

Countercyclical capital buffer rate announcement

31 March 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 2017Q2. The rate will be effective from April 1st 2017. In keeping the rate at 0 per cent, the Central Bank noted the following:

- At an aggregate level the credit environment remains relatively subdued, however a relative strengthening is occurring with certain areas now seeing positive credit growth. Private non-financial sector credit continues to decline, albeit the rate of decline is slowing. Underlying the aggregate figures, certain pockets of positive credit growth have emerged. Consumer credit, fixed-rate mortgage lending and credit to large enterprises are all now seeing consistently positive rates of credit growth. In addition, new lending continues to increase. The construction and real estate sector accounts for a sizable share of new lending.
- Notwithstanding the caveats relating to the credit gap indicators at this time, they are currently suggestive of a weak credit environment in Ireland. The associated benchmark buffer rate is currently 0 per cent.
- In terms of property prices, the rate of increase in commercial real estate prices continues to moderate and is now in single digits. On the residential side, looking beyond some monthly volatility, the year-on-year rate of increase in prices picked-up somewhat during 2016.
- For the year 2016 the current account surplus was €12.5 billion. However, as with other Irish macroeconomic data substantial volatility is evident in the quarterly numbers. The current account balance in 2016Q4 was a deficit of €11 billion – largely relating to research and development service imports. Net international investment data illustrates that the overall negative net position is primarily reflecting the position of the NFC sector, where large MNCs have a significant distortionary impact on the figures. The non-IFSC MFI component of the IIP, which reflects the position of the most relevant part of the financial system for intermediation for households and indigenous firms, is in a positive net position.

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 benchmark CCyB rate is 0 per cent.

Table 1: Credit Gap and benchmark CCyB rate (based on data referring to 2016Q3)

		Standardised Approach	National Specific Approach
<i>A</i>	Latest credit-to-GDP ratio	286 per cent	72 per cent
<i>B</i>	Trend credit-to-GDP ratio	346 per cent	147 per cent
<i>C</i>	Credit Gap (=A-B)	-60 per cent	-75 per cent
	Benchmark CCyB rate	0 per cent	0 per cent

Further information

For further information see the Macprudential Policy section of the Central Bank website [here](#).