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Sections of the briefing were inaudible and unable to transcribe.

Analyst

Yeah, thanks very much. Very interesting document. The question's obviously on the addendum so more than 1.5. I mean you've given yourself a considerable range when the dashboard's got everything in it, really. How do we guess how high you could go? So, more than 1.5 is a very openended thing. We've often thought about 2.5 as an extreme but you don't specify that as far as I can see, so I mean as the Dutch Central Bank did, you've given yourselves considerable scope for your judgement without really third parties being able to backfill what drove it and we can't scale how high you might go, so just to nail that down a bit, please. Because leaving these things open-ended is really expensive for the market. So, we have to consider that you might go a long way based on judgements that wouldn't obviously be grounded from other people's perspectives. Thank you.

Fergal McCann, Head of Macro Financial Division, Financial Stability

Yeah, thanks for that. Happy for others to jump in as well and we've colleagues from the team on the line as well who might want to elaborate. I think on how high, it wouldn't be prudent to speculate. I mean there is guidance around in the Basel recommendations that obviously would need to be taken into account. I think our strategy does set out that we would move in a gradual way and that we would be aiming to provide as much clarity as we can on the judgements we're reaching. So, the aim is very much not to provide the market with what I would describe as maybe surprises. You know, in terms of how we move through the phases, you know, we say in the addendum that, you know, credit growth is a very important part of our assessment toolkit, but it is not in and of itself a necessary condition for moving past the 1.5 but it does have a very particular weight given the nature of the instrument, along with indicators around the economy, asset prices and others. But I think it would take a very particular set of circumstances to move past the 1.5 in an environment where credit growth was particularly muted, for example. But it's not something we can rule out given our aim at all points is to match the resilience in the system to the risk environment that we're seeing. So, happy to elaborate if anybody else...

Analyst

Could I just press on that a little. The banking system generates about 50 basis points of free cash for its owners per six months, and your current pace of CCB inflation is 50 basis points for six months, so I wouldn't agree it's gradual. It's been predictable in the recent past but it's really significant, so basis points are a big deal. And the second thing is, you know, I hear you on credit growth, absolutely. But your range is minus 4 to plus 32 which is no way of calibrating what you think is high. So, you know, if nominal GDP is growing a 8 or 9... you'd expect credit growth of 8 or 9. That would be a nothing done from almost anybody's perspective. How would the Central Bank look at 8 or 9 credit growth in a nominal GDP environment of that level? Thank you.

Fergal McCann, Head of Macro Financial Division, Financial Stability

Yeah, I think it's very hard to be specific and I do appreciate the line of questioning. I think what we have to take into account that it's not only the growth in credit but it's where the credit is coming from in terms of the level beforehand. It's the risk profile of that credit. It's the sectors that it's contributing to. So, it is very hard to be specific and we are trying to make clear that there aren't numeric targets after which we deem credit growth to be too high, but we're trying to take an overarching view on how asset prices, credit growth itself and real economic indicators are all evolving, rather than a kind of mechanical connection to a particular indicator. So, I appreciate it's



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not as clear as perhaps you would be looking for from your position, but there is a lot of judgement involved in bringing us to a particular decision as we move forward.

Analyst

Thanks for the presentation. Just a follow-up question really, subsequent to Alistair's. I mean I come back to June of 2022, you put out a kind of overarching philosophy to the effect that systems should be capitalised on a tier one level of between 14 and 18. And, you know, you seem to have moved away at least from repeating that language in this document, the December document, so I mean should we just abandon that concept where, I mean, the question beckons as to whether there should be an interlinkage between what the upper end of the CCyB could be and that upper end of the 14 to 18 range. So, I suppose it's very difficult to understand like from a rate respective bank where the top of the capital return to shareholders which we see all across Europe is discussed. You know, what constraints do they need think about in an environment like this in terms of credit growth. Does that 14 to 18, should it be an influential factor or have you any comments to make on that...reconcile, ascertain what the kind of upper end could be on a realistic basis.

Fergal McCann, Head of Macro Financial Division, Financial Stability

Yeah, so I think the first thing to say is the 14 to 18 doesn't give you a kind of target for the upper range of the CCyB, far from it. The 14 to 18 at the time it was really communicated as an analytical device for ourselves to give us comfort that what we were arriving on as a target rate for the CCyB kind of sat in a range where the costs and the benefits of our actions are broadly speaking balanced. And of course it's very hard to land on one single number for that, and we had this discussion before, because you have all types of assumptions in the modelling around the kind of permanent nature of damage from banking crises and discount rates and all types of things that mean it's hard to give a specific number for where we think costs and benefits of capital policy action are balanced but the idea with the 14 to 18 was to say if our capital stack, including CCyB at 1.5 which was motivated by stress testing and a number of other analytical exercises if that was falling within the 14 to 18 we were comfortable, we were at least hitting a number that left us in a position where costs and benefits of policy are being balanced. So, that still holds. It does still guide us and the 1.5 is still guided by everything that you saw in the document last June. And I certainly wouldn't make any inference that 18 provides some kind of a top end where the CCyB might track, that's not all the guidance from the addendum today. The guidance in the addendum is very much that we would need to deem that the cyclical position in the economy is headed in an elevated risk environment, and we have a description of what that would be in the addendum before we would move past 1.5.

