Civil Society Roundtable

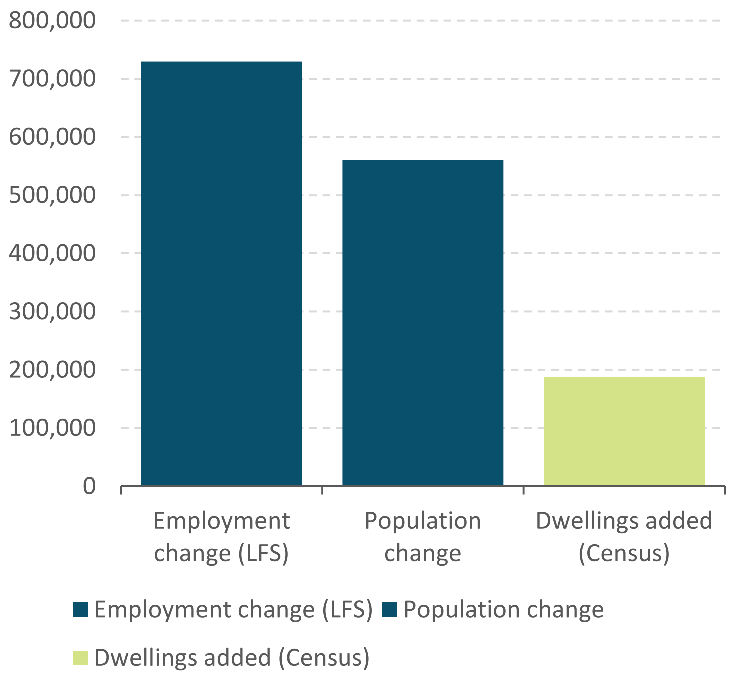
16 October 2024

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Economic Policy in the Irish Housing Market

While housing supply has risen rapidly in recent years, there is a decade of excess demand and growing demand pressures

The increase in both the population and employment far exceeded the new additions to the housing stock between 2011 and 2022



Source: CSO, Central Bank of Ireland calculations

Increase in the region of 20,000 from 2023 levels need to meet demand of higher population levels, smaller households and catch-up for currently unmet demand

	M3	M2	M1	M1 headship convergence (by 2050)	M1 fast convergence (by 2035)
Population in 2050	5.8mn	6.3mn	6.8mn	6.8mn	6.8mn
Average completions 2023 - 2035	33,000	37,000	42,000	**54,000**	68,000
Average completions 2023 - 2050	27,000	34,000	39,000	**52,000**	52,000
New dwellings by 2050	754,000	948,000	1,102,000	1,461,000	1,461,000

Source: CSO, Central Bank of Ireland calculations.

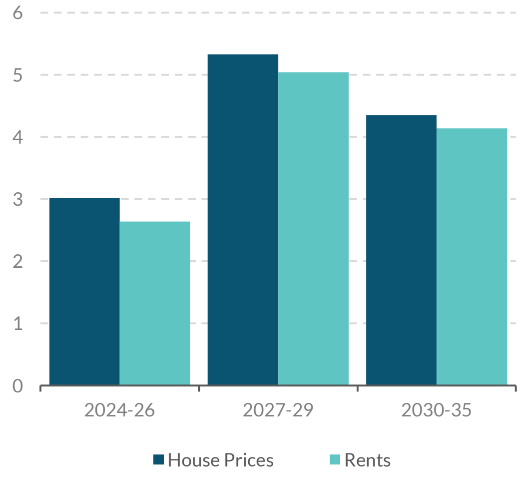
Notes: M1, M2, M3 are the net migration scenarios from the CSO population and labour force forecast. M1 is the high net inward scenario - 75,000 in 2023 tapering to 45,000 people by 2028. M2 is the middle scenario net inward migration - 75,000 in 2023 tapering to 30,000 people by 2032. M3 is the low long-term net inward migration scenario - 75,000 in 2023 tapering to 25,000 people by 2027 and 10,000 people by 2032. In determining these scenario parameters, the CSO both considered the most up to date data as well as the guidance of the Population and Labour Force Expert Group. Headship convergence is modelled as moving form the current level of 2.4 to UK level of 2.1. Completions include obsolescence of 0.25% of 2022 stock per annum.

