23 February 2023

The Central Bank ("the Bank") has today announced that the countercyclical capital buffer (CCyB) rate on Irish exposures is to be maintained at 1 per cent. The Bank is also maintaining its guidance that it expects to announce a 1.5 per cent CCyB rate by mid-2023, conditional on macro-financial developments.

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. By building loss-absorbing capacity consistent with the risk environment, and reducing or releasing the CCyB when risks materialise or imbalances unwind, the banking system is better able to withstand adverse shocks, without restricting the supply of credit to the economy.

In line with its strategy for the CCyB[1], the Bank has been on a path of gradually building the CCyB rate, since June 2022, to a level of 1.5 per cent, the level deemed appropriate for when risk conditions are deemed to be neither elevated nor subdued.

Taking into account recent developments in macro-financial conditions as well as the outlook, it is judged that the current policy stance remains appropriate at this time. A number of elements inform this judgement. The central outlook for the domestic economy continues to be for modest growth in Modified Domestic Demand, against a backdrop where inflation remains high but has slowed in recent months. Furthermore, tight labour market conditions prevail, with the unemployment rate in January 2023 below pre-pandemic levels. Recent analyses of credit developments show modest growth in lending to the Irish economy. While sector trends vary, latest data on new lending points to strengthening dynamics, particularly in bank lending and mortgage lending. While momentum in residential real estate prices has slowed in recent months, the sustained price growth over recent years has brought prices above their previous peak. Developments in CRE show a decline in capital values, whereas CRE rents have remained broadly stable or declined modestly. In terms of the banking sector, headroom remains above regulatory requirements, although headroom has

[1] For further information see The Central Bank's framework for macroprudential capital and website.

declined in recent quarters due to the ongoing impact of portfolio transfers and the phasing out of transitional arrangements. Under the central scenario, the higher interest rate environment should be supportive of profitability.

Future CCyB decisions will ultimately depend on the evolution of macro-financial conditions in the intervening period. Should the current macro-financial conditions evolve into a crystallisation of risk, the Bank's policy stance provides scope for it to release or reduce the CCyB, with immediate effect, to facilitate bank lending to the economy.