Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Civil Society Roundtable

25 September 2023

Macroeconomic context

- The pandemic and Russia's war against Ukraine and its people represent a constellation of extraordinary shocks hitting the global and Irish economies in recent years

- The Irish economy recovered quickly from the pandemic and has proved resilient, but these shocks have led to a sharp increase in inflation, reaching levels not seen in decades

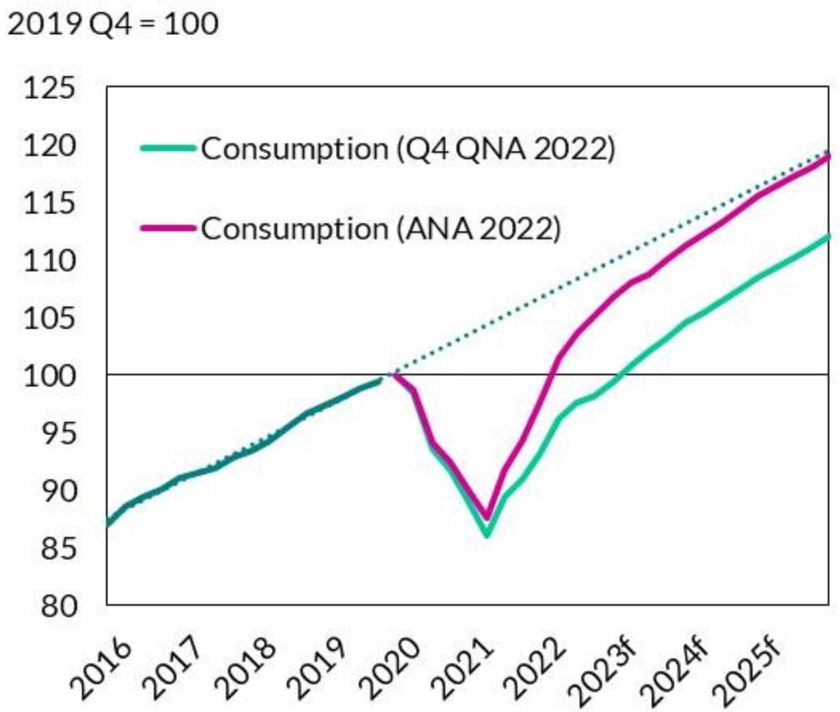
- The ECB – like other central banks globally – has responded to the inflationary shock with an exceptionally rapid increase in euro area interest rates

- Important that domestic policy choices do not pull in opposite direction to euro area monetary policy and take into account specificities of Irish experience during these shocks

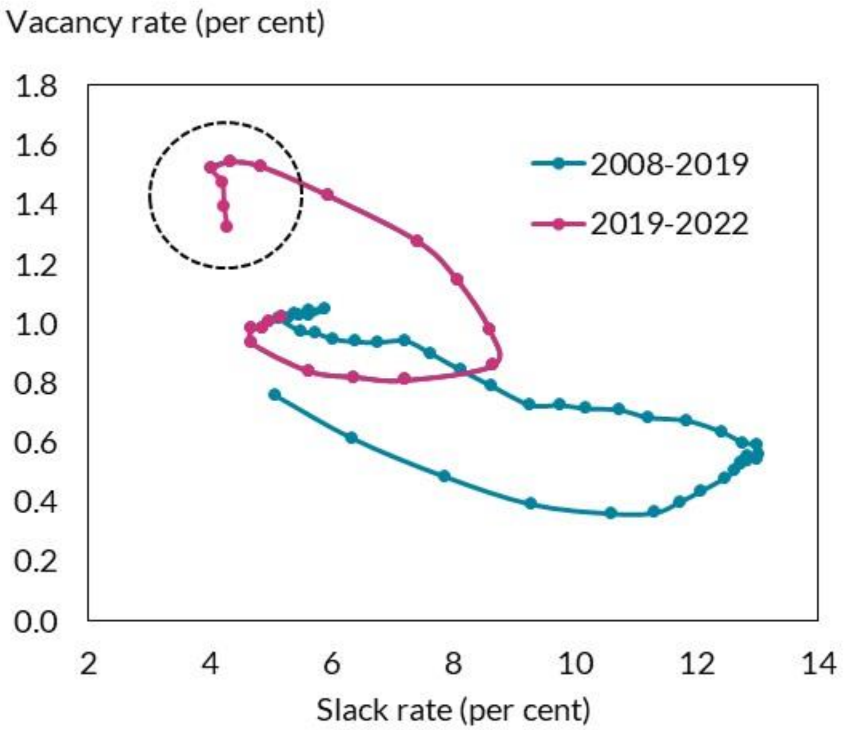
- While, in aggregate, the household sector is in a much better financial position than in the past, some cohorts of borrowers are more vulnerable to financial distress.

