Credit Union groups. Due to the automatic recognition and application of the CCyB laid down in the Capital Requirements Directive, the increased CCyB rate would automatically apply also to branches of foreign banks and foreign banks lending directly in Lithuania.

review cycle, this buffer will be reassessed in the second half of 2026, taking into account developments in the housing market and the increase in the CCyB rate.

Financial cycle assessment

The broad credit-based financial cycle index stabilised at its long-term average, while the MFI loan-based index continues to rise and is rapidly approaching it.

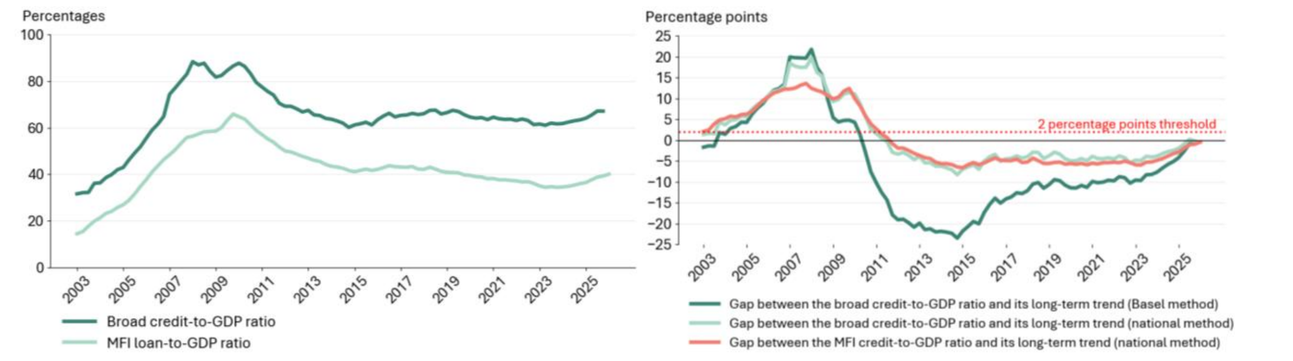
Chart 1. Financial cycle indices based on broad credit (left-hand panel) and on MFI loans (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations
Note: the left-hand panel uses a broader definition comprising all credit provided, regardless of the credit provider (not only MFI). In the right-hand panel, the new loans to HH and GDP ratio from Q2 2024 onwards is calculated after removing the impact of loan rollovers.

The broad credit-to-GDP gap is approaching the 2 percentage point threshold, which would signal the accumulation of imbalances.

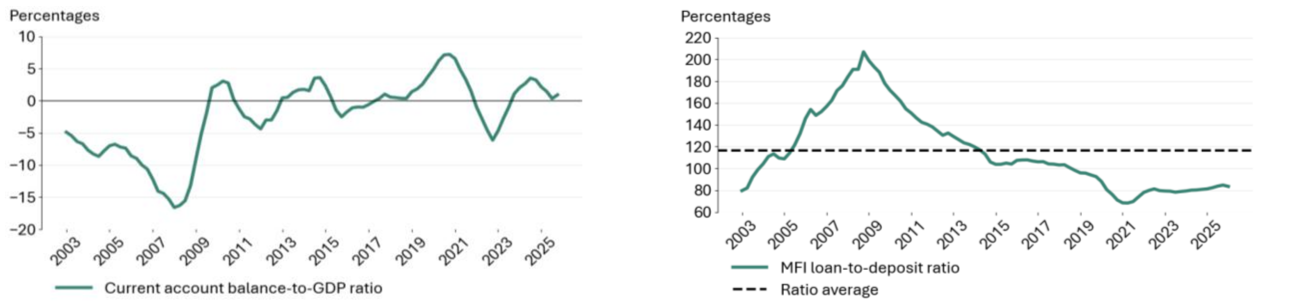
Chart 2. Credit-to-GDP ratios (left-hand panel) and credit imbalances (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations
Note: the right-hand panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; using the national method, before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average.

The current account-to-GDP ratio was approaching zero, while the loan-to-deposit ratio continued to rise.

