



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Research Agenda

Our Areas of Focus and Collaboration

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Introduction

The Central Bank of Ireland serves the public interest by maintaining monetary and financial stability, while ensuring that the financial system operates in the best interests of consumers and the wider economy. This includes a statutory mandate to provide analysis and comment to support national economic policy development. Diverse research and analysis, to varying levels of depth and technical application, across multiple areas of focus is critical to us delivering on our mandate.

The Research Agenda reflects the full mandate of the Central Bank of Ireland and aligns with the key themes of our [Strategic Plan](#). For example, one important focus of our research is the effectiveness of our policy frameworks in maintaining price and financial stability as well as protecting consumers. In addition, in a future focused way, research can also help us to anticipate and respond to changes in the economy and financial system. To do so, we are increasingly moving beyond traditional analytical techniques and datasets to help answer new questions or approach existing research topics in a new way. This transforming approach can help us to improve the effectiveness of our work and reaffirm ourselves as an intelligence-led organisation.

The Research Agenda ensures the focus of our research is in areas of policy priority, and seeks to maximise the benefit of our work. It provides the framework through which we leverage our research and analytical capabilities within the Central Bank, our Eurosystem-wide collaboration on research and analysis, and our collaboration with the research community more generally. It aims to strike a balance between building our expertise on existing issues of interest while also maintaining flexibility to react to new issues that emerge. We also cover areas where we have ongoing research projects and areas where we will seek to expand our analysis. The Research Agenda is structured around four headline themes:

- I. The small open economy - The small and open nature of the Irish economy requires us to further our understanding of the sensitivity of the domestic economy and financial system to external developments. This research will inform our economic commentary and support policy decisions to enhance the resilience of the Irish economy.
- II. The financial system – Ireland has a large, diverse and internationally-connected financial sector. The financial system has been evolving at a rapid pace, with a growing role for non-bank financial intermediaries. Our research analyses the evolution of linkages with the real economy, considers the functioning of the market, the impact on consumers and

identifies key risks and vulnerabilities, in particular tail risks that have the potential to undermine financial stability, which underpins our policy decisions.

- III. New horizons – Developments such as climate change, digitalisation, population ageing and inequality imply a need for a radical rethink of how our economy and financial system functions. Our research will assess the implications of these changes and consider potential public policy responses over the medium to long term.
- IV. Central bank frameworks - The Central Bank of Ireland contributes to the setting of euro area monetary policy and is responsible for Irish macroprudential policy, financial regulation and supervision and consumer protection. Our research seeks to inform our policy design and assess the effectiveness of our policy frameworks to ensure we fulfil our mandates.

Under each theme, we highlight key areas of focus over the life of our current [Strategic Plan](#). We endeavour to contribute to the frontier of thinking across these areas through strong [collaboration with external researchers](#) in universities/institutions and our Eurosystem colleagues.

The small open economy

In order to contribute to euro area monetary policy decisions and provide independent economic advice to support national economic policy development, we assess economic developments and policy decisions that affect, or have the potential to affect, sustainable growth and inflation prospects.

We analyse Irish inflation dynamics with a particular focus on disentangling the underlying external and domestic sources of price changes. This aids our understanding of the duration of price pressures and the impact on spending and investment decisions of households and firms.

The large contribution of multinational enterprises (MNEs) to overall economic activity underscores the importance of the implications of global events and policy for trade and capital flows. These present an important transmission channel through which external shocks spill over to the Irish economy, amplified by the concentration of MNE activity in a small number of firms and sectors.

While the contribution of the MNE sector is critical to Ireland's economic model, indigenous firms are responsible for the majority of employment in Ireland. Understanding the challenges and prospects of these firms, such as their productivity and financing, are essential for domestic economic policy advice. This covers both the impact of a changing external landscape for their supply-chains and scope for exports and the factors influencing domestic trading conditions. Significant infrastructural constraints, particularly in housing, have arisen as key challenges for the domestic economy, requiring particular attention from an analytical perspective to support appropriate policy.

Fiscal policy is a key tool for domestic macroeconomic stabilisation in a small open economy in a monetary union. Our analysis supports our advice and recommendations for ensuring medium-term debt sustainability and the ability of fiscal policy to support a sustainable growth path for the economy.

Analysing and enhancing our understanding of such complex dynamics requires a multi-strand approach including the harnessing of new data sources and novel empirical analysis. However, to get a consistent, interconnected and more complete view requires an extensive macroeconomic modelling framework, including continuous investment in a suite of tools capable of adapting to address evolving issues.