The economy is operating at full capacity

Recent revisions to national accounts suggest post-pandemic recovery stronger than previously thought



Despite some moderation in jobs vacancies there is a very tight labour market



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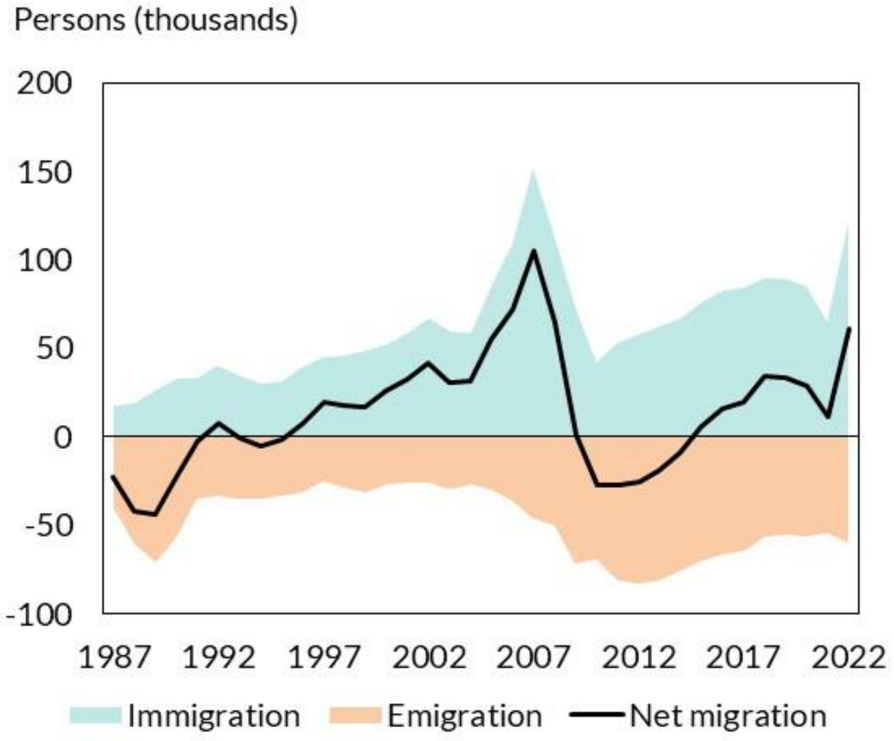
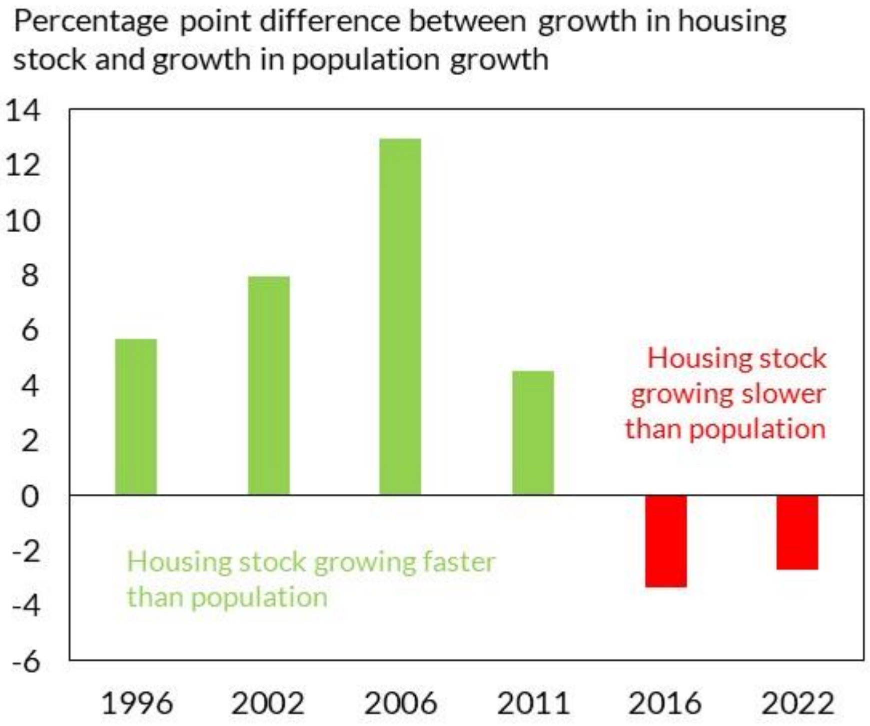
Interaction between capacity constraints in labour and housing markets