Chart 3. Current account-to-GDP ratio (left-hand panel) and MFI loan-to-deposit ratio (right-hand panel)

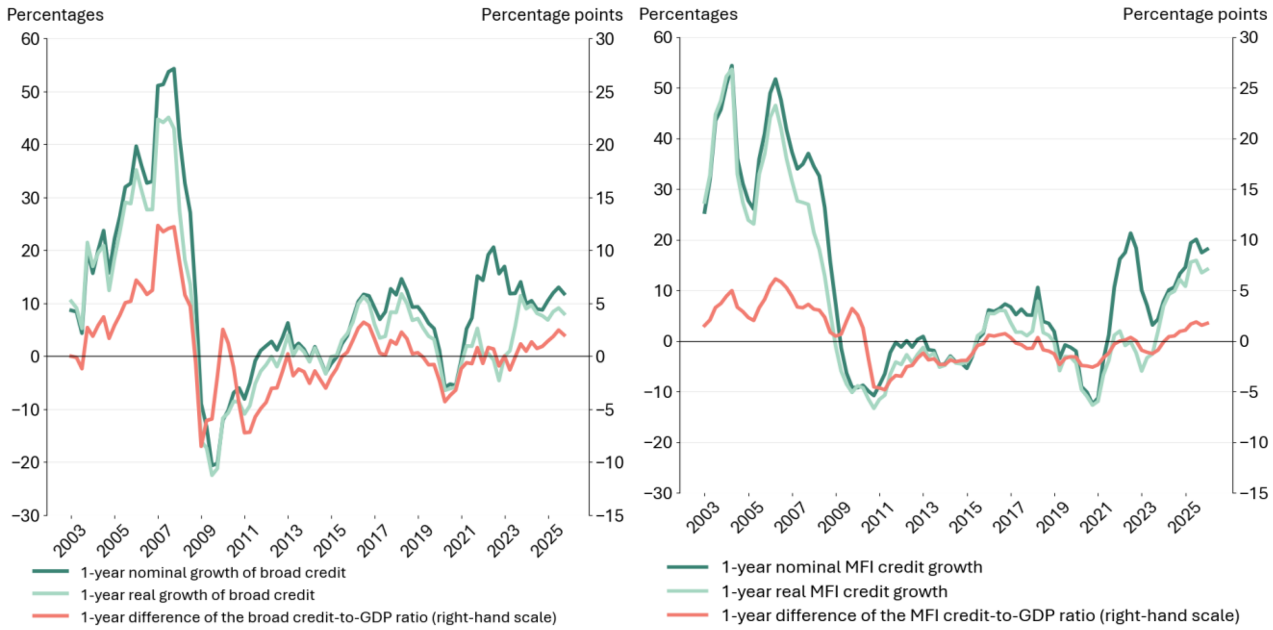


Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations
Note: 1-year moving totals of the current account and GDP were used for the left-hand panel.

Non-financial corporation sector

Corporate lending remains particularly robust, with the financial sector's loan portfolio to businesses growing at the fastest rate in the EU, driven mainly by strong lending to RE, energy and transport companies.

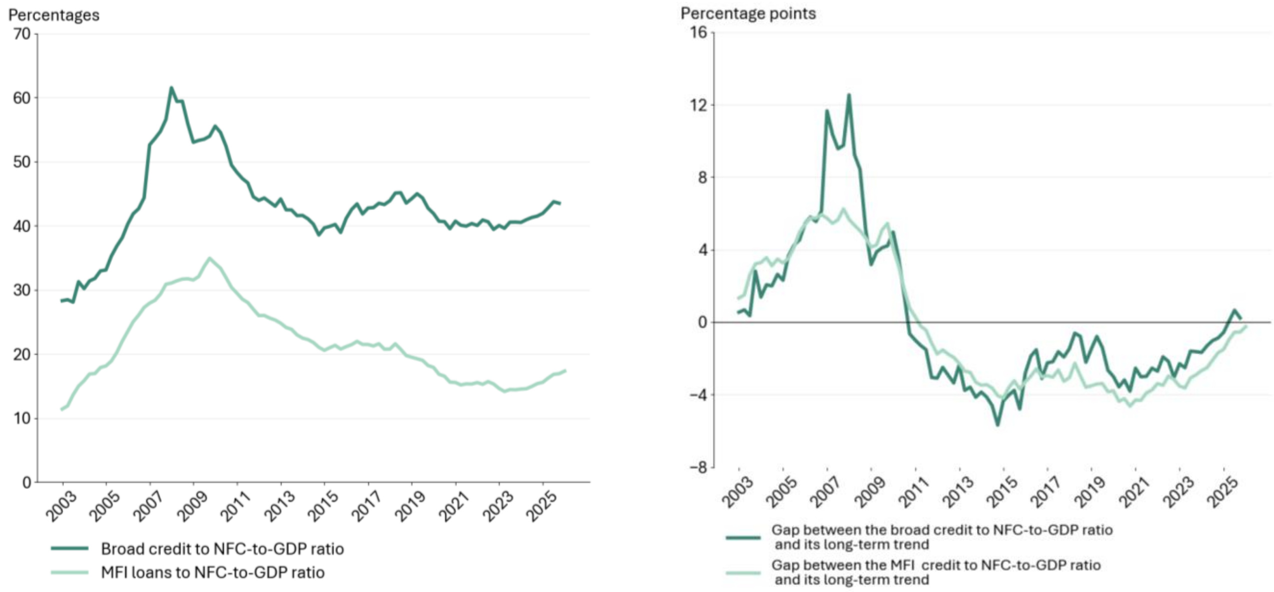
Chart 4. Developments in broad corporate credit (left-hand panel) and borrowing from MFI (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations

Broad corporate credit, relative to overall economic growth, exceeded the long-term trend, while the MFI corporate loan-to-GDP gap continued to narrow and approached zero.

Chart 5. Corporate credit-to-GDP ratios (left-hand panel) and corporate credit imbalances (right-hand panel)

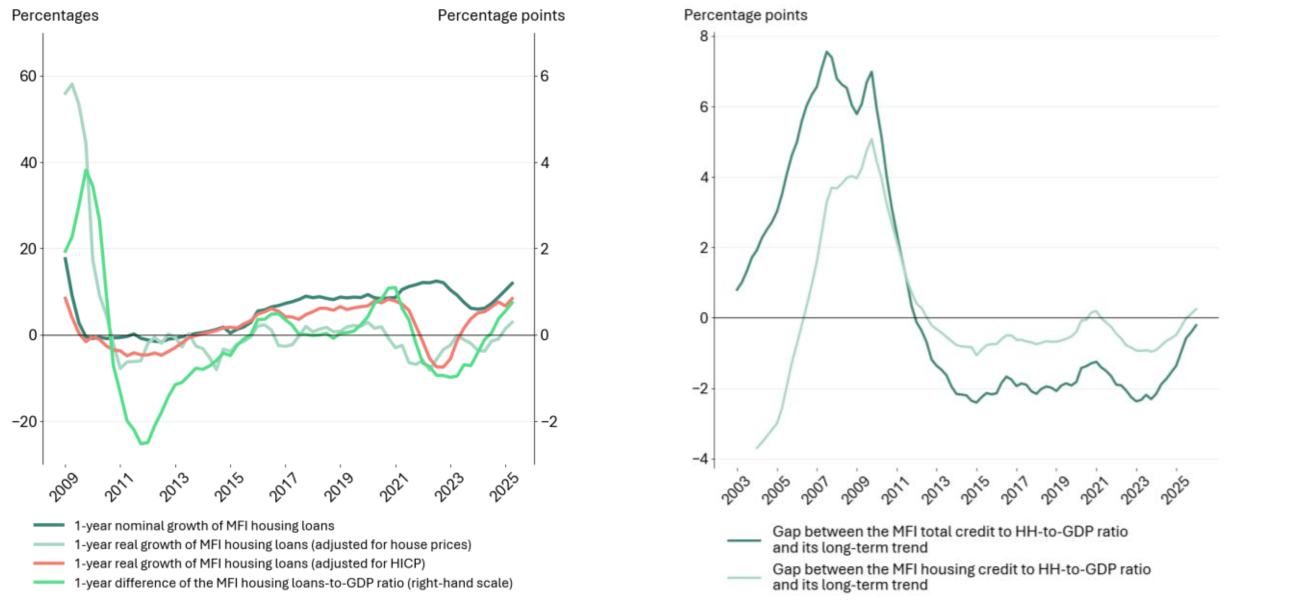


Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations
Note: The right-hand panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average.

Household and housing sector

The real growth rate of housing loans continues to increase significantly, with the volume of housing lending outpacing economic growth.

