Governor Philip R. Lane: Good afternoon everyone, welcome to the Bank. As you know, today we discussed the outcome of the 2018 review of the mortgage measures at the Commission meeting. And to get the bottom line, we confirmed the measures, as part of our overall macro-prudential framework, are achieving the twin objectives of contributing to overall financial stability and protecting individuals from excessive debt. Now, our focus in this annual review is to evaluate whether the calibration of these measures remains appropriate, which is based on looking at the risks in the mortgage market and the wider property market. So, the review includes assessing the mortgage lending data that we collect, assessing the wider developments in the housing market and assessing the systemic risks that we see. Our analysis shows that the pace of expansion in new mortgage lending is significant, but it remains below … the overall level of mortgage lending remains below what we might expect in a typical environment.

So, it's growing but from a low base. When we look at house prices, we assess that they're broadly in line with developments in incomes, in rents, in interest rates and housing supply. We don't see any destabilising feedback between credit and prices, which of course was so destabilising in the last boom cycle. And of course when we make this assessment we fully recognise that for affordability, for whether it's a prospective homeowner or someone renting, the key to affordability is a sustained and significant increase in housing supply. Now, when we look at what's going on in the mortgage market, there is some movement in the distribution of the loan-to-income and loan-to-value ratios in new lending. But if you look at the overall pool of mortgage loans, there's little change in the average loan-to-income and loan-to value-ratios and there's no sign of any generalised decline in lending standards. So, what we have here is essentially a fairly stable situation where the mortgage lending is in line with what the rules are designed to achieve.

We think this is leading to lower risk in the system compared to a world without these rules and on that basis there's no changes being made, being proposed today. Let me make a final point which is mortgage rules relate to new lending. We also have a large stock of credit outstanding from previous decisions, whether mortgages or other types of credit. So, what we did this summer by activating the Countercyclical Capital Buffer should be seen as a complementary measure. One is looking at the flow of new mortgage lending, the other covers the whole stock of credit. And taken together it means that our overall macro-prudential stance between these measures, we think is prudently calibrated to improve the resilience of the system and in turn that will also help to protect the wider economy in the event of a future downturn. So today is I think, you know, part of our regular calendar. The mortgage rules, as you know, this has now become a fixed point in the cycle every year to take a look and we do think at this point in time they're working well and there's no particular reason today to make any changes to the calibration. So, with that opening remark – and let me emphasise, when you get the chance read the material that has been produced by the staff, there's lots of interesting detail for you to look at – but at this point let me stop and open it up to questions.

Journalist 1: On the housing market, the report says prices are close to or above fundamental values. What can we take away from that?

Governor Lane: So, what we've shown in the report is the range of different approaches, thinking about value. When you take the widest measure, which takes into account what's going on with income levels, with rents, with housing supply, with interest rates, it's brought in line. When you look at some narrower measures, so for example you may recall, I think, in the summer and the spring, The Economist was looking at, I think they looked at price to rent, then you would have found maybe above long-run value. There's good reasons when the interest rates are low for prices to be high compared to rents.

Equally prices high compared to incomes is possible in a low-interest-rate world. So, in terms of…my view is the broader measure which takes account of several variables in a single framework is delivering this result. It's more or less in line with what you might expect, based on historical evidence.

Journalist 1: But rising interest rates would then suggest that …

Governor Lane: Right. So, that's of today. It's very important to say that's of today. So, what we do is we compare the house prices to what's going on this year and I've said repeatedly beforehand, for example, one variable that's particularly important in the Irish case is housing supply. That we know in the past that as more houses got built, there was downward pressure on house prices. What we're seeing this year is more houses are coming in compared to last year and our macro projections from the Quarterly Bulletin is more next year and the year after, so we do think there's good evidence in Ireland that prices do respond to housing supply. So if you like, that's one factor that may put downward pressure into the future. As you indicated, there's no current plan to raise interest rates. But, you know, of course at some point you might expect interest rates to be higher than they are today. Incomes, I mean this is really the captivating factor, incomes are growing quickly here. Total … and when I talk about income, it's total income, it's…are wages going up? Yes. Is employment going up? Yes. So, in a given household, if you think about a two-person household, there's more hours being worked. It's more likely people who work part-time or full-time, it's more likely if you're full-time you're also getting overtime. So, incomes at household level are going up. Of course unevenly, not for everyone, but that is, you know, if you think about our loan-to-income ratio, it does mean the loan, if you're lucky enough to be enjoying a rising income, you can borrow more money, you can sustain a higher house price. So, that's the big one pushing house prices up. Housing supply should go in the other direction. The interest rate one for now remains super low and even famously in this market, even though we all agree mortgage rates are high, they have been coming down, there has been downward movement, more offers coming in to the market. So, there's a mix of factors going on there. But let me come back to…the fundamental one is we are projecting significant increase in housing stock in the coming years. We know it's too low now and that in itself will put downward pressure.

