

Financial Stability Group Meeting No. 44

Financial Stability Group Meeting No. 44 **23 April 2021** **Conference Call**

Attendance:

Department of Finance

Derek Moran
Emma Cunningham
Des Carville
Michael McGrath
Pat Leahy (Sec)
Bláithín nic Giolla Rua
John McCarthy (item 5)

Central Bank

Gabriel Makhlouf
Sharon Donnery
Vas Madouros
Adrian Varley
Derville Rowland
Mark Cassidy (item 5)
Stephen Clifford (item 6)

NTMA

Frank O'Connor

Apologies: Conor O'Kelly

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 and developments at EU level, including:

- An update on the budgetary outlook and noted that consideration is underway to decide on the future of the Covid support schemes – this is likely by end-May. The €5.5bn additional Budget allocation will be spent by June. There could be in the region of €2-4bn additional expenditure, which will have a bearing on NTMA funding.
- The update on the fiscal position may be accompanied by a National Economic Plan from D/Taoiseach, followed by a virtual National Economic Dialogue. A possible Summer Economic Statement in July would take into account all budgetary policies. There is a need to have a fiscal anchor for the next four years in order to indicate where we are vis a vis others.
- The recent international tax seminar had 1500 attendees. The event achieved its intended outcome. The Minister set out his views on the evolution of the process and that an agreement must work for all. The US administration asked for a bilateral meeting after the event. The OECD want agreement by July. US agreement will be longer and will require agreement from Congress.
- In terms of Covid, NPHE and Cabinet will meet next week and any changes will be announced ahead of the bank holiday weekend. Covid numbers in ICU and progress on vaccination are positive.
- Article IV meetings will take place next week.
- Pro. Niamh Moloney has been appointed as chair to the Commission on Taxation.

3. Update – Central Bank

The Central Bank updated on recent monetary policy and other regulatory policy matters, including:

- The Bank received a letter from the Joint Oireachtas Committee on Finance requesting the Central Bank's views in relation to the establishment of a "Future of Banking Forum" to involve all key stakeholders including the Central Bank of Ireland, the Department of Finance, the Financial Services Union and others.
- The Bank will host the Civil Society Roundtable on Monday – it will include presentations on "The effects of COVID-19 on employment, incomes and savings" and "Looking to the future: Informing our strategic plan and our stakeholder engagement".
- The material from a recent FSG presentation on credit conditions will be published as an Economic Letter in the coming weeks.

4. Update – NTMA

The NTMA updated on their funding position, including:

- The recent 20-year (2041) benchmark bond issued at a yield of 0.585% noting however that the dynamic of the market for longer-term maturities had changed. It was more of a buyers' market with yields continuing their steady rise in recent months. The decision to issue a 20 year bond was partly influenced by the failure of Austria to meet their target for a 50 year bond. Despite the shorter 20-year maturity, initial orders from real money accounts were slower to materialise than previous deals. However momentum did build throughout the morning allowing NTMA to finally issue €3.5bn (against a €3bn target) for our 20 year bond.
- Two further bond auctions are scheduled in May and June.
- The recent European Financial Stabilisation Mechanism issuance which refinances Ireland and Portugal's upcoming June maturity was tailored to suit Ireland's maturity preference of 2036.
- With regard to ongoing investor relations virtual meetings, a Nordic roadshow will take place next week, which is a key jurisdiction for Ireland with over 20% participation from the region in the recent 20-year deal.
- In terms of funding Ireland is in a strong position, with prefunding providing flexibility not to have to change our 2021 funding range absent a material change in projected EBR numbers.
- However as Ireland's debt is set to rise above a quarter of a trillion euro the stock of debt comes sharply into focus for investors.
- Post pandemic the path back to fiscal balance and the level of permanent new expenditure in the base is being watched carefully by investors.

5. Economic – SPU/QB – DFIN/CBI

The Department and Central Bank gave an update on the latest economic outlook and forward-looking issues, including:

- the resilience of the economy in adapting in subsequent lockdown compared to the first lockdown;
- an estimation of savings ratios returning to normal levels along with an estimated €2.5bn additional social spending in the 18 months to end-2022;
- an estimated lag in employment recovery vs economic recovery in the short term with possible need to retrain where some sectors don't recover;
- scarring due to the economic shock of 4-5%;
- downside risks include vaccine roll-out, variants of virus; timing of withdrawal of supports, NPLs; and the potential feedback loop from policy choices. Some upside include the level of IT and pharma investment.
- possible supply constraints, and consequent price increases, where entrepreneurs do not reopen; and

- the demonstration effect of national debt is rising to quarter of a trillion euro.

Discussion on the topic included:

- The longer people are detached from the economy the greater the level of people who have difficulty in returning to work.
- The US Recovery package of €1.84tn is expected to boost world GDP by 1% this year with impacts on Ireland.
- Having a solid fiscal anchor for the next four years is the most important short-term goal.

6. AOB – FSAP

- The FSG agreed to the formation of the FSAP Sub-group and the Terms of References for the group.
- The FSG also agreed to the self-assessment of the main recommendations from the 2016 FSAP and forwarding this to the FSAP Mission Team.
- The Q2 2021 (up to September 2021) FSG workplan was noted.