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Civic Society Roundtable

19th June 2020

Overview of this presentation

This presentation will provide an overview of the following areas:

- The Central Bank's response to COVID-19
- The Economic Outlook
- Promoting the welfare of the people of Ireland



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Central Bank's approach to Covid-19

- The breadth of our mandate - including monetary policy, financial stability, economic analysis, consumer and investor protection, macro and micro prudential supervision - enables us to harness collective, wide-ranging and deep expertise to tackle complex issues
- Covid-19 effects and risks are complex and intertwined and require effective international and domestic responses.
- Work in response to COVID-19 includes protecting consumers, monitoring macro-economic effects and risks, and ensuring the resilience and regulatory flexibility of the financial system



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The Economic Outlook

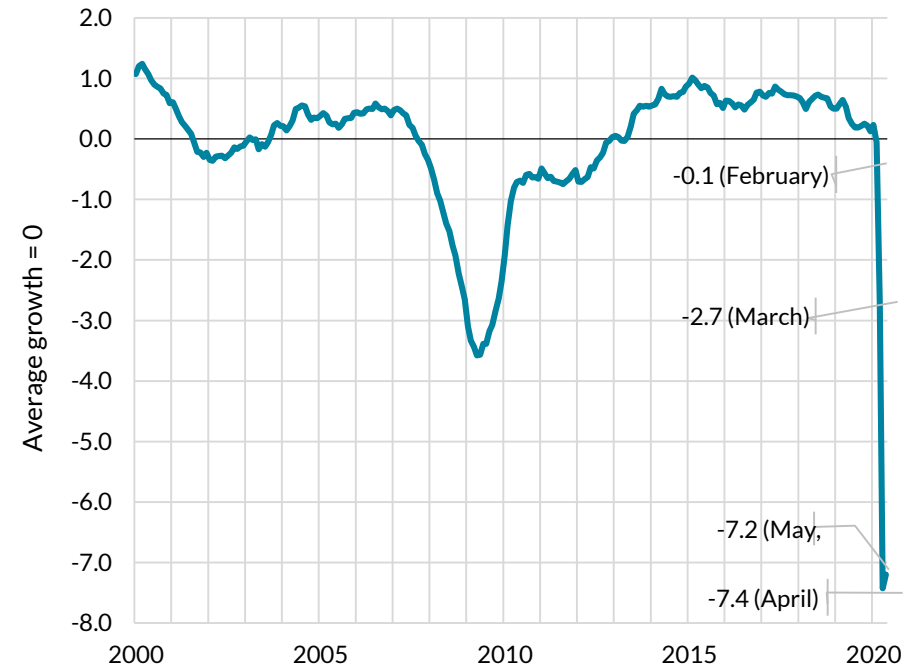


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The Irish Economy – is experiencing an unprecedented shock

- Covid-19 pandemic and measures to contain the spread have caused an **unprecedented contraction in economic activity**
- Forecast a substantial **decline in GDP in 2020**.
- **Consumption decline of 9 per cent** as consumers face two months with most retail closed and remainder of year restricted
- Using a business cycle indicator of the Irish Economy suggests that the **initial economic impact of the COVID-19 pandemic was both sharper and deeper** than the financial crisis of 2008/09.



Source: Conefrey & Walsh (2020)



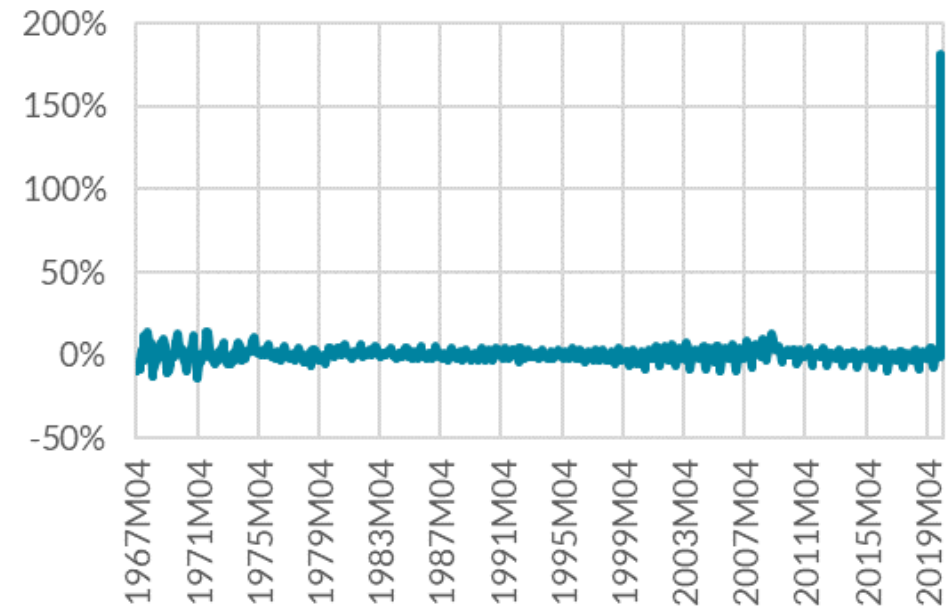
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...With a sudden and severe increase in unemployment