Areas of focus:

- How have the drivers of Irish inflation evolved? How persistent are these forces?
- How resilient are the public finances and what is the trajectory of public debt?
- How do external developments, including multiple interconnected shocks (for example Brexit, the pandemic and war) and evolving global policies (for example, corporate tax reforms and changes in global supply chains) spill over to the Irish economy?
- Does the presence of large MNEs mitigate or exacerbate these spillovers?

- How do we assess the current cyclical position of the economy and current levels of activity relative to medium-term potential?
- What are the implications of infrastructure constraints for the economy, and how should they be addressed?
- What policies can enhance the resilience of the domestic economy and financial system to small open economy risks?

The evolving financial system

A well-functioning financial system supports the sustainable growth of the Irish economy through the provision of credit and insurance, the allocation of capital and the appropriate pricing of risks. Our research touches on all aspects of the financial system including pension funds, insurance providers, banks and market-based funding. The financial system must also evolve to meet the ever-changing needs of its customers while ensuring their interests are protected. We monitor consumer attitudes and behaviour towards their financial products and their experiences of engaging with financial service firms. Our analysis within this theme helps underpin key monetary, macroprudential, financial regulation and consumer protection policy decisions.

The size and complexity of Ireland's financial system makes us susceptible to 'tail risks'. These are, by their very nature, unpredictable. We therefore use analytical techniques to identify the sources of these risks and measure their potential size and likelihood of occurrence. This analysis feeds into policy decisions aimed at safeguarding financial stability in Ireland, with relevance for the assessment of Irish economic growth prospects and inflation.

The rapid growth in non-bank financial intermediaries for domestic and international financing has prompted us to analyse the potential costs and benefits from this activity. In particular, we consider transmission channels through which this sector can affect the functioning of the Irish financial system and economy. This analysis serves as a crucial input into the design of a policy framework tailored towards non-bank financial intermediation.

More generally, an important function of the financial system is to play a sustainable role in intermediating funds from savings to investments. Our research will seek to understand the frictions and opportunities that determine the extent to which the financial system is sufficiently meeting this crucial function.

The economic shocks related to the pandemic, the war in Ukraine and the cost-of-living resulted in significant financial dislocation and the introduction of a large number of policy measures. We are considering the potential legacy effects of these shocks in terms of distressed debt and the implications of this for the financial system and wider economy, and the policy options for addressing this issue.

We analyse developments in residential and commercial real estate due to their macroeconomic importance, the interplay between credit supply and real estate prices, and the exposure of domestic financial institutions to these sectors. Our mortgage measures are a key pillar of our macroprudential policy framework, and the subject of a rich body of research on their costs and benefits.

Areas of focus:

- What are the 'tail risks' facing the Irish financial system?
- What are the macro-financial implications of hosting an internationally-oriented financial sector?
- What are the costs and benefits of having such a large non-bank financial intermediation sector operating in Ireland?
- What are best options for dealing with distressed debt that may arise from the economic shocks of recent years?
- What are the macro-financial implications of developments in the residential and commercial real estate markets?
- How can engagement and regulations on product design improve outcomes for consumers (for example, dual pricing in the insurance industry)?
- What are the financing needs of the domestic economy, and is the financial system playing an appropriate role in fulfil its intermediation function?

New horizons

Climate change is a pressing issue that touches on all aspects of the Central Bank's mandates. To design appropriate policy responses, we first need a sense of the physical and transition risks of achieving net zero carbon emissions. This will allow us to assess the potential scale of Ireland's macro-financial exposure and benchmark the implications of alternative public policy initiatives to mitigate the damage.

The economic shocks of recent years have resulted in changes to the way we live, work and do business, both domestically and across the globe. It is not yet clear whether these adjustments will become permanent, but there are likely secular trends at play involving technological change and innovation, demographics and global integration that are necessary for us to understand better. We will therefore analyse trends and consider the economic and financial implications of any fundamental structural shifts and their influence on longer-term prospects for the Irish economy and financial system. For example, changes in the pace of change in technology and the diffusion of ideas, innovation and ways of working could influence productivity growth and in-turn longer-term prospects for sustainable growth in Irish living standards. Alternative paths for globalisation, including a more fragmented, multi-polar world could have implications for trade, capital flows and investment.

