Journalist 1:
Governor, two ones for me please. On the expected gradual rebuilding of the CCyB next year, would you anticipate gradually returning it to the 1% level it was at pre-pandemic? And secondly, if I could just ask an ECB related question…spoken quite a lot...in the last couple of days. But do you think purchase volume in the purchase programme should be increased, once the pandemic emergency purchase programme is wound down next March?

Governor Gabriel Makhlouf:
Thanks. On your second question, I'm looking forward to discussing the issue with my colleagues at the governing council in a few weeks' time, so I'm not really wanting to get drawn on it now. The answer to the CCyB question, as things stand today, that would be my expectation that we would go back to where we were pre-pandemic. Obviously, we will be looking at the facts, and the conditions in the economy as they emerge, before we make a final decision. But you would… that's the basis on which our current thinking is at anyway.

Journalist 3:
Governor, on the 40% figure for the property fund, is that strictly commercial or is that spread right across the residential and commercial property sectors? And could I just have your assessment of the risk, as you see it right now, in terms of the 14% figure being held by the sector? And then, just on the overall view of the mortgage measures, you say now that it won't be… the review won't be completed until the second half of next year – does that mean that we're really looking towards the end of next year before the review is complete? Thank you.

Vasileios Madouros, Director of Financial Stability:
On the distribution of property holdings by the property funds, the vast majority is commercial. About 15% of the…Irish property holding are in the residential area, but the rest, the majority is office, and then retail, shopping centres and things like that. And then the 40% is…stock of commercial real estate…holdings residential…proportion of the overall stock of the residential stock would be much smaller.

Governor Gabriel Makhlouf:
You asked me what did… my views on the risk here, and I'll just say a couple of things. Firstly, just the whole area of market-based finance, I've talked about this in the past. The fact that it has changed in scale significantly over the last decade globally, but also in Ireland, means that we do need to be looking at it quite critically, the whole sector. And understand the risks it poses to financial stability. And the work that we've been doing on this is partly international, working with colleagues in other jurisdictions and in other organisations. And certainly, this whole sector is now getting a global focus – it's an important part of the financial stability programme. The IMF has highlighted it as an issue. The second bit of this that we've been working on is specifically this consultation, which is what is the connection with…particular connection for the local economy, of the market-based finance sector, non-bank financial

sector in Ireland. Most of the Irish market-based finance sector is internationally facing – but some of it isn't, and that's what we're consulting about today. Now, from my perspective, and the way the Central Bank approaches financial stability generally, we want to get ahead of the curve, rather than wait for problems to arise. And that's precisely what we're trying to do in this consultation. We've been studying the subject and the issue very carefully, we think we've got a balanced set of proposals – but we want to see what the market thinks about them, so that we can have them in place and we can be reasonably confident that within the normal parameters of risk, that we've put in place something that is… that can assure us of financial stability. As far as the review of the mortgage measures framework itself…second half of the year. And what that means is that after the first of July 2022.

Journalist 4:
Just a quick question in relation to… you've cleared the way for banks to participate in the shared equity scheme, and yet you're still warning that it may be inflationary – can you just maybe give me a few comments on that?

Governor Gabriel Makhlouf:
Well firstly, our focus is financial stability, in particular, that's what we're talking about today. And as I heard Vas say earlier, the way the existing rules are structured, they would prevent the banks from participating. Or at least, cast doubt on their participation. Any measures that, as these are, that support demand for housing, will have an impact on house prices. I mean, it's basic economics that, if you support increased demand, you'll see a reaction, which moves prices upwards. The critical thing from… in terms of what will actually happen prices, is how will supply respond. And right now, we know that supply is at levels that are much lower than needed for the country, and this is not a new issue, and it's taking time to pick up. But how precisely on this precise scheme that interaction is going to work, obviously we'll have to wait and see, once the scheme is up and running. And precisely what additional impact it has on demand. But we don't think that allowing the banks to participate in it, is going to put financial stability at risk. And if supply doesn't respond at all, obviously it will have a greater impact on prices than if supply did respond.

Journalist 5:
Just a follow-on question, and maybe this is more procedural, but just to clarify exactly what the stance is. Obviously, you've mentioned that the focus of today's discussion is financial stability, and from that perspective, there is nothing that you believe that should preclude banks for getting involved in shared equity. But just so that we're clear and understanding, are there are other parallel considerations that the bank is undertaking by way of consumer protection, that might also…stance on that? And also in passing, just because you mentioned that in the short term there could be an inflationary effect, would you care to offer any estimate to the possible scale of that?

