The Central Bank has today announced that the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 1 per cent. The Central Bank considers a 1 per cent rate to be consistent with its objective for the CCyB of promoting resilience in the banking sector in order to mitigate the risk of a pro-cyclical reaction of bank lending to the real economy in any future downturn or period of systemic stress.

The CCyB is a cyclical macroprudential instrument which can be increased or decreased in line with macro-financial conditions. The Central Bank expects to maintain a positive buffer rate when conditions are consistent with the gradual build-up of cyclical risk over a period of time albeit prior to the emergence of imbalances. A buffer rate above 1 per cent would be expected when conditions point to emerging imbalances across credit and other factors such as the domestic economy, asset prices (especially real estate), risk appetite and global conditions. The Central Bank remains ready to adjust the CCyB rate, taking account of the evolution of the cyclical risk environment and the level of resilience in the financial system.

Overview of indicators informing the CCyB

In monitoring the evolution of the cyclical risk environment, the Central Bank refers to a set of indicators on domestic credit developments, asset prices, the macroeconomy and risk taking behaviours of financial markets, all in conjunction with developments of global financial conditions. An overview of the indicators informing the CCyB setting is given below.

- At an aggregate level, credit is experiencing positive but moderate growth. Looking at credit figures more closely:
    - Lending for private dweling house (PDH) mortgages and to large enterprises (LE) continued to perform strongly: in 2019Q3, credit for PDH and LE represent the main drivers of the overall credit growth, with year-on-year growth rates of approximately 4 and 13 per cent, respectively. These growth rates are in line with the average increase from 2018Q2.
    - Buy-to-let (BTL) mortgage lending and lending to small medium enterprises (SMEs) declined further in 2019Q3. These negative growth rates have weighted on aggregate bank lending. The low levels of new BTL lending in the aftermath of the crisis are potentially related to a shift in risk appetite as well as changes in the provision of rental accommodation in Ireland, linked to the greater role of institutional investors. Given that these changes might be related to the structure of the sector, the resulting decline in BTL lending may not be a temporary or cyclical feature.
    - Consumer credit has continued to grow in 2019Q3, with a year-on-year rate of over 6 per cent. On average, it displayed a growth rate of 4.4 per cent as of mid-2016.
    - Latest monthly data show a slight moderation in the rate of growth of NFC credit during the latter part of 2019.
- New mortgage lending has been on a persistent upward trend for a number of years now and in the year to 2019Q3 saw the highest volume of new lending since 2009Q3. Relative to

model estimated benchmarks, there appears to be scope for some further sustainable increases.

- The buoyancy of domestic economic activity and strong growth in exports supported the growth of the economy over the past year. Looking ahead, the outlook remains broadly positive in 2020 and 2021, though a number of risks to that outlook continue to prevail. Absent the materialisation of risk, there is a need to continue to guard against the risk that strong cyclical conditions give rise to overheating dynamics[1].
- The labour market continues to perform strongly. As of 2019Q3 the unemployment rate had declined to below 5 per cent. Employment data also exhibited strong year-on-year growth. Employment growth is expected to moderate somewhat but remain slightly ahead of growth in labour supply, giving scope for a further modest decline in the unemployment rate.
- Regarding real estate prices, modest growth rates have been measured for several quarters, with latest y-o-y growth rates of 0.9 (as of October 2019) and 1.6 (as of September 2019) per cent in the residential and commercial markets, respectively. Prices remain high relative to incomes and rents on a historic basis, although model-based approaches indicate prices are close to but below long-run fundamentals. CRE yields are low by historical comparison, which could reflect stretched valuations which would thus imply high downside risks.
- Yields on Irish sovereign bonds have continued to be persistently low by historical comparison, and stock prices have continued to increase. These favourable developments in the financial markets are in line with the accommodative financial conditions of the global markets observed since the aftermath of the financial crisis, which led to compressed risk premia and increased risk appetite.
- Against the backdrop of a mature phase of the global cycle, global financial vulnerabilities have continued to increase, primarily linked to the stretched asset prices globally.

