Journalist 1:

It says in the preamble to the report that the valuation in certain sectors seems stretched. I'm wondering which sectors you see valuation being stretched. And then when you spoke there about the paradox of the potential increase in property prices here whilst they're remaining to be very high levels of unemployment. I'm just wondering to what extent you see the further concentration of the property market in a very small cohort of potential buyers as also being a risk.

Governor Gabriel Makhlouf:

Thanks Robert. I'll invite Vas to come in in a minute specifically on your valuation point. But on the paradox question, I think the issue remains, and as I said in the opening statement, the fundamental issue here remains supply. So, the concentration of buyers I think I certainly recognise as a political issue. But for me, the big challenge that, and it's not a new challenge, it's not a new challenge. And actually, it's worth saying it's not a unique challenge to Ireland. Ireland, with a number of countries around the world are facing and certainly attractive cities in particular around the world suffer more than others. Is increasing the supply of housing and it's not something that can happen quickly and it's not something that can also happen easily on the evidence. So, I think that's where we need to continue to focus and from a Central Bank's perspective, I think we will you know, our main focus is to ensure that this lack of supply and the potential at the moment of increased liquidity for the reasons I said. Our focus will make sure that it doesn't cause us financial stability problems. I mean we are determined to avoid the mistakes of the past here. And you know, as I've said before and I'm very happy to repeat, this is all about avoiding ultimately reckless lending and reckless borrowing. But the issue of housing market will fundamentally only be resolved when supply increases. Vas, do you want to come in?

Vasileios Madouros:

Yeah, thanks. So, on valuations we are very much referring to segments of global financial markets. So, we have some material in the report for example on pricing in corporate debt markets and what's happened to corporate bond spreads in kind of high-yield segments where you can see that spreads or the pricing of risk is now basically at levels that it was before the pandemic despite the fact that we are exiting this pandemic with higher levels of indebtedness for parts of our global corporate sector as well as some kind of issues around the damage of the shock on some parts of the corporate sector. You also see some of these issues in parts of the global equity market. So, we have some material in the report on price to earnings ratios in certain kinds of sectors, in global equity markets… of course, that all kind of is related to the level of interest rates. So, take into account the current level of interest rates are at valuation of risk-free bonds, kind of overall valuations don't look that stretched but it does point to kind of possible vulnerability of global financial market valuations of expectations around the buffer interest rates. Thanks.

Journalist 2:

Given what you're saying about the likely pressure on house prices over the next few months and years, does this mean that a loosening, a potential loosening of the lending rules is now less likely given the risks that are posed by I suppose stretched house valuations to income and so on? And secondly, as regards to non-bank lenders. You seem to be a little bit concerned perhaps that their business models haven't been tested and that they're potentially going to be stretched by a global shock. Can you say more about that? Thanks.

Governor Gabriel Makhlouf:

Sure. I'll just kick off by repeating a little bit of what I've already said. I mean when the mortgage measures have been successful, we learned lessons from the last crisis. The mortgage measures have played an important role in ensuring financial stability and ensuring households have been in a resilient enough position and the financial system allow to be in a resilient financial position, to cope where we have the biggest economic shock the planet, the country and the planet has seen. So, the measures have played their part in all this and they're a permanent feature of the system. We look at them every year. Every year we see what's happening and we calibrate them and we're going to carry on that particular process while we do the overall framework review. But the fact that the measures have worked in the past and have worked in a particular way in the past does not automatically mean that in a world where the financial system and the economy are changing pretty rapidly, that we can be absolutely certain that they're going to work in exactly the way they worked in the past in the future so this review is about making sure they're fit for purpose for the future. What will it mean in terms of changes? Well, let's do the review, but I think it is worth underlying and reminding everybody why the measures are there. The measures are there to avoid reckless lending and avoid reckless borrowing and they're fundamentally there to make sure the financial system in particular can continue without … in a big shock without causing the sort of distress to the whole country, that happened after the last crisis. So, I'm not, I'm not jumping to conclusions of what either our next annual calibration towards the end of this year is going to arrive at now what the review will ultimately arrive it. I'm very clear that as a permanent feature of the system, it's good that we look at the way the framework as a whole is working and make sure it's fit for purpose for the future. On non-banks, I mean I have been making this point now for some time and it's less … my own concern is less about non-bank lenders so much as the whole of the non-bank sector which has grown enormously in Ireland. It has … within Ireland it has a particular focus on commercial property and we published some analysis earlier this year on that. It has a very big focus on international economy and I think we are one of the largest locations in the world for marketplace finance. I've been concerned about the financial stability implications of that now for a while. The rest of the world is now also worried about the financial implications of that, they learnt it from the first few weeks of the pandemic back in March 2020 there were clearly some money market funds in particular were under huge stress which was only relieved by the actions of central banks. What that … and what it taught the rest of the world is that change is needed, that we cannot rely on central banks to help the non-banks, marketplace finance, money market funds in particular to survive through a shock. One of the things that we needed was a new macroprudential framework for non-banks. So, I talked about that last year. One of the interesting things that struck me about the IMF meetings back in April was the fact that it was one of the major topics of conversation in various fora so, it's a focus of the international financial regulatory community now. So, that's the particular issue for me that we're focused on.