Inaction bears a high cost for households but delivering requires careful management of economic capacity

With no supply response, cost of living increases through higher rents

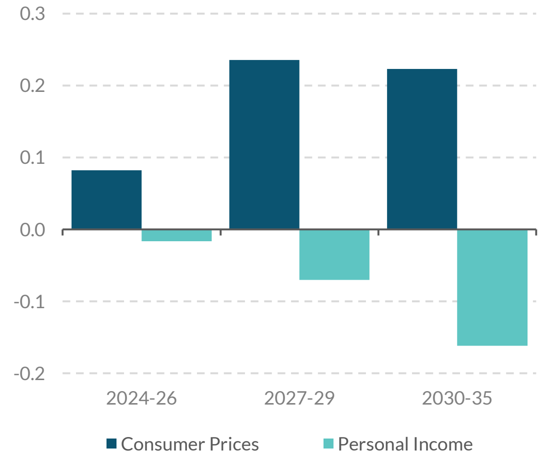
House Prices & Rents

Deviation from baseline (Percent)



Inflation & Real Income

Deviation from baseline (Percent)



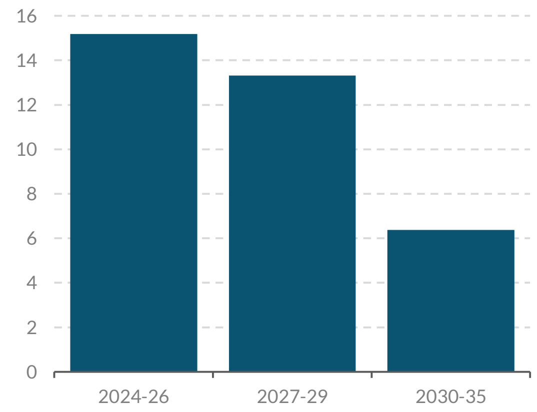
Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. To illustrate the economic effects of persistent unmet housing demand, we impose an increase in the share of 25 to 39 year olds in the population to match the higher levels of structural demand on slide 8 (M1 headship convergence (by 2050)) but holding housing completions at their baseline level.

With a supply response, the large increase in demand for construction workers creates competitiveness pressures.

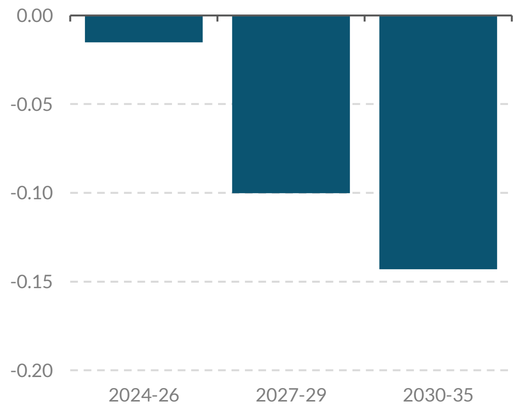
Construction employment

Deviation from baseline (Percent)



Traded Sector Output

Deviation from baseline (Percent)



