24 February 2021

The Central Bank ("the Bank") has today announced that the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 0 per cent.

The CCyB is the Bank's primary macroprudential capital buffer to address cyclical systemic risks. In setting the CCyB the Bank aims to promote a sustainable provision of credit to the economy by making the banking system more resilient and less pro-cyclical. It does so by increasing capital requirements early in the upward phase of the cycle and decreasing them during a downturn.

The COVID-19 pandemic continues to impact the Irish macro-financial environment. As such, consistent with the forward guidance given in the Financial Stability Review 2020:II, the Central Bank is maintaining the CCyB at 0 per cent to facilitate, to the extent possible, the banking system to absorb these negative impacts and to continue to support the economy through the sustainable provision of credit.

Assessment of current macro-financial conditions

- At an aggregate level credit growth remains muted. The year-on-year rate of growth in credit to the Irish private sector has been consistently negative since May 2020.
- Over the course of 2020, credit growth figures were impacted by the introduction of COVID-19 payment breaks which would have suppressed loan repayments. By end-2020 4,200 accounts, or 3% of the 150,000 approved payment breaks, still had an active payment break.[1]
- New lending data indicates somewhat of a recovery during the second half of 2020. Overall, however, volumes for the year were below those seen in 2019.
- The recovery in credit is most evident in mortgage lending. The volume of new agreements, approvals and drawdowns in the last months of 2020 recovered, from the lows seen during the year, to levels similar to or above those seen in the same period in 2019.
- Real economic activity recovered substantially during Q3 2020 relative to Q2. However, more recent indicators show signs of a renewed weakening due to the tighter restrictions put in place as COVID-19 cases increased.
- The medium-to-longer term impact of the Covid shock on the labour market may be beginning to show, as the seasonally adjusted number of persons unemployed (using the standard ILO

[1] See BPFI Payment Break Update 31 Dec 2020

definition) was 179,400 in December 2020, 62,800 higher than December 2019. In December 2020, the COVID-19 Adjusted Measure of Unemployment was approximately 20%.[2]

- Notwithstanding its limitations, particularly during periods where cyclical risks have materialised such as the present time, the credit-to-GDP gap is a required reference indicator under CRD V. Latest data (2020Q3) indicate it remains negative.
- Unprecendented policy interventions have promoted supportive international financial market conditions. Global risk sentiment remains generally buoyed by expectations of continued policy support.

Policy outlook

The current macro-financial circumstances are consistent with no change to the existing policy stance. As such, the Bank does not expect to announce a change in the CCyB rate in 2021. In providing this forward guidance, the aim is to provide scope for the banking system to absorb and not amplify the COVID-19 shock.[3]

[2] For further detail, see Central Bank of Ireland Quarterly Bulletin No.1 2021.
[3] See Central Bank of Ireland Financial Stability Review 2020:II