Journalist 3:

Can you talk a little bit firstly about the sector as we see at being at the greatest risk as the pandemic supports are tapered? We went through the slides a little earlier around the fact that the corporate insolvencies have remained low throughout the pandemic to date. What sort of levels do you expect that they might reach over the coming six to twelve months and again which sectors do we see as being at greatest risk, and from a policy point of view is there anything that can be gone to alleviate some of the stress that will be on those firms or is it a case that it is actually healthier for the economy that those who are no longer viable go out of business and I think you've mentioned in your piece that that reallocation happens from there? And then secondly just picking up on the point that you were making around the concerns and the regulatory framework around the non-bank sector and specifically the property funds operating in Ireland, you've kind of outlined your concerns, I suppose, can you just talk us through some of the work that the Central Bank is doing to address those concerns and the gaps that are in the regulatory framework as it stands currently?

Governor Gabriel Makhlouf:

Sure. I will actually invite Vas to answer your question, your second question on the work we've been doing because he is leading it. On your first question, I mean the sectors at greatest risk are the ones that I think all of us are very familiar with. They are the sectors that have relied on, that rely on face-to-face contact in particular. So, in hotels, in tourism, airline sector, all of those that have been most affected over the past 15 months or so, they've been supported in particular by a range of measures, as I said earlier. Some of them will, before the pandemic, have actually been on the verge of viability. So, the challenge now as we start to come out of the pandemic will again just as I put in my statement, when I spoke earlier, will be how those supports that they've had, some of them from the government, some of them from their lenders, some of them from other creditors – bear in mind, it's not just simply one-way – how are those supports withdrawn? One of the things we've been saying now since the start of the pandemic is the importance of avoiding the cliff-withdrawal. We've also been emphasising the importance of targeting those supports. I think as we come to the end of the supports, and as I said earlier, we do expect lenders, for example, to be thinking carefully and to be very engaged in terms of the impact on their borrowers. The government has indicated it is looking to avoid a cliff-edge of its supports. And hopefully other creditors will also be taking a similar view and approach. But targeting, I mean this is when, you know, the complexity of the judgements need to come in. What is, what's a viable business and what isn't? And that will be a question, initially actually for the owners of the business to be thinking about their business proposition, as well as the lender and other creditors, et cetera. And obviously customers will be giving a view by their own actions consumers will be giving a view by their own actions, but I think it's important that the lifting of the restrictions and the supports is done in as targeted a way by everybody as possible, but at the end of the day, it is absolutely right that nobody gains if unviable businesses continue for too long. It is more important for everybody for the resources that would be used in those circumstances are reallocated in a way I said earlier. Now, how quickly that happens, et cetera, I mean that's, you know, there's no absolutely single answer to that but it's undoubtedly true. Vas, do you want to come in?

Vasileios Madouros:

Yeah, so on commercial property and property funds, maybe first thing to say is that this gradual trend that we've seen of increasing importance of the sector, investing in the commercial real estate market, entails both benefits as well as risk. So, on the benefit side, because we always balance these two, it does mean that we have a more diversified funding for the commercial real estate market, and reduced reliance on domestic investors funded entirely by the domestic banking system, which is a position that we found ourselves more than a decade ago now. So, there are also benefits to these structural changes. But in terms of risk and the work that we have been doing, everything, our objective is to be thinking about new growing form of financial intermediation to be resilient to shocks. So, we've been looking more closely at potential sources of financial vulnerability, such as for example, leverage in the property fund sector, and to a lesser extent, the possibility of liquidity mismatches in the sector, given how the liquid commercial real estate is an asset. So, the governor mentioned we've published material on this earlier this year, we also have some material on this in the report today. We do see that some of the… there's pockets in the property fund sector of more elevated levels of leverage. Issues around liquidity mismatches are more contained relative to what we see, for example, in funds. In terms of where do we go from here, as we've mentioned earlier, there is no established macro prudential framework, but our thinking is around what are the possible policy interventions to limit potential sources of financial vulnerability – for example, related to leverage. And then crucially, like we do with all of our policies, what are the potential benefits of that and the costs of that, and balancing those. Thank you.