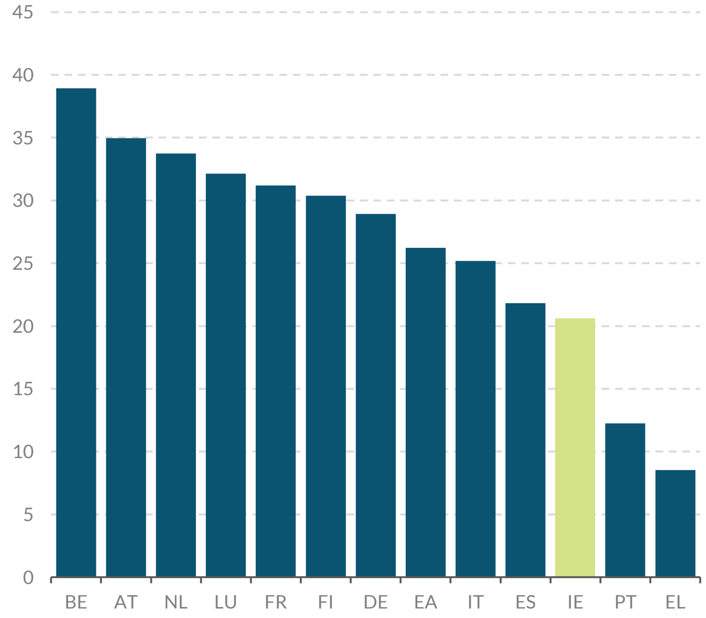
Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. This scenario includes both an increase in demand based on slide 8 and a fully supply response - 'M1-UK_Supply' or an additional 19,000 new houses.

Enhancing scale and productivity in the construction sector materially reduces the competitiveness risks of higher housing output

Construction sector productivity in Ireland below euro area average, and amongst lowest of EA12.

Gross value added per hour worked, 2022

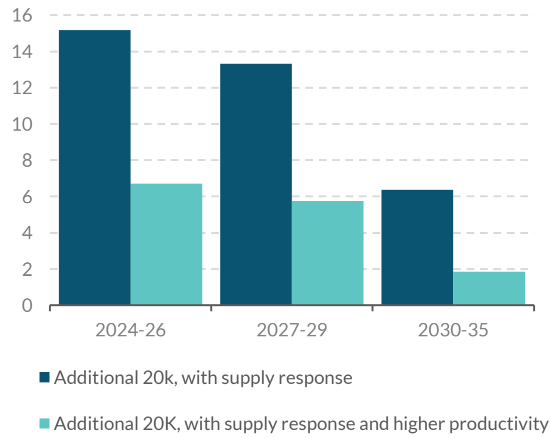


Source: Eurostat. Central Bank of Ireland calculations

Raising productivity in the construction sector reduces labour demand and can mitigate loss in competitiveness by ameliorating cost pressures

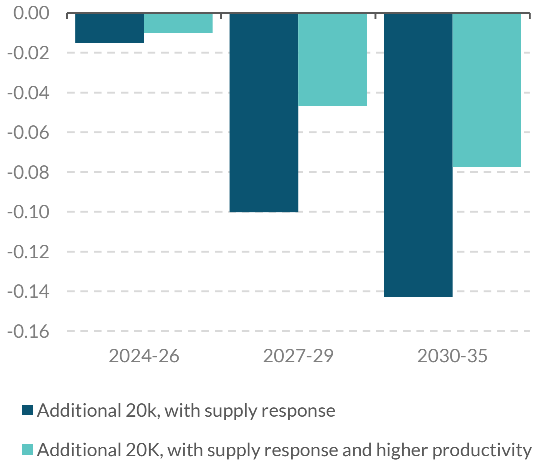
Construction Employment

Deviation from baseline (Percent)



Traded Sector Output

Deviation from baseline (Percent)



Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. The shock is calibrated as a permanent 10 per cent increase in labour-augmenting technology that is layered on the 'M1-UK_Supply' scenario outlined slide 9.