Governor Gabriel Makhlouf:
No, I'm not going to offer any estimate at all – I was talking theoretically. The scheme hasn't even started yet, so I think we ought to just not get carried away with trying to predict precisely what its impact will be. On your first point, I think it's important to be clear, because I've read, not necessarily in media, but in various articles and letters and things, there's a sense that they Central Bank is approving something, and we are not approving anything. All we're doing is saying that we've concluded that preventing lenders from participating in this particular scheme, would be disproportionate. And we're clarifying the application of the rules. What that means is that all our existing rules essentially continue to apply in the way they normally would apply, to lending and borrowing. We're just clarifying how precisely the anti-avoidance measure in the mortgage measures is working or will work. So, your point about consumer protection, we expect all those, the code on… the consumer code and all of its many manifestations, and our expectations on the way lenders would behave, all those continue. And they're not really at a point of…we're discussing or debating here in the context of that scheme.

Deputy Governor Sharon Donnery:
Maybe just one important point to add to complement that – we did look very carefully at the implications of the scheme, and clearly from borrowers, from a consumer protection point of view, but also from the point of view of our objective of the measures overall to protect the resilience of borrowers against shocks. And the features of the scheme, in terms of it being equity-based or…were obviously critical through that assessment. And we've published a note today, a financial stability note, where that's explained in more detail, if anybody wants to look at that.

Journalist 6:
Just on the upward pressure on house prices…the EU said in a report yesterday as well that the house prices here are overvalued. And looking at a house price correction. And secondly, Christine Lagarde recently told MEP Frances Fitzgerald that the macroprudential rules in place here are having an effect on access to the housing market, especially for younger people. And I just was looking for your reaction to that statement, and whether you would consider changing the metrics, changing macroprudential rules to ease that access. Thanks.

Governor Gabriel Makhlouf:
Sorry, I don't know exactly what Christine Lagarde said, so I can't comment on precisely what she said. But we have just done, and what we're announcing today is our annual review of the mortgage measures, and how they work. And we've come to a conclusion that we're not going to change them. We are reviewing the whole framework for the mortgage measures, as I said earlier, and we're going to hopefully conclude that in the second half of next year. At the moment, I'm not sure I would anticipate that changing… changes to the mortgage measure that would directly and deliberately support younger people, as opposed to continuing to focus on financial stability, and making sure that in my language, which I've used in the past, we try

and avoid reckless lending and reckless borrowing. So, that's essentially our focus, but the mortgage framework review is… started without… you know, it's obviously operating within our mandate of delivering financial stability. But we are… we're going to look at everything that's put in front of us, and everything we can think of, to make sure the rules work as best as they can. But I would caution anybody running away with the idea that we're going to do something that's going to put financial stability at risk. On your point about the upward pressure on house prices, did I think there was going to be a correction – you know as much as I do on that. At the end of the day, the whole point of the macroprudential framework that we have is to… plus the other prudential rules that we have, is that if there is a sudden correction, the financial system can remain stable, and continue to support the economy. And of course, that was exactly the situation we had in March 2020 when we had a sudden and huge shock, and the financial system actually did a very good job in continuing to support the economy. And essentially, unlike ten years previously, where it caused the financial, the economic crisis, the financial system actually has been supporting the wider economy through the current crisis. So, if you have information that will help us predict accurately some sort of correction, please let us know as soon as you can.

Journalist 7:
Two questions: in your blog earlier on this year, you mentioned how the new central credit bureau might allow for a more nuanced measurement of borrowers' affordability, based on some sort of disposable income measure, rather than the more crude income multiples we have now. Just wondering, why couldn't we have moved immediately then to adopt that measure, rather than…you're going out to consultation, this might be part of the consultation, but that probably won't lead to any significant difference for probably a year, at least. And my second question is just around changes to the mortgage allowance – the stop-start nature of mortgage allowances has been an issue for some time, and certainly it's been an issue since before the pandemic, where banks feared exhausting their allowances in a given year, and therefore, stopped lending through them, sometimes midyear. And I think a lot of people have been trying for some time to do precisely what you propose now, which is to carry forward or use allowances into the next year. Just wondering why that couldn't have been done sooner, and it would have smoothed the market a lot quicker.