Journalist 2: I mean these rules are there in place to protect consumers, you say, protect borrowers and protect the banks which was ultimately, as we know to our costs, means protecting us. At the same time you're a licensing money lender, so you're protecting sort of middle-income people, I suppose, but what about very vulnerable people? The last thing we need in this country is another money lender. Surely … and also I asked about this and as recently as 22nd I was told the Central Bank hadn't regulated or licensed Amigo and couldn't discuss any applications. On the Monday, 26th, two working days later, it was licensed. You must have known that. Was the Central Bank being dishonest there? Clearly Central Bank was being dishonest.

Governor Lane: So, let me divide your question into two parts. I'll turn to Ed [Ed Sibley] in a minute about our approach to authorising money lenders under the legal framework we operate under …

Journalist 2: If you don't mind, answer that one as well.

Governor Lane: Yeah, no, we'll go to that, but we'll just clear up the other point, I'll turn to Jill [Jill Forde] as Head of Communications.

Jill Forde, Head of Communications, Central Bank: It was just to explain we authorise a number of firms across the financial services sector, very, I suppose, notable at the moment in the light of Brexit, but we

can only communicate an authorisation after a firm is authorised and appears on our registers. So, from a communications perspective, we cannot comment on …

Journalist 2: If you don't mind, if I could ask the Governor to answer, was the bank dishonest in not indicating …

Governor Lane: As indicated …

Journalist 2: You'd probably approved it at that stage, you just hadn't announced it.

Governor Lane: This is a … we can come back, we can, maybe I think it's more appropriate to take this offline, but as Jill just said, we do not …until …any firm that we engage with, until it's actually concluded, we do not indicate where a firm is in the pipeline. So, only once the authorisation decision is finalised, and I'm pretty sure that once it is it then goes, it's then published, but before that point there is no communication. But I do think it probably warrants more offline discussion about that communication issue. On the issue about our approach …

Journalist 2: Was the bank fully honest on that, though?

Governor Lane: As I just indicated, it's fully in line, we have to be precise and correct in how we communicate, so we do not reveal to anyone what's going on in terms of firms before … I mean obviously as you know, there's many questions we've got over the last couple of years about 'tell us about the authorisation pipeline' and we do not indicate where any firm is in the authorisation pipeline until it's concluded. But once it's concluded then it's public. So, that's in line with our policy and that's a transparent policy and it's natural that that's the way we have to operate, that until there's an authorisation concluded, we do not communicate about it.

Jill Forde: And we publish twice yearly all of our authorisations and that includes people that are authorised in relation to the firm. But I'm happy to take it offline. But do you want to add anything on the authorisation process, Ed [Ed Sibley]?

Ed Sibley, Deputy Governor, Prudential Regulation: On the specifics, so we work within clear legislative requirements, we have a robust and a rigorous approach to authorisations in line with those legislative requirements. Post-authorisation we undertake proportionate risk-based supervision, intensive and intrusive. There are strong consumer protection codes in place. We consulted on the consumer protection in place for money lenders and included in that consultation, we engaged with those parties that are most involved with those that are more vulnerable in society. We … and that, the outcome of that consultation, which is now closed, will be published in the New Year. We note that there are many other lenders that operate within Ireland, from banks to credit unions, and as Jill has said, happy to take this offline if you want to discuss further.

Journalist 2: But the last thing we need is another money lender.

