



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Ireland's engagement in Europe and Deeper integration of Europe

Deputy Governor Sharon Donnery

European Movement Ireland

1st October 2020

- “Ireland belongs to Europe by history, tradition and sentiment, and no less than by geography”
 - [Statement to Ministers of the Governments of the Member States of the EEC, Seán Lemass, Brussels, 1962.](#)
- “Full employment, the cessation of involuntary emigration and a standard of living comparable with that of other Western European countries”.
 - [Membership of the European Communities – Implications for Ireland, Irish Government White Paper, 1970](#)
- “Balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress”
 - [Completing Europe’s Economic and Monetary Union, Report from the Five Presidents, 2015.](#)



Outline for today

- Discuss the European wide macroeconomic stabilisation policies that were deployed in response to the pandemic
- Common financial stability concerns
- The departure of our nearest neighbour from the EU
- Conclude with some thoughts on how we can be influential in Europe, from the Central Bank's perspective.



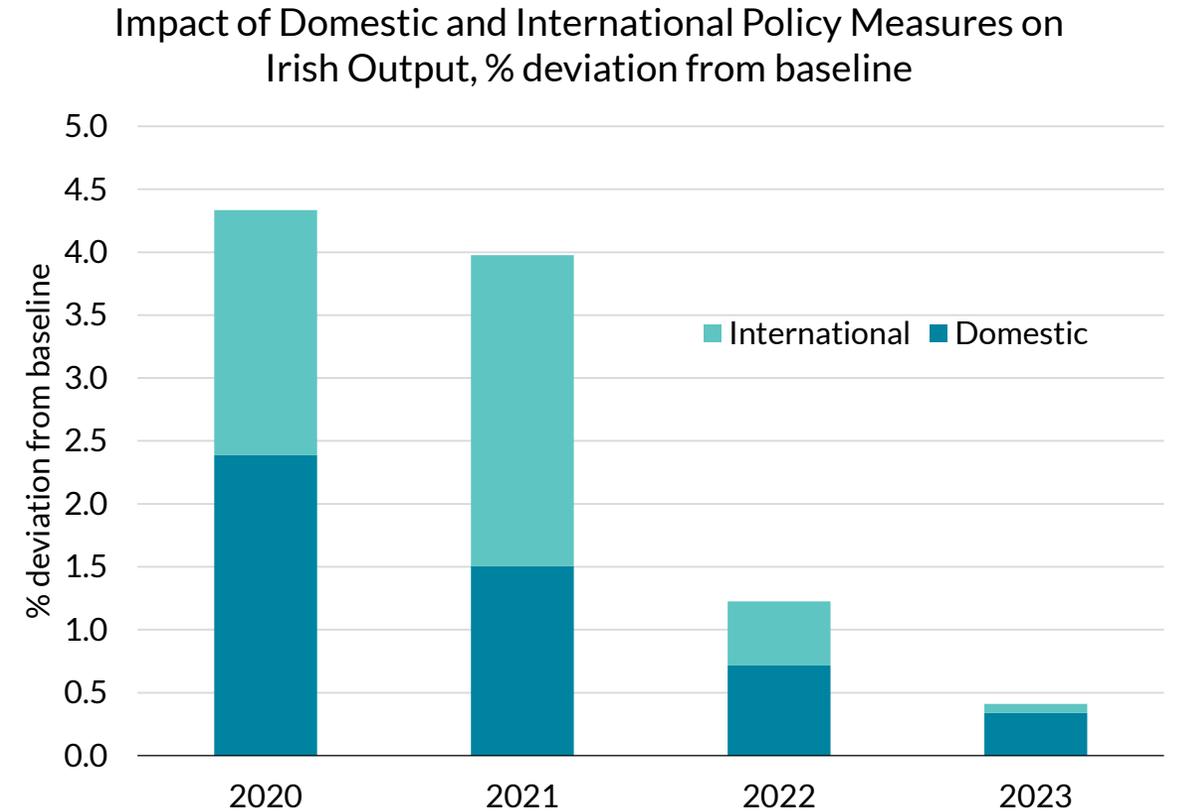
Macroeconomic stabilisation

- Activation of the of the “general escape clause” of the Stability and Growth Pact
- Agreement on Next Generation EU Fund
- ECB Monetary policy actions including
 - Pandemic Emergency Purchase Programme (PEPP)
 - Pandemic Emergency longer-term Refinancing Operations (PELTRO)