Net inward migration flows have acted as a pressure valve for capacity constraints in the labour market

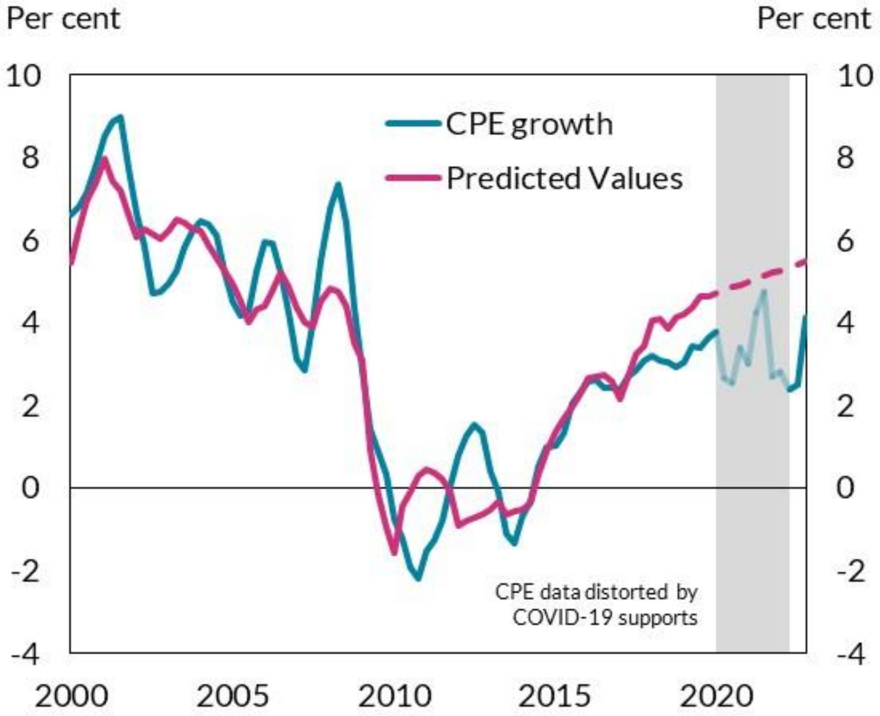


Over the past decade, growth in the housing stock has not kept up with population growth



