“Ireland belongs to Europe by history, tradition and sentiment, and no less than by geography”


“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 "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**.

Common Financial Stability Concerns
European System of Financial Supervision

Micro-prudential supervision
- European Banking Authority
- European Insurance and Occupational Pensions Authority
- European Securities and Markets Authority
- Joint Committee of the ESAs
- National micro-prudential supervisory authorities

Macro-prudential oversight
- European Systemic Risk Board
- National macro-prudential supervisory authorities
Banking Union

Banking union

SINGLE SUPERVISING MECHANISM
Objective:
Uniform approach to banking supervision
Role of the EP:
- Co-legislator
- Accountability

SINGLE RESOLUTION MECHANISM
Objective:
Uniform approach for banking resolution
Role of the EP:
- Co-legislator
- Accountability

EUROPEAN DEPOSIT INSURANCE SCHEME
Objective:
Uniform insurance cover for eligible deposits
Role of the EP:
- Co-legislator

Single rulebook (applicable for entire EU)
Role of the EP: co-legislator

Single supervisory handbook

Source: European Parliament
Growth in market-based finance

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

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

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

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)

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.
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**

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**”.