

# Countercyclical capital buffer rate announcement

1<sup>st</sup> July 2016

## Announcement of rate

The Central Bank today maintained the countercyclical capital buffer (CCyB) rate on Irish exposures at 0 per cent.

In keeping the rate at 0 per cent, the Central Bank noted the following:

- At an aggregate level, credit conditions remain subdued.
  - The level of non-financial private sector indebtedness, as measured by the credit-to-GDP ratio, has generally been on a downward trajectory.
  - The credit gap, used as an indicator of potential excessive credit growth, is below zero and has been for some time.
  - Year-on-year growth in (bank) credit to both the household and non-financial corporate sector remains negative and well below growth rates in economic activity.
- Other indicators relating to external imbalances, equity prices and debt service ratios do not point to increasing cyclical vulnerabilities at this time.
- Despite moderating, capital value increases in the CRE sector remain robust. Developments in the sector will be kept under review regarding the potential need for macro-prudential policy action.

## 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. Two measures of the credit gap analysed by the Central Bank show the gap to be negative. The benchmark CCyB rate, which is used as a common reference point across Europe, corresponding to a negative credit gap is 0 per cent.

**Table 1: Credit Gap and benchmark CCyB rate (based on data referring to 2015Q4)**

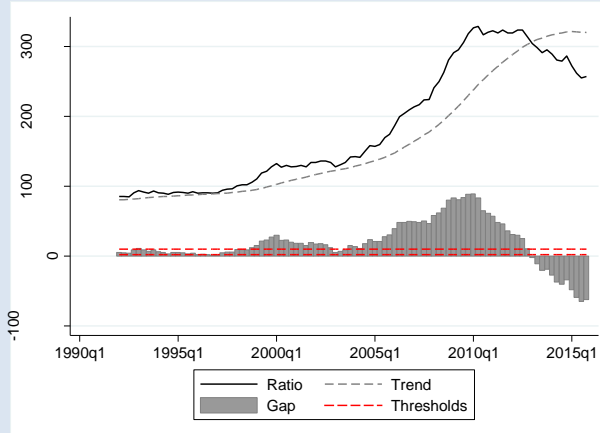
		<b>Standardised Approach</b>	<b>National Specific Approach</b>
<i>A</i>	Latest credit-to-GDP ratio	257 per cent	92 per cent
<i>B</i>	Trend credit-to-GDP ratio	320 per cent	161 per cent
<i>C</i>	<b>Credit Gap (=A-B)</b>	-63 per cent	-69 per cent
	<b>Benchmark CCyB rate</b>	0 per cent	0 per cent