- Unemployment rate forecast to increase to 25 per cent, on average, in the second quarter
- In February, less than one in twenty people in the Irish labour force were unemployed.
- By May over one in four were out of work when we take into account those receiving the pandemic unemployment payment (PUP).
- Job losses related to the outbreak of COVID-19 have resulted in the largest ever monthly increase in social welfare claimants

Figure 1 Monthly Growth in Live Register and Pandemic Unemployment Payment Recipients



Source: Byrne, Coates, Keenan and McIndoe Calder (2020). [The Initial Labour Market Impact of Covid-19. Central Bank Economic Letter.](#)

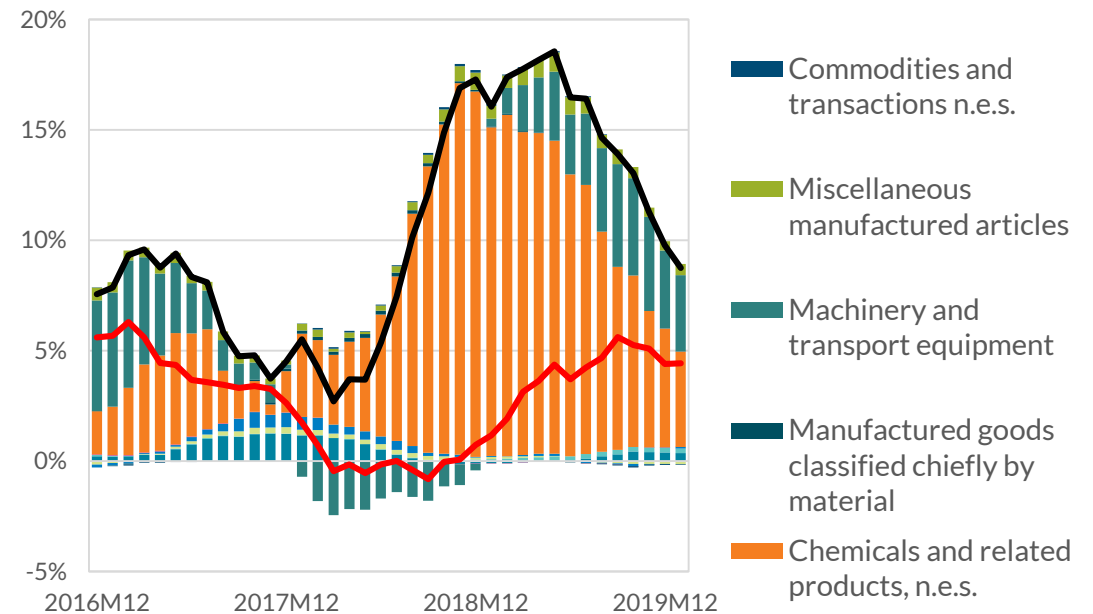


However not all sectors are affected equally...

