



Sharon Donnery, Deputy Governor, Central Banking:

Good afternoon, everyone, thanks for taking the time to come in. I was just going to highlight maybe a couple of key points that are in the publication that we've circulated earlier on today. And then we're happy to take questions and queries. So, I suppose we'll turn to some of the main messages first to say that the macro-financial environment in Ireland has continued to strengthen in recent years and economic growth remains strong and consistent with our Quarterly Bulletin published a couple of weeks ago with projections of growth of 4.8% and 4.2% in 2018 and 2019 respectively remain. And these projections are supported by the buoyancy of domestic economic activity and a broadly improving international environment. In terms of credit growth, we now see that a lot of financial credit growth is on an upward trajectory. We've seen the first positive year-on-year growth since 2009, driven primarily by lending to PDH mortgages (primary dwelling home), the consumer and large enterprise sectors. Buy-to-let though and small and medium enterprise property-related lending remain negative. However, I think a key message for today is that the domestic economy and financial system remain vulnerable to adverse shocks. Brexit obviously remains a key risk but other risks including upward pressure on wages and skill shortages could threaten competitiveness in the economy as it approaches full employment. So, we're highlighting three main systemic risks facing the Irish macro-financial environment today. Firstly an abrupt negative change to financial market conditions. Challenges to public and private sector debt sustainability. And structural challenges in terms of the capacity of the domestic banking sector. The potential triggers for these risks to arise mainly relate to external factors to the Irish economy, so events including a hard Brexit, changes to the international corporate tax environment, trade frameworks, or other disruptions to global financial markets could all have adverse effects. So, I'll leave my opening comments there and as I said, happy to take questions and queries.

Journalist 1: Yeah, a question about the countercyclical capital buffer. Some suggestions last month that you were looking at it, but it seems to say here it's remaining at zero, is that correct, for now? Three month cycle.



**Sharon Donnery:** Yes, so the Review (Macro Financial Review) alludes to the decision, the previous decision that was taken at the last review period in terms of the buffer remaining at zero. So clearly things remain strong, but there are significant risks out there and it's hard to predict what of those risks might emerge. But key to protecting the economy from any of those is building resilience and I think the countercyclical capital buffer in the period ahead will certainly be an important part of that.

**Journalist 1:** You mention in this piece here about the funds and vehicles sector could be a transmission mechanism for instability outside. Could that happen and how big of an impact would it have on the domestic Irish economy.

**Sharon Donnery:** Yes, I think the funds and kind of investment vehicles sector, while a part of the financial system here in Ireland has somewhat limited links to the Irish economy. But nonetheless, I suppose, we're conscious of the risks that may arise, either from that through spill over effects to the eurozone and particularly some of these financial market conditions type risks but maybe Maurice would like to add anything further.

**Maurice McGuire, Central Bank Director of Financial Stability:**

The sector is quite large in Ireland. So, we see these extremely large figures for the size of the sector. As Sharon was saying, only a very small amount of that is directly connected to the economy but the figures are so large that even a very small amount of that, it's not a negligible impact, so it is possible that there could be some transmission. There's obviously an increasing presence of funds in the construction sector and REITs (real estate investment trust) et cetera. So, this has probably been a useful way of channelling funds to the sector. But it also means that developments in the non-banking sector can also influence the economy to some extent. But I would emphasise that the really huge figures that you see for this activity, most of that is directed externally.

**Journalist 2:** Just a general question on construction, housing construction seems to be quite key to the various elements of forecast and in the report and I wanted to check what the Bank's latest thinking is on what are the blocks in terms of getting houses supply moving and what are the chances that they won't, given the current



problems. I just want to get the bank's sense, updated sense on what are the blocks in terms of housing supply and how likely are they to ease in the coming months?

**Sharon Donnery:** Okay, thanks. So, I think clearly in terms of our assessment of the housing market which is also related to our assessment of credit conditions and so on, it's quite clear that supply constraints continue to be a key factor in driving developments there. I think there are a number of factors at play, some of which are including the large decline in housing construction that happened during the crisis which was very significant. As we're seeing employment increase as well, I think there is some concern about emerging labour shortages in some aspects of the economy and we had some work earlier in the year, particularly around the effect that might have on construction, in terms of construction workers. We know of course as well that there are issues around planning and zoning of land and so on, all of which lead to potentially long lead-times for supply to come online. So, I think all of these factors are at play. I know as well there was some other commentary earlier on today from the CSO (Central Statistics Office) in terms of just understanding what exactly is happening in terms of supply. We've obviously done some work on that ourselves, and I think it's welcome that the CSO have done this additional work now on trying to have a kind of set of key indicators about housing supply that can help us understand the market a little bit better.

**Journalist 3:** Just in relation to the CSO numbers this morning, [inaudible] quarterly figure for about 3,500 units built this year. That sort of seems at odds with Central Bank's projection of 23,000 new builds this year. I wonder just if you have a view on that.

**Sharon Donnery:** Yeah, well as I said, I think first of all it's really welcome that the CSO have done this work on the data. It has been an issue, I think it's been of concern to ourselves and others in terms of just trying to get a handle on the numbers. That is their number for the first quarter. I mean we have, as you say, I think our number is 23,000, I think for this year. We'll obviously look a little bit at their methodology and how they've come up with the numbers to see whether that would revise our estimates or not but I'd say at the moment that's still what we're thinking of but certainly we'll look at the new data and it's methodology to see if we should look at that again.



Maurice McGuire: The quarterly pattern isn't very even in housing output. It's not unusual to have a lower proportion at the beginning of the year, but as Sharon has said, we'll look at it again.