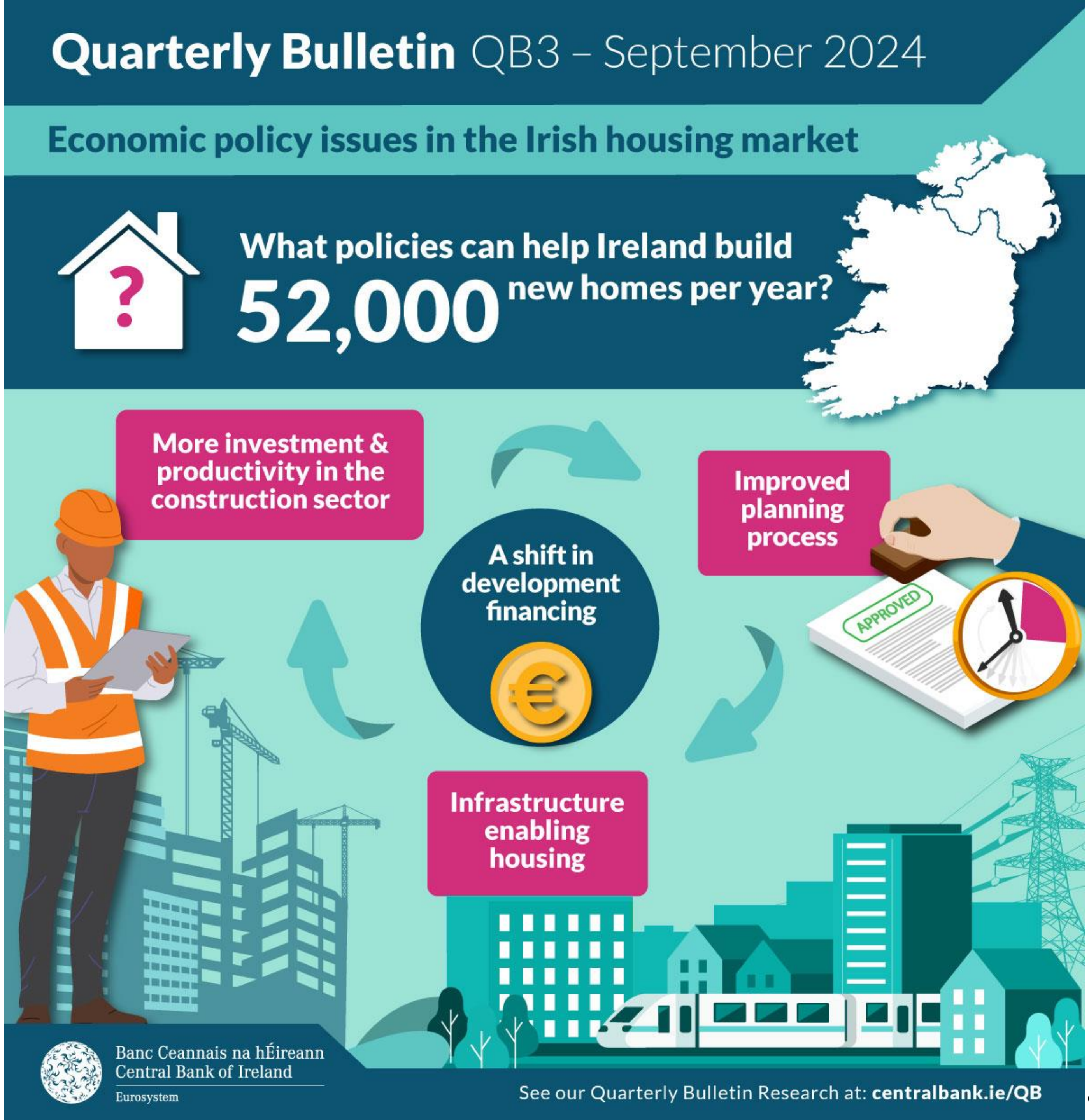
Policy action can support the viability of delivering more new homes

- The ability to deliver ~50,000 new homes fundamentally hinges upon making construction **both financially and practically viable**.

- Such viability is linked to three interconnected pillars: **Preparation** of zoned and serviced land, an efficient **planning processes**, and construction **productivity.**

- Multifaceted approach encompassing fiscal and non-fiscal policy interventions
  - Carefully calibrated to ensure macro stability & fiscal sustainability, but clear motivation to prioritise capital spending to create 'build ready' serviced land.
  - Efficient planning system to enable delivery and avoid macro and private investment cost of delays.
  - Prominent role for productivity enhancement in policy design.