Analyst

Thanks for taking my question. Also just coming back on the sort of appendix to the capital framework piece. I just wanted to understand could you explain a little bit more why domestic bank ratio levels and domestic bank leverage ratio levels are inputs to a capital buffer calibration? I'm a bit confused by that. So, for instance, leverage here, you're saying at 7% leverage ratio, this is above average risk based on the observed leverage ratios for the period September 2016 to today during which time the Irish banks have been capitalised on very high leverage ratios and historically during that time very high NPL ratios and you're now saying that a 7% leverage ratio which I think is pretty high in a European context is above average risk, and that this is then feeding into your calibration potentially. Obviously we don't know that precise mechanism, but this is a factor driving how you will set the countercyclical buffer. So, in essence you seem to be saying if capital levels start to go down, your inclination is to Jack up the buffer and I know that's just one factor of many, but could you explain a bit more why that's in there at all as a factor? Because it feels a little bit circular on some



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level to me. And just on the 18% comment you just made in relation to the last question, I just want to be crystal clear, are you trying to tell us that 18% shouldn't be taken to imply the countercyclical buffer might go up to 4 or something or are you trying to tell us that the 18% shouldn't be taken to imply that the countercyclical can't go higher than that? Because one is very slightly reassuring, I suppose, and one is quite concerning, so I just wanted to pin that down. Thank you.

Fergal McCann, Head of Macro Financial Division, Financial Stability

So, on the second question, I mean to go even beyond 1.5 we would need to deem that there is an elevated risk environment in the Irish economy and macrofinancial system, so you can take from that that to go to levels well beyond that, we would need to deem that we were in extremely high-risk elevated risk taking, extreme levels of asset growth and credit and obviously you can't rule out any particular rate but I think it's fair to say that moving all the way to a rate of something like 4%, very extreme conditions would be needed to get us there, so I wouldn't make a statement on a particular rate being impossible or possible but I think it's fair to say it would be a very extreme set of circumstances that would get you to that point, but the really important point on the 14 to 18 from before is that it is absolutely not a target now in terms of it being the higher end for the CCyB or for any of our buffers.

Analyst

That's kind of how I interpreted it. I wanted to make sure.

Fergal McCann, Head of Macro Financial Division, Financial Stability

It's a very fair question and that's exactly why we have these calls to be as clear as we can with you. On the bank balance sheet indicators more generally being part of the toolkit, so I will bow to colleagues who are in the room or on the call if they want to elaborate but the way I would describe it is that, you know, the health of the bank balance sheet, you know, is one of the important indicators along with credit growth which is probably the most important in risk taking, asset price is another. You know, in terms of how it feeds in, in terms of a dashboard and how that influences calibration, again, I wouldn't read too literally across from a dashboard indicator which is obviously a mechanical exercise based on kind of where things are relative to a historic series. I wouldn't read too much into something being at a particular level relative to its history as feeding very strongly into our judgement. I think what we have there is just an example of what all of the indicators that we do analyse, and that the dashboard allows us to see where they are on a historic context, rather than reading too much about the leverage rates being low means we would do X or Y with the capital buffer.

Eoin O'Brien, Acting Head of Function, Macroprudential Policy

I can come in just on some of the detail, Fergal if you want.

Fergal McCann, Head of Macro Financial Division, Financial Stability

Please, Eoin. Your audio isn't great, Eoin, but please do jump in if you can manage to fix the audio issue.

Eoin O'Brien, Acting Head of Function, Macroprudential Policy

Just to say in the context of the dashboard and as Fergal mentioned, I guess, and this is, I guess, there are pros and cons to the dashboard, so obviously we have to come up with particular thresholds to try and make it, I guess, somewhat informed but they're also like the... the mechanistic nature of it also has drawbacks and in the particular context of that leverage ratio, I think that the threshold used is



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kind of EBA European averages and some thresholds there that the EBA also use would suggest low, medium and high risk and at this point that kind of translates into an orange box, but I think as Fergal says and I think as you outlined yourself, I think like a leverage ratio in the region of 7% is broadly speaking is well above, for example, the minimum provided for in legislation and I think, yeah, I wouldn't read too much necessarily into the particular orange element of the leverage ratio in this kind of context. It's just more to do with, I guess, the specific threshold chosen which there are obviously judgements around. And as Fergal mentioned as well, obviously, that's just one element that feeds into the overall, I guess, thinking around CCyB and again in terms of like the banking sector more generally, I think the banking sector is an important, I guess, input into the CCyB decisions themselves. But also maybe in the current environment when we're thinking about rate increases, for example, we also do take account of the kind of position of the banking sector and the capital position of the banking sector, so obviously we don't want to have unintended consequences maybe in terms of the credit market so in that kind of context as well, the health of the banking sector and the capital position of the banking sector is something that we look at.