Some Irish exporters will be hit hard by Covid-19 outbreak



But pharma, computer services and computer processors continue to grow at pace



Source: Eurostat

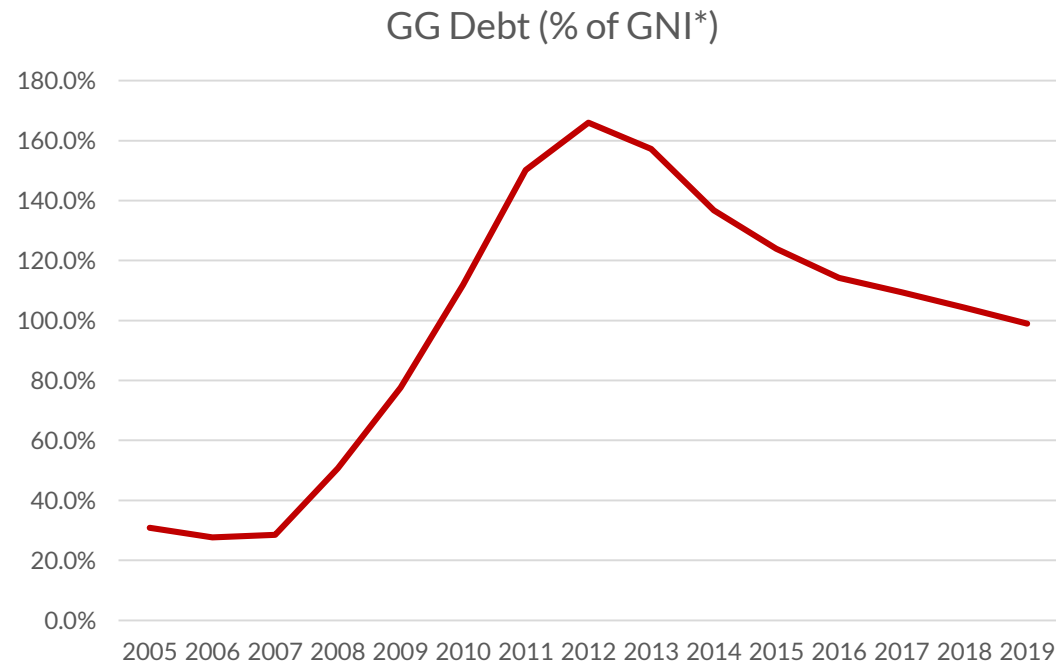


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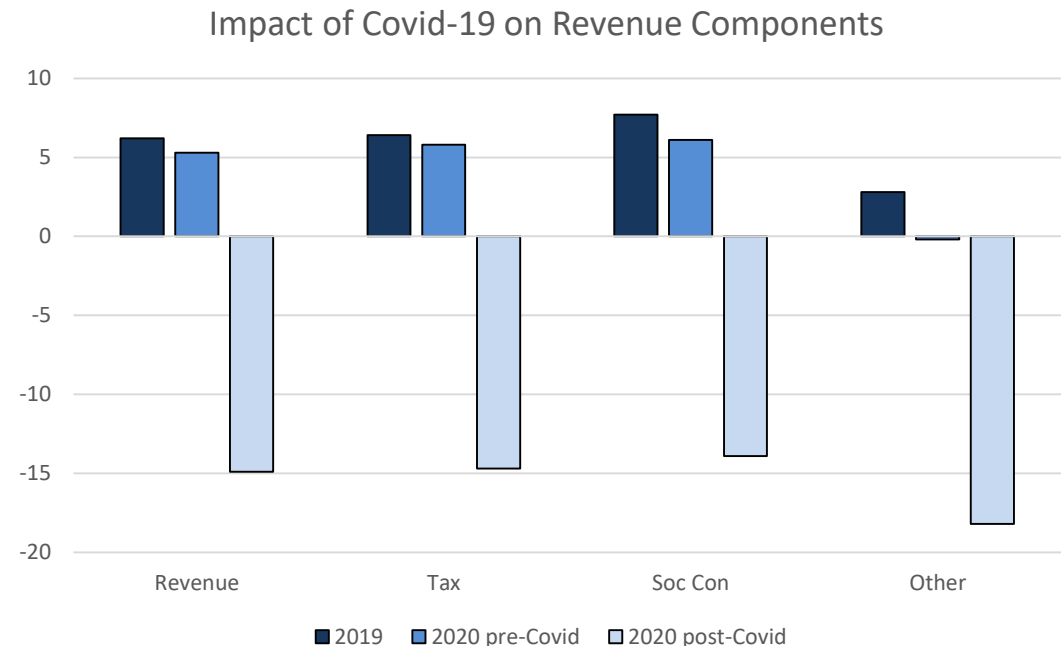
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And while the Public Finances had improved in recent years ...

General Government Debt was on a downward trend but still very high and the General Government Balance had moved into surplus, (0.6 per cent of GNI*)



Collapse in employment, earnings and personal consumption weigh heavily on government revenues



...the impact of the recession and necessary fiscal policy will be substantial



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Promoting the welfare of the people of Ireland as a whole

We have taken steps in the following areas to promote the welfare of the people of Ireland.