- Will require an estimated **additional €6.5-€7 billion euro in development financing** over 2023 levels.
  - Diversity of financing is essential across the State, international investment and the domestic banking system.
  - Domestic banks, non-banks lenders and the State (HBFI) have capacity to provide additional debt financing.
  - Indications suggest a lack of equity in the homebuilding sector is a challenge to growth.


Quarterly Bulletin QB3 – September 2024
Economic policy issues in the Irish housing market
What policies can help Ireland build 52,000 new homes per year?
More investment & productivity in the construction sector
Improved planning process
APPROVED
A shift in development financing
Infrastructure enabling housing
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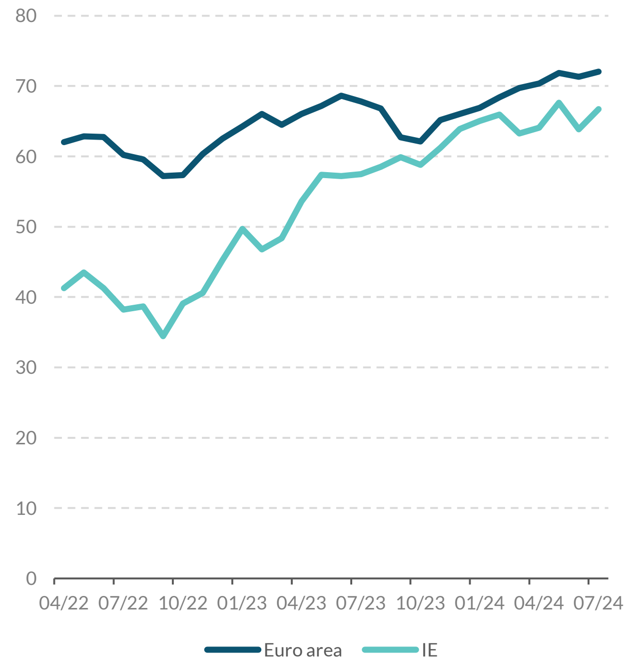
See our Quarterly Bulletin Research at: centralbank.ie/QB

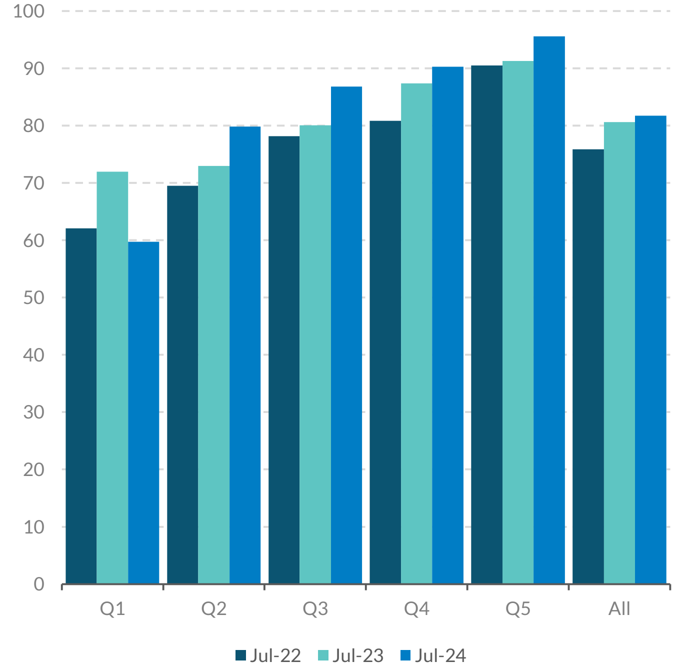
Irish households optimistic about financial situation over next 12 months with increase in proportion planning to save – differences across HHs

Irish households are increasingly optimistic about their personal financial situation, but a third still expect to be worse off over the coming year



Source: ECB (Consumer Expectations Survey), July 2024
Note: Share of households who expect their personal financial situation to be similar or better off a year from now (%).