The rapid development of new technologies has implications for the real economy, financial inclusion and financial stability. Our research will aim to understand these effects, and inform policies to ensure that Irish living standards grow sustainably and that regulation remains fit for purpose. Digitalisation may also leave consumers vulnerable to exploitation and manipulation. We therefore seek to assess financial literacy and ability to keep up to date with the latest innovations in consumer products, as well as monitoring the extent and potential for consumer harm. Digitalisation is also having a fundamental influence on payments systems, consumer and business attitudes towards cash and other payment forms. The potential introduction of a digital euro also requires research and analysis to understand its impact and inform design.

Technological change, automation and globalisation are also fundamentally changing the way labour markets operate. Demographic change (natural and migration) can have large effects on the labour market and overall economic growth over the short, medium and long run. The Irish population is ageing, and this will have large implications for pension and social security systems and therefore fiscal policy and consumer behaviour related to pension decumulation. Better understanding the drivers of household savings behaviour more generally, and the domestic and European policy environment which may influence that behaviour, is particularly important in light of demographic change and wider investment needs to address structural change.

Finally, the distributional implications of public policy are becoming more relevant. A greater emphasis on distributional aspects facilitates a deeper understanding of

the way in which macroeconomic shocks and policies are experienced and transmitted, both across the population, and in aggregate.

Areas of focus:

- What are the physical- and transition-related risks of achieving net zero carbon emissions?
- What are the likely effects of shifting patterns of technological change, innovation, demographics and global integration on longer-term economic prospects?
- What are consumer and business attitudes towards cash and other payment usage? What are the potential macro-financial effects of innovations in payments?
- What are the implications of the distribution of income and wealth for policy design and policy transmission?
- What are consumer attitudes towards pension decumulation and savings/investment behaviour more generally, how have these changed?

Central bank frameworks

Measuring the outcomes of policy interventions is a notoriously difficult task. Yet, it is a vital component of ensuring our policies are fit for purpose. We focus our monetary policy research on priority areas such as policy communication, inflation expectations of households and firms, labour market dynamics, the transmission of policy through non-banks and monetary and fiscal policy interactions.

As macroprudential policy tools are relatively new, both in Ireland and internationally, we are focused on establishing the various transmission channels through which our policies affect the financial system and macroeconomic environment. As macroprudential frameworks mature, it is important to identify the benefits and costs of actions and the interactions between instruments – ultimately arriving at a holistic view of macroprudential stance.

Assessing the effectiveness and development of microprudential regulation and consumer protection policies is even more nascent. The continued growth in data science techniques greatly enhances the potential to derive empirical insights from these areas. But research and analysis is not necessarily quantitative in nature. Important lessons, in particular on the evolution of the financial system from the consumers' perspective can be deduced from more qualitative approaches such as surveys, interviews and focus groups with key stakeholders.

Policymaking is increasingly informed by insights from behavioural economics. Such analysis shows how decisions are often influenced by psychological biases and cognitive limitations. These have the potential to lead individuals to costly and systematic errors related to their financial decisions. Continued measuring and leveraging of such insights provides for better and more effective consumer policy design.

Understanding the drivers of changes in payments infrastructure, including access and attitudes toward the use of cash, is also necessary for us to inform our payments oversight role and our practical approach to managing the cash cycle.

Ireland hosts a diverse and large financial sector providing services both domestically and, to a larger extent, abroad. Both regulated and non-regulated entities are active. This presents broad-ranging issues to be considered related to the monitoring and understanding of the drivers of financial flows and the potential for financial crime, the risk/benefit of the size and complexity of the sector resident in the State, and the role of policy frameworks to protect market integrity and consumers interests,

We are particularly interested in the use of innovative new data sources and analytical techniques for policy analysis. One area where we have made progress using non-traditional data to better understand our effectiveness is in the use of text analysis algorithms to measure the impact of monetary policy communication. Further investment in such novel approaches will allow us to better exploit a wide-range of non-traditional datasets at our disposal. When combined with ever-evolving techniques for establishing causal inference, these data can help us assess the impact and effectiveness of our policies as well as our operational efficiency in all areas of our mandate.

Areas of focus:

- Leverage behavioural insights into the key themes of the Consumer Protection Code Review.
- Leveraging data science and economic analysis to support evaluation and development of prudential regulation and consumer protection policy, including in the area of financial crime.
- What are the costs and benefits of differing levels of infrastructure provision for cash and digital payment means?
- Measure the impact, including the communication approach on the effectiveness of policy action.
- What are the effects of regulation on competition? How does the regulatory framework impact the development and performance of global financial centres?
- What are the best institutional frameworks for central bank policymaking?



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