Financial Stability Group Meeting No. 40
17 December 2020
Conference Call

Attendance:

Department of Finance	**Central Bank**	**NTMA**
Derek Moran	Gabriel Makhlouf	Conor O'Kelly
Emma Cunningham	Sharon Donnery	Frank O'Connor
Michael McGrath	Vas Madouros	
John McCarthy (item 5)	Micheál O'Keeffe	
Pat Leahy (Sec)	Mark Cassidy (items 2 & 5)	
Bláithin nic Giolla Rua	Gina Fitzgerald (item 2)	
Brian Corr (item 2)	John Flynn (item 5)	
Ciara Delaney (item 2)		

The FSG agreed to take the documents circulated as read.

1. Account of previous Financial Stability Group meeting
The previous meeting's minutes were approved by the FSG.

2. Update – D/Finance
The D/Finance updated on Government policy matters in relation to Brexit, including:

- Both the UK and EU (but with EP concerns) are on standby to endorse a deal if one is agreed.
- There is a Government meeting next Tuesday, with two levels of official interaction. A Government meeting will be held on 30 December. Meetings will go ahead whether there is a deal or not.
- There is concern around ratification if a deal is agreed too close to the 31 December deadline.
- Arrangements are in place to brief Ministers over Christmas with a communications plan developed. The Brexit Contact Group meeting on 6 January can provide issue focused notes to the FSG if needed.
- Any complications arising from Brexit are more likely to arise on 4 January than the 1st, as it's the first working day.
- Communication is key for Government with relevant Ministers available to speak to the media on Brexit over this time.
- The Department of Finance buildings will be open over Christmas.

3. Update – Central Bank
The Central Bank updated on recent monetary policy and other regulatory policy matters, including:

- The recent monetary policy decisions taken by the Governing Council of the ECB on 10 December (including to increase the envelope of the pandemic emergency programme by €500 billion, extend the horizon for net purchases to at least the end of March 2022, and recalibrate the conditions of the third series of targeted longer-term refinancing operations) which will contribute to preserving financing conditions over the pandemic period and support the flow of credit.
- In relation to bank dividends, the ECB and EBA updated their approach. While restrictions remain for next year some limited distributions will be possible by a wider range of banks

than before. The ESRB is also likely to take a decision on dividends, which should be announced tomorrow.
- The annual report of conditions in the credit union sector has just been published. Credit unions have consolidated from circa 400 in 2008 to 229 credit unions now. There is an ongoing challenge to the business model and gap between savings and loans. Consolidation is likely to continue over time.

4. Update – NTMA

The NTMA updated on their funding position, including:
- NTMA will decide soon on the best time to issue in January. Ireland is expected to issue early again despite our strong funding position.
- The State is expected to enter 2021 with over €13bn in cash reserves.
- A projected funding range of €16-20bn has been announced for 2021, which is guided by the recent Budget EBR. The target reflects the desire to continue to carry a cash buffer ahead of the two bond redemptions in 2022.
- Funding under the SURE scheme will be additional to the range announced for 2021.
- The short-term book will be quite active again but outstanding short term debt at year end is expected to be broadly unchanged.
- Virtual road trips continued into year end with calls arranged with investors from Japan and the Nordic countries. Sentiment towards Ireland remains positive, with investors knowing Ireland is in a strong position as regards funding with no redemptions in 2021 and ongoing ECB support. There were many questions on potential Brexit impact and likely outcome of negotiations. A number of questions related to existing green projects and plans to issue further Green bonds.

5. Economic impacts of COVID restrictions

The Central Bank updated on the economic impact of the second lockdown, including:
- Ireland had the most stringent lockdown in the EU (using the Oxford Blavatnik School of Government Stringency Index) resulting in a sharp decline in personal consumption and the highest savings ratio of 35% in Q2.
- The economic impact of the second lockdown was less but still sizeable.
- A Central Bank Economic Letter was published this week comparing trends in savings and spending during the crisis. Household deposits have risen to record levels and how these are used will be a key factor in the evolution of the economy.
- More savings are concentrated in higher income households and traditionally such households are less inclined to spend additional income or windfall gains.
- After the pandemic, individuals may not spend in the sectors most affected by Covid-19, e.g. spending alternatively on consumer durables or holidays abroad.
- There may be additional pressure on the housing market, with savings being used for deposits. This, combined with a reduction in supply due to constraints on the construction sector, could exacerbate existing demand-supply imbalances.
- Firm closures are low with firms supported by Government supports, payment breaks and cash holdings. However, the longer the crisis, the greater the pressure and the risk of permanent scarring slowing down human capital accumulation and increasing financial distress.

Reaction to the paper, including a shared understanding of the issues, included:
- The lower drawdown of the CRSS (support for non-pay overheads) than what was expected points to a level of businesses with low overheads and low debts. Businesses also adapted with the click-and-collect scheme.
- Regarding the stringency issue, the Government have been made aware that lockdowns are not the same across EU countries.
- A significant consequence of the second lockdown was its signalling effect, which dispelled the idea of lockdowns as discrete events. This impacts business confidence and can

discourage business activity when restrictions are lifted in future, particularly for those business with reopening costs. Scarring will likely be higher as a result.
- The CSO has been asked to restart their business demography survey to help understand investment levels.
- In terms of exit strategies, it will be very difficult to determine the fiscal deficit in the spring medium-term forecast.
- The existence of a vaccine points to the need for exit strategies which are likely to be difficult.
- More information on savings will be published soon. There has been some easing of the 35% figure with the Q3 pent-up spending.
- The last nationwide windfall gain was the SSIA scheme, which didn't result in a big boost to consumption. The CSO surveyed participants on their spending; some bought a new car, some of the SSIA went into the housing market, but spending as a whole was conservative.
- Therefore what happens to savings post-pandemic will be key. Policy responses should encourage spending in the domestic economy which add value and employment, e.g. retrofitting compared to purchasing goods which are imported.
- It is worth engaging now with the CSO on analysing spending.
- It was pointed out that the availability of immediate data is undermining the use of more reliable and representative CSO data due to the lag associated with the production of official statistics. The CSO efforts to produce relevant and timely data are welcome.

6. AOB

- The FSG agreed to the Q1-2021 work plan as presented.
- The FSG noted the conclusion of a short paper on outstanding issues in 2020.
- In relation to CSD, the equivalence extension has been made public since the last meeting. D/Finance and the Central Bank will continue to press for migration and will meet with principals in early January to lay out issues. A post-enactment scrutiny report is due to be made on the Migration of Participating Securities Act 2019. The report will state that the Act will be used in Q1 2021.