- Financial Stability
- Payment Breaks
- Insurance Cover
- Investor Protection



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COVID-19

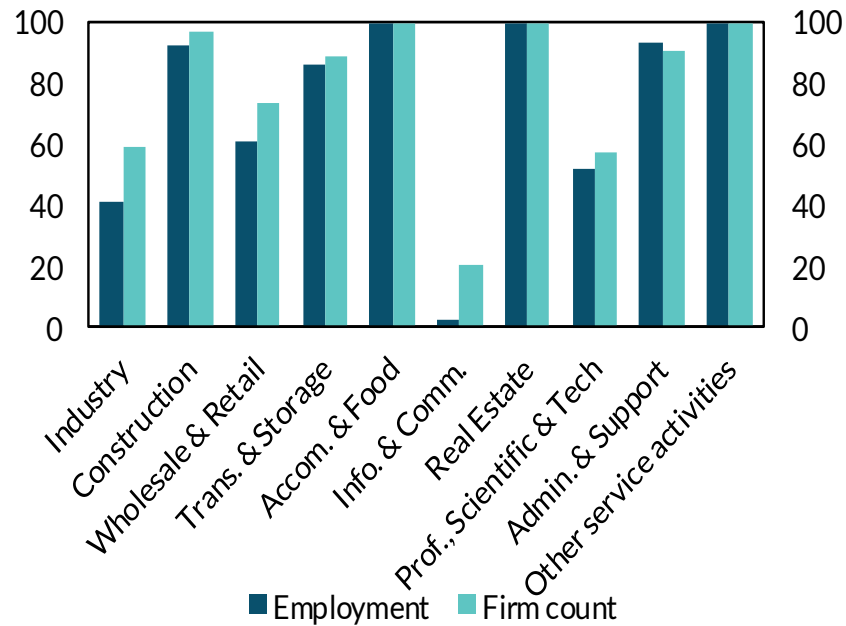
Financial Stability Review

2020: I



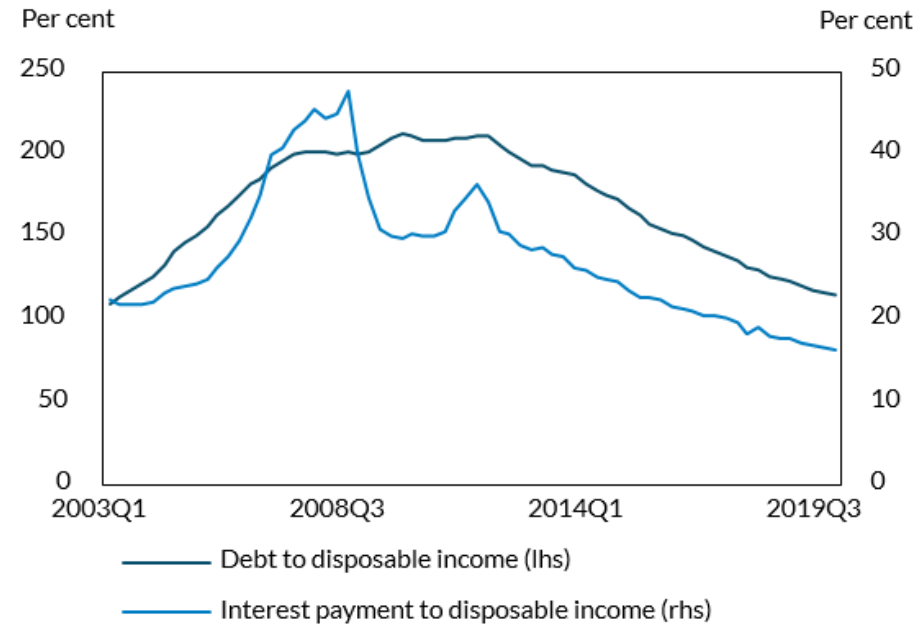
Income supports, payment breaks and liquidity supports eased initial stress ... and households are entering the crisis from a much better financial position

Over 200,000 Irish enterprises operating in sectors with significant exposure to the shock.



