Countercyclical capital buffer rate announcement

29 September 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 2017Q4. The rate will be effective from October 1st 2017. In keeping the rate at 0 per cent, the Central Bank noted the following:

- Aggregate credit conditions remain subdued, with all credit gap measures remaining substantially below zero and the outstanding amount of non-financial private-sector credit continues to contract on an annual basis.

- Gross new lending is, however, continuing to increase and this is reflected in pockets of credit growth in certain segments of the market. Some noteworthy underlying developments include:
    - Credit growth in on-balance sheet household loans turned marginally positive in July – the first time since late-2009. However, if one accounts for securitised loans which continue to be serviced by credit institutions, household credit growth remains negative.
    - The aggregate figure for the household sector is a composite of an expansion of non-mortgage credit being offset by a contraction of credit for house purchase. Within the loans for house purchase category, primary dwelling home loans are now seeing small positive rates of growth while the outstanding amount of buy-to-let loans continues to decline.
    - In relation to private sector enterprises, the outstanding amount of credit to SMEs continues to decline whereas credit to large enterprises has been growing for a number of quarters now.

- The declining ratio of the stock of outstanding credit relative to the size of the Irish economy (GDP, GNI* or modified domestic demand) has in recent quarters been driven more by growth in the economy, than by deleveraging.

- In the residential real estate market, price growth has strengthened further and is now in double digits as supply constraints persist amidst supportive fundamental drivers of demand through rising incomes and employment. Meanwhile commercial real estate (CRE) price growth continues to moderate. Year-on-year growth as of 2017Q2 was at its lowest level since the final quarter of 2013 and yields on CRE have stabilised at approximately 5 per cent.

- Both the standard measure and the recently published modified measure of the current account are challenging to interpret in the context of potential implications the presence of external imbalances could have on domestic credit sustainability. In this context, the net foreign assets position of the non-IFSC MFI sector is a useful indicator to consider. This is slightly positive and has been becoming more positive in recent quarters.

- Aggregate measures of bank resilience do not point to an increase in risk 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 2017Q1)

		Standardised Approach	National Specific Approach
A	Latest credit-to-GDP ratio	277 per cent	97 per cent
B	Trend credit-to-GDP ratio	341 per cent	181 per cent
C	**Credit Gap** *(=A-B)*	-64 per cent	-84 per cent
	Benchmark CCyB rate	0 per cent	0 per cent

Further information

For further information see the Macroprudential Policy section of the Central Bank website here.