Real wage catch-up is expected to continue in coming years

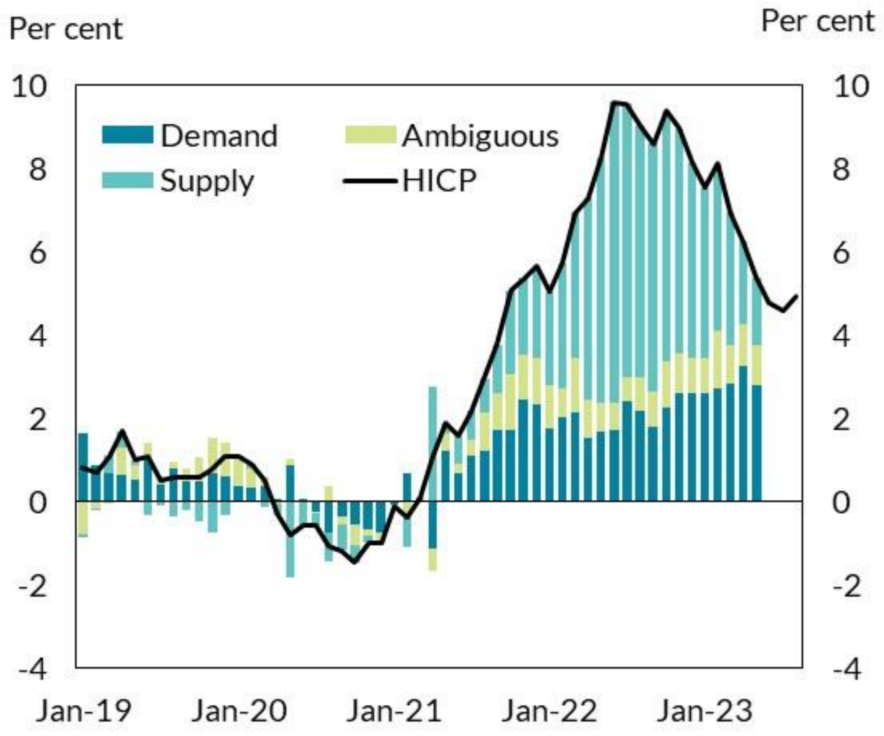
Wage growth (CPE – Compensation Per Employee) has been somewhat lower than expected, given tightness of the labour market and inflation shock



- Nominal wage growth has been somewhat lower than would have been expected
- As inflation surge was unexpected, adjustment of wages to prices likely slower.
- Central Bank projections expect return to positive real wage growth in 2023 and return to trend by 2025.
- Other factors could also explain gap expectations (e.g. WFH, fiscal supports, pandemic savings).
- Longer-lasting inflation could lead to higher wage pressures as labour slack is low.

Headline inflation has fallen, but the path towards 2% inflation is likely to be gradual and uneven

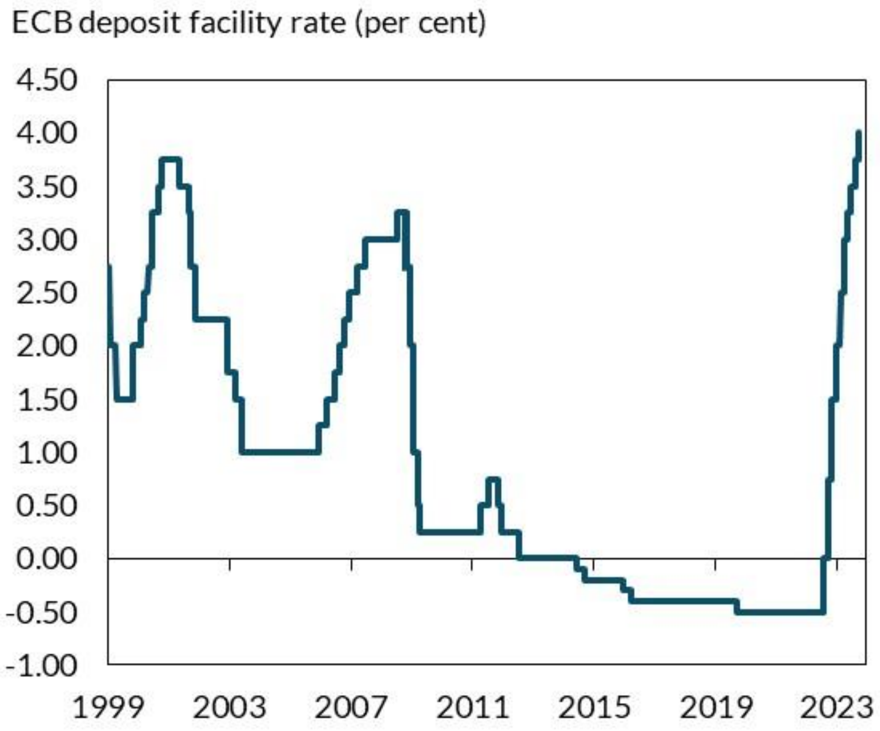
Headline inflation has eased as the interlocking shocks from COVID and the war in Ukraine are starting to unwind



