24 August 2022

The Central Bank ("the Bank") has today announced that the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 0.5 per cent.

The Bank's primary objective for the CCyB is to promote resilience in the banking sector – proportionate to the risk environment – with a view to facilitating a sustainable flow of credit to the economy through the financial cycle. In meeting this objective, the Bank will look to build-up the CCyB rate to 1.5 per cent when risk conditions are deemed to be neither elevated nor subdued.[1]

In line with its strategy for the CCyB, the Bank announced an increase in the CCyB rate to 0.5 per cent in June. The 0.5 per cent rate will take effect in June 2023. The move is seen as a step in a gradual build-up of the CCyB to 1.5 per cent.

At this time, maintaining the current policy stance is consistent with the Bank's strategy for the CCyB.

A review of recent economic developments highlights that:

- The Irish economy is currently experiencing the macro-financial consequences arising from a significant series of shocks including the COVID-19 pandemic and the Russian invasion of Ukraine. This is being seen in high levels of inflation, heightened uncertainty and downward revisions to economic growth projections. Domestically, a weakening of economic activity as the year has progressed has tempered somewhat the strong post-pandemic recovery that had been underway. Projections for growth in domestic economic activity have been revised down relative to what was expected previously. Nonetheless, central growth projections for the domestic economy remain firmly positive.
- Employment and labour market data have been strong and the residential real estate sector continues to see double-digit rates of year-on-year price increase despite recent months seeing some decline in the pace of price growth.
- The capital position of the banking sector has remained broadly stable in recent times and profitability of the sector has returned to pre-pandemic levels. Looking forward, cost

[1] The Central Bank has set out its strategy for the CCyB as part of its framework for macroprudential capital. Details are also available on the Central Banks website here.

savings from consolidation along with any policy interest rate increases are likely to be beneficial for profitability, as increases in lending margins outweigh repayment challenges for borrowers in the absence of a wider economic downturn.

- Global financial conditions have tightened considerably in recent months amid less accommodative monetary policy, rising inflation and growing downside risks to the economic outlook. With vulnerabilities in global financial markets remaining elevated, Ireland remains particularly vulnerable to a sudden deterioration in global financial conditions given the open and internationally orientated structure of the Irish economy and financial system.

The Bank has outlined that, should macro-financial conditions evolve consistent with the central outlook for the economy, a 1.5 per cent rate would be expected to be announced in mid-2023. Nonetheless, the future path for the CCyB rate is dependent on the evolution of macro-financial conditions. The speed of build-up could be quicker or slower depending on developments in the interim. Should it be required, based on a crystallisation of risk, the Bank would, in line with its objective, reduce the CCyB rate with immediate effect.