18 August 2021

The Central Bank ("the Bank") has today announced that the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 0 per cent.

The CCyB is the Bank's primary macroprudential capital buffer to address cyclical systemic risks. In setting the CCyB the Bank aims to promote a sustainable provision of credit to the economy by making the banking system more resilient and less pro-cyclical. It does so by increasing capital requirements early in the upward phase of the cycle and decreasing them during a downturn.

The COVID-19 pandemic continues to impact the Irish macro-financial environment. Maintaining the CCyB at 0 per cent aims to facilitate the banking system to absorb these negative impacts and to continue to support the economy through the sustainable provision of credit. This is consistent with forward guidance given in the Financial Stability Review 2021:I.

Assessment of current macro-financial conditions

- Total credit growth remains subdued, and the year-on-year rate of growth in credit to the Irish private sector has been consistently negative since May 2020.
- Broadly speaking, new lending data saw a recovery in late 2020 and has continued to strengthen into 2021. However, this rebound remains uneven across different segments of the market.
- Mortgage lending in particular has seen a relatively strong recovery. The volume as well as value of approvals and drawdowns was above pre-pandemic levels in Q1 2021, and continued to increase quarter-on-quarter in Q2 2021.[1]
- Bolstered by the vaccination programme, high-frequency indicators point to an improvement in real economic activity during Q2 2021.[2]
- Latest CSO data points to unemployment still being elevated, although the labour market is on an improving trajectory since the economy has re-opened. The COVID-19 adjusted upper bound unemployment rate stood at 13.5 per cent in July 2021, representing a continuous decrease from 27.2 per cent at the start of the year.
- Banking sector capital requirements remain well in excess of regulatory requirements. While the potential materialisation of latent distress upon withdrawal of Government supports does pose a risk of losses, as noted in the Financial Stability Review 2021:I, the sector is judged to

[1] For further detail, see the BPFI mortgage drawdown report for Q2 2021.
[2] For further reading, see the Central Bank's Quarterly Bulletin No. 3 2021.

have the capacity to support households and businesses, even in outcomes worse than currently expected.

- Global financial conditions remain accommodative. At the same time, an international search for yield has increased risk taking in financial markets, which may lead to vulnerability in some market segments.[3]

Policy outlook

The CCyB is a time varying capital requirement which reflects the cyclical systemic risk environment. The Central Bank has previously outlined that, given the current macro-financial outlook, it expects to maintain the 0 per cent CCyB rate through 2021. More broadly, the future path for the CCyB rate will depend on macro-financial developments and the forward-looking risks facing the Irish banking system.

Were a sustained trajectory in indicators (across credit, asset prices and the macroeconomy) consistent with the emergence of cyclical systemic risk to develop, such conditions could warrant the re-introduction of a positive CCyB rate. Any increase in the CCyB would also take account of the evolving macroprudential framework, the interaction amongst various policy tools, and draw on (emerging) lessons learned from the COVID-19 experience.

[3] See Financial Stability Review 2021:I for further reading.