

Countercyclical capital buffer rate announcement

15 December 2016

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 2017Q1. The rate will be effective from January 1st 2017. In keeping the rate at 0 per cent, the Central Bank noted the following:

- Private non-financial sector credit continues to decline with year-on-year growth to both the household and NFC sectors remaining negative.
 - Underneath the aggregate figures there is evidence of a relative strengthening in the credit environment. For instance credit growth in certain sub-sectors such as consumer credit, fixed-rate mortgage lending and credit to large enterprises has now turned positive. Also, new lending continues to increase on an annual basis with the construction and real estate sector in particular seeing strong rates of increase of late.
- Notwithstanding the current caveats relating to the credit gap indicators for Ireland, they are currently suggestive of a weak credit environment. The associated benchmark buffer rate is currently 0 per cent.
- The rate of increase in commercial real estate prices continues to moderate and is now in single digits. On the residential side, having largely stabilised during the first half of 2016, prices have seen somewhat larger monthly increases most recently.
- External imbalance indicators do not point to growing vulnerabilities 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 benchmark CCyB rate corresponding to a credit gap of -25 per cent is 0 per cent.

Table 1: Credit Gap and benchmark CCyB rate (based on data referring to 2016Q2)

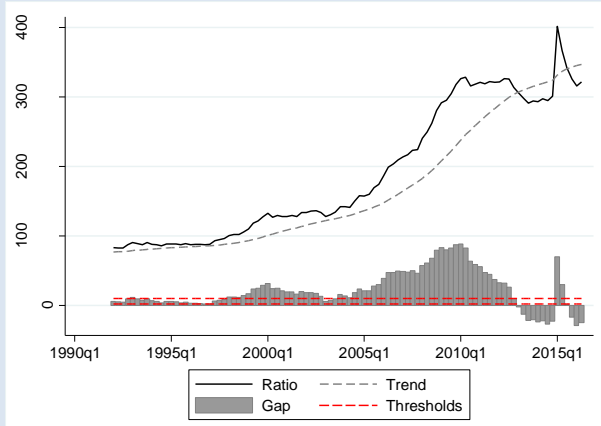
| | | Standardised Approach | National Specific Approach |
|----------|----------------------------|------------------------------|-----------------------------------|
| <i>A</i> | Latest credit-to-GDP ratio | 322 per cent | 75 per cent |
| <i>B</i> | Trend credit-to-GDP ratio | 347 per cent | 151 per cent |
| <i>C</i> | Credit Gap (=A-B) | -25 per cent | -76 per cent |
| | | | |
| | Benchmark CCyB rate | 0 per cent | 0 per cent |

Further information

Further information on how the Central Bank sets the CCyB rate and the quantitative indicators analysed can be found under the Macro-prudential policy section of our [website](#). A selection of relevant indicators is shown below.