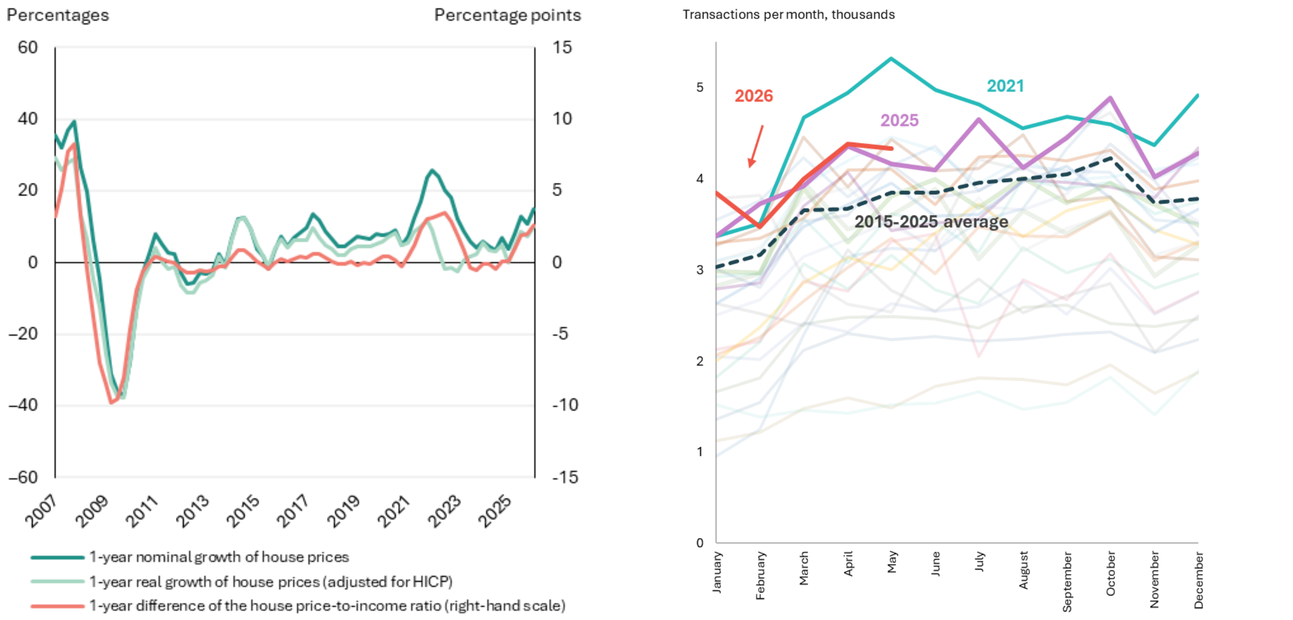
Chart 6. MFI housing credit developments (left-hand panel) and HH credit imbalances (right-hand panel)



Sources: SDA, Lietuvos bankas and Lietuvos bankas' calculations
Note: The right-hand panel shows the long-term trend, computed with a one-sided HP filter and smoothing parameter of 400,000; before applying the filter, the ratio is modelled for the next 5-year window using a 4-quarter weighted average. Gaps are calculated using the national method.

The housing market is very buoyant, with house price growth continuing to accelerate. However, this has not yet significantly affected affordability.

Chart 7. Housing price developments (left-hand panel) and official housing transactions from 2000 to 2026 (right-hand panel)

