

## Financial Stability Group Meeting No. 52

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14 June 2022

Location: Central Bank

#### Attendance:

##### Department of Finance

Oliver Gilvarry (acting chair)  
Michael McGrath  
Pat Leahy (Sec)  
Bláithín nic Giolla Rua  
Brian Corr (item 5)

##### Central Bank

Gabriel Makhoulouf  
Sharon Donnery  
Derville Rowland  
Vas Madouros  
Adrian Varley  
Yvonne Madden (item 7)

##### NTMA

Frank O'Connor

The Secretary General sent his apologies.

The FSG agreed to take the documents circulated as read.

#### 1. Account of previous Financial Stability Group meeting

The previous three meeting's minutes were approved by the FSG (2 and 10 March and 12 April).

#### 2. Update – D/Finance

The D/Finance updated on Government policy matters and developments at EU level, including:

- A Memorandum is being sent to Government to approve the purchase of emergency power generation in relation to energy security for winter 23/24 and subsequent years.
- A Memo for information was sent to Government on the living wage. Minister Fleming is progressing the Insurance Bill on differential pricing through the Oireachtas with an expected conclusion date of end-June.
- At Euro Group, Minister Donohoe continues work on advancing Banking Union.
- The National Economic Dialogue takes place next Monday, with the Summer Economic Statement to be published in July.
- The 5th package of EU sanctions in the context of the invasion of Ukraine raises issues in respect of the treatment of trusts for common law jurisdictions (including Ireland). Ireland sought and received amendments which were carried through the 6<sup>th</sup> package of EU sanctions. The overall impact of sanctions and the possibility of further measures were also discussed.
- Decoupling from Russian participation in international organisations is ongoing.

#### 3. Update – NTMA

The NTMA updated on their funding position, including:

- The planned June bond auction was cancelled as the State has sufficient funding. Of the estimated €10-14bn funding range, we are likely to be at the lower end of this range and possibly below it. Ireland is very well placed with few redemptions in the coming years and are unlikely to need much from the market in the coming year.
- Irish spreads are holding well.
- Italy's 10 yr bond is at 4%. The market is reacting negatively, visible in Italian spreads over Germany as the absolute yield level continues to increase.
- There has been no material change noted in calls for investment from ISIF, with firms evaluating the current economic environment.

- The NDFA does not currently have any projects at construction stage; however, the NDFA are working constructively with contracting consortia to address the impact of construction price inflation for NDFA led projects in procurement and future projects.
- The NTMA Annual Report will be published on the 7<sup>th</sup> July.

#### **4. Update – Central Bank**

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

- The Financial Stability Review will be published tomorrow 15 June.
- The Central Bank held the first meeting of its newly-established Financial Industry Forum, as part of its broader strategic priority of being 'Open and Engaged'.
- The Central Bank is co-leading policy work in relation to open-ended funds at the Financial Stability Board (FSB). This raises the broader question of how Ireland can become increasingly involved at the FSB, given its growing and more globally-connected financial sector.
- The next Quarterly Bulletin is to be published on 7 July.

#### **5. Update on First Home Affordable Purchase Shared Equity Scheme**

The Department updated the FSG on the progress of the First Home Affordable Purchase Shared Equity Scheme, as follows:

- The First Home Affordable Purchase Shared Equity Scheme is a Government Initiative to assist in the purchase of 8,000 homes by providing equity support of between 20-30% of the purchase price depending on whether the help to buy scheme is included.
- €400m of funding is being made available - 50% funding by the State and 50% from AIB, BOI and PTSB.
- The scheme was legislated in last year's Affordable Housing Act and is aiming to launch shortly.

#### **6. Financial Stability Review 2022:I - Preview**

The Central Bank introduced a summary of the upcoming Financial Stability Review, followed by a discussion, including:

- The main risks facing the financial system include a) a pronounced slowdown in global growth, accompanied by inflationary pressures; b) an abrupt tightening of global financing conditions and sharp asset price adjustments, amid elevated indebtedness; and c) emerging cyclical vulnerabilities domestically.
- Key considerations for resilience include: a) SME turnover and profitability levels have been recovering, but rising inflation and interest rates present new challenges; b) Household balance sheets have strengthened over the past decade and additional liquidity buffers have built up since the pandemic; c) capital buffers of domestic retail banks remain robust and profitability has improved from pandemic lows ; d) Reliance on corporation tax receipts continues to grow and measures related to rising energy costs will add to pre-existing spending pressures.
- Macroprudential Policy: The CCyB rate will be increased from 0% to 0.5% as the risk environment has shifted. This is a first step toward the gradual rebuilding of the CCyB. Conditional on macro-financial developments, a CCyB 1.5% is expected to be announced by mid-2023 - the level of the CCyB the Central Bank judges to be appropriate when risks are neither elevated, nor subdued. There will be no change to SyRB.
- Articulating the position on SyRB is very valuable. Communicating this enhanced transparency on what tools are and how we use them is important.

## **7. Integration of Ulster Bank and KBCI assets and liabilities into the remaining Irish Banks – An update**

In line with the FSG workplan, the Central Bank introduced a paper noting that the structure of the financial system in Ireland continues to evolve, with increasing concentration in the domestic banking sector due to the impending exit of Ulster Bank Designated Activity Company (UBI) and KBC Bank Ireland (KBCI). When combined with the acquisitions of J&E Davy and Goodbody Stockbrokers by Bank of Ireland (BOI) and Allied Irish Bank (AIB), this will see a material change in the Irish retail banking landscape. The paper outlined aspects related to financial and operational resilience; consumer protection risks; supervisory expectations and engagement; and financial stability. Key points related to:

- The exit of UBI and KBCI will lead to a decline in system level capital - with a significant volume of the exiting banks' assets being absorbed onto the balance sheets of the acquiring banks - with a largely fixed capital base.
- From an operational and financial perspective, banks need to clearly demonstrate an understanding of the various risks that come from the transactions and their effective management. The Bank and the SSM as competent authority for the significant institutions is engaged with the underlying banks and has set out our supervisory expectations, as set out in the Paper.
- A significant number of the withdrawing banks' current and deposit accounts will be required to be closed as part of their exit strategies. This migration is outside the scope of the perimeter of the transactions and will require a system solution to resolve this in the best interest of customers, including for vulnerable customers. The Bank is actively engaged with the BPFII and the banks in this regard. There has been discussion with the banks on the switching code. If there was an issue with the switching code the Bank is open to addressing any problems.
- The Banking Review will address possible measures to improve competition in the market. It is worth noting that competition can impact financial stability in different ways. However, it is clearly a bigger issue to resolve larger institutions in a concentrated market. Competition takes many forms, in mortgage lending and payment services new non-bank entrants are already established. The forms of, and optimal level of, competition needs to be considered in this broad setting.
- The Department will update the FSG at the next meeting on progress with the Banking Review. By then, draft responses to the public consultation will have been received.

## **8. AOB**

### Ukraine Sub-Group modalities

- The FSG agreed to the proposal from the Ukraine Sub-Group that they meet monthly instead of fortnightly going forward, including producing a SitRep monthly.

### NTMA updates

- Dave McEvoy will be alternative to Frank O'Connor at the FSG going forward.
- Anthony Linehan will take over as chairman of the ESDM. EFC approval is needed