Credit Gap indicators

The credit gap refers to the deviation in the credit-to-GDP ratio from its estimated trend level. The credit gap is a required reference indicator for macroprudential authorities in Europe when setting the CCyB rate. Given the specificities of the Irish economy, a number of credit gap indicators are analysed.[2] On balance, measures of the credit gap continue their general upward trend. Regarding their levels, while the standard and national specific measures remain in negative territory, the alternative gap is essentially in balance, hovering just below zero in recent quarters.

Table 1: Credit Gap and benchmark CCyB rate

		Standardised Approach (as of 2019Q3)	National-Specific Approach (as of 2019Q3)	Alternative (model-based) National Approach (as of 2019Q3)
A	Ratio	238.8 per cent	86.6 per cent	86.6 per cent
B	Trend	318.3 per cent	147.2 per cent	87.8per cent

[1] Central Bank of Ireland, Quarterly Bulletin 01 / February 2020.

[2] The standardised credit gap is calculated in line with ESRB Recommendation 2014/1 and is based on a broad measure of credit. In Ireland, issues related to the presence of multi-national enterprises, as discussed in the Report of the Economic Statistics Review Group, impacts heavily on these data. The national specific approach looks to adjust for this by using data more reflective of the domestic economic environment, using a narrower more domestically focused measure of credit and GNI*.

C	Credit Gap (=A-B)	-79.5 per cent	-60.6 per cent	-1.2 per cent
	Benchmark CCyB rate	0 per cent	0 per cent	
	Δ credit gap since trough	NA	29pps (2016Q1-2019Q3)	42pps (2015Q3-2019Q3)

Table: Dashboard - Evolution of selected CCyB indicators

CCyB indicator dashboard related to the build-up of systemic risk								
		Trajectory		Indicator		Latest obs date	Threshold	Qualitative assessment
		Persistance	*12-month change*	*Latest observation*	*Risk level*			
Credit growth	Household credit growth		1.1 pps	0.1%		Nov-19	Historical average	While in aggregate credit growth is modest, different paces of growth are observed across sectors.
	Domestic NFC credit growth		-0.8 pps	1.3%		Nov-19	Historical average	
	Private Household: PDH Mortgage		0.4 pps	4.3%		Sep-19	No threshold established	
	Private Household: BTL Mortgage		-0.8 pps	-14.2%		Sep-19	No threshold established	
	Private Household: Non-mortgage		6.0 pps	6.2%		Sep-19	No threshold established	
	Irish Private Sector Enterprises: Large Enterprises		4.2 pps	13.0%		Sep-19	No threshold established	
	Irish Private Sector Enterprises: SMEs		-1.2 pps	-4.7%		Sep-19	No threshold established	
Credit gaps	Standardised credit gap		16.0 pps	-79.5pps		Sep-19	Lower threshold for CCyB setting (BCBS 2010)	While gap measures have been on a general upward trajectory they remain negative and do not indicate unsustainable imbalances in credit.
	National credit-to-GNI* gap		11.7 pps	-60.6pps		Sep-19	Lower threshold for CCyB setting (BCBS 2010)	
	Alternative National Specific gap		1.7 pps	-1.2pps		Sep-19	Lower threshold for CCyB setting (BCBS 2010)	
New lending	Mortgage Lending: 4-quarter volume		€0.8 bn	€8.8 bn		Sep-19	No threshold established	Mortgage lending has recovered strongly from subdued levels. Scope for some further sustainable increases in the near term.
	Mortgage Lending-to-Disposable Income ratio		0.6 pps	7.0%		Sep-19	Model Benchmark (2003Q1-2018Q1)	
	Lending to SMEs: 4-quarter volume		€1.0 bn	€6.4 bn		Sep-19	No threshold established	
Real estate	Residential property price growth (m)		-5.8 pps	1.4%		Nov-19	MIP threshold	Rate of growth in property prices has been modest in recent months. Relative to incomes, residential real estate prices are above long-run averages.
	Residential property price-to-income ratio		-1.2%	4.4		Sep-19	Historical average	
	Res. real estate misalignment measure		-4.2 pps	-10.2%		Sep-19	Zero	
	Commercial real estate price growth		-3.8 pps	0.2%		Dec-19	Historical average	
Indebtedness	Total credit-to-GDP ratio		4.8 pps	238.8%		Sep-19	MIP threshold	Total credit in Ireland is substantially impacted by the presence of foreign-owned MNCs. More domesticaly relevant measures have been on a downward trajectory for some time, although still indicate relatively high levels of indebtedness.
	National credit-to-GNI* ratio		-4.7 pps	86.6%		Sep-19	Euro area aggregate (bank credit-to-GDP)	
	Household debt-to-income ratio		-8.3 pps	117.3%		Jun-19	Euro area average	
Macro-economy	Employment rate		0.5 pps	69.6%		Sep-19	Historical average	At or approaching full employment/capacity constraints.
	Unemploment rate		-0.8 pps	4.9%		Sep-19	Historical average	
Bank balance sheets	CET1 Ratio - retail banks		0.6 pps	17.0%		Sep-19	CRD IV minimum requirement	Well above minimum requirements/benchmarks.
	Leverage ratio - retail banks		-0.2 pps	8.5%		Dec-19	European average	
Market conditions	Commercial real estate spreads (bps)		96.9 bps	520 bps		Sep-19	Historical average	Against a background of accommodative global financing conditions, Irish government bonds spreads are low by historical comparison.
	Irish gov bond spreads - monthly avg (bps)		-44 bps	29 bps		Jan-20	Historical average	