Impact of policy on Irish Output

- Counter-cyclical actions by policymakers are **positively reinforcing each other across borders**
- Research shows that for Ireland, domestic and international, fiscal and monetary **policy actions, are playing an important role in reducing the possible loss of output and employment from the COVID-19 crisis.**
- Initial estimates suggest that these measures would reduce the scale of the decline in output in 2020 by just over **four percentage points.**



Source: Updated from Conefrey, T., McInerney, N., O'Reilly, G. & G. Walsh, "Recovery Paths from COVID-19 and the Impact of Policy Interventions", Central Bank of Ireland, Signed Article, Quarterly Bulletin No.3 (2020).



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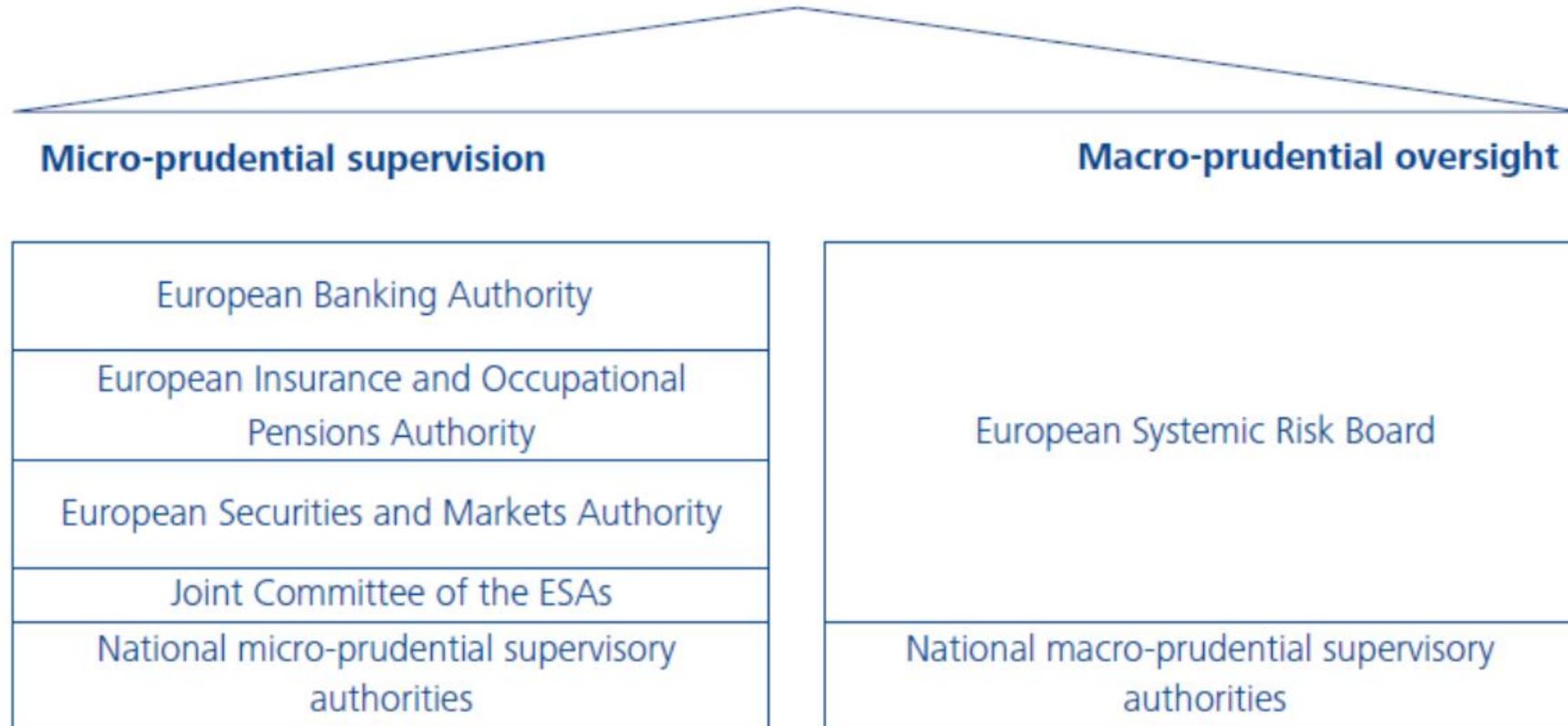
Common Financial Stability Concerns