## 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.

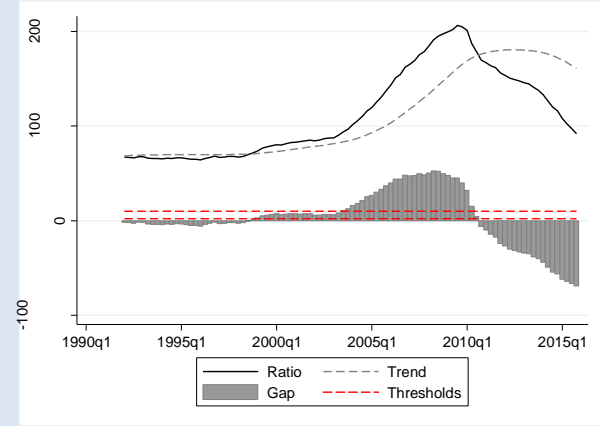
## Annex: Quantitative indicators

**Credit-to-GDP ratio and gap: Standardised Methodology**



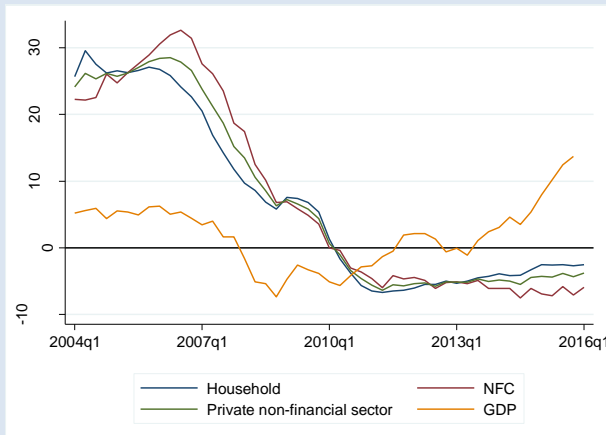
Source: Central Bank of Ireland, CSO, BIS and Central Bank calculations. Last observations 2015Q4.

**Credit-to-GDP ratio and gap: National specific approach**



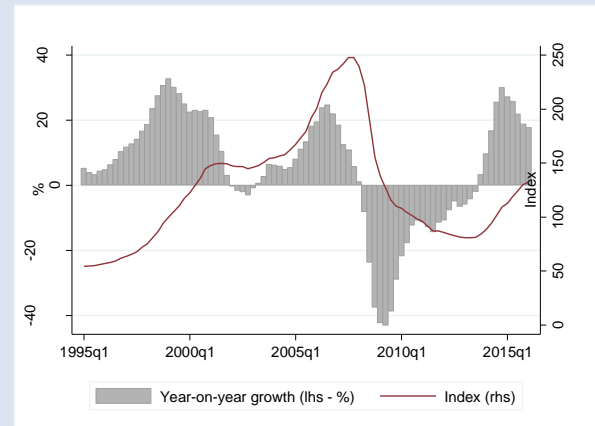
Source: Central Bank of Ireland, CSO, BIS and Central Bank calculations. Last observation 2015Q4.

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



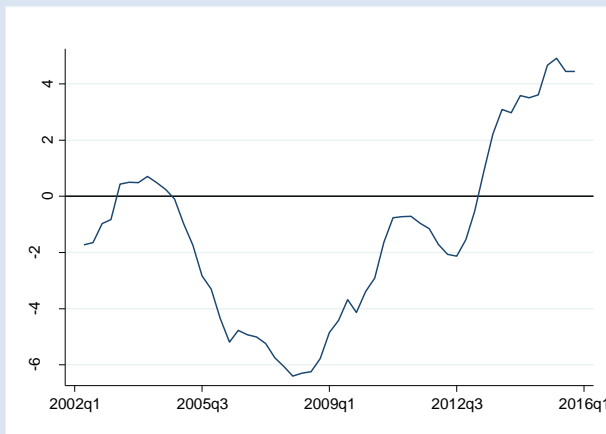
Source: Central Bank of Ireland & CSO. Last observation 2016Q1.

**Commercial real estate price developments**



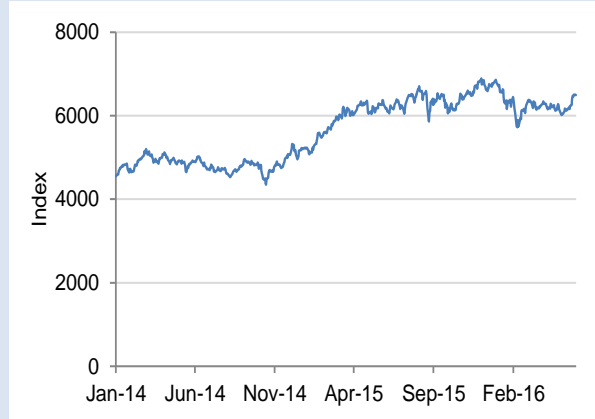
Source: IPD & Central Bank calculations. Last observation 2016Q1.

**Current account balance as a % of GDP**



Source: CSO and Central Bank calculations. Last observation 2015Q4.

**ISEQ Index**



Source: Bloomberg. Last observation May 31 2016.