Governor Gabriel Makhlouf:
Thanks, I'll invite Vas to say something about the CCR itself. I think… the short answer, to a certain extent, to both your questions, is that everybody is learning. And certainly, on the CCR, my own perspective is, that is something that…had it and we can think about what we can use it to inform us, in terms of policy design. It is feeding into the framework review, and it's important that we do the review. But I'll let Vas come in on that. In terms of the allowances, the reality is that we have been talking to lenders about… regularly about how they work and how they're understanding them. And we're reached the position now where we can make this change. And perhaps we could have made it in the past - I think unlikely. But there are lots of

things that with the benefit of hindsight, we could have done differently. But we are where we are. But I'll invite Vas to come in maybe on both points.

Vasileios Madouros, Director of Financial Stability:
Starting with the Central Credit Register, yes we now do have information around broader levels of…by the… where the CCR really enables us is to take a broad review of indebtedness for potential borrower's mortgage debt. So, also, they can consider other forms of debt that might be…loan, for example, which is a slightly different question to focusing on things like loan to income versus debt serviceability. But these are the governor messages, these are precisely the types of issues that we will be consulting on over the next couple of weeks. And that consultation is important both because of course these are really important policy interventions and we want to get broad feedback, but also because changes would have significant kind of operational implications. So, we also want to kind of make sure that we have considered all angles and dimensions of these. On the allowances, I think I would just add a couple of things. So, maybe just to say that you know, we always say that the allowances per se don't quite run out right, I know this is something that people talk about. But the allowances, they're not…nominal amount of lending. They are as a proportion of total lending. So, the allowances don't per se run out. But I think I would add a couple of things. So, one is in the context of the pandemic, we did have a big shock which led to really increased and elevated uncertainty around what lending might be over the course of the year as a whole. So, that was a kind of key learning for us in thinking about how might this operate differently. But we also have engaged constructively and as always that we're open to alternative suggestions as long as they're practical and this is exactly what we are doing now. Thank you.

Journalist 8:
Governor, a couple of questions from me. I'd be interested to get your thought on inflation and where you see it at the minute. Do you think this is something that's more permanent than transitory and what impact that's going to have for consumers in Ireland? And secondly, have you any analysis done on the level of distressed businesses out there in the Irish economy at the minute? What level of insolvencies potentially are you expecting maybe next year once the government supports are fully unwound? Thank you.

Governor Gabriel Makhlouf:
Thanks. On the insolvencies point, I don't know if Vas and Mary-Elizabeth can come in to answer that. On inflation, I published some remarks a couple of days ago which explored the issues in some depth. So, anyway, just to reference that. The inflation we're seeing today in Ireland in the euro area and frankly, in most of the world is driven by three factors. One, what we call base effects, the way just the simple sort of statistical measurement of prices today

with prices a year ago and a year ago, prices had fallen significantly. So, that's one part of it. Secondly, and you know, more significantly the fact that economies have reopened and we've had a significant increase in demand which supply is struggling to meet. So, that's for a number of reasons, but supply chains are essentially blocked and taking time to correct themselves. And the third reason is an increase in energy prices which is connected to the reopening of economies. All of those three factors are, as things stand today, temporary. So, we see inflation pressures as receding during the course of 2022, partly early in January will find some of the base effects will come out in the calculation. And then we expect supply chains to begin to you know, come back into operation again, you know. And some of the issues with supply chains are pre, when you think about, they're a result of the pandemic in quite interesting and not unsurprising ways. You know, transport, cargo ships are in the wrong place for example, and to get them in the right place isn't something that you can do very quickly. And they're needed to transport goods from Asia for example to Europe and to America. So, those things will take time to correct and there's no reason to think right now that they won't take time to correct. Inflation in Ireland was 5.1% in October, in the euro-area it was 4.1%. The ECB's target is 2% in the medium-term, so certainly inflation is much higher than anybody would want and it is having a real effect on households across the country. So, I'm not complacent about it. I mean I said yesterday at a hearing of the Oireachtas that I was worried about the impact it was having on people, but the right approach to it now is to be patient and to make sure that the system is allowed to correct itself. Not to take premature monetary policy action. And putting up interest rates today would be exactly the wrong thing to do because it would hamper the recovery, reduce growth, lead to job losses et cetera. So, I said a lot more in the remarks I published a couple of days ago. That's the heart of the message.

