

## Financial Stability Group Meeting No. 45

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### **Financial Stability Group Meeting No. 45 1 June 2021 Conference Call**

#### **Attendance:**

#### **Department of Finance**

John Hogan  
Emma Cunningham  
Michael McGrath  
Scott Rankin  
Pat Leahy (Sec)  
Bláithín nic Giolla Rua

#### **Central Bank**

Gabriel Makhoulf  
Sharon Donnery  
Ed Sibley  
Vas Madouros  
Adrian Varley  
Derville Rowland

#### **NTMA**

Conor O'Kelly  
Frank O'Connor

The FSG agreed to take the documents circulated as read.

#### **1. Account of previous Financial Stability Group meeting**

The previous meeting's minutes were approved by the FSG.

#### **2. New Secretary General of the Department**

- John Hogan introduced himself as successor to Derek Moran on the Financial Stability Group. He was welcomed by the other members.

#### **3. Update – D/Finance**

The D/Finance updated on Government policy matters and developments at EU/international level, including:

- An update was provided on the planned changes to Government supports as part of the Economic Recovery Plan to be announced later that day.
- Details of the property tax bill were also provided, which would include post-2013 properties.
- International tax reform has gained momentum with discussions expected to finalise a proposal at the G7 meeting this weekend. This will be attended by the Minister in his role as President of the Eurogroup.

#### **4. Update – Central Bank**

The Central Bank updated on regulatory policy matters, including:

- Work is ongoing on the next Central Bank Financial Stability Review, which will be published on 16 June, and will be discussed at the next FSG meeting.
- The Central Bank's Annual Report will be published tomorrow (2 June).

## 5. Update – NTMA

The NTMA updated on their funding position, including:

- It is not expected that the Economic Recovery Plan changes to the Government supports will require a change to the NTMA's funding target for 2021.
- Recent investor meetings highlight international corporate tax changes and the potential impact on Ireland's funding as the main topic of concern for investors. While the main risk of Brexit has receded post FTA agreement, Brexit implementation and in particular the Northern Ireland protocol is also mentioned by many investors. However these concerns are not impacting our credit spreads which remain stable supported by ECB PEPP programme.
- Finally, with the commission about to commence NGEU funding, investors are monitoring which countries will potentially draw NGEU loans beyond what is available through NGEU grants and how that might impact funding targets for countries over the medium term.

## 6. Evolution of Banking Services

The Central Bank introduced a paper on the evolution of banking services in Ireland. The paper outlined the significant changes in the structure of the Irish financial system over the past decade and the factors that meant that – globally – the traditional banking business model has been under pressure. It also covered potential financial stability implications of the planned exit of two foreign-owned lenders from the Irish banking system. Looking ahead, the paper outlined a number of areas that related to the provision of banking services and merited deeper consideration, including: the trade-offs associated with actions that the banking system could take to generate capital in a sustainable way, as it adjusts to the evolving operating environment; the benefits and risks associated with the unbundling of traditional banking services and the growth in non-bank lenders; the main factors that might affect new entrants and/or the alternative provision of traditional banking services in Ireland.

Three cross-cutting themes emerged from the paper: Firstly, that there are important trade-offs associated with many of these issues. Secondly, that the changing market will increasingly include non-bank (including digital) players, so the focus needs to be on the supply of services to households and businesses, rather than a focus on individual institutions. Finally, the evolution of the financial system in Ireland needs to be considered in the context of European developments and the single market, not least given the large internationally-focused financial sector based here.

Discussion on the topic included:

### *Overall*

- There are potential financial stability implications of the near-term and longer-term changes in the financial system, which need to be recognised and managed.
- Focus needs to be on ensuring the provision of services to households and businesses and the protection of consumers, rather than on individual financial entities.

### *Concentration of banks/competition*

- The concentration of the sector into 2/3 banks entails financial stability implications, which need to be recognised and managed.
- The planned exit of the two foreign-owned retail banks could – other things equal – increase the magnitude of the bank-sovereign nexus in future times of stress.
- At the same time, as the last crisis witnessed, too much competition (in mortgages) can also entail negative consequences for financial stability.

### *Banking Review/FSG role*

- The Minister is considering possible options on reviewing issues related to the banking system, the final form of which has yet to be decided.
- NTMA can assist with any process of examining the banking system.
- The FSG could agree on an approach to its involvement at an early stage, recognising and respecting the respective roles of the FSG agencies.
- The IMF FSAP process may also provide useful insights.

### *Fragmentation in the provision of services*

- The unbundling of banking services and possible emerge of a more fragmented market could have implications for the extent to which the community is served, which would likely entail greater financial complexity. This would also have implications for regulation and supervision.

### *SME*

- The continuing reliance on the concentrated banking sector for SME credit provision is a bigger challenge for Ireland, as CMU benefits have yet to accrue for SMEs.

### *Digital*

- Fintech entering the payment services market can have material implications for banks' business models in the long-term.
- Ireland also has a responsibility in our role as an EU/International banking sector, including for the digital infrastructure of that sector.

### *Next steps:*

- D/Finance will engage with other members of the FSG to arrange a work programme on banking for consideration at the July FSG meeting.