Notes: The table provides a visual representation of the Central Bank's high level approach that informs the setting the CCyB rate during the build-up phase. As such indicators and shading are presented from the point of view of monitoring a build-up in cyclical systemic risk. Indicators can be interpreted differently from other perspectives. The indicator trajetory relates to the degree of persistance in each indicator and the change in the indicator over the previous 12 months. The coloring of the trajectory is based on the length of time an indicator has been trending in a direction that is indicative of a rise in cyclical systemc risk (Green: no sustained rise in systemic risk, Amber: sustained trajectory indicating build-up of systemic risk, Red: more persistent trend of increasing systemic risk). The shading of the latest indicator value represents the level of risk associated with the current level of each indicator relative to its threshold value (Green: low risk - red: high risk). Grey shading is used where no threshold value is available. For further details on the indicators and thresholds see the Central Bank of Ireland bi-annual Systemic Risk Pack. CCyB rate decisions are made on the basis of guided discretion.

Reciprocity[3]

The use of the CCyB across Europe is becoming increasingly prevalent (Table 2). Curently, 11 jurisdictions have positive CCyB rates in place, of which seven have announced further increases which will take effect in the year ahead. One of these cases relates to the decision of the Financial Policy Committee in the UK to increase the CCyB rate for 1 per cent to 2 per cent with effect from December 2020. This is of particular relevance for the Irish financial system given the high level of financial interconnectedmess between the two jurisdictions. The activation of CCyB has been announced in a further two countries, with a positive rate coming into effect for the first time in the coming months.

Table 2: Positive CCyB rate setting in Europe

Country	Current applicable rate	Implementation date	Pending CCyB rate	Pending implementation date
Belgium	0.00%	1 Jan 2016	0.50%	1 Jul 2020
Bulgaria	0.50%	1 Oct 2019	1.50%	1 Jan 2021
Czech Republic	1.75%	1 Jan 2020	2%	1 Jul 2020
Denmark	1%	30 Sep 2019	2.00%	30 Dec 2020
France	0.25%	1 Jul 2019	0.50%	2 Apr 2020
Germany	0.00%	1 Jan 2016	0.25%	1 Jul 2020
Iceland	2.00%	1 Feb 2020		
Lithuania	1.00%	30 Jun 2019		
Luxembourg	0.25%	1 Jan 2020	0.50%	1 Jan 2021
Norway	2.50%	31 Dec 2019		
Slovakia	1.50%	1 Aug 2019	2.00%	1 Aug 2020
Sweden	2.50%	19 Sep 2019		
UK	1.00%	28 Nov 2018	2.00%	16 Dec 2020

Note: *Table is provided for information only. Pending rate refers to the most recently announced rate. In some cases lower intermediate rates may come into effect in at an earlier date.*

In the case of third countries that are material from an Irish perspective, the CCyB rate in the US is currently zero per cent.

Further information

For further information, see the Macroprudential Policy section of the Central Bank website here.

[3] Information as of 12 February 2020. Further information on the CCyB in Europe can be found on the ESRB website.