

Financial Stability Group Meeting No. 33

Financial Stability Group Meeting No. 33 26 June 2020 Conference Call

Attendance:

Department of Finance

Emma Cunningham
Des Carville
Michael McGrath
John McCarthy
Eoin Dorgan (Sec)

Central Bank

Gabriel Makhlouf
Sharon Donnery
Vasileios Madouros
Mark Cassidy
Mícheál O'Keefe

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

Any changes to the account of the previous meeting are to be sent to the secretary.

2. Covid-19 Update – D/Finance

D/Finance updated on Government and EU policy matters, including:

- The results of the party votes on the Programme for Government will be finalised today. If accepted Ministers should be in place by the weekend and it is likely that a Jobs Initiative will be prepared for July. It was acknowledged that all of the FSG bodies were involved in the Programme for Government briefings.
- The Minister is one of three applicants for the position of President of the Eurogroup.
- It is proposed to re-establish the Brexit Contact Group and the Chair will be in contact with the respective members from each of the bodies.
- The Minister has signed the statutory instrument on ICAVs under AML. There is still work required to transpose the 5th AML Directive and D/Justice is working to advance this transposition as quickly as possible in addition to D/Finance progressing some Articles of the Directive.
- The Department's Economic Division is working on a joint modelling exercise with the ESRI on the combined impact of Covid-19 and Brexit on the Irish economy.
- An outline of the interim Exchequer Returns was set out, with Covid-19 driving public expenditure significantly higher on a year on year basis but taxation revenue continuing to perform relatively strongly.

3. Covid-19 – Central Bank

The Central Bank updated on regulatory policy matters, including:

- The Central Bank will publish its Quarterly Bulletin next Friday (3 July) which will focus on medium term debt dynamics, among other issues. The Governor's accompanying Letter to the Minister will set out the Governor's views on fiscal challenges and possible priorities around economy policy decisions in the short and medium term. The Governor will also speak on these matters at an IBEC event Monday 6 July and before the Oireachtas on 7 July.
- The Quarterly Bulletin will set out two economic scenarios: the first where Ireland remains on the current path of recovery, the second where there is a second wave of the virus. In the first scenario, recovery is gradual with scarring effects; GDP would contract by 9% and output would return to pre-Covid-19 levels by 2022. In the second scenario there would be more severe scarring, a 13% GDP decline this year and output would not return to previous levels until 2024.

- The Governor will be part of a panel speaking at a Bruegel event next Monday (29 June) on market-based finance.

4. Covid-19 Update – NTMA

The NTMA updated on sovereign bond market developments and the Pandemic Stabilisation and Recovery Fund (PSRF), including:

- The ECB's recently published estimates of the positive impact of the ECB PEPP and the scaling up of the asset purchase programme are estimated to have reduced the ten-year sovereign term premium by almost 45 basis points. This adds to the nearly 100 basis point compression in the term premium that is attributable to the sizeable stock of assets purchased under the APP in recent years and the September 2019 recalibration of the APP according to ECB analysis.
- Sovereign bond yield curves are flattening based on the Fed announcement on interest rate intentions for the next 2 years.
- Germany's 30 year bond yields have turned negative and Austria sold two 100-year bonds.
- Next week, the NTMA will be announcing sovereign bond auctions for July and September.
- To date there has been no impact from political uncertainty on Irish sovereign bonds but markets will be closely monitoring the likely July stimulus, October Budget and longer term fiscal plans.
- Demand is still relatively low for the PSRF.

5. Economic Impacts

- Following on from the Medium-Term Issues Notes and the Medium Term Plan of topics to be discussed by the FSG, which was agreed at the last FSG meeting (No. 32 – 12 June), a presentation was made by D/Finance Chief Economist, John McCarthy, on Emerging Economic Developments, including sectoral trends and implications for the public finances.
- The FSG discussed the seeking of more granular data on flows from the PUP to TWSS and other potential sources of economic data.
- It was agreed that further work could be undertaken in joining up economic data between State bodies and follow up work was to occur between officials.

6. AOB

- No other business.