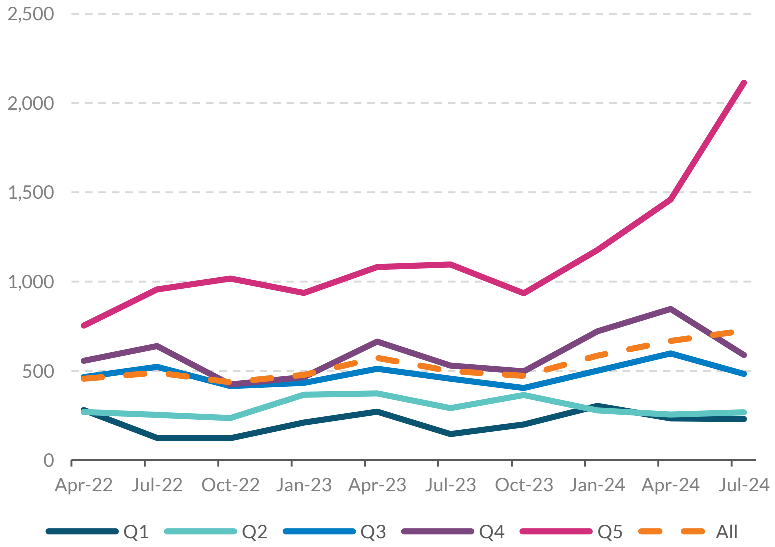
Share of Irish households planning to save has been rising



Source: ECB Consumer Expectations Survey, July 2024.

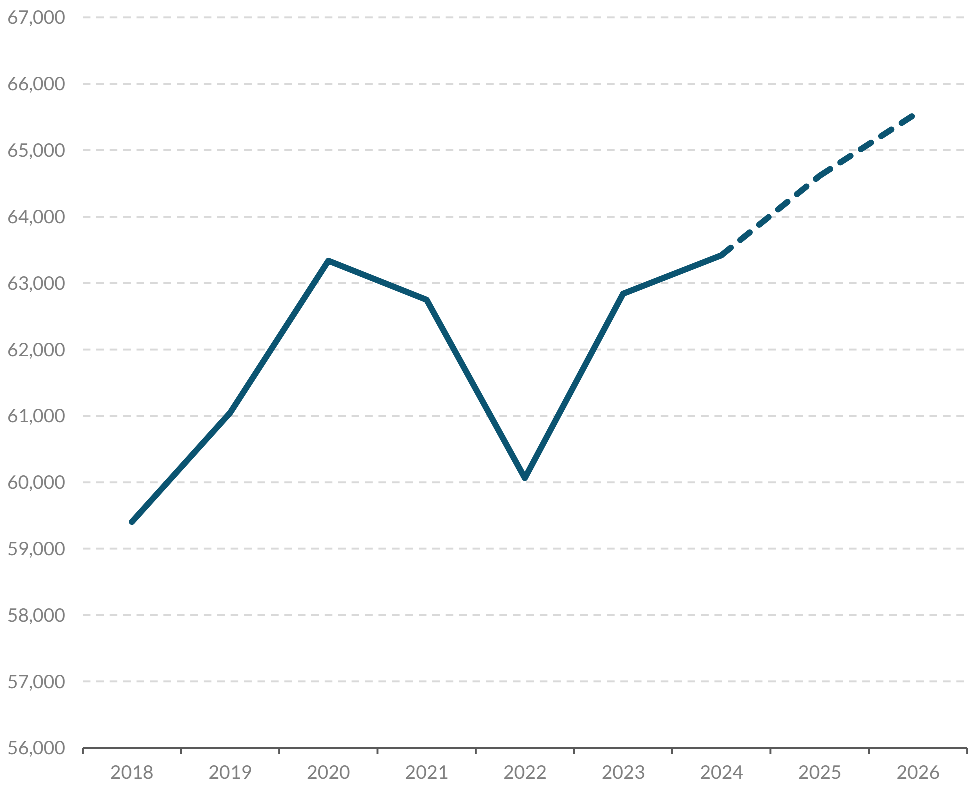
Note: Data reflects respondents who reported "Yes, definitely" and "Yes, probably" to the CES question

Savings flows concentrated among higher income households



Source: ECB (Consumer Expectations Survey), July 2024

Real disposable income per household restored to 2019 level in 2023 with further gains projected



Source: CSO, Central Bank of Ireland.