Source: Financial Stability Review, 2020:1, Central Bank of Ireland

Aggregate debt to income and debt service ratios have fallen substantially over the past decade



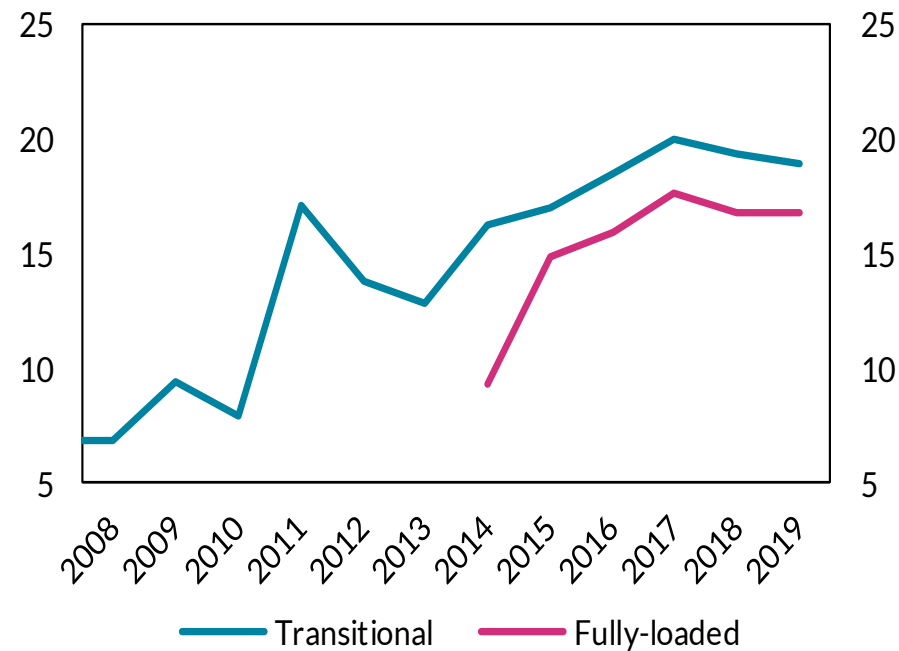
Source: Financial Stability Review, 2020:1, Central Bank of Ireland

...but the risk remains of liquidity turning to solvency issues



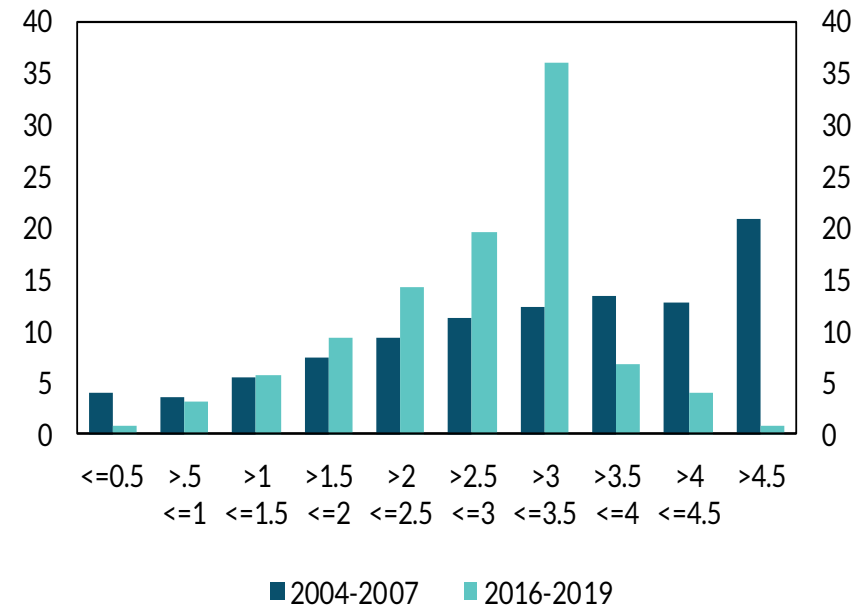
Retail banks are in a stronger position than at the onset of the last crisis...

Capital ratios are much higher than in the pre-crisis period and the quality of capital has improved



Source: Financial Stability Review, 2020:1, Central Bank of Ireland

Mortgage lending has been significantly less risky in the run-up to the COVID shock than in the run-up to the last crisis