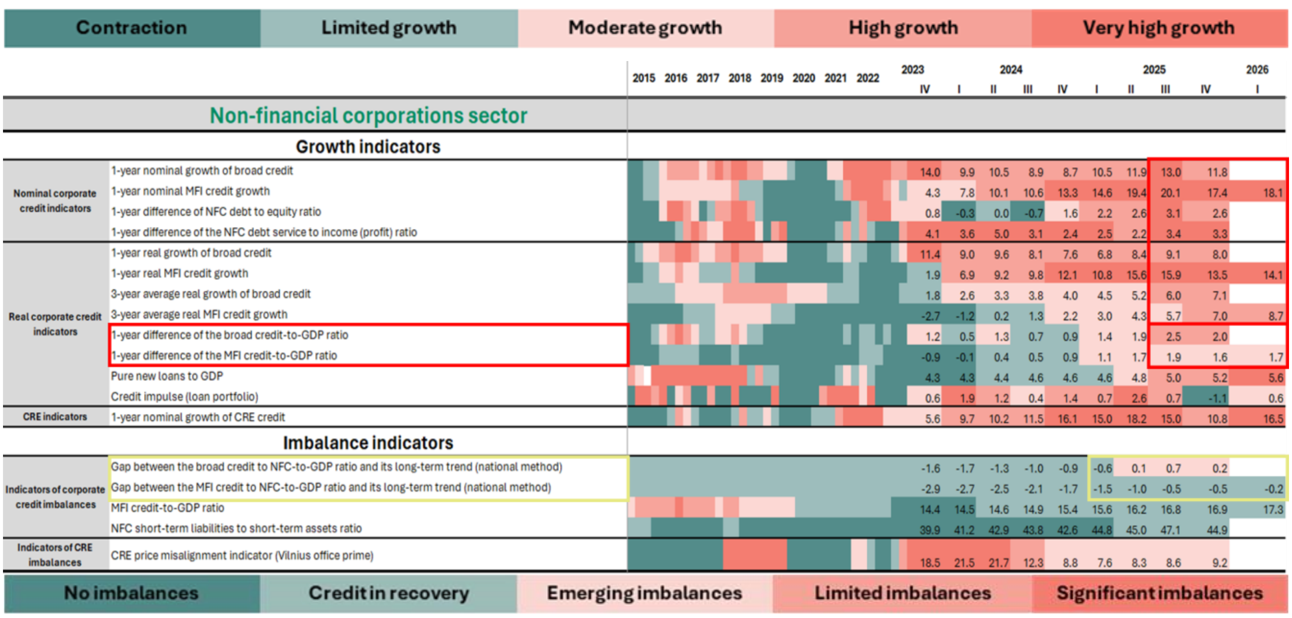


Sources: Lietuvos bankas, data published on the website the State Enterprise Centre of Registers, as well as Lietuvos bankas' calculations.
Note: House price calculations were performed based on Lietuvos bankas' RSHPI data.

Indicator heatmaps and cycle assessment matrix

Corporate lending remains particularly robust and is significantly outpacing economic growth. Limited price imbalances currently exist in the commercial RE office segment only.

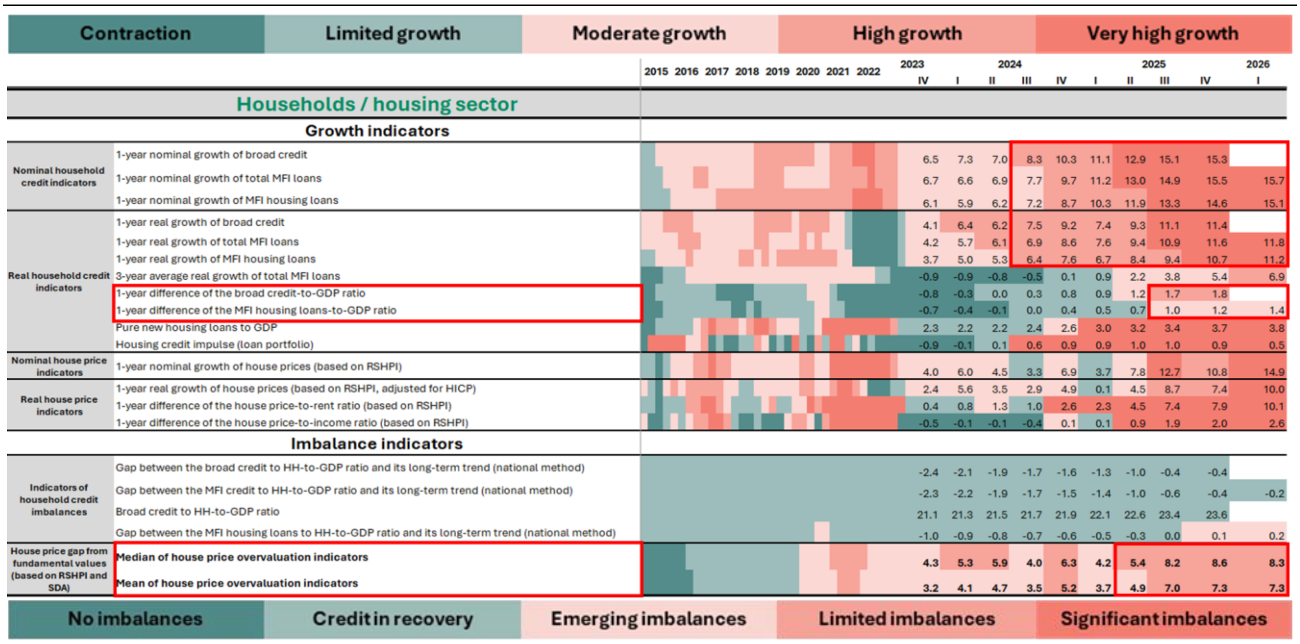
Chart 8. Heatmap of corporate sector growth and imbalance indicators



Note: Values are rounded; some indicators are assessed based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

The growth rates of household lending and housing prices are accelerating even further. There are still some limited housing price imbalances.