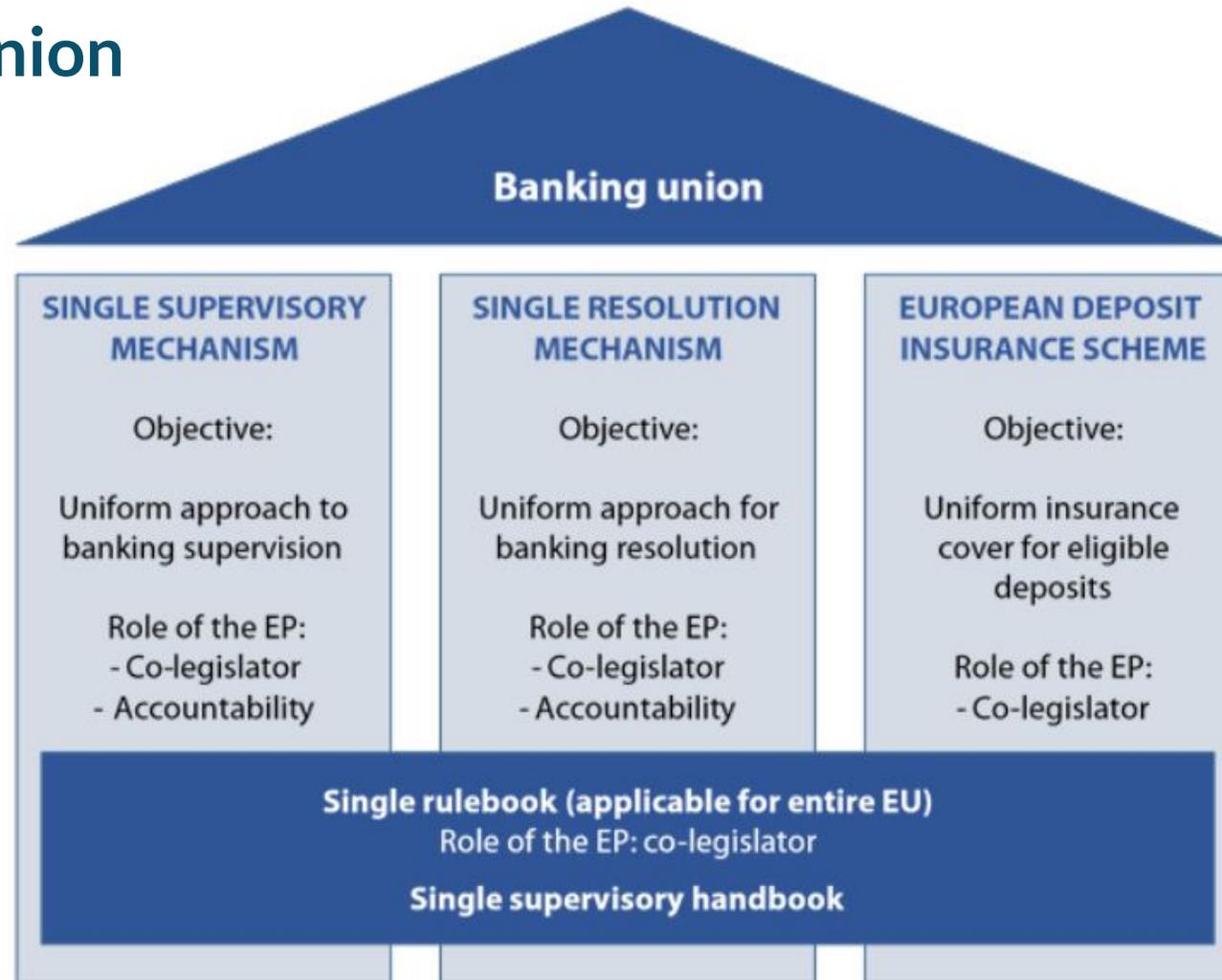
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European System of Financial Supervision