Source: Financial Stability Review, 2020:1, Central Bank of Ireland

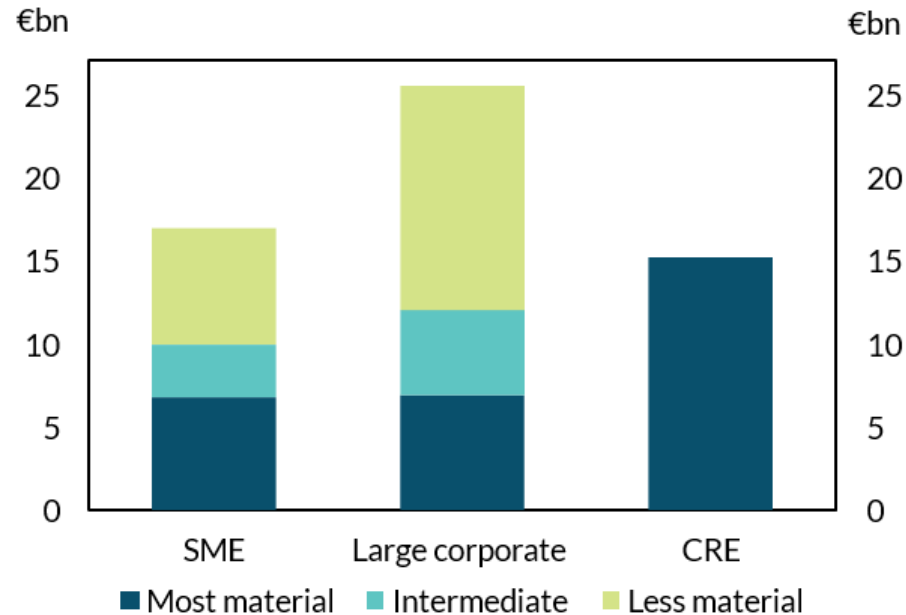


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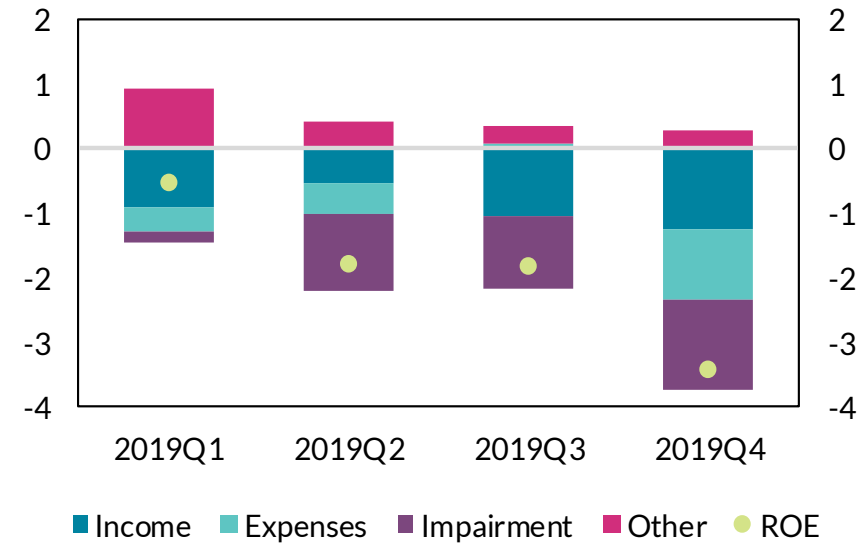
However losses are expected on vulnerable credit exposures...

The banking system has significant exposures to companies most affected by COVID-19



Source: Financial Stability Review, 2020:1, Central Bank of Ireland

Profitability had fallen in the run-up to COVID-19



Source: Financial Stability Review, 2020:1, Central Bank of Ireland

Substantial capital buffers are there to absorb losses and maintain credit supply, but bank resilience is not unlimited



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Resilience of the Financial System

- A resilient financial system provides the foundations for protecting savers, borrowers, investors, insurance policyholders, and supporting economic growth.
- Our work over the last decade of rebuilding and increasing the financial and operational resilience of the Irish financial system. This work has:
 - Reduced the risk of over indebtedness;
 - Driven the build-up of buffers in the banking system that can be used now to absorb losses and continue to lend during this shock;
 - Improved governance, risk management and operational resilience such that the financial system has continued to operate under this severe operational stress; and
 - Built robust frameworks to ensure that the best interest of consumers and investors are protected.



Expectations of Regulated Firms

The Central Bank has engaged with representative bodies and individual regulated firms to ensure that our expectations of how the financial services industry responds to the pandemic are understood and being met.