- However, previous analysis by the Central Bank in QB4 2023, comparing the real income profiles of households over the past two decades highlights the heterogeneous impact of the recent period of high inflation on households at different points in the income distribution. E.g., results suggested:
  - Real disposable income of households in the first quintile in 2023 was similar to 2017 levels.
  - Improvement along the distribution, with households in the third quintile showing a real income profile in 2023 that sits between its 2019 and 2020 profiles
  - Households in the top quintile have higher real incomes than in all previous years.

Discussion

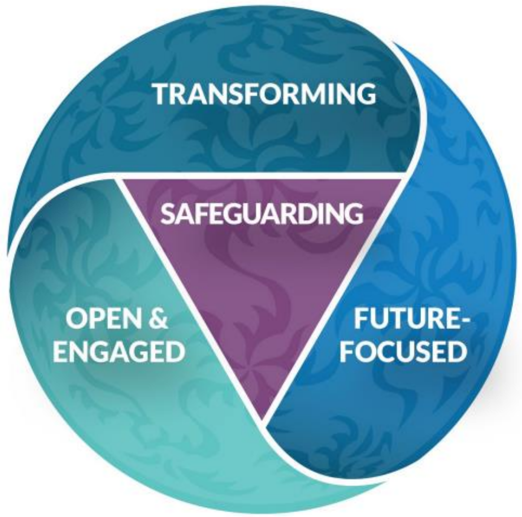
- What are the biggest issues and concerns for your organisation in relation to the Irish housing market?

- What is your organisation’s view of the policy interventions being recommended by the Central Bank?

Transforming Regulation and Supervision

Why we are changing…

- Our strategy recognised, that **we are operating in a far more complex and interconnected financial ecosystem** than before – and that the pace of change is accelerating.
- The **growing pace of digitalisation** and the development of **new, innovative business models is reshaping the risk context** of the sectors we supervise and the consumers we protect.
- The financial sector continues to grow in size and complexity – as does our expanding regulatory and supervisory responsibilities.
- In order to continue to effectively deliver on our mandate both today and into the future, we are changing our approach – to ensure consumers of financial services are protected in all respects in this changing and increasingly complex environment.



Transforming Regulation and Supervision

- To address these challenges, we have been working to transform our approach to regulation and supervision. A key part of delivering this has been development of a new supervisory model, which:
  - Recognises the **inter-related nature of our mandate –** in particular our four safeguarding outcomes of financial stability, consumer and investor protection, safety and soundness and integrity of the system;
  - Leverages and aligns with **international best practice** in terms of integrated supervision and utilises a **partnership approach between integrated supervisory teams and experts in specific areas of risks** (e.g. consumer protection, financial resilience, governance etc.);
  - **Maximises our resources through integrated supervision, planning and engagement** –more effectively and efficiently ensuring that the financial system operates in the best interests of consumers and the wider economy
  - **Takes an integrated view of risks** – reflecting how risks manifest themselves in the system and firms.

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Overview of Supervisory Approach