Governor Lane: I mean we operate in a legal framework. If a firm, any firm, and I'm not talking about any particular firm, but if any firm meets the legal requirements that's our duty to make that decision. So, I think the wider question is about the legal framework. And then as you know, I mean the long discussion about, should we tolerate money lenders or not, we absolutely advocate that, as I just said, you know, we encourage everyone to look at alternative providers. But if the choice is between having

authorised money lenders and having, if you like, a black market where they're not regulated at all, you know, the choice is it's better to have them in a regulatory framework. So, I totally agree with you, money lending has many downsides and risks. We've put out a lot of material over the years about some of the considerations around that. But the decision, the legal framework, this sector is something that needs to be regulated and we're better off regulating firms, you know, as I'd said, rather than just having them outside a regulatory framework.

Journalist 3: Just on the exemptions to the mortgage rules, have you any theory or any reason why the banks are struggling to keep the exemptions or to spread them across the year or to keep them so that they're not rationing credit at certain times? Have you asked the banks or are there models that they're using that are incorrect or…

Governor Lane: Okay, I'll make one basic point and then I'll turn to Ed in terms of what we know from our supervisory engagement. I mean, it is true that this year compared to last year, because of the fact there was a tightening of the exemptions when we made the change last year, that clearly some banks – I'm not going to say all banks – but some banks may not have reorganised themselves internally quickly enough to recognise that the routine had changed. I think that's an issue for how banks manage this process. Going into 2019, the fact we're not making any changes here, in itself, I think, should mean that it's a more predictable environment. But maybe, Ed, is there anything else to say from …

Ed Sibley: Yes. We're obviously engaged on a regular basis with the banks in terms of their mortgage lending more generally and how these exemptions are working more specifically. I think in the case of one or two of the banks, they did struggled with the adjustment from kind of last year. The fact that one or two banks could have managed this process better I don't think is a basis for making changes to the rules themselves. And as the Governor has mentioned, the stability of the rules going forward should make it easier for them to manage.

Journalist 4: Is there any particular reason why the concept of a rolling situation, you know, what risk would that have created?

Governor Lane: I think that's kind of moving the goalposts. I mean, what we have here are quite generous exemption allowances here. There's a lot of room here to take account of the individual circumstances of applicants. So, I mean loan-to-value, loan-to-income ceilings, we recognise they don't account for everyone's circumstances, so we do want to have significant but limited amounts of exemptions. So, they should be able to operate within these. If you know you have a certain allocation or limit, and you want to avoid violating the regulations, you know, it's natural to operate with a little bit of a buffer inside that. You know, rather than exceeding the buffer then having to pull back towards the end of the year is not, it's not doing a good service for your customers to say well, the accident of when you show up during the calendar year is going to influence whether you get a mortgage or not. That to me is a poor, poor delivery. As I say, I do think next year this should be less of an issue given that the rules are now stable.

Sharon Donnery, Deputy Governor, Central Banking: I think as well if you look in the report, one of the benefits of the amount of data that the Bank has now, including all of these individual loans, you can see exactly where the exemptions have been used and so on. So, that level of data that we have also helps us understand exactly what's going on in terms of how and where the limits or where the exemptions have been utilised and much of that has been published in the report today. So it's there also for everyone else to see how the exemptions are working in practice.

Journalist 5: Market expectations are still for the first rate increase of the year in September 2019. Do you think the market expectations are in line with reality?

Governor Lane: So as you know the guidance was, rates will remain where they are through the summer of '19. So, I'm going to be silent about what month that means because deliberately…it's so far away in terms of the flow of data and so on, it provides you with general guidance as to when it might be considered. But the wider point is the ECB [European Central Bank] like any central bank is going to be data dependent. So, this is really a case where there can be a reasonable range of views and this is, you know…we look at the market data, we're interested to see where the market believes…but I think the market and the ECB is operating under the same model. You're looking at the data and essentially working out, given that data flow, what is the appropriate level of interest rates. So, I don't think … and what's important in the way the ECB has been communicating is, I don't think at this point there's too much uncertainty about how the ECB makes decisions. So, when you look at the … when the market expectation moves, it's basically being driven by, well, what's going on in the data. It's not being driven by some volatility in how the ECB communicates. So, this is a conversation about forecasting what the data would be like in the second half of '19 and that's so far away that we're going to go through several forecast cycles before we get there. So, I think this is not going to be…you can't answer this with any great certainty until much closer to the time.