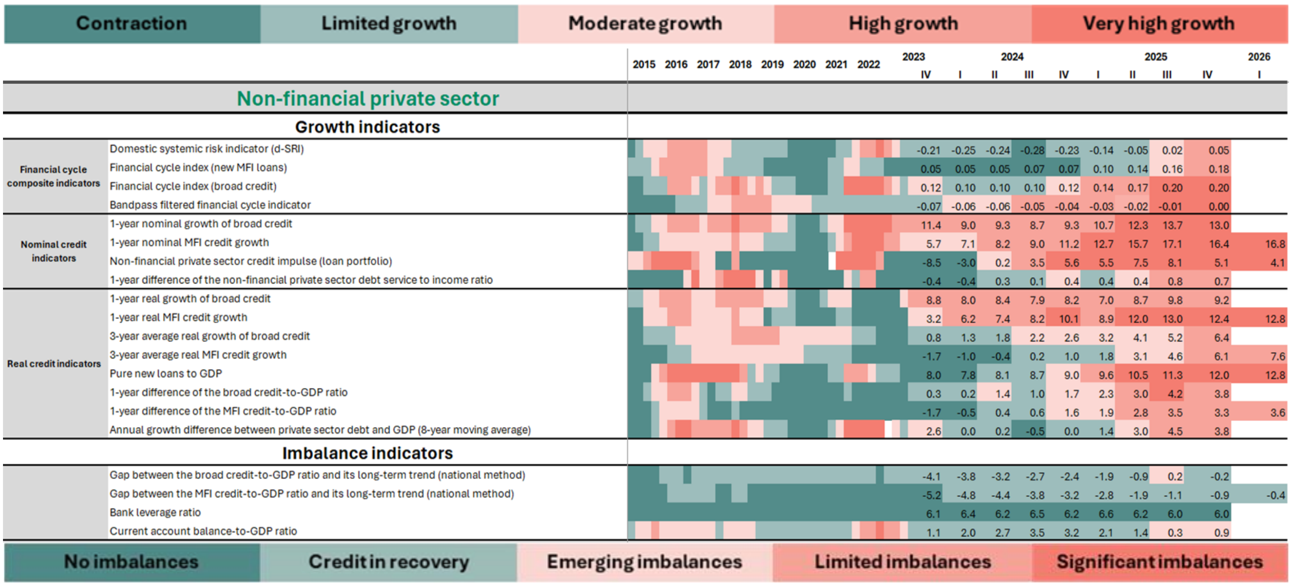
Chart 9. Heatmap of HH and housing sector growth and imbalance indicators



Note: Values are rounded; some indicators are assessed based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

Rapidly growing portfolios of MFI loans and broad credit to the non-financial private sector are fuelling further growth of the financial cycle. There are no signs of general imbalances of the overall credit market, but if lending activity does not ease, these would begin to emerge within a few quarters.