Single supervisory strategy strategic plan per sector / firm

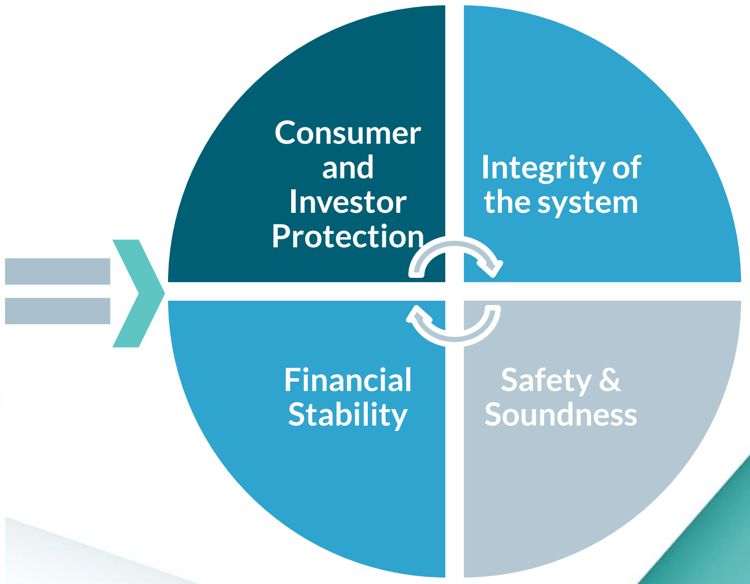
Partnership approach to supervision – leveraging benefits of deep risk expertise and depth of sectoral/firm expertise

We consider risk and **work in a more integrated, holistic** way. Whole of sector/firm views to drive our effectiveness

'**One voice**' is heard from the Central Bank - **coordinated, consistent messaging** across the full span of our supervisory mandate

More acute application of **supervisory risk appetite – greater agility** in moving between programmatic and escalated supervision

Greater emphasis on **sectoral approach,** but maintaining **dedicated** firm supervision for most **significant firms**



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New structure to support new approach

- A new structure is necessary to enable our new integrated supervisory approach.
- The structure will include seven directorates, which will report into the existing Deputy Governors for Financial Regulation and Consumer and Investor Protection:
  - Three directorates responsible for sectoral supervision; a Banking & Payments Directorate, an Insurance Directorate and a Capital Markets & Funds Directorate. All three directorates will have **integrated teams responsible for all elements of our mandate and supervising risks as they relate to the sector**. This means supervising to protect consumer and investor interests, safety and soundness and the integrity of the system at a sectoral and an individual firm level.
  - A Horizontal Supervision Directorate **working in partnership with the sectoral supervisory teams on a system-wide and thematic basis**. It will provide specialist input on key cross-sectoral risks such as conduct, behaviour and culture, anti-money laundering and terrorist financing, financial resilience, operational resilience and technology risks.
  - A Supervisory Risk, Analytics and Data Directorate, a Policy and International Directorate and an Enforcement Directorate.

This new structure is illustrated on the next slide

Organisation structure to support new supervisory model

Executive Leadership Committee
including Deputy Governor – Financial Regulation and Deputy Governor – Consumer and Investor Protection

Safeguarding Financial Stability, Consumer & Investor Interests, Safety & Soundness, System Integrity

Banking & Payments

Insurance

Capital Markets & Funds

Policy & International

Supervisory Risk, Analytics & Data

Enforcement

Supervising for Consumer & Investor Interests, Safety & Soundness, System Integrity

Horizontal Supervision

How Consumer Protection is strengthened in this new approach

- **Consumer Protection is a core part of the Central Bank of Ireland's mandate**, which remains unchanged. The new model puts Consumer Protection **at the heart of day-to-day supervision**.
- **At a senior level**, responsibility for consumer and investor protection remains core to the role of Deputy Governor (Consumer and Investor Protection) Derville Rowland and the senior leadership team led by Governor Makhlouf. Furthermore, **our focus on the protection of consumers will be strengthened** by integrating and embedding it *explicitly* in the supervisory responsibilities of *all* the directors in the financial regulation area of the Central Bank.
- **At a team level**, the horizontal/vertical partnership approach will mean that we will have **dedicated consumer protection teams** in a horizontal conduct supervision division, as well as **supervisors supervising for consumer protection in integrated teams** responsible for the day-to-day supervision of firms.
- In addition to the revised Consumer Protection Code and the IAF – both of which seek to ensure firms are securing consumer interests in their actions – **the new supervisory model will allow us to do more, not less, to protect consumers**.

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