Banking Union



Source: European Parliament

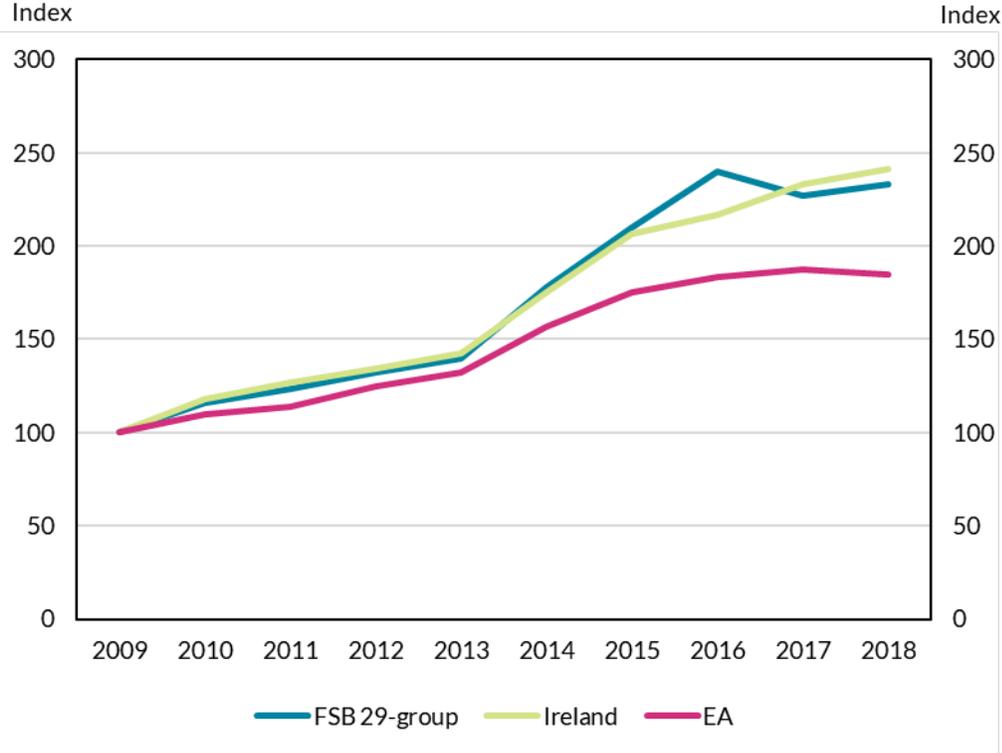


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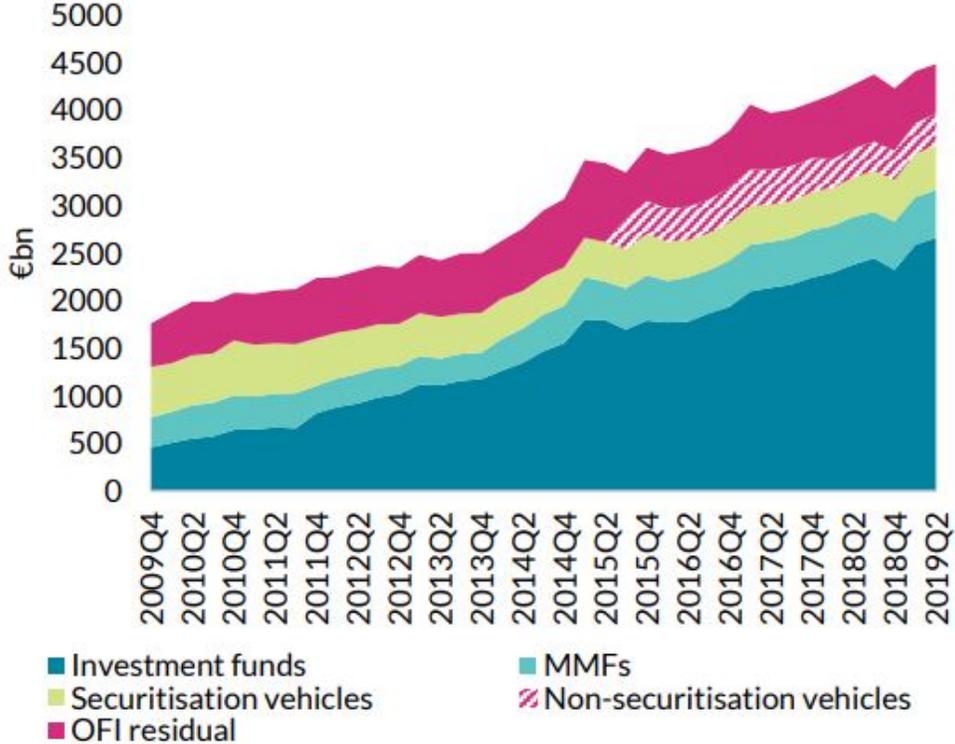
Growth in market-based finance

Comparative growth of the global, euro area and Irish market-based finance sectors (2009 – 2018)



Sources: FSB, ECB SDW, Central Bank of Ireland staff calculations.
Notes: Index = 100 for base year 2009.