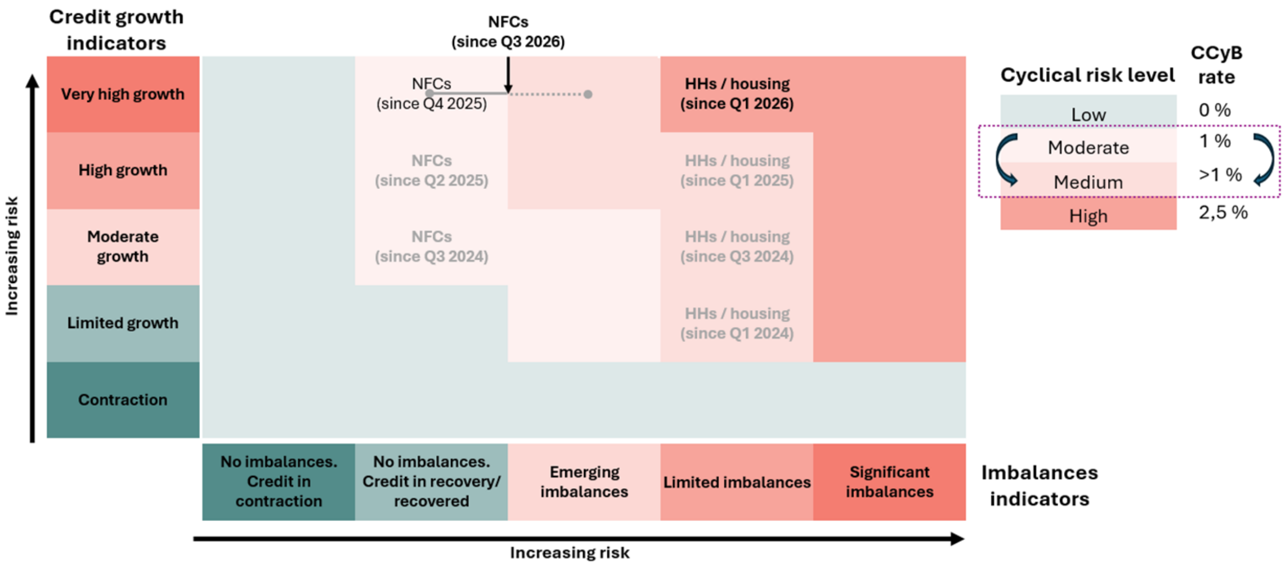
Chart 10. Heatmap of corporate and private sector credit growth, credit imbalance and composite financial cycle indicators



Note: Values are rounded; some indicators are assessed based on the percentiles of their values, hence in some instances cells that have the same value may be coloured differently.

The highest level of cyclical risk reached in both the corporate and household (housing) sectors is moderate. The imbalances beginning to emerge in the corporate sector could raise cyclical risk to a medium level.

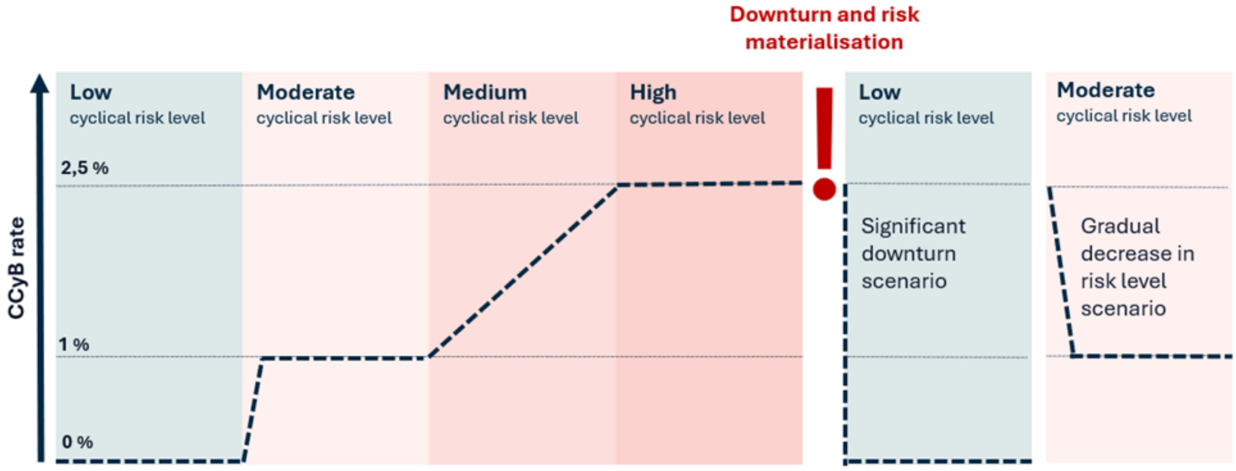
Chart 11. Cyclical risk assessment matrix



Note: The decision to apply the 1% CCyB rate was taken in the third quarter of 2022, when the cycle was in the upturn stage. The brackets in the matrix indicate the quarter in which the assessment of the cyclical risk level for the relevant sector was changed (e.g., Q1 2024 means the first quarter of 2024).

According to the CCyB framework, the overall cyclical risk sentiment is moving towards the medium cyclical risk level which would justify a higher than 1% CCyB rate.

Chart 12. Relationship between the overall level of cyclical risk and determination of the CCyB rate



Source: Lietuvos bankas.