Journalist 4:

My first question is, are there… you talked a lot about the latent distress of firms viable. I know it's been covered in a couple of questions. It's pretty clear that you were saying government supports have obscured a lot of damage that may be in the financial system. Are you concerned that bank stocks have been bid up by very enthusiastic investors who see that maybe there'll be a lot of write-backs on provisions that banks have taken – specifically the Irish banks which have been quite conservative in that regard? Are they getting over their skis on this? And is this something you'll be addressing with the banks ahead of their mid-year results, and then again at the full-year results? Second question is about the unprecedented amount of savings in the economy, from the lack of spending during the pandemic. Are you…? I know the Central Bank has done some research on this, but I just wonder if you might address whether you see the release of those savings perhaps compensating for the withdrawal of government support, and what role the financial system can play in being a transmission mechanism there. You seem to have concerns about banks being willing to provide credit as supports are withdrawn, which means that liquidity will just be stuck in the system without coming back into the economy in a productive way.

Governor Gabriel Makhlouf:

Thanks for that. I'll bring Ed in as well in response to your questions, specifically Sharon, on the second one on savings. Let's start with the savings one – this is actually a pretty complicated issue, and it's again not an Irish unique issue. We've been discussing it quite a lot at ECB governing council, trying to understand what the implications of those savings being used is going to be on the real economy. I think the proposition that the release of savings will compensate for withdrawal of government support, I'm not sure that… because I think clearly there's going to be a relationship there, but I'm not sure it's necessarily going to be euro for euro, or sector for sector. But I'll ask Sharon to come in on that. Let me just address your first question, because I wasn't sure whether what you were saying, what you would want us to be talking to the banks about. if investors have decided to bid-up the price of bank shares, because of what they think is going to happen, well there's a judgement they're making. And I think our job, as I'm sure Ed will tell you in a minute, our job is to make sure that the banks are functioning appropriately within the rules, and keeping to the right levels of amount of capital, etcetera. What market decides to do the judgement, the market is making, is quite a different thing. But I may have misinterpreted your question. So, Sharon, would you like to do the savings and then Ed?

Journalist 4:

I'll just clarify my question: it was less about the investors and more about their expectation that the banks will write-back conservative provisions they take. And my question was about what the Central Bank's disposition is on writing back provisions, given the uncertainties you've outlined in the review.

Deputy Governor Sharon Donnery:

Thanks – I'll basically just build on what the Governor said. So I think there are a couple of issues that we're looking at. So, one is, there's a level of uncertainty – so to some extent, we don't really know what's going to happen to those savings for a couple of reasons. As you know already, the savings are in certain sectors of the population that have less badly affected by the economy, so those who tend to be still working, and so on, those who are already maybe higher income households as well. And of course, the way that higher income households behave about savings is different to lower income households, for example. We know also that some of the savings are partly to do with the fact that people can't spend, so the inability to create demand, but also partly to do with precaution about the levels of uncertainty that we're living with. All of those things combined give rise to this uncertainty, and as the Governor has said, the work that we've been doing here, you've seen some of it, it's been published, and the work that we've been doing with the ECB about the effect on the economy, is trying to look really at scenarios about how this may play out. But it's also possible that given what we've been through, there will remain a certain level of precautionary savings where people are just nervous or apprehensive about the future and how things might turn out. A particular factor we're looking at of course is how those savings may play into the housing market. Then on the sort of mismatch point that the Governor makes, I think that's probably the key – because you're right, as the government supports are withdrawn, we hope of course as the economy is opening up at that stage and returning more to normality, but where people might spend those savings may not necessarily match the sectors and the areas that are the ones where the government supports were most needed. We also have the issue of whether, for example, people decide to go on foreign holidays, for example, and therefore they use their pent-up savings outside of Ireland, and therefore you get the sort of mismatch effect. So, these are the issues that we're looking at. On your point maybe more broadly about transmission through the banking system, in a way, the policy measures that we have taken, both in terms of monetary policy, through things like the long-term lending reoperations, obviously the interest rate environment, the Pandemic Emergency Purchase Programme and so on, all of these together are intended to make financing conditions as favourable as possible, so that banks continue to lend and continue to have the right conditions to be able to lend into the economy. That was coupled also with our own decisions around the countercyclical capital buffer, which you'll be familiar with, which again, is trying to make sure that we don't end up in this sort of situation of an unwarranted or unnecessary credit constraint in terms of banks fulfilling their role, the transmission role that you were talking about there. So, hopefully that's helpful, and I'll hand over to Ed on the provisions.

