

Countercyclical capital buffer rate announcement

March 20th 2018

Announcement of rate

The Central Bank has today announced the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 0 per cent in 2018Q2. The rate will be effective from April 1st 2018. This decision has been made in the context of subdued aggregate credit growth but also noting that credit growth to the household and NFC sectors has recently returned to positive territory. Underneath the aggregate figures a number of important trends are evident and cyclical pressures can be seen in some areas. As the credit environment continues to strengthen, and in the context of robust growth in the domestic economy and asset prices, consideration of the timing of a potential tightening of the CCyB will warrant careful consideration.

In assessing the appropriate CCyB rate at this juncture the following has been taken into consideration:

- Following marginally positive rates of growth in aggregate household credit in recent months, annual growth in on-balance sheet loans for house purchase has now also turned positive for the first time since mid-2010. The strong increases in new mortgage lending of recent quarters now seem to be translating into positive growth in mortgage credit overall. While the absolute amounts of lending remain modest, this rate of growth will be closely monitored over the coming quarters.
- More robust rates of credit growth are also evident in the consumer credit category although these have moderated somewhat recently. Exceptionally strong rates of growth remain evident in the sub-category of fixed rate mortgage lending.
- The relative strengthening in NFC credit has translated into a marginally positive rate of credit growth– the first such positive rate since mid-2009. Overall NFC credit dynamics are the outcome of persistently negative growth in credit to SMEs and positive growth to large enterprises. Having seen steady increases for some time, growth in new lending to SMEs slowed in 2017Q3.
- The national specific measure of the credit gap is now consistently reducing in size. However, both standardised and national specific measures of the credit gap remain substantially below zero and it could therefore be the case that the Bank sets a positive CCyB rate prior to the credit gap measures indicating the need to do so.
- The analysis underlying the Bank's 2017 review of the mortgage market measures did not point to the need to change the fundamental elements of the policies or suggest that house prices had diverged from those that would be justified by broader economic developments. Nonetheless, with double-digit year-on-year increases continuing, developments will require careful monitoring.
- Having seen consistent year-on-year rates of increase in the range of 5-6 per cent for the first three quarters of 2017 growth in commercial real estate prices declined to 1.6 per cent in Q4. This was partly attributed to an increase in commercial stamp duty arising from Budget 2018. While yields are low by historical standards, this is at least partly attributable to the low interest rate environment.

- Indicators of external imbalances and bank resilience do not point to an increase in cyclical vulnerabilities through this channel at this time.

Credit Gap indicators

In setting the CCyB rate the Central Bank is required to take note of the deviation in the credit-to-GDP ratio from its trend level, a measure referred to as the credit gap. A range of credit gap indicators analysed by the Central Bank show the current gap to be negative. The national specific approach shown in Table 1 uses the national specific credit measure discussed in [Creedon and O'Brien \(2016\)](#) and GNI* as published by the CSO, interpolated using changes in modified domestic demand. The benchmark CCyB rate is 0 per cent in all cases.

Table 1: Credit Gap and benchmark CCyB rate (based on data referring to 2017Q3)

		Standardised Approach	National Specific Approach
A	Latest credit-to-GDP ratio	260 per cent	92 per cent
B	Trend credit-to-GDP ratio	339 per cent	173 per cent
C	Credit Gap (=A-B)	-79 per cent	-80 per cent
	Benchmark CCyB rate	0 per cent	0 per cent

Reciprocity

In terms of Irish institutions applying relevant CCyB rates on exposures in other jurisdictions, a number of European authorities have announced positive CCyB rates. These are shown in Table 2 below.¹

Table 2: Positive CCyB rate setting in Europe

Country	Current applicable rate	Implementation date	Pending CCyB rate	Pending implementation date
UK	0.00%	05 July 2016	1.00%	28 November 2018
Slovakia	0.50%	01 August 2017	1.25%	1 February 2019
Lithuania	0.00%	30 June 2015	0.50%	31 December 2018
Czech Republic	0.50%	01 January 2017	1.25%	01 January 2019
Iceland	1.25%	01 November 2017		
Norway	2.00%	31 December 2017	2.00%	31 December 2017
Sweden	2.00%	19 March 2017		

In the case of third countries which are material from an Irish perspective, the CCyB rate in the US is also 0 per cent and, therefore, does not have a practical effect at this time.

Further information

For further information see the Macroprudential Policy section of the Central Bank website [here](#).

¹ Further information can be found the ESRB [website](#).