Vasileios Madouros, Director of Financial Stability:
Thanks, maybe I can pick up the question on financial distress, if that's okay. So, we have some materials about financial distress both for SME's and also on kind of on mortgages. They're not quite the same mapping in terms of financial distress to insolvency. But in terms of the kind of broad judgement, given our expectations around the macroeconomic outlook as were outlined say in the last quarter year bulletin around some materials…around SMEs…a big expectation would be that these would continue to fall. But of course, there is a lot of uncertainty around this because of the pandemic but also because of other factors. And the similar kind of broader message…more so because the mortgage market has been kind of more insulted in than the kind of household side of things. We also have in the report material around potential vulnerability to interest rates both in the mortgage market and also in the SME sector and there is this…fixed interest rates…potential effects from interest rates and similar in the SME market as well. Thanks.

Journalist 9:
Just back on the property funds which obviously include vulture funds, they include full-time equity funds. What the 40% is… 40% applies to what in euro billions in the market of those…funds currently? And is there any, is there a small handful of funds which account for a disproportionate share of that 40%? Is there one or two American funds which say one or two or three or four percentage points individually? And just back again on house prices, does it… it feels a lot like… house prices and rents feels a lot like 2003, do you have any comments on that?

Vasileios Madouros, Director of Financial Stability:
Yeah, so in terms of the nominal value of property holdings, so how much physical property in Ireland they hold, it's about €23 billion. In terms of distribution around the… I mean it is quite a diverse sector, there's about, I think there's 200 funds in total. So, there is quite a significant distribution around both kind of…but also strategies, investment strategy. So, there isn't kind of a… Yeah, it does kind of vary quite a lot depending on the fund. But there is about 200 funds in total.

Journalist 9:
Sorry, I do apologise, the 40% is equal to €23 billion, is that correct?

Vasileios Madouros, Director of Financial Stability:
Correct. So, the nominal value… the numeration in the 40% is there is value property assets which is around €23 billion and there's denominated…of 40% of the estimated value of investible commercial real estate in Ireland.

Journalist 9:
And by nationality of these two other funds, is it American, predominantly made up of that 40%?

Vasileios Madouros, Director of Financial Stability:
It's quite diverse. We have some material in the consultation paper on this but overall, the majority of shareholders or investors in this fund is international in nature. So, there's…foreign capital coming into the commercial real estate market. And it includes for example kind of German investors or a few European ones. There are also Irish investors there in the kind of biggest type of Irish investor are Irish pension funds.

Journalist 9:

And I do apologise again, I do apologise to go on about this. But is there any individual fund or small group of funds which account for a significant share of that 40%, of that €23 billion?

Vasileios Madouros, Director of Financial Stability:
There will be some of a kind of a higher proportion, that is for sure. But I mean the kind of overall objective here and the overall aim is to think about the sector as a whole. So, we're not kind of focussing, we said that in the consultation paper, on the kind of risks that any individual fund could be posing. That because of the kind of number and the collective importance that they have for financing in this market is about the overall sector as a whole. This is kind of the macroprudential perspective here.

Governor Gabriel Makhlouf:
Then your question about it feels a bit like 2004, I'm not exactly sure what you mean by that. One very, very, very big difference between 2004 and today is the fact that we have a series of macroprudential policies in place designed to prevent the sort of build-up of problems if I can put it like that, that led to the global financial crisis around the world. So, we in Ireland, as elsewhere in the world, have now got these policies that are designed to prevent that from happening. If that's what you meant then there's a big difference. But if there was something else about what's happening in 2004…

Journalist 9:
I mean…crisis and the prospects of albeit that there's no credit being punched and that's your job to prevent that happening or rehappening again, the failures of the past, that the…house prices, cost of rent, you'd have to put it across you know, and supply shortages. It looks albeit for different reasons, those prices are you know, flashing red. What do you say governor?

Governor Gabriel Makhlouf:
Well, I think what I would say is that in the mid-2000s we were building many more houses. The financial crisis has… We haven't recovered… Construction has not really recovered since the financial crisis and the demand for housing has continued to grow. So, the fundamental problem we have is not the price of houses, it's the supply of houses and the fact that demand continues to exist for housing. The pandemic obviously has not helped the construction sector, so it set us back a bit more. But we are you know, again one of the big differences between today and the mid-2000s is that we now have rules that prevent a sort of