Deputy Governor Ed Sibley:

Thanks, Sarah. Thanks for the question. Just if I can make a few comments. Firstly, globally the pandemic is arguably getting worse, and even those countries that are ahead of the game in terms of vaccines are kind of impacted by what's happening at a global level as we see with the UK too. I think we do need a degree of caution while things are improving here to just kind of reflect on what's happening internationally given how connected we all are. Secondly, as the Governor has talked about and has called out in the report, that we are at a pretty important juncture, and predictable juncture in terms of as the health situation has improved in Ireland that those supports are rolling off. We have been engaging and supervising and working with the organisers, not just the banks, in preparing for what is going to happen now. Because it is somewhat predictable in that there will be a roll off of the supports and there will be some of that latent distress coming through for and then for the overall – the banks. What we expect, and I think we're broadly satisfied that this is the case, is that there is sufficient both financial and human resource within the banks to support the borrowers that are suffering and who have perhaps been most dependent on the government to support them, in the next phase of this crisis which is around trying to support them to move back to a viable position from a debt sustainability perspective. So, we have done a lot of work both on the kind of financial perspectives, so thinking about provisioning but also from an organisational and an operational perspective to make sure that those supports are in place and that the banks are engaged with their borrowers. And particularly important here in Ireland and are set up to hopefully make appropriate judgements in terms of supporting those businesses that need it.

Journalist 5:

I just want to ask a quick question here about the risk that you mentioned about global corporate tax rate for the Irish economy. I was wondering if you could just elaborate on that and whether you have any from the budget shortfall that that could lead to or any particular recommendations to mitigate the impact?

Governor Gabriel Makhlouf:

Well, thank you for your question. Just a couple of things I think to… Just a couple of things to say in response. Firstly, at one level this is not a new issue for us. The Central Bank has now for a while been flagging to the government that the quite extraordinary corporation tax receipts in recent years should not be automatically translated into permanent spending, and certainly the government before the pandemic was setting some of those receipts aside for a rainy day. So, at one level it's not a particularly new issue. The second point I'd make, the government is, as I said earlier, Ireland's government is wise to be planning on a shortfall of corporation tax receipts in the future. I think right now when it comes to something like tax, and there's quite a lot of road to travel and I would encourage people not to sort of run away with definite conclusions too soon. The fact that some admittedly big countries have decided that they are prepared to push in a particular direction doesn't automatically mean that the remaining over 100 countries that are involved in the process are necessarily all going to agree. And for anyone who knows who's been involved in taxation, it's always the detail that ultimately really matters hugely. And as we actually saw last week, or the last fortnight anyway, from the day after the announcement that a particular course of action was going to be followed, we also heard that particular countries were looking for exemptions from their particular sectors. So, there's a long road to travel on this. From my perspective, the two main things are the government should plan and is wise to plan on the basis of a reduction in corporate tax relief. On the other hand, multinationals in Ireland have been here for a long time, so one shouldn't immediately conclude that they will leave and somehow corporation tax will disappear. Multinationals employ many people here. A lot of income tax paid in Ireland comes from people who work for multinationals, just as an example. Secondly, apart from being careful in terms of the overall fiscal management, I think it is worth emphasising that in all fiscal policy permanent spending needs to be matched with permanent income. So, I think that's something also that will need to be borne in mind. But there you are. It's a story… I mean, the tax story incidentally has been going on for a very, very long time and it comes and goes and no doubt it's got some way to run still.

Journalist 6:

Governor, last year the Central Bank predicted the influx of overseas money, high levels of debt against these assets, and the possibility of more people working remotely could hit real estate values, and the opposite has happened. What is the outlook for property prices as you see them and why?

Governor Gabriel Makhlouf:

The opposite? Is that right? Well, my main response to that is it's too early to predict that structural changes that will come out of the pandemic. Remarking on whether remote working was going to be a permanent feature, whether city centre retail was going to disappear. I was chatting to Sharon this morning as it happens about the whole issue of remote working, and one of the interesting reflections on where we were a year ago and where we are now is that there is… I think a year ago most people thought remote working was going to be a permanent feature of working life. I noted Morgan Stanley's Chief Executive yesterday said he expected everyone to get back to – this is in the US – to go back to the office in September, I think. Goldman's Chief Executive called remote working I think an 'aberration'. So there are different views around on this. So, what exactly… I think it's too soon to jump to conclusions. I think we will see once the restrictions are lifted the impact on life as we knew it. My own view, which I did say a year ago, is I think retail is more vulnerable than office property. Simply because I think the office will… my view is that the office will continue to be a working life, even if there is more remote working. Whereas I'm not sure where retail is going. And I'd challenge anyone who is very, very confident that they know on that particular issue.