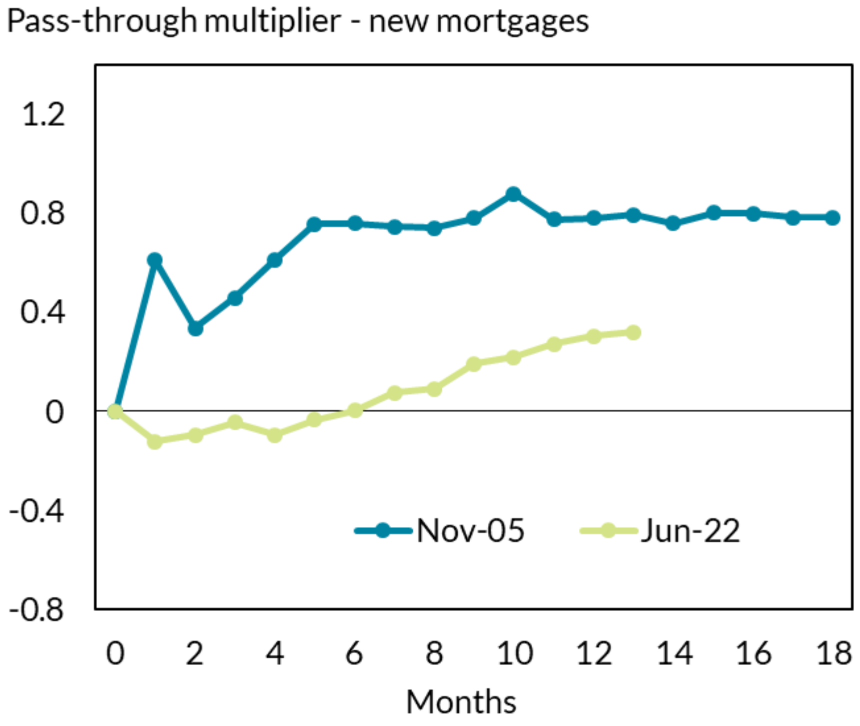
- High and volatile inflation is damaging for the economy, with everyone paying more and getting less for it.
- While headline inflation has fallen, core inflation (excluding volatile items) has been more persistent.
- Inflation hits everyone in society, but can hurt the poorest disproportionately.
- If inflation were to become entrenched in the economy, eventual costs to bring it back down would be bigger.
- Inflation expected to decline, but the path towards 2% likely to be gradual and uneven.

ECB monetary policy has responded sharply, but “pass through” via the banking channel to households in Ireland has been more muted