We expect firms to

- Continue to meet their regulatory and statutory obligations on an ongoing basis
- Take a customer-focused approach to support customers to the greatest extent possible during this time
- Have a comprehensive understanding of risks to their businesses so they understand what is need to ensure that they can continue to serve their customers
- Review existing and identify potential actions to protect their businesses and their customers if they do experience financial or operational issues that threaten the continued operation of the business
- Act responsibly in protecting their staff and customers in line with the government's

health advice.



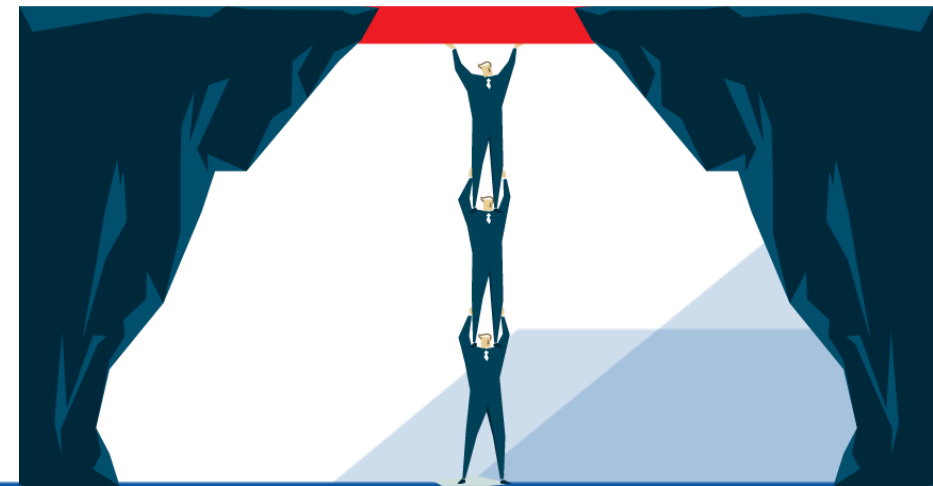
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Loan payment breaks during the pandemic

- Payment breaks of up to six months are available for consumers and businesses
- Lenders must give customers sufficient information on how payment breaks operate
- Borrowers to be given option to repay the loan within remaining term /extend the term
- Breaks not specifically identified on borrower's credit report on the Central Credit Register
- Not all borrowers may be able to repay their loans when breaks expire. In such cases, we expect lenders to:
 - Ensure appropriate solutions, including forbearance, are available and to engage with borrowers
 - Assess prudently the level of distress in their loan books and in provisioning levels



Insurance cover

- Most policy wordings are clear in terms of what cover is provided and what is excluded
 - Where there is a doubt about the meaning of a term, the interpretation most favourable to the consumer should prevail
 - The Government advice to close a business in the context of COVID-19 should be treated as a direction
- Central Bank conducting extensive, detailed and robust programme of work
- We will hold leadership teams accountable for overseeing whether or not claims are covered



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Investor protection

- Essential that funds manage liquidity risk effectively and in a manner that is transparent to their investors
- Central Bank providing appropriate leeway to firms on certain reporting obligations in recognition of the current circumstances
- Firms must ensure that communications to clients and potential clients prominently explain the potential disadvantages and risks.
- Products that may have previously been considered suitable for sale to retail clients may no longer be suitable in the current climate



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The Central Bank response to date

- ECB's Pandemic Emergency Purchase Programme.
- Central Bank's release of capital buffers
- Payment breaks to give borrowers breathing space
- Expectations of insurance firms
- Our measures are designed to:
 - Ensure credit can continue to flow to consumers and businesses
 - Enable all sectors of the economy absorb the shock