Journalist 5: But it sounds like you don't have any great problem with the current market expectations, you say the market uses the same model so therefore …

Governor Lane: Right, so I mean they understand the guidance and they understand, you know, by and large the same data. I mean we're all looking at the same macro data you can all look at, so …

Journalist 3: If you look at the share prices of the banks, the property companies, they have growth of quite a bit, do you think, what does that say about the Irish housing market?

Governor Lane: I think that's an interesting issue. But as you know, I mean, the main driver of equity prices typically is not the local fundamentals, it's not typically going to be how profitable is it going to be to run a bank here or to build houses here. It's more about the market kind of discount factor. Are we generally optimistic, you know…because the bank shares have fallen but bank shares across Europe I think have fallen. There may be some differences there, but I don't think massively. This is more sentiment about how you should value shares in general, sentiment about how you should value the European banking sector and then with some local variation around that. Equally the market consists of different types of traders. Clearly if some traders were extrapolating the growth rates they saw in 2017 into the indefinite future, the fact that the market is stabilising now in terms of prices will naturally lead to an adjustment in valuations as well. I don't think I have deeper thoughts than that. We are clear, we do see enough in the pipeline in terms of the investment process, that more house will be built in '19 and '20 and of course there's many policy options that the government is working on that may further improve that.

Ed Sibley: The price-to-book values of European… across Europe are low in many instances. There are lots of banks across Europe that are struggling from a return on equity perspective and consequently question marks about whether they are covering the cost of capital which is obviously impacting on the share price. So, there's a wider European picture I think when we look at share prices of the Irish banks.

Journalist 6: You mentioned about the value of the new lending market, the value of new mortgages out there, what is the value this year? What is it likely to be this year? And if that's a factor, what's the … in terms of these controls, what is it due to be next year? Is it … 9 billion worth of new lending this year?

Governor Lane: The exact number…

Sharon Donnery: Seven. It's about seven.

Journalist 6: 7 billion this year?

Ed Sibley: 7 billion to the end of Q3.

Journalist 6: And if that's a factor, what, I mean is there a red light, amber light starts flashing when it's … say it was 12 billion?

Governor Lane: Okay, that's a reasonable question. So, behind financial stability assessments, absolutely the number one red flag to look at is how quickly is credit growing. Typically that's seen as in terms of overall credit, but what we have here is we have two forces going on. We're saying new lending is significant, but still a lot of people paying off their loans. So, there's also, in terms of the overall stock credit, there's still a lot of repayments, so there's a lot of deleveraging going on. So, of course, depending on where you are in the age bracket, personal circumstances, there's obviously plenty of people looking to buy a home or get out of renting. There's other people who are older who are maybe paying off their mortgage. So, the overall credit situation remains, the case is it's not sending any red flags. New lending remains … it's significant but it's natural when you're coming from a very low level and there's two constraints. One is new homes, the amount of new homes limits the amount of lending, and two is turnover, that turnover remains low, that the amount of houses…so people normally want to climb the property ladder in some parts of their life and then they want to downsize later on. All of that process is lower than you might observe typically because there's a lot of natural bottlenecks in the current market that we have. So, there are reasons why overall credit can grow without being too risky because of the fact, as new homes get built, they need funding. And with turnover, you might expect to see people taking on bigger mortgages if and when they want to move to a bigger home, that's part of the natural mortgage market which is still subdued here.

Ed Sibley: I think it's also fair to say, the need to look as to how that number is being funded and the sustainability of the funding of credits being provided to the system and that's very different today to what it was historically in terms of, typically funded off deposits. And we can also see that the banking system more generally is becoming more resilient as evidenced by the EBA [European Banking Authority] stress tests.

Journalist 6: Given it's so key have you got predictions, have you got estimates for next year what that new lending … that's a nine-month figure, is it? You said the 7 billion is a nine-month figure, is it, or is that an annual 12 months to the end of September?

Sharon Donnery: No, the 7 billion is so far this calendar year, right?

Governor Lane: So far, yes. I mean the last quarter is probably quieter, there's a seasonality to it.

Journalist 6: Have you 2019 figures given that it's so key, estimates of the…

Governor Lane: Well let's come back to you on that one. I don't know if it's buried in the documentation or not, whether we have a forecast for that.