Interest rates have increased at unprecedented speed in the euro area

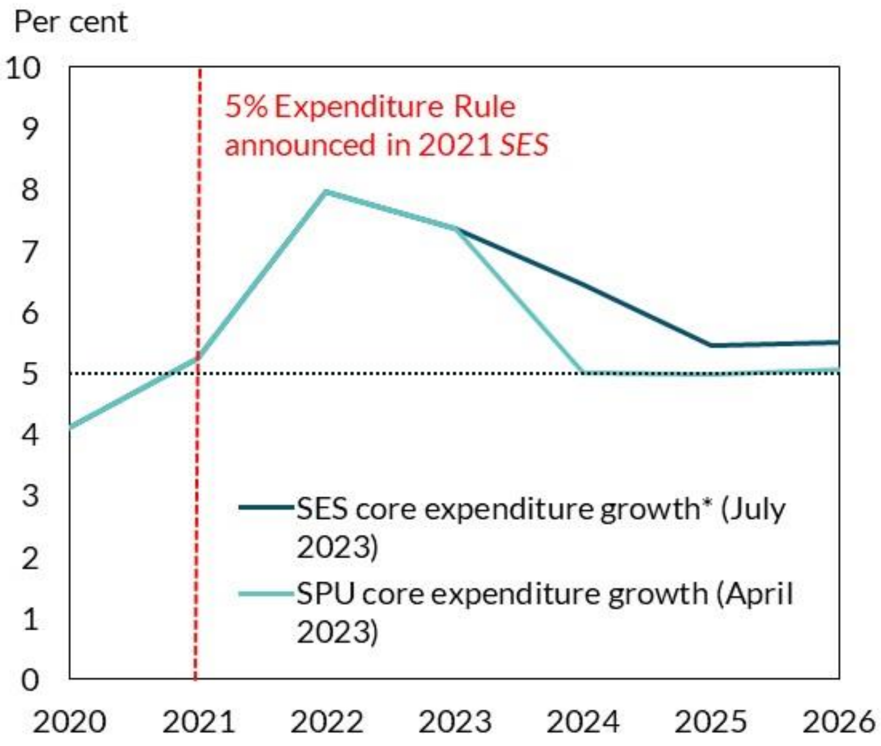


Pass-through to new mortgage rates has been less than the last major tightening cycle



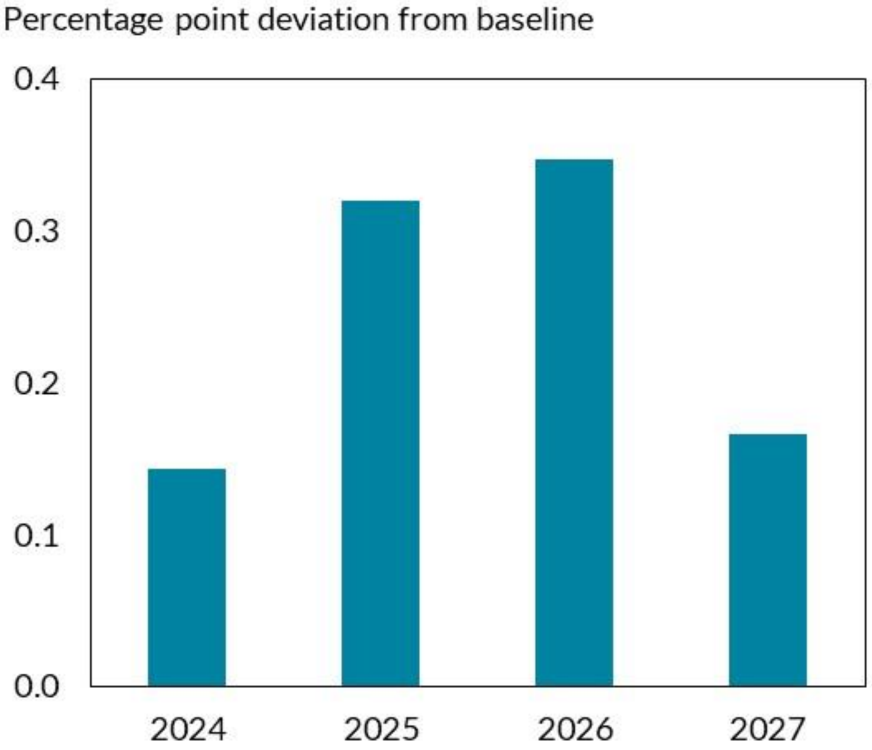
With the ECB taking actions to restore price stability, it would be counter-productive for fiscal policy to stimulate demand

Summer Economic Statement more expansionary relative to Stability Programme Update (SPU) in April 2023



