

14 January 2025: The Central Bank of Cyprus (CBC) decided to increase the CCyB rate from 1,0% to 1,5%, with effect as from 14 January 2026.

The CBC, during its quarterly assessment of the intensity of the cyclical systemic risk and the appropriateness of the CCyB rate for the Republic, identified increased cyclical systemic risks, as these are reflected by a number of indicators.

At the same time, and despite the positive outlook for the economy, the likelihood of materialisation of potentially severe tail events in the global economy that would significantly affect the domestic macroeconomic environment, and consequently the banking sector, has increased, mainly due to geopolitical developments and turbulence. Specifically, the possible escalation of the conflict in the Middle East, the further globalisation of the war in Ukraine, as well as the trend for increased protectionist measures, which is expected to lead to significant new trade restrictions, are downward risks to the macroeconomic environment, and subsequently, could also have adverse consequences for the domestic banking sector. In addition to the aforementioned cyclical systemic risks, which have been taken into consideration in the decision to increase the CCyB rate, the CBC notes the increasing reputational risk.

Furthermore, at European Union (EU) level, both the European Systemic Risk Board (ESRB) and the European Central Bank (ECB) in relevant publications during the fourth quarter of 2024, conclude that, overall, risks to EU financial stability have increased over the past three months amid high political uncertainty and geopolitical tensions.

The General Board of the ESRB, in its [press release dated 5 December 2024](#), emphasised that the changing environment requires the EU to redefine its own needs and recommended, among others, the continuing build up of the resilience of the EU financial system. The ECB in its [Financial Stability Review](#), highlighted that ensuring resilience of the financial sector in times of headwinds and uncertainty remains essential and in particular by ensuring that banks have sufficient capacity to absorb losses.

Based on all the above, the CCyB rate of 1,0% was considered low and the CBC proceeded with its increase to 1,5%. By increasing the CCyB rate, part of banks' profitability is channelled towards strengthening their resilience, creating a larger buffer of loss-absorbing capital in times of crisis and stress, thereby ensuring the uninterrupted supply of credit to the real economy.

Application framework

The CBC, in accordance with the provisions of the *Macroprudential Oversight of Institutions Laws of 2015 to 2022* and its relevant macroprudential policy, deemed the above-mentioned CCyB rate increase appropriate. The CCyB rate is applied over the total risk exposure amount in the Republic of each authorised credit institution incorporated in the Republic.

All authorised credit institutions that operate in the Republic should maintain the full buffer requirement of 1,5% as from 14 January 2026.

The envisaged consultation with the ECB, as set out in Article 5 of the Single Supervisory Mechanism Regulation, has already taken place, and the ECB did not object to the above decision of the CBC.

The CBC's assessment, for the purpose of reaching the above decision, is based on a holistic approach using both a range of quantitative tools i.e. a set of indicators, as well as qualitative analysis, and follows the principle of Guided Discretion, as proposed by the ESRB through its Recommendation ESRB/2014/1 on guidance for setting countercyclical buffer rates.

The summary table of the quantitative indicators used by the CBC in its relevant quantitative analysis, including the credit-to-GDP ratio and its deviation from the long-term trend (Credit-to-GDP gap), is set out in the [file](#).

Additional information on the CCyB, which has been set on a quarterly basis, effective from 1 January 2016, as well as on the buffer guide, is provided in this [file](#).