Irish domiciled market-based finance sector, total assets (2009 Q4 – 2019 Q2)

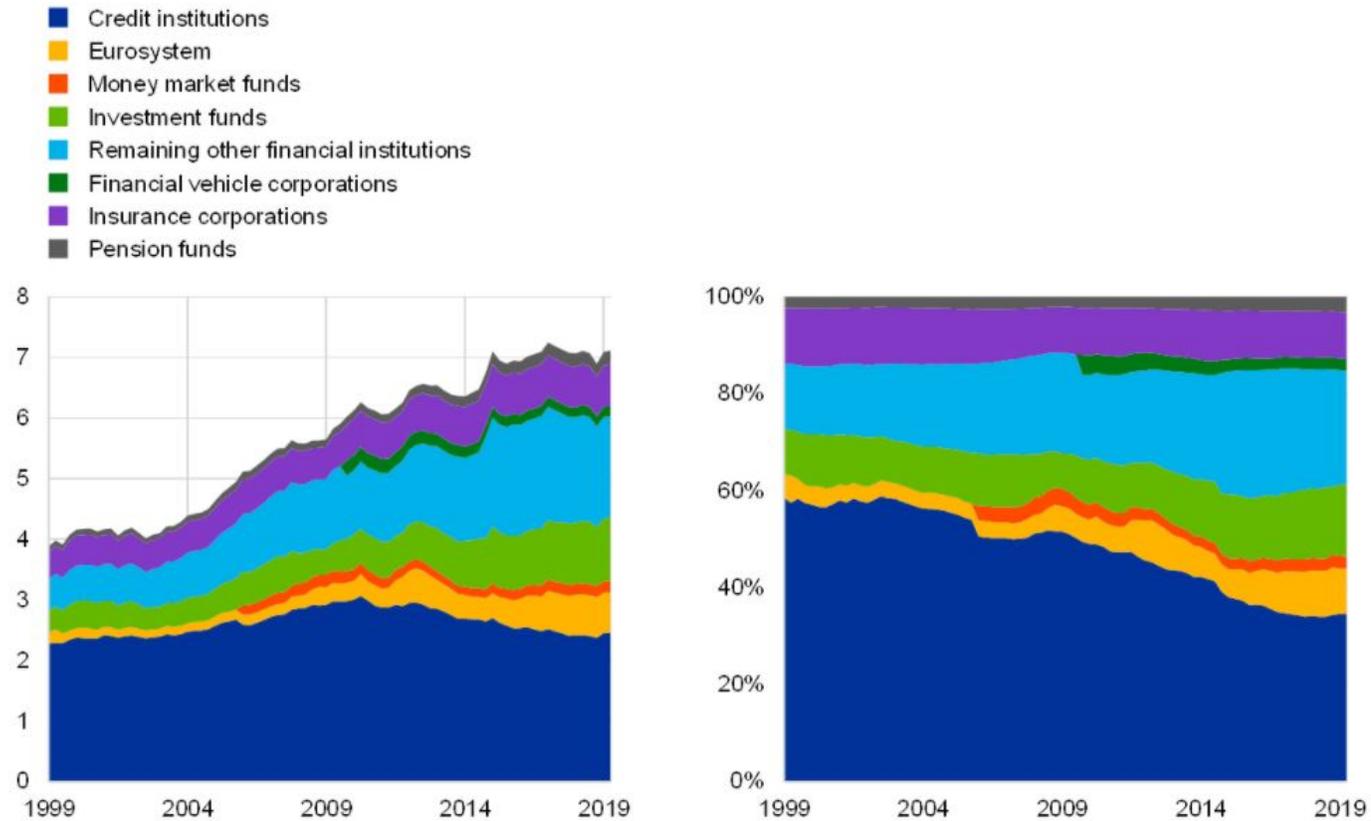


Source: [Mapping Market Based Finance in Ireland](#), Central Bank of Ireland Financial Stability Note

Market-based finance in the EU

Total assets of the euro area financial sector and shares of different types of financial intermediaries

(ratio of assets to nominal GDP (left panel); percentages (right panel); March 1999 -June 2019)



Source: European Central Bank - [Financial Integration and Structure in the Euro Area](#) (2020).



