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 Bank released the previous 1 per cent CCyB in April 2020. Since this time, maintaining the CCyB at 0 per cent has facilitated the banking system to absorb negative impacts of the COVID-19 pandemic. To date, banking sector capital has remained resilient. A recovery in bank profitability has been evident recently, as overall pandemic related risks facing the banking sector have receded.

The assessment of current macro-financial conditions shows mixed signals on cyclical developments. Macroeconomic developments point to an on-going recovery in the domestic economy in recent months with economic activity broadly back to pre-pandemic levels. Unemployment has fallen markedly with tightening labour market conditions becoming more evident. Strong cyclical dynamics are evident in the residential real estate market. In contrast, cyclical dynamics relating to aggregate private non-financial credit growth and indebtedness are more muted, notwithstanding heterogeneity across different segments of the market. In terms of global developments, there has been prolonged risk-taking in financial markets which warrant attention, albeit with energy price spikes and market volatility evident in recent weeks.

The future path for the CCyB rate will be dependent on the evolution of macro-financial conditions. In November, the Bank outlined that, given the outlook for the macro-financial environment at that time, it would expect to announce a gradual rebuilding of the CCyB in 2022. While that guidance remains, the current outlook is subject to considerable uncertainty and the implications of the conflict in Ukraine for macro-financial conditions and the impact of the associated economic sanctions and disruption to global trade will continue to be monitored closely.