

Macprudential Measures Committee

Account of meeting no. 4 of 2017 held on 2 June

Members in attendance: Governor Philip Lane (Chair); Sharon Donnery (Deputy Governor, Central Banking); Bernard Sheridan (Acting Deputy Governor, Financial Regulation); Ed Sibley (Director of Credit Institutions Supervision); and Mark Cassidy (Head of Financial Stability Division and Secretary to the Committee).¹

The Macprudential Measures Committee (MMC) held its fourth regular meeting of 2017 on 2 June.

The MMC was presented with the **Quarterly review of the Countercyclical Capital Buffer (CCyB) rate on Irish exposures**. The Central Bank of Ireland (the Bank) is designated as the national authority responsible for setting the CCyB rate in Ireland and as such is required to set a rate, having consulted with the European Central Bank (ECB), on a quarterly basis. An indicator chart pack was provided to the MMC to facilitate discussion and assessment as to the appropriateness of the proposed zero per cent CCyB rate for Q3 2017. The various credit-related indicators used in the analysis pointed towards aggregate credit conditions remaining subdued. Residential property prices are experiencing strong rates of growth; however, these are not accompanied by growth in the aggregate amount of the mortgage credit outstanding. Furthermore, external imbalance indicators and aggregate bank balance sheet ratios do not point to growing vulnerabilities. The MMC recommended that the proposed CCyB rate of zero per cent for Q3 2017 should go to the Bank's Financial Stability Committee via written procedure and, if approved, the ECB is to be notified of the proposal in line with the required notification process. A public rate announcement will be issued following the notification process.

A **policy note on potential interactions between the CCyB and borrower-based measures** was discussed by the MMC. The note looked at the use of a capital-based macroprudential tool (i.e. the CCyB) versus the imposition of borrower-based instruments (e.g. LTV², LTI³) as a means of preventing and mitigating excessive credit growth and leverage. The note also provided an overview of the implementation of these two types of macroprudential measures across Europe. Generally, CCyB buffers are better targeted at overall credit conditions in the economy whereas borrower-based instruments are more focused towards individual sectors, in this case the mortgage market. It was also noted however that the CCyB is more effective in building resilience than in cooling the credit

¹ Staff representatives from Financial Stability Division were also in attendance: Yvonne McCarthy (Head of Function - Analytics); Martin O'Brien (Macprudential Analysis and Policy Manager); Eoin O'Brien (Senior Policy Economist); and Jean Quin (Policy Economist).

² Loan to value ratio

³ Loan to income ratio

cycle, whereas borrower-based measures can be effective in both respects. It was recommended by the MMC to publish the contents of the note, with some amendments, at a future date as an Economic Letter.

The MMC also considered **the proposed approach and timelines for the 2017 review of the Bank's macroprudential mortgage market measures**. A summary of potential analytical and policy related work to support the Commission decision, as well as a communication strategy, were discussed. The proposed timeline for the work is consistent with a Commission decision on the appropriate calibration of the measures for 2018 at its meeting on 28 November 2017. This year's review will focus on the appropriate calibration of the measures given prevailing market conditions. It was agreed by the MMC that the final evaluation should result in a short report, to be supported by analytical evidence, all of which will be published on the Bank's website. The MMC approved the timeline and approach for the annual review of the LTV/LTI measures.