Chart 13. CCyB framework in Lithuania

COUNTERCYCLICAL CAPITAL BUFFER FRAMEWORK IN LITHUANIA

The primary objective of the Countercyclical Capital Buffer (CCyB) is to ensure that the banking sector builds up a sufficient capital buffer during the expansionary phase of the financial cycle. This buffer can subsequently be used to absorb potential losses arising from cyclical systemic risks or an economic downturn, thereby mitigating the risk of a contraction in the supply of credit to the economy.

The CCyB may also contribute to reducing the procyclicality of credit and limiting the build-up of cyclical systemic risk. However, these effects should be regarded as beneficial side effects rather than the primary objective of the measure.

Positive-neutral CCyB rate: Under the positive-neutral CCyB approach, an additional capital buffer is accumulated at an early stage of the build-up of cyclical risks, thereby reducing the risk of delayed or insufficient buffer accumulation.

The objectives of the CCyB are pursued through the calibration and adjustment of the CCyB rate in line with the level of cyclical systemic risk:

- Where cyclical systemic risk is moderate, the objective is to raise the CCyB rate to the positive neutral level of 1%. This environment is characterised by active credit and real estate markets for both households and non-financial corporations, sustainable economic growth and strong bank profitability. Any imbalances that may exist are not sufficiently widespread or pronounced to cause overall cyclical systemic risk to exceed a moderate level.
- As cyclical systemic risk rises above a moderate level, reflected in unsustainable or rapid growth in credit or real estate markets together with signs of emerging cyclical imbalances, the CCyB rate is increased further, above the positive neutral rate of 1%.
- Where cyclical systemic risk is high and significant cyclical imbalances have already built up, the objective is to accumulate a CCyB of at least 2.5%, thereby ensuring that the financial system remains sufficiently resilient should the financial cycle enter a downturn.
- During an economic downturn or upon the materialisation of cyclical risks. when rising losses increase the likelihood that a significant share of the banking sector may restrict the supply of credit in order to comply with capital requirements, the CCyB rate is reduced. Depending on the severity of the shock, the reduction may be either partial or full, with the CCyB rate lowered to 0% in the latter case.

The CCyB rate is reviewed on a quarterly basis and determined in accordance with the principle of limited discretion, based on quantitative indicators of the financial cycle and the expert judgement of the Bank of Lithuania.

A broad set of indicators is assessed to evaluate both the level of imbalances in financial markets and developments in the financial cycle. These indicators are used to derive a benchmark CCyB rate, which may subsequently be adjusted on the basis of expert judgement to reflect the overall economic and financial environment, conditions in the financial sector, developments in the domestic economy, the potential impact of higher capital requirements and interactions with other existing or planned macroprudential policy measures.

Sector-specific developments are also considered when setting the CCyB rate.

Where the level of cyclical systemic risk differs across sectors of the economy, such as the non-financial corporate or household sector, the CCyB rate is set to reflect the overall level of cyclical risk in the economy. Where elevated risks are concentrated in specific sectors, additional macroprudential measures may be applied, including the sectoral systemic risk buffer (SyRB).

Decisions to increase the CCyB rate normally take effect after 12 months, whereas decisions to reduce the rate take effect immediately.

The 12-month implementation period is intended to provide banks with sufficient time to accumulate the required additional capital. In exceptional circumstances, the Bank of Lithuania may set a shorter period, provided that the reasons for the urgency of the decision are clearly communicated. By contrast, decisions to reduce the CCyB rate may be implemented immediately, enabling banks to release the accumulated buffer without delay in order to absorb losses.

Abbreviations

CCyB	counter-cyclical capital buffer
HPI	house price index
GDP	gross domestic product
EA	euro area
HP	*Hodrick-Prescott* filter
CRE	commercial real estate
NFC	non-financial corporation
RE	real estate
HH	household
MFI	monetary financial institution (e.g. bank or credit union)
RSHPI	repeat-sales-house-price-index
SyRB	systemic risk buffer
HICP	harmonised index of consumer prices
SDA	State Data Agency
GS	Government securities

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The quarterly assessment of the financial cycle in Lithuania is a quarterly publication issued by Lietuvos bankas that assesses the state of the financial cycle in Lithuania and the level of cyclical systemic risk. The publication was prepared by the Financial Stability Department of Lietuvos bankas.

Unless otherwise indicated, the cut-off date for data used in the publication was 03 July 2026.

Charts include data for the year, quarter or other period indicated.

ISSN 2783-7327 (online)