Journalist 7:

You're warning about the potential for significant house price increases iin the coming months. What does significant mean? What does significant look like in percentage terms? And the fact that the banking system here has become basically a two-horse system, is the report focusing on the increased risks for a system which is basically a two horse system or dominated by two banks?

Governor Gabriel Makhlouf:

Thanks. Perhaps I'll invite Ed to come in on your two-horse system. I mean the only comment I'll make on that at the moment is that all the banks are still functioning in Ireland. This is a Financial Stability Review, the first one of the year. We do one every six months. So, the banks have not just left just yet. But it is worth just saying that certainly from a financial stability perspective, the departure of banks means there's more concentration, but it also gives the opportunity for greater efficiencies at a macro level. So, it's not… from a financial stability perspective, it's not immediately obvious how all those various tensions pull together. And we have, over the last decade, strengthened the system. Partly the rules that we've just spoken about, but also to make sure that some of these concentration issues don't loop back into the state in a way that they clearly did. But I'll ask Ed to come in on that. We're not predicting what house price increases we're going to see; we're just saying that there is a risk that the combination of ongoing impaired supply with the increased demand potentially because of savings or whatever. That poses a risk. Hence, we have rules around that are needed to carry on doing their job. Ed, do you want to come in?

Deputy Governor Ed Sibley:

There is a good box in the FSR looking at this issue from a financial stability perspective which kind of teases out some of the comments that the Governor has made there. I mean clearly… and we also are obviously very much looking at it from a customer perspective, particularly around how customers are treated, and that's a key focus. But in overall terms, clearly the banking, the kind of retail banking part of the sector is more concentrated, and it is already concentrated. I think it is probably just worth distinguishing between the impacts, or thinking about it from a household perspective and thinking about it from an SME financing perspective. So if we look at a full range of banking-like services kind of would traditionally have been provided by retail banks, there is actually a pretty broad spectrum of supplies of those services and there is a degree of competition, even in the mortgage market, I think we're starting to see more competition from non-banks, and I think that trend is likely to continue, albeit that you're right, well I'd say three banks will be kind of taking up a significant majority of that market for some time. I think the issues are probably a little more acute on the SME side, which is already even more concentrated, with only kind of really three players currently, and with Ulster departing, I think that becomes more of an issue. And the provision of SME financing outside the banking system is probably less far along as for households. So, I think that is kind of more of an area for concern, I think both at a market functioning level and also a wider economy perspective. I know that's kind of focused on many, including ourselves, in terms of looking at those underlying issues.

Journalist 8:

In the report when it says it flags the potential for significant house price growth, do you see that kind of growth continuing into 2022? Or will some COVID related factors unwind and we'll see something potentially more modest next year. And just on the accommodative global financial issues referenced throughout the report, if I could just as a quick one with your ECB hat on; do you agree with comments from your colleague, Olli Rehn, this morning that the future and end of the pandemic Emergency Purchase Programme will have to be discussed in your September meeting?

Governor Gabriel Makhlouf:
I haven't really examined what Olli said. The only comments I'll make on that is that we've made clear the Pandemic Emergency Programme is going to continue at least until the end of March next year. So, there will come a point when we then have to discuss what happens to it. Discussing it today is too early. So, do I think house prices, or the house price issue, if I can put it like that, that we're reflecting in the report today, is likely to continue into next year? I think the short answer to that is probably yes, unless something remarkable happens either to supply, which appears to be unlikely, or to demand, which also appears to be unlikely. But that's probably the most reasonable judgement one can make today. I mean just to go back that we are dealing with a longstanding issue. The mortgage measures themselves are a very important part of managing that issue from a financial stability perspective. What happens in the market, as I said earlier, is fundamentally to do with supply. What will happen to savings, the extent to which they may go into housing or they may go into foreign holidays, as Sharon said, I mean that's a bit of an unknown. There'll be all sorts of interactions with these will influence what happens to prices. But if I can answer your question in a slightly different way, the proposition that I'll be here in a year's time talking about the first Financial Stability Review of 2022 and telling you there's no issue in housing and there are no issues that we need to worry about, just seems a bit far-fetched.