

Countercyclical capital buffer rate announcement

20 December 2017

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 2018Q1. The rate will be effective from January 1st 2018. In keeping the rate at 0 per cent, the Central Bank noted the following:

- While aggregate credit conditions remain somewhat subdued there is an ongoing relative strengthening of the credit environment. Aggregate credit gap measures remain substantially below zero for instance, although the national specific credit gap is now declining in size. These aggregate figures mask a number of notable underlying developments:
 - Monthly data shows, credit growth in on-balance sheet household loans turned positive in July for the first time since late-2009. As of October the year-on-year rate of growth was 0.3 per cent. Although if one accounts for securitised loans which continue to be serviced by the credit institutions, household credit growth remains negative (-1.6 per cent as of October).
 - Quarterly data points to the strongest rates of growth being seen in areas with relatively small shares of outstanding credit (e.g. fixed rate mortgages, other personal credit).
 - The year-on-year rate of credit growth to NFCs was -1 per cent as of October. SMEs on a net basis continue to reduce their level of credit, although large enterprises are net borrowers, as has been the case in recent quarters.
 - Looking specifically at new lending, while in absolute terms amounts are relatively modest, strong increases are now evident.
- In the residential real estate market, while price growth remains in double digits, analysis (both internal and external) suggests that prices, to date, have not decoupled from developments in the underlying economic fundamentals.
- In the commercial real estate market the rate of increase in capital values has moderated substantially levelling off most recently at about 5 per cent year-on-year. CRE yields have stabilized at approximately 5 per cent.
- Aggregate measures of bank resilience, such as capital and leverage ratios, do not point to an increasing 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 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 2017Q2)

		Standardised Approach	National Specific Approach
<i>A</i>	Latest credit-to-GDP ratio	265 per cent	95 per cent
<i>B</i>	Trend credit-to-GDP ratio	341 per cent	177 per cent
<i>C</i>	Credit Gap (=A-B)	-76 per cent	-82 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%	01 August 2018
Czech Republic	0.50%	01 January 2017	1.25%	01 January 2019
Iceland	1.25%	01 November 2017		
Norway	1.50%	30 June 2016	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 Macprudential Policy section of the Central Bank website [here](#).

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