

Macroprudential Measures Committee

Account of meeting no. 6 of 2017 held on 5 September

Members in attendance: Governor Philip Lane (Chair); Sharon Donnery (Deputy Governor, Central Banking) via teleconference; Ed Sibley (Deputy Governor, Prudential Regulation); Maurice McGuire (Director of Financial Stability); Gabriel Fagan (Director of Economics and Statistics); and Mark Cassidy (Head of Financial Stability Division and Secretary to the Committee).¹

The Macroprudential Measures Committee (the MMC) of the Central Bank of Ireland (the Bank) held its sixth regular meeting of 2017 on 5 September.

The MMC was presented with the **quarterly review of the Countercyclical Capital Buffer (CCyB) rate on Irish exposures**. 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 Q4 2017. Overall, aggregate credit conditions were considered to remain subdued, with both the standard and national specific credit gap estimates remaining significantly negative and the outstanding amount of non-financial private-sector credit continuing to contract on an annual basis. It was noted that gross new lending is continuing to increase and this is reflected in pockets of credit growth in certain segments of the market. In the residential real estate market, price growth was observed to have strengthened further and reached double digits while price growth continues to moderate in the commercial market. It was judged that credit indicators for Ireland suggested that a zero per cent rate remains appropriate at this juncture. With respect to relevant policy developments in other jurisdictions, the Committee noted the recently announced increase in the CCyB rate by the Bank of England given that Irish and other EEA authorised banks with UK exposures will be required to reflect the UK rate of 0.5 per cent when determining their overall capital

¹ The following staff representatives were in attendance for all or part of the meeting: Trevor Fitzpatrick (Banking Supervision: Analysis Division); Francisco Alcaraz-Garcia (Banking Supervision: Analysis Division); Joe McCullough (Banking Supervision: Supervision Division); and from the Financial Stability Division: Yvonne McCarthy; Martin O'Brien; Eoin O'Brien; Ellen Ryan; and Caroline Gavin.

requirements from June 2018. The Committee recommended the proposed CCyB rate of zero per cent for Q4 2017. A public rate announcement will issue following the notification process and the ultimate decision on the rate by the Governor.

As part of the **annual assessment of Other Systemically Important Institutions (O-SIIs) in Ireland**, three papers were presented. The Committee welcomed the analysis of the overlap between O-SII identification, Single Supervisory Mechanism classification and resolution issues and proposed that, subject to confidentiality considerations, the content could be published in some manner to increase public awareness. The supplementary analysis prepared by the Banking Supervision Analysis Division (BSAD) considered 18 additional indicators from the list compiled by the European Banking Authority (EBA). These were selected based on supervisory judgement and data availability. Both retail and wholesale indicators were considered to account for possible future changes in the composition of the banking sector due to Brexit. Following a discussion by the Committee, and on the basis of the mandatory scoring methodology, it was agreed that PTSB would not be identified as an O-SII in the 2017 assessment.

The buffer rates, proposed by the Financial Stability Division, to be applied to the designated O-SIIs were considered by the Committee. The setting of the O-SII buffer reflects the expert judgement of policy makers while being guided by country-specific factors, the output of quantitative methodologies, and the systemic importance of the individual institutions to the domestic economy. The buffers previously assigned in 2016 to AIB (1.5%), BOI (1.5%), UBI (0.5%), UniCredit (0.25%) and Depfa (0%) were considered to remain appropriate for 2017. The recommendation that the buffer rate for Citibank be increased by 0.5 per cent to 1 per cent was discussed by the Committee. The rationale for the proposed increase in Citibank's buffer rate was the substantial increase in its overall EBA score. The phase-in period of 2019 to 2021 for the O-SII buffers, as determined in 2016 exercise, were considered to remain appropriate with the proposed increase of 0.5 per cent in Citibank's buffer to be added as a third step in the phase-in process to be applied in July 2022.

The Committee agreed with:

- a) maintaining the existing buffer rates for AIB, BOI, UBI and Unicredit;
- b) increasing the buffer rate for Citibank to 1 per cent;

- c) continuing the zero per cent buffer rate for Depfa; and
- d) the continuation of the phase-in of buffer rates.

The MMC was invited to provide guidance on analysis needed, in addition to the market overview discussed at the recent meeting of the Bank's Financial Stability Committee, to inform the **policy stance for the 2016 review of the Bank's macroprudential mortgage market measures**. There was an exchange of views on operational aspects of the measures, including the management of exemption allowances and the definition of borrowers' income. The Committee discussed the overall dynamics of mortgage credit and house prices, the current conditions in the residential rental market and the fundamental macroeconomic drivers of the market as well as the challenges in determining equilibrium values of key economic indicators. Sensitivity analysis was suggested as an additional analytical approach alongside the determination of equilibrium values. Appropriately identifying the relative impact of various issues on the property market in the previous year was also deemed to be an important component of the review. The Committee considered the preliminary findings of the analysis of the monitoring templates for the first half of 2017, while noting that more in-depth analysis will be undertaken in advance of the next meeting. It was further agreed that the forthcoming presentation to the Bank's Commission to inform their deliberations on the mortgage market measures would include a market overview, macroeconomic scenarios and a description of the interaction of both of these from a policy perspective.