

Account of Meeting No. 4 of the Macroprudential Measures Committee of 22 November 2016

In attendance: Governor Philip Lane (Chair); Sharon Donnery (Deputy Governor Central Banking); Cyril Roux (Deputy Governor Financial Regulation); Gabriel Fagan (Chief Economist); Ed Sibley (Director of Credit Institutions Supervision); and Mark Cassidy (Head of Financial Stability Division and Secretary to the Committee).

Also present: Martin O'Brien (Financial Stability Division – Items 1-2); Eoin O'Brien (Financial Stability Division – Items 1-2); Niamh Hallissey (Financial Stability Division – Item 3); and Breda Cassidy (Financial Stability Division – Items 1-4).

1. The draft agenda was approved along with the draft account of the previous two meetings subject to a change in the construct of a sentence.

2. **Quarterly review of CCyB rate on Irish exposures**

The Countercyclical Capital Buffer (CCyB) is aimed at reducing the pro-cyclicality of the financial system and, more specifically, at protecting the banking sector from periods of excess aggregate credit growth that can be associated with the build-up of system-wide risk. The CCyB requires banks to set aside additional common equity tier one capital during periods of strong credit growth and growing systemic risk.¹ The buffer can be released during economic downturns to prevent undue restrictions in the supply of credit to the private sector. The Central Bank is designated as the national authority responsible for setting the CCyB rate in Ireland² and as such is required to set a rate, having consulted with the ECB, on a quarterly basis.

¹ The CCyB is also applicable to in-scope investment firms of which there are currently none identified in Ireland.

² Statutory Instrument 158 of 2014 gave effect to this mandate. There is a strong European element to the framework, with the European Systemic Risk Board (ESRB) having the power to issue guidance to national authorities on the implementation of the CCyB framework, as well as the powers of the ECB to top-up CCyB rates set by national authorities within the macroprudential mandate given to it by the Single Supervisory Mechanism.

To facilitate a comprehensive review of the CCyB rate on Irish exposures, currently at 0 per cent, the Financial Stability Division prepared a chartpack which provided latest developments for a range of mandated and other policy-relevant indicators such as broad credit developments and credit-to-GDP gap indicators. In addition, indicators relating to other potential sources of cyclical systemic risk were included, for example, pertaining to property prices, external imbalances and the debt-service ratio.

To a large extent, prevailing conditions relevant for the setting of the CCyB rate were considered to be similar to the last quarter and were noted to include the following:

- A continuation in decline of private non-financial sector credit with year-on-year growth to both the household and non-financial corporate sectors remaining negative. For most sub-components of these sectors credit growth remains negative. Consumer credit, fixed-rate mortgage lending and credit to large enterprises currently buck this trend as these categories are now seeing growth in credit once again;
- Underneath this decline in outstanding credit, new lending has been increasing at a significant pace, with the construction and real estate sector accounting for a sizeable share of new lending;
- Notwithstanding the caveats relating to the credit gap indicators at this time they are currently suggestive of a weak credit environment in Ireland;
- In terms of property prices, the rate of increase in commercial real estate prices continues to moderate and is now in single digits. On the residential side, having largely stabilised during the first half of 2016, prices have seen relatively large monthly increases most recently; and
- External imbalance indicators do not point to growing vulnerabilities at this time.

The CCyB Indicator Dashboard and Heatmap were noted. It was highlighted that work will continue on analysing the usefulness of various build-up phase indicators and drawing on a number of potential modelling techniques in a cross-country as well as domestic context, accounting for Irish specific characteristics, so as to credibly inform any positive CCyB rate setting in the future. It was noted that further work could include examining what a steady-state or equilibrium CCyB rate would be in the Irish context. Following review of the CCyB rate on Irish exposures, the discussion concluded with Committee agreement on no change at this juncture.

3. Update on the operation of the new framework for reciprocation of macroprudential measures taken by other countries

Reciprocation of macroprudential measures aims to reduce cross-border leakages and minimise spillover effects. When a country introduces a national macroprudential policy measure which may have cross-border effects, reciprocity requires other countries to apply an equivalent measure to domestically-authorized institutions. It is particularly important in a European context given the highly integrated nature of the EU financial sector and is coordinated at European level by the European Systemic Risk Board (ESRB). The reciprocation of all relevant policies introduced by Member States is recommended.³ However, not all macroprudential policies require reciprocation; this will depend on the nature of the instrument used in terms of both potential spillover effects and vulnerability to leakages. The Central Bank has laid out the Irish reciprocation framework in line with ESRB Recommendation 2015/2.⁴ As a member of the Single Supervisory Mechanism, the Central Bank's decisions regarding macroprudential policies are also made in conjunction with the ECB.

The Central Bank's commitment to reciprocating relevant measures introduced by other countries, its internal processes and external communication procedures were discussed. Early experience with the framework was noted to reveal that, in some cases, it is not possible to reciprocate and, in other cases, exposures are so minimal that a cost-benefit analysis of reciprocation, together with guidance from the ESRB, indicates that it is not necessary. Since the introduction of the Central Bank's reciprocation framework, two reciprocity requests from Member States have been adopted by the ESRB, namely from Belgium and Estonia.

4. Recommendations

The meeting concluded with the following recommendations for further work prior to the Committee's next meeting:

³ See [ESRB Recommendation 2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures](#)

⁴ See page 50 of [Macro Financial Review 2016: I](#)

- Following agreement on no change to the CCyB rate of zero, it was recommended to proceed with notifying the ECB of the proposal in line with the required notification process. A public statement will issue following the notification process⁵; and
- A workplan to be drafted for the MMC for 2017.

⁵ This issued on 15 December.