Financial Stability Group Meeting No. 55

29 September 2022
Location: online

Attendance:

Department of Finance	**Central Bank**	**NTMA**
John Hogan	Sharon Donnery	Frank O'Connor
Oliver Gilvarry	Derville Rowland	Dave McEvoy
Michael McGrath	Vas Madouros	
Des Carville	Cian Murphy	
John McCarthy		
Pat Leahy (Sec)		
Bláithín nic Giolla Rua		
Cian Ó Laoide (Irish Embassy, UK)		

1. Update on the Impact of the Situation in the UK

DFIN Update

- The Taoiseach is seeking an update in advance of the Cabinet Committee on Monday, including how we are assessing and monitoring the issue.
- The FSG understood the Pensions Authority said they are monitoring the situation but see no initial impact. It was noted that Irish DBs generally don't rely on liability driven instrument (LDI) strategies. A lot of Irish pension funds hold a range euro bonds, so do not seem as exposed as UK pension funds.
- While the extent of the Irish exposure to UK gilts seems clear, it would be useful for context to understand the scale of the problem in the context of the size of the funds sector as a whole.

Irish Embassy Update

- No change in policy on tax cuts.
- The Bank of England (BoE) intervention was intended as a temporary measure.
- There is uncertainty of other possible impacts.
- The UK Government proposes to wait until 23 November before addressing the Budgetary issues.
- The uncertainty will run on for some time.

NTMA Update

- The UK situation currently does not impact the State from an issuance perspective, noting yesterday that the NTMA announced no further bond issuance for the remainder of 2022, due to the Exchequer position that had been strengthened further by the fiscal forecast details in Budget 2023.
- Spreads on Irish bonds to core and semi-core peers remain stable.
- No contagion in ISIF portfolios seen so far, while the position continues to be monitored.

CBI update

Funds

- The two areas primarily impacted are LDI funds and MMFs.
- LDI funds are set up by pension funds to match their long-term liabilities. The sharp increase in gilt yields led to margin calls on derivatives positions and collateral calls on repurchase agreements. In order to fund these, some LDIs resorted to selling gilts to raise cash.
- A large proportion of the MMFs denominated in Ireland are in sterling. With the UK asset price movement, some of the Sterling LVNAV funds approached the collar where, upon a breach, they would have to switch to using mark-to-market valuations for their assets, as VNAVs are required to do, not amortised cost. The same dynamic was seen in March 2020, though this time in a much smaller area of the market and the proximity to the collar was not as severe. The BoE intervention calmed the markets generally and eased the collar issue generally. The Central Bank will be monitoring this closely.
- Stress in the funds sector does not impact the domestic economy directly, though there can be second-round macro-financial impacts as well as wider reputational concerns.

Banks

- No contagion seen in the banking sector. Retail banks have UK exposures where potential medium-term credit risk is the main consideration.

Insurance

- Nothing specifically to flag currently. There is ongoing follow up in a number of areas.

Macro issues

- The exchange rate has been impacted, which will impact inflation. A weaker UK economy will have an impact in the State.
- There is ongoing and necessary engagement with BoE colleagues.

Actions

- The briefing for the Taoiseach will be the baseline note for briefing. FSG agencies will provide input and update the position every 2 days for the foreseeable future.
- The Minister will be updated on any developments.