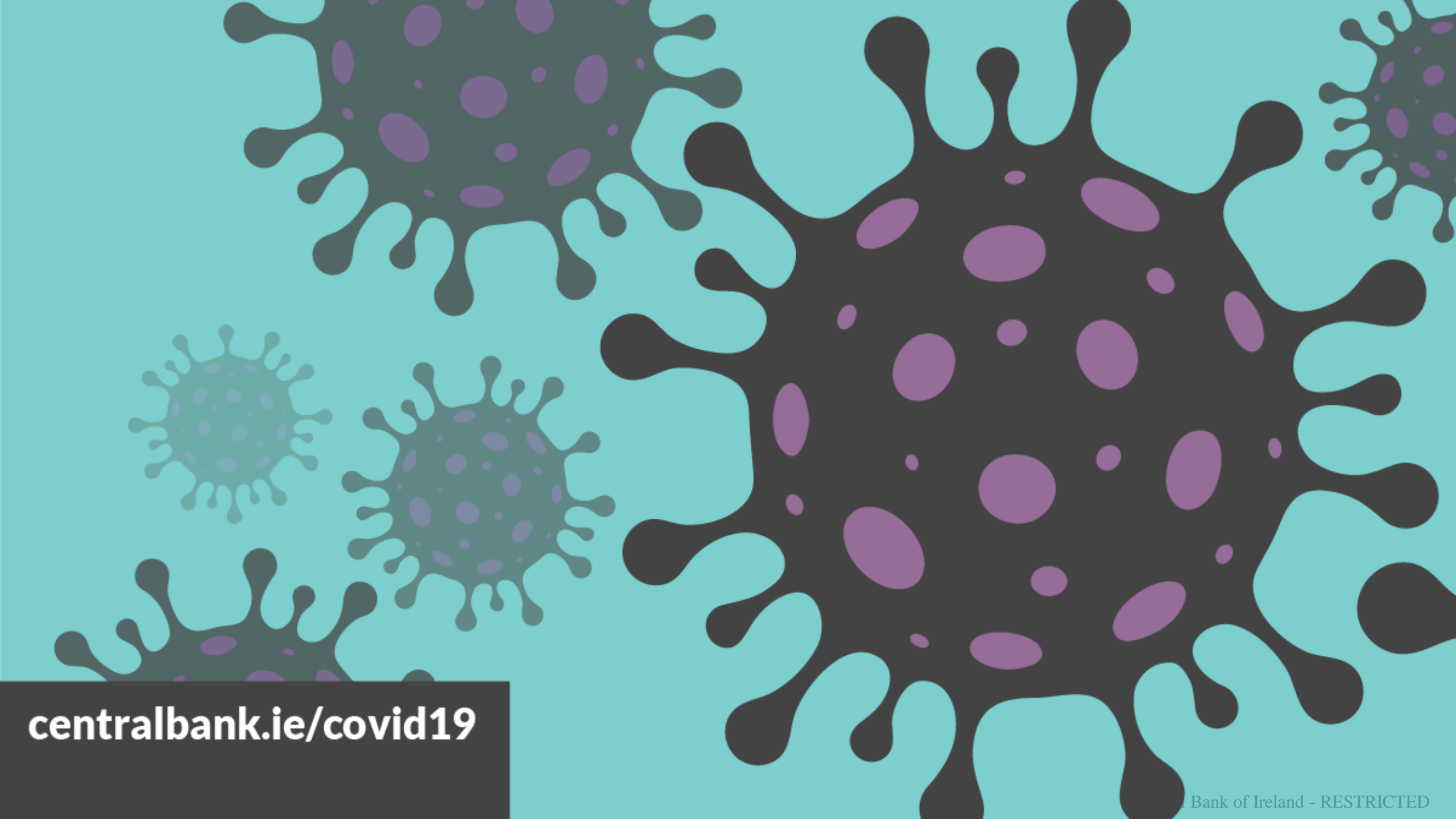


Our Response to COVID-19¹

Actions we've taken to reduce the impact of COVID-19

- 3 April**
 - ✓ Central Bank publishes Quarterly Bulletin 2 2020
Impact of COVID-19 on Irish economy assessed
- 2 April**
 - ✓ Central Bank of Ireland COVID-19 Information Hub
Launch of new online hub containing information for consumers, SMEs and regulated firms
- 30 March**
 - ✓ ECB statement on bank dividends
Euro-area banks asked to freeze dividend payments, buybacks and other shareholder rewards
- 27 March**
 - ✓ Central Bank letter to insurers in light of COVID-19
Insurance companies instructed to treat customers fairly and accept claims where there is insurance in place
- 19 March**
 - ✓ Central Bank meets with Banking & Payments Federation Ireland and five main banks
3-month payment breaks agreed for consumers and businesses
- 18 March**
 - ✓ ECB announces €750bn bond purchase scheme
New asset purchase programme to support euro-area economy
- 18 March**
 - ✓ Central Bank reduces Countercyclical Capital Buffer (CCyB)
Key buffer for Irish banks reduced from 1% to 0% to support flow of credit to economy
- 12 March**
 - ✓ European Central Bank (ECB) Monetary Policy Decision
Package of measures announced to support bank lending

¹ Includes measures announced by the European Central Bank, of which the Central Bank of Ireland is a member



[centralbank.ie/covid19](https://www.centralbank.ie/covid19)