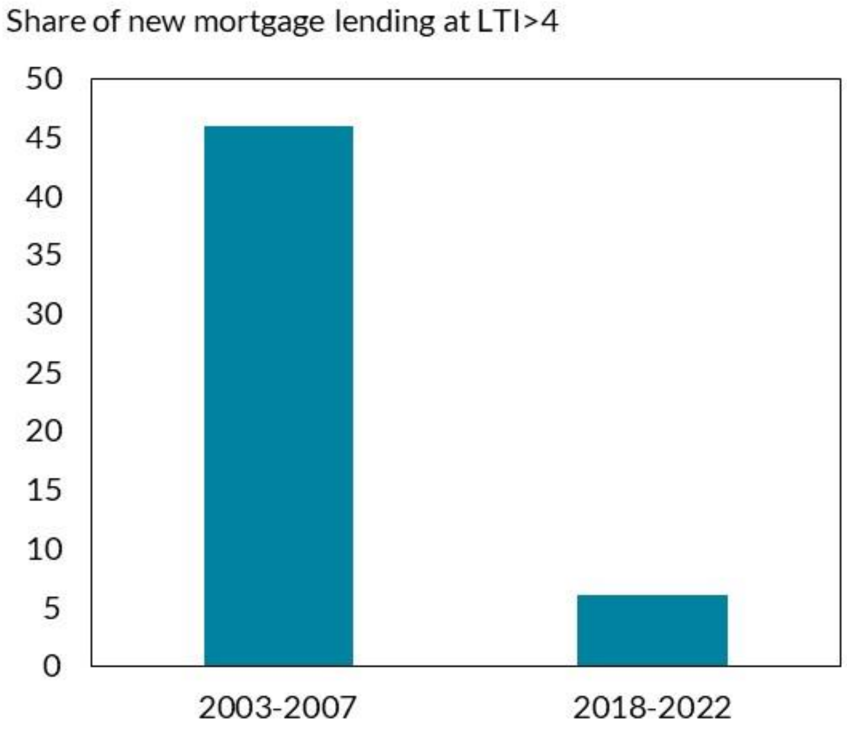
**SES* expenditure growth includes windfall capital spending.

Estimated marginal effects of additional stimulus from April SPU to Summer Economic Statement on inflation

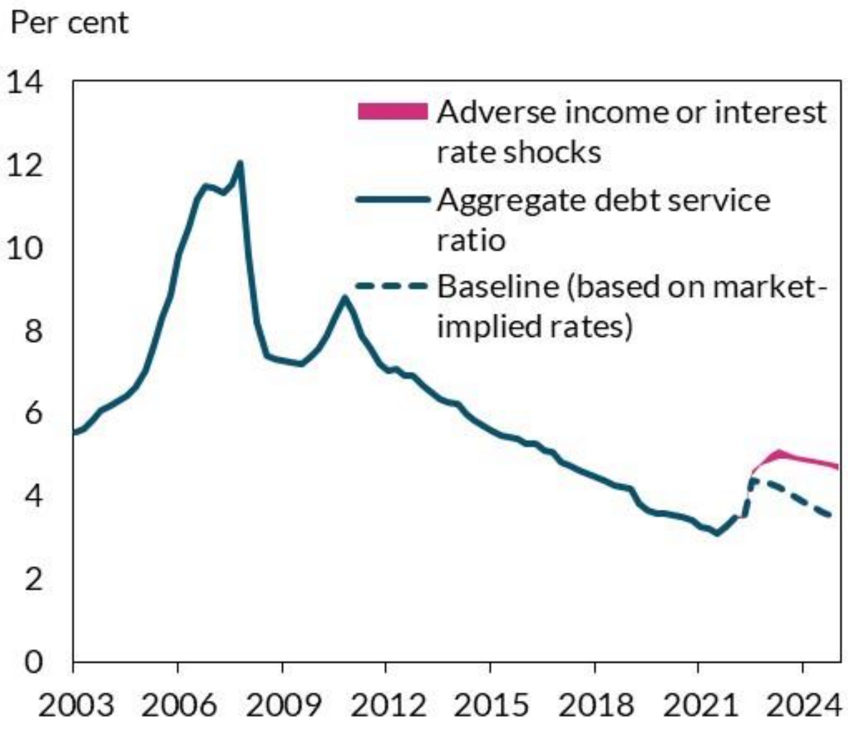


The household sector as a whole is in a better financial position than in the past, but some cohorts are particularly vulnerable

New mortgage lending in recent years has been extended at much more sustainable levels of indebtedness



The fall in aggregate household indebtedness has reduced the vulnerability of households to interest rate shocks



Residential mortgage arrears broadly declining, but challenging economic environment means some increase in financial distress likely