Analyst

Yeah, that obviously implies that these metrics travel both ways, i.e. You wouldn't want to be hiking when capital is very low because that would lead to or exacerbate the credit crunch. But the directional indicator here in terms of the colour banding would seem to imply that lower capital could also be a contributory factor to hiking the CCyB. I mean it's quite, it essentially creates quite a confused picture from the outside because we're already looking at a set-up where you have a pile of indicators, you run kind of a stress test we don't have a huge degree of visibility over. There's a kind of credit to GDP gap metric which is adjusted relative to that proposed by Basel and I think you've tweaked the dials on the calculation several times over the years. So, it makes it quite hard. I'm not sure what to look at from the outside really to get a reliable feel as to the direction of travel other than as Alistair alluded to essentially, just momentum. You're heading up at the...and it's quite hard, I think, from the outside to say where we go next other than, well, probably other than up again because that's the direction you've been going in. But yeah, it's quite a confused picture. But thank you.

Fergal McCann, Head of Macro Financial Division, Financial Stability

Your questions are really valuable for us. I guess what I would say to kind of wrap that part of the discussion is really just to bring it back to the key aim which is to ensure that the resilience we had in the system which is provided by the capital buffers along with banks' own headroom - that it's proportionate, that the idea with the CCyB is want it to be proportionate to the risks that we see. Hopefully when you're reading the addendum, you get a bit more of a sense, even though it's not as quantitative as you would like, for what allows us to come to a conclusion about when we are elevated, when we are in the standard environment, when we are only in a recovery and, you know, in terms of the momentum or anything like that, the decision around moving past 1.5 passed on what we're publishing in the addendum today would only be made when we deem we had entered a period of elevated risks which is going to require in most cases significant credit growth, probably increases in asset prices and risk taking for us to arrive at a judgement like that.

Mark Cassidy, Director of Financial Stability

Let me just say one thing about the momentum, because that would be a misinterpretation and I think what we're trying to explain today is that this 1.5 now we have got to the point where we think we are in this standard risk environment. So, the momentum that we had seen prior to this has been to get us to this place. So, obviously we released the buffer when Covid hit. The risks that we might



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have feared at that time did not materialise. That allowed us to return to restore the buffer to this standard risk rate. We are now at that rate. The outlook we see from the economy, the central outlook for the economy is to remain firmly within this standard risk environment. So, I would just like to counter any view that there's momentum that could be continued after this point. That's what we're trying to discourage. I would not see there's any upward or downward bias currently in the risk environment and, therefore, our expectation, if the economy evolves as it is, is that we would expect this 1.5 to be the rate that's maintained.

Analyst

That's very clear, thank you.

Analyst

Is there double counting between stress test feeding into the CCyB and EBA SSM stress tests feeding into pillar 2?

Fergal McCann, Head of Macro Financial Division, Financial Stability

So, I think the short answer is no and this is something that we try as an institution, now of course there's SSM and there are elements that are outside the Central Bank's control and then there are, of course, supervisory considerations on individual banks that are not something that we directly feed into but I think at an overarching level, you know, we are of course aware of the risk of double counting in the institutions, both ourselves and the SSM and, you know, it is our aim to calibrate this in a way that we do not arrive at double counting. And of course a lot of judgement goes into arriving at final numbers here and there aren't mechanical connections with stress test output to calibration, you know, which allows us, I guess, to some extent to ensure that, you know, we don't double penalise in that way.

Analyst

Firstly, clarifications to come out of the questions that's very, very clear and helpful to everybody. Secondly, I suppose I'm coming back to this 14 to 18% range again that you referenced. I think it's very clear that...it's not to be thought of in the same vein as the CCyB...question mark over the upper limit in times of elevated stress. So, like in terms of like... could I get a yes/no answer in terms of whether we should as analysts think about this as a potential constraint after the... in the context of capital return or other capital, decisions pertaining to the capital deployment, please?

Fergal McCann, Head of Macro Financial Division, Financial Stability

Whether it's a constraining factor, I mean I think probably happy for Mark to come in, but I would say no, for the simple reason that the main driver of our decision making on moving past 1.5 will be what's in the addendum which is the assessment of the risk environment. So, the 14 to 18, not to go over old ground, it was really to help us get comfort on the 1.5 itself, if you know what I mean, being in the right range. When we go beyond 1.5, that's what this addendum is all about. The document last June was really about explaining how 1.5 was arrived at. The document today is about explaining how we move above or below.

Analyst

That's really helpful. Thank you.



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Mark Cassidy, Director of Financial Stability

Okay, thank you so much, thanks to Fergal, thanks to all the team, particularly thanks to you all for joining. Any further queries after this event, please do feel free to contact us. We'll be very happy to do our best and until then, thank you very much.