BANK OF ENGLAND

Mark Carney
Governor

Mr Mario Draghi
Chair of ESRB General Board
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

30 September 2015

Dear Mario,

UK countercyclical capital buffer rate

In accordance with Article 136 of Directive 2013/36/EU (CRD IV), I am writing to notify the European Systemic Risk Board that the UK countercyclical capital buffer (CCB) rate has been set at 0 per cent, as announced in the FPC Statement which was published on 25 September.

More information on the UK's approach to setting the CCB rate is provided in the annex to this letter.

Yours sincerely,

Annex: Further information on setting of the UK CCB rate

Information required to be published under CRDIV	Latest data*
Applicable countercyclical buffer rate	0%
Credit-to-GDP ratio	144.8%
Deviation of credit-to-GDP from long-term trend	-24.7%
Buffer guide	0%

* As of 18 September 2015.

Justification for the buffer rate on UK exposures (source: FPC Statement from 23 September policy meeting)

Overall, the FPC judges that the outlook remains challenging. While the resilience of the financial system has continued to improve, downside risks have risen.

The immediate risks in relation to Greece and the euro area have fallen somewhat from their acute level at the time of publication of the July 2015 Financial Stability Report (FSR). However, other downside risks to UK financial stability stemming from the global environment, and to which the United Kingdom as a global financial centre is exposed, have increased. These risks come from both China and emerging market economies more broadly.

Increased volatility in financial markets since the July FSR reflects heightened perceptions of risk, but also highlights changes in the way those markets function that may have the potential to disrupt financing conditions in the real economy, although they have not done so to date. Market participants should be alert to these risks, price liquidity appropriately and manage it prudently.

In the United Kingdom, credit growth to the private non-financial sector has picked up a little. Household debt to income has fallen slightly but remains elevated, and some households continue to have high debt servicing ratios. The Committee considered the rapid growth rate of buy-to-let mortgage lending. It does not consider action to be warranted at present but will monitor underwriting standards and other conditions closely.

The Committee also reviewed the other risks highlighted in its July FSR. The UK current account deficit remains close to a record high. Although the capital flows financing the deficit remain mostly long-term in nature and do not give rise to material mismatches, the Committee will continue to monitor closely risks associated with the current account. In response to risks posed by cyber attack, the Committee maintained its June 2015 recommendation to the Bank, the PRA and the FCA to ensure firms at the core of the financial system complete cyber risk testing and adopt individual action plans.

Weighing against these risks, there has been continuing improvement in the resilience of the banking sector. Major UK banks' core equity Tier 1 (CET1) capital ratios have increased by 1.1 percentage points over the past year to 11.9%. UK bank funding spreads rose only a little in response to market volatility in recent months. The Committee is assessing the vulnerability of the UK banking system to global economic and financial market developments as part of the 2015 stress test.

In the light of its assessment of the outlook for financial stability, the Committee is maintaining the countercyclical capital buffer (CCB) rate for UK exposures at 0%. This setting will be reviewed in 2015 Q4 in the light of the 2015 stress test results. The Committee will also consider the appropriate level of the CCB for all stages of the cycle, taking into account lags in implementation, its impact on credit availability and how it should interact with other existing microprudential capital buffers already in place.