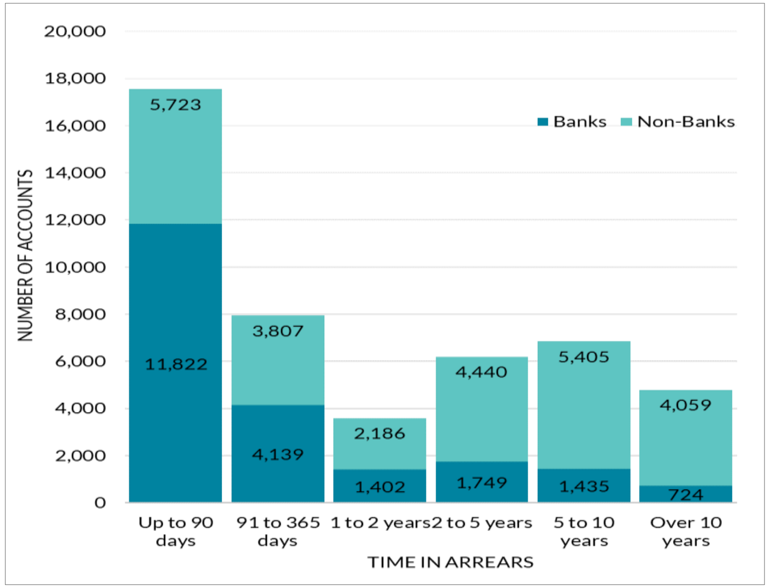
Continued decline in residential mortgage arrears, but upticks observed in accounts in arrears over 90 days and up to one year

Quarterly & Yearly change in PDH accounts in arrears, as at end-June 2023

	Number of accounts	Q on Q change	Y on Y Change
Total PDH mortgage accounts	712,347	-4,213	-20,811
Number of accounts in arrears	46,891	-1,889	232
Of which days past due:			
- up to 90 days	17,545	-1,930	2,852
- 91 to 180 days	4,100	449	790
- 181 to 365 days	3,846	207	243
- 1 to 2 yrs	3,588	-9	-332
- 2 to 5 yrs	6,189	-258	-727
- 5 to 10 yrs	6,840	-303	-1,431
- over 10 yrs	4,783	-45	-1,163

For non-banks, a greater proportion of PDH accounts held are in longer-term arrears when compared to banks

PDH mortgage accounts in arrears, as held by banks and non-banks, as at end-June 2023



Central Bank is actively engaged with financial firms to ensure consumers are receiving the protections they require

Ensuring that firms are proactive in providing supports to customers facing financial difficulty

Firms have further developed their early warning indicators to improve their identification and proactive engagement with customers who are in, or in danger of, falling into arrears.

In response to these early warning indicators, firms have introduced a range of measures to help support borrowers including increased resources to support customers.

Firms have continued to enhance the alternative repayment arrangement supports (or ARAs) for borrowers in or facing arrears including the introduction of fixed rate ARA options which has been announced publicly.

Firms have enhanced borrower communications initiatives on switching and some have launched proactive outreach campaigns aimed at specific groups of borrowers.

New support measures for borrowers in the BPFI "Dealing with Debt" campaign, that has introduced system wide initiatives to support mortgage switching.

Conclusion

- A stable macroeconomic environment is a key precondition for sustained prosperity of people across the country
- As a small, highly-globalised economy, Ireland is particularly exposed to shocks in the global environment, which remains highly uncertain
- While many of these global factors are beyond the control of policymakers on these shores, domestic economic policy choices matter
- In the current environment, important that monetary and fiscal policy levers do not pull in opposite directions, to ensure that inflation returns to 2%
- Continued supervisory focus to ensure lenders and servicing firms are proactive in identifying customers facing financial difficulty and providing effective supports

Question for roundtable members

- What is your assessment of the lived experience of the groups that you represent in the current economic environment?
- In an economy operating at capacity, with high employment and low unemployment, what is the labour market experience of the groups that your represent?
- What are you seeing in terms of financial distress amongst the people that you represent?
- In your experience, how responsive are financial firms to dealing with vulnerable consumers and/or those that are finding themselves getting into financial distress?