Jill Forde: Is there anyone that hasn't asked a question that wishes to do so?

Journalist 1: Just on the Fiscal Advisory Council, are you in agreement with them that the Budget was imprudent?

Governor Lane: So, I suppose let's be clear about this. There are really two different dimensions to, I think, what IFAC [Irish Fiscal Advisory Council] have commented upon. One is the level of spending and that's entirely for IFAC to comment upon. We wouldn't do that. So, our concern is about the government finances. The amount of spending the government does is really, it's a political decision, whether you want to be a high-spending or low-spending government. I think we have to be … it's outside of our mandate to talk about that. What we do, and I personally, and through our Quarterly Bulletins will comment upon, is is the financing of that appropriate. So, the typical formula economists would put forward is, in good times you run a surplus, in order to allow you to run a deficit in a downturn. And so where we are now is where the government is close to zero, close to balance. We have said, and I would say, is if the only factor were economics, the economics would say we should be running a surplus going into 2019. But of course Ireland's no different to any other country. That, in the end, is a political choice. So, it's not the case that there's a … so this is kind of, I think, an important debate. But my guess is, in the main, a thrust of IFAC's comment today was not so much about that, it's more about the level of spending and that's, in the world we live in now, there's a natural division of duties. But that's for IFAC to hold the government to account in terms of public expenditure. We would share with IFAC a common mandate, if you like, to think about the financing and the financing is, the closer to zero, if economics was the only consideration, probably a more ambitious surplus target would be better. That's not new, I've said this repeatedly in recent months.

Journalist 7: And just on that, financing isn't within … or spending isn't within your mandate, but just on the revenue side and the whole tax base and the way it's become more and more dependent on income tax and USC, would you have comment on that or what would you say in all of that?

Governor Lane: So I think it's fair to say everyone would observe that it's been a historical pattern in Ireland, which is a broader tax base would be more robust. You mentioned income and USC. We now have a property tax and of course that's a big debate about where that should be calibrated and then of course there's the ongoing debate about the big surge in corporate tax revenue and how much of that is sustainable into the future. And of course this is one reason why the rainy day fund is an extra mechanism here. If you're uncertain about some of this tax revenue, allocating some of the tax revenue to the rainy day fund is a, kind of, way to mitigate the risk. But clearly – and again I say this repeatedly, I have a speech tomorrow, I'm going to say it again tomorrow – is we have to recognise the Irish economy is volatile. We're so globalised, there's so many factors outside of our control that can mean we can grow well, as we're doing now, and that can go on for a long time. But we can also experience sudden reversals. And so this is a risk management issue. And, you know, I think everyone in the system needs to make that assessment about…we're doing it in terms of the mortgage rules and the Countercyclical Capital Buffer and the wider emphasis on making sure the banks are resilient and also to the O-SII buffer [Other Systemically Important Institutions]. The government also has to make that assessment. Whether it's through the overall budget balance, and also through measures such as the rainy day fund.

Sharon Donnery: Just on that point, the Governor already mentioned it in terms of the inherent volatility of the Irish economy, but I think when we published the research and analytical work that underlay the decision around the activation of the Countercyclical Capital Buffer, I think that was the one of the significant factors there, that kind of inherent volatility. And that was part of the rationale for also activating that process early in the cycle, as opposed to waiting to see how things would evolve at some point in to the future.

Journalist 8: I was going to ask, you touched on interest rates earlier on, just wondering what your view is on the slow-down in euro zone growth? Mario Draghi [ECB President] said last week that he saw it as being a normal part of the cycle. Do you agree with that or are you concerned in some of the business surveys that we're seeing out of Germany, places like that?

Governor Lane: So, when you think about the overall euro area, what we do when we have these meetings is, there's a lot of data coming in. Every three months – and we'll have one in December – there's a kind of big project to assess all of the data in a coherent way in terms of the forecast. So there's a lot, there would be a lot of staff members I'd be guessing right now in the next ten days, two weeks before the Governing Council, trying to filter all of that. Because it is possible to tell a story about every data point. We know there's this issue about the emissions testing in the German car market in the summer where there's an expectation that will go into reverse now at the end of the year. So, I don't think any individual survey point is pivotal, but what is true is, one basic point is, 2017 was surprisingly good. And so some of what happened in 2018 is basically a reversal of some of the upside from 2017. So, there is this view that what we're seeing to a large extent is just settling down at a more normal pace of expansion. I think all the data clearly show that the European economy continues to grow, that many of the kind of key mechanisms in the European economy are still quite positive. It's still the case that consumption …incomes…employment is growing, incomes are growing, consumption is growing, key elements of investment is growing. There's less from the rest of the world. One of the big areas is the forecast of how much Europeans are going to sell to the rest of the world. That's come down, because of some of the reversals in the emerging markets. So, I would say it's important not to be overly dramatic about this. It would be great if the above expectations growth of 2017 had continued, but we have to be realistic that what's happening remains in line with historical expectation. And maybe finally, it's also the case from our inflation mandate, is it remains the case that the wage data are in line with expectations. That employment is falling to that zone where there's more pressure on wages. I would remind you all, two or three weeks ago, we put out an Economic Letter here by our staff which focused on the European data and which basically showed until unemployment hits more or less where we are now, wage pressures are mild in Europe. But once it gets to where we are now, it starts to pick up. That's true of the European level, it's also true here. I think it's intuitive to everyone here…is that only when there's really a lot more heat in the labour market, the wages start to climb and that's…we're seeing that more and more and that's about the level of unemployment. It's not the growth rate of the economy. It's if you get unemployment down far enough, then the bargaining power of workers improves.

Jill Forde: I'm not sure there's any other questions on the mortgage rules…

Journalist 6: Just back to the mortgage rules, over the last two or three years there was a lot of data information you've got now, is there any link…say you loosened by a certain metric, say you're losing about three percentage points to whichever way you measured the loans…have you – controls – have you worked out what house prices will go up by? If you decided on a splurge, what would be the

relationship? Is there a relationship, direct relationship, between house prices and your lending controls?

Governor Lane: I think all the literature would indicate it's less about where house prices have settled down, it's more about the acceleration in the market. So, if there's a lot of debt financing available, if you allow people to borrow more, then if you like, house prices will tend to move up more quickly. But they will eventually settle down at the levels that incomes, interest rates, housing supply will justify. So, if we were volatile in applying the rules saying, well this year we'll tighten them, next year we'll loosen, if we did that in a volatile way, you would get greater volatility in house prices. That I can…I'm pretty sure of. Whether the long-term trend of house prices is much affected, I think is more open to question. Remember there's a lot of cash in the market, a lot of housing is being bought by cash buyers, whether that's individuals with cash or investment funds, as you know buying up apartment blocks, that kind of thing. So, the valuation a cash buyer puts on a house is not being driven by how much debt is in the market. It's more of a fundamental value. So, I do think it's less about the overall level of house prices in the long run, it's more about stability, not having a zig-zag pattern where you get bursts of acceleration and then deceleration. So I do think it's stability, all round, is really…and in the end, by the way, and I know it's natural to think about what's the impact on house prices? That's interesting and we care about it, but the real role of these rules is when…if and when a downturn comes, it's going to be less painful. It'll be less painful for individuals, it'll be less painful for banks and through the banks, as you said earlier on, the taxpayer. So, it's really that. It's protection against future downside risk. The mortgage rules help with that, the Countercyclical Capital Buffer helps with that. The wider emphasis on making sure the banks are resilient, and this is really the story of the Irish economy, is what can you do in the upside years in order to make sure the downturns are less severe, and that's really…

Journalist 6: And that's the message to the mortgage brokers who would wish these controls in certain areas to be loosened, is that what you're saying?

Governor Lane: Sure, I mean, of course, this is in our collective interests. I'm fully sympathetic that individuals may get frustrated, they may say, well I know my personal preference is…I know I can safely pay back more debt because I'm the type of person who may choose not to have a car, may choose to sacrifice going out and having a more active social life because I really want to own a home. So, I'm sure there's lots of people like that. But unfortunately the way we have to run it, we can't customise it for every individual. We have these rules and then we do have the exemptions which allow the banks…and we do expect banks to make individual decisions. If they…through the assessment of individual circumstances, we do want to give them room to allow for that and that's why we do have these allowances to allow lending above the ceilings, within a limit.

Jill Forde: Thank you very much, I don't think we've any more questions.