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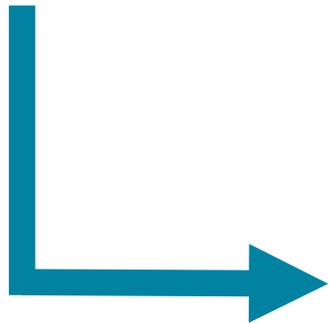
Structural vulnerabilities in the market-based finance sector can amplify shocks

Liquidity mismatches

Open-ended funds with short redemption periods and investments in less liquid assets could be susceptible to the risk of large redemptions in times of stress, requiring sales of less liquid assets over a short period of time.

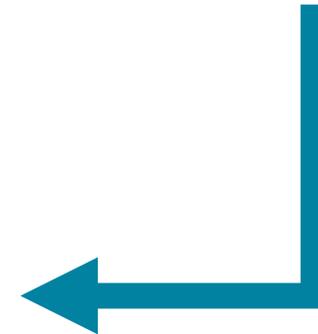
Leverage

When asset prices fall in times of stress, highly-leveraged funds may seek to keep their leverage at a target level by selling assets over a short period of time or be forced to do so by their creditors.



‘Fire sale externalities’

Actions in response to shocks may be perfectly rational from the perspective of individual institutions but can have adverse, system-wide implications.



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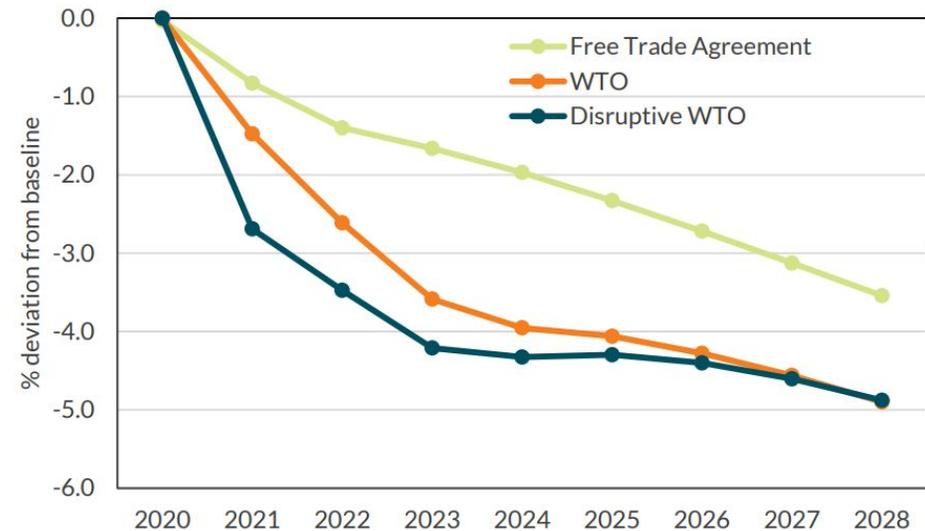
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Departure of our nearest neighbour from the EU

- Trade ties with UK have reduced since joining the EU, but any deviation from status quo will cause disruption
- Will be challenging for firms already stressed with COVID-19
- Central Bank has been focused on understanding financial stability and consumer protection risks
- Potential financial stability cliff-edge risks are mitigated to greatest extent possible



Effect of Brexit Scenarios on Irish Output, % Deviation from the Baseline



Source: Central Bank of Ireland Quarterly Bulletin 3, 2020. Box D: Implications of Potential EU-UK Trade Arrangements at the End of the Brexit Transition Period.

In summary:

- **Engagement** with Europe is **critical** for our macroeconomic stabilisation response to the pandemic, our financial stability concerns and the challenges we face as our nearest neighbour leaves the Union
- Our **participation and engagement** with our colleagues in Europe is a **key focus for the Central Bank** and a core part of all that we do
- From the strategic issues such as ongoing monetary policy review to regular data collection and everything in between
- Our engagement in Europe and the deeper integration of Europe offers us a path to “*prosperity based on balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress*”



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