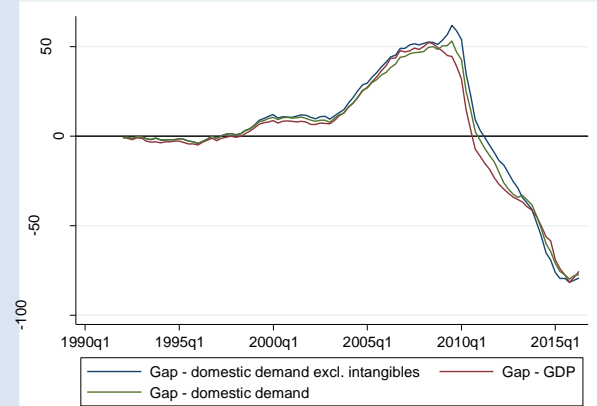
Annex: Quantitative indicators

Credit-to-GDP ratio and gap: Standardised Methodology



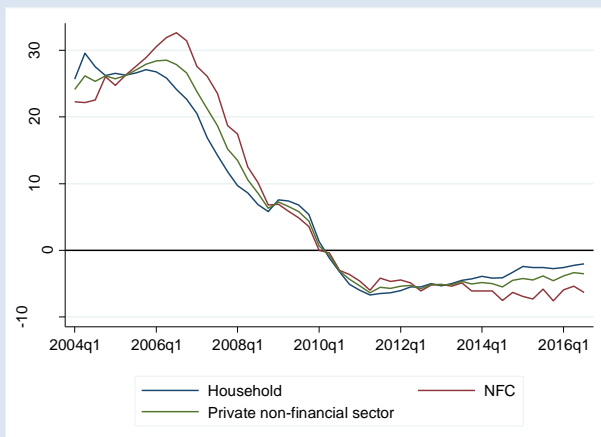
Source: Central Bank of Ireland, CSO, BIS and Central Bank calculations. Last observations 2016Q2.

Alternative credit gaps using national specific measures of credit and alternative measures of economic activity



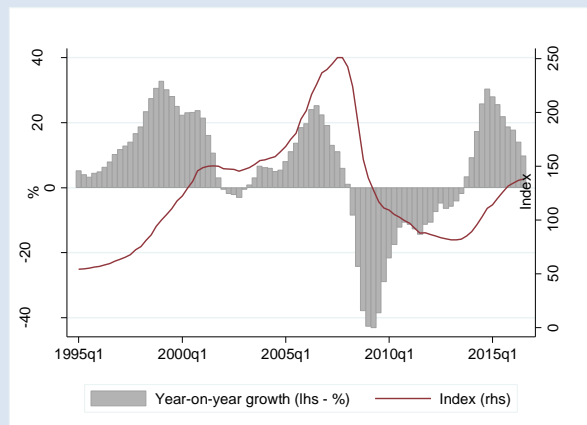
Source: Central Bank of Ireland, CSO, BIS and Central Bank calculations. Last observation 2016Q2.

Year-on-year credit growth in bank lending (Real)



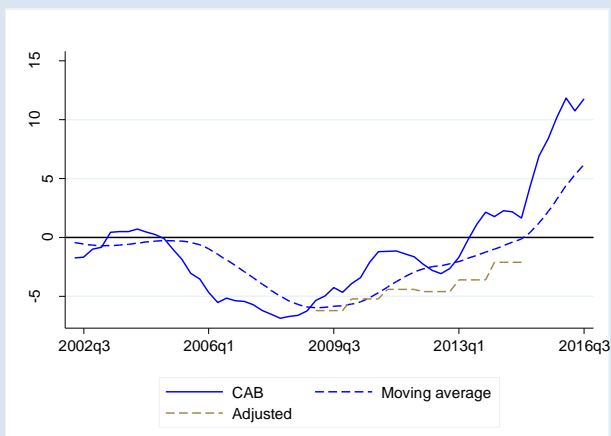
Source: Central Bank of Ireland & CSO. Last observation 2016Q3.

Commercial real estate price developments



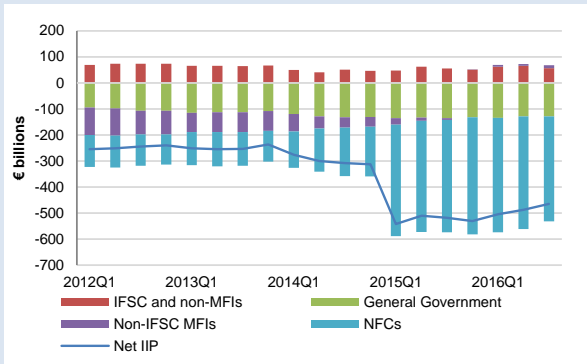
Source: IPD & Central Bank calculations. Last observation 2016Q3.

Current account balance as a % of GDP



Source: CSO and Central Bank calculations. Moving average ratio is based on a 12-quarter rolling window. Last observation 2016Q3. The adjusted series refers to the current account balance less the effects of redomiciled PLCs. The adjusted series is available on an annual frequency for the years 2009-2014 and is a 3-year average..

Net international investment position



Source: CSO. Last observation 2016Q3.