



CENTRAL BANK OF CYPRUS

EUROSYSTEM

Percentage of countercyclical buffer Frequently Asked Questions and Answers

One of the main responsibilities of the Central Bank of Cyprus (CBC) is the macroprudential oversight of the financial system, with the ultimate aim of contributing to the safeguarding of financial stability of the financial system as a whole. In order to do so, the CBC is responsible for enforcing macroprudential policy and for the macroprudential oversight of the financial system.

CBC Decisions in relation to the countercyclical buffer (CCyB) rate

On the basis of the CBC's revised methodology outlined in its [macroprudential policy](#), the CBC, in consultation with the European Central Bank (ECB), has decided to increase the countercyclical buffer (CCyB) rate of the total risk exposure amount in the Republic of each authorized credit institution incorporated in the Republic, to:

- 0,5% on 30 November 2022, with effect as from 30 November 2023¹,
- 1,0% on 2 June 2023, with effect as from 2 June 2024², and
- 1,5% on 10 January 2025, with effect as from 14 January 2026.

With the above decisions, the CBC seeks to fulfil its ultimate objective of safeguarding financial stability by strengthening the resilience of the financial system.

Countercyclical buffer. What is it?

The countercyclical buffer rate (CCyB) is one of the **macroprudential tools** that the CBC has at its disposal, similar to any other national macroprudential authority³ in Europe. The aim of the CCyB is to create a capital 'cushion', which banks can use in times of crisis and economic downturn to absorb their losses. This strengthens the resilience of banks and at the same time ensures the uninterrupted flow of credit to households and corporations during economic downturn, thereby supporting economic recovery.

Who sets the countercyclical buffer rate?

The CBC, in carrying out its task for safeguarding the stability of the financial system, is responsible for enforcing macroprudential policy and for the macroprudential oversight of the financial system.

¹ [30-November-2022-English.pdf](#)

² [Previous-CCyB- decisions-by- the-CBC-2-June-2023-EN.pdf](#)

³ or designated authority according to the national law of each country.

In this context, and acting proactively, the CBC has the power to set, in consultation with the European Central Bank (ECB), the CCyB for Cyprus, if deemed necessary, depending on the phase of the financial cycle and the severity of the cyclical systemic risk.

What approach does the CBC follow when setting the countercyclical buffer rate?

On 15 November 2022, the CBC adopted its **macroprudential policy** for setting the CCyB, which allows for the introduction of a positive CCyB, both when cyclical systemic risks are on the rise and also during periods of neutral cyclical systemic risks.

Systemic risk refers to the risk that threatens the entire financial system. Cyclical systemic risk relates to the upward or downward trajectory of the economic and credit cycle.

The macroprudential policy sets out the general principles governing the setting of the CCyB rate by predefining four stages of intensity of cyclical systemic risk and it is publicly available on the CBC website⁴.

The policy specifies that:

- Where risks are assessed to be neither subdued nor elevated and the intensity of cyclical systemic risk is assessed as being neutral (Stage 2), the CBC may set a positive CCyB rate at 0,5% (at a minimum).
- When cyclical systemic risks are assessed to have increased, the CCyB rate will also increase (Step 3).
- When cyclical systemic risks are reduced or materialised, the CCyB rate will be reduced, and if necessary, shall fall to zero (Step 4).
- During the post-crisis repair phase (Stage 1) the CCyB rate will remain reduced or at zero.

In accordance with the policy, the CBC follows a holistic approach based on quantitative analysis of risks and qualitative analysis, in which the CBC takes other factors into consideration. The setting of the CCyB rate is done in accordance with the principle of 'guided discretion' as set out in the Recommendation of the European Systemic Risk Board (ESRB) ESRB/2014/1 on guidance for setting countercyclical buffer rates.

14 January 2025 - Why is the countercyclical buffer now being further increased?

- The Cyprus banking sector is currently robust, sound and solvent, with significantly improved asset quality. It has successfully responded to the successive crises of the pandemic and the war and it has capital and liquidity reserves significantly above the required safety levels.
- The CBC considers, however, that domestic cyclical systemic risks in the financial system, as continuously recorded and monitored, are elevated. Therefore, the CBC, acting proactively, deemed appropriate the said increase, thereby locking part of the sector's profits. With the above-mentioned decision, the CBC, safeguards further the financial stability and strengthens the resilience of the financial system to future shocks.

⁴[CCyB Policy](#)

- Despite the positive outlook for the economy, the likelihood of materialisation of potential 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 growing globalisation of the war in Ukraine, as well as the trend for increased protectionist measures, which is expected to lead to significant trade restrictions, represent downward risks for the macroeconomic environment, and consequently, 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.
- The ESRB on 5 December 2024 issued an announcement⁵ on the vulnerabilities and risks in the financial sector in European Union (EU), which highlights:
 - that risks to the financial stability in the EU have increased over the past three months amid high political uncertainty and geopolitical tensions, and
 - a significant increase in the likelihood of materialisation of potentially tail events, also due to recent geopolitical developments and significant new trade restrictions.

The ESRB concludes that the above developments may intensify macroeconomic, credit and market risks and make financial markets and commodity prices more volatile, leading to higher balance sheet stresses for firms, sovereigns and, to a lesser extent, households.

- The ECB Financial Stability Report⁶, which was published in November 2024, highlights that overall, risks and vulnerabilities to financial stability in the EU remain elevated compared to May 2024. Alongside geopolitical and policy uncertainty, global trade tensions are on the rise. The above factors, individually or in combination, may have unforeseen consequences for the economy, increasing the likelihood of tail events materialising.

Which other countries activated the countercyclical capital buffer?

Between November 2021 and December 2024, several European macroprudential authorities have set a positive CCyB rate.

Currently, twenty-three countries in the European Economic Area have announced or set a positive CCyB rate, ranging from 0,25% to up to 2,5%. More information can be found on the ESRB website⁷.

For example, in 2024, Belgium, Croatia, Czech Republic, Denmark, France, Hungary, Iceland, Ireland and the Netherlands increased their buffer rate, ranging from 1% to up to 2,5%.

Some countries activated the CCyB in times of neutral cyclical systemic risk intensity, while others in times of elevated cyclical systemic risks.

⁵[The General Board of the European Systemic Risk Board held its 56th regular meeting on 28 November 2024](#)

⁶ [Financial Stability Review, November 2024](#)

⁷ [ESRB- Countercyclical capital buffer](#)

Are there any repercussions from the CBC's decision?

The introduction of the CCyB rate is not expected to negatively affect the overall capital position of credit institutions, nor to have a direct negative impact on lending to households and corporations, given that the Cyprus banking sector has capital and liquidity reserves, well above the required safety levels. However, the decision should be taken into account in banks' capital planning.

Will there be similar future decisions?

The macroprudential oversight of the financial system constitutes one of the main tasks of the CBC, with a view to assist in safeguarding the stability of the financial system as a whole. Any decisions of the CBC are based on the conditions prevailing in the macroeconomic environment, the evolution of the geopolitical and energy crisis and their consequent impact on macroeconomic indicators, as well as the evolution of economic conditions. The CBC may reverse its decision to increase the CCyB rate or increase it further, if the cyclical risks are assessed as increased.