Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

‘Macroprudential Policy and Macroeconomic Stability in Ireland’

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The origins of the (modern) macroprudential policy framework

- The roots of the global financial crisis lay in the build-up of macro-financial imbalances in the preceding period.

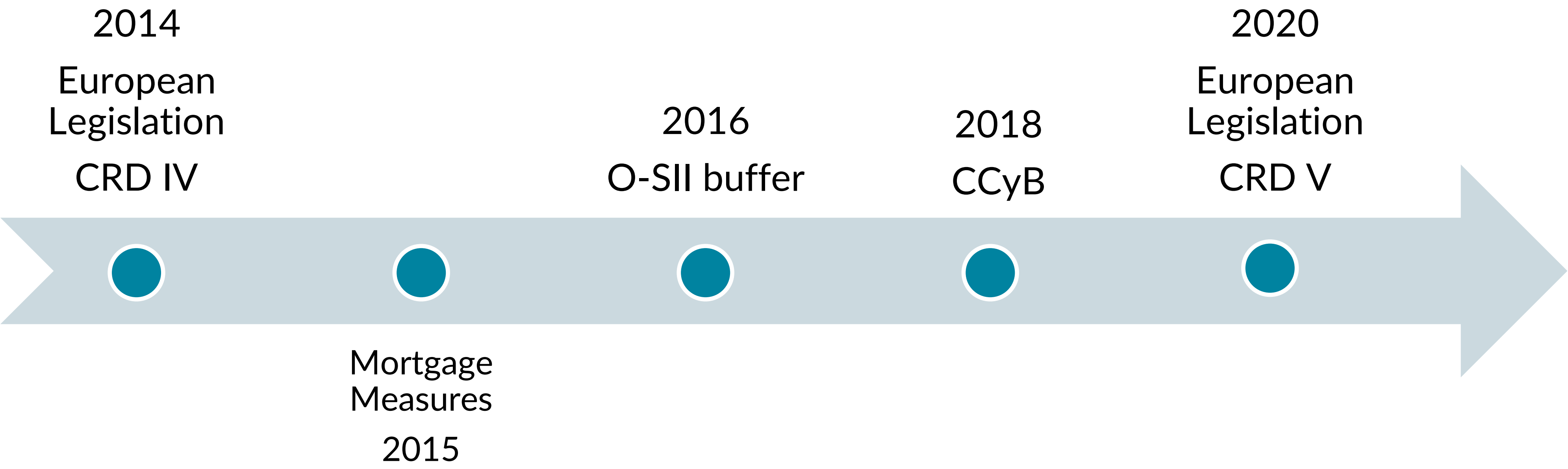
- The global policy framework was not well equipped to achieve macroeconomic stability.
  - At a macro level, central banks focused on achieving price stability through monetary policy.
  - At a micro level, regulators focused on the safety and soundness of individual institutions.
  - Not enough focus on how the collective behaviour of the financial system could become a source of risk for the economy.

- Post-crisis reforms involved the development of a new macroprudential policy.
  - Macroprudential policy explicitly focuses on risks to the provision of services to household and businesses *by the financial system*, not on risks *to individual financial institutions in and of themselves*.

The role of macroprudential policy in Ireland

- Macroprudential policy framework in Ireland mirrors the evolution at the global and European level.
- A small, highly globalised economy within a monetary union creates unique considerations.
- Openness is a core component of the Irish economic model and it yields substantial benefits (e.g. MNE-dominated exporting sectors offsetting the impact of the sharp decline in consumption during COVID-19).
- Benefits of a small open economy do not come without vulnerabilities and risks.
  - Greater pass-through from developments in the global financial cycle leading to the higher volatility of Ireland's economic aggregates relative to other economies.
  - In addition, more prone to structural macroeconomic shocks, such as abrupt shifts in international trading and tax arrangements.

The first decade of macroprudential policy in Ireland



Towards Maturity….

- What does the advancing the macroprudential framework towards maturity mean in practice?

  - Advancing our approach to evaluating risks and resilience in a forward-looking and systematic manner, to inform the setting of policy.

  - Further developing our overall macroprudential policy strategy.

  - A clear articulation of, and continued progress on the measurement of, the benefits and costs of our policy actions.

  - Ensuring our policy framework remains fit for purpose as the financial system and broader economy continue to evolve.

Towards Maturity….priorities over next 12 months

Borrower – Mortgage Measures Framework Review

- Assess longer-term impact/outcome of the measures.
- Deeper thinking on all elements of the measures (objectives, instrument selection, operation, calibration) as well as key factors that are likely to matter for calibration (e.g. interaction with other policies, interest rate environment, broader housing market issues).
- Forum for more comprehensive engagement with external stakeholders

Banks – Capital Framework Review

- Consider the appropriate level of capital for the Irish banking system and the composition of this across the macroprudential buffers.
- Incorporate legislative amendments and lessons from the COVID-19 experience.
- Fully integrate stress testing into our macro prudential toolkit.
- A clear, well-communicated and predictable a strategy as possible around our approach to bank capital from a macroprudential perspective.

Non-banks – A New Frontier

- Broaden the macroprudential framework to reflect the evolution in the linkages between the wider financial system and the real economy.
- We will consult on a set of planned measures to limit leverage and liquidity mismatches for property funds.
- Contributing to the development and operationalisation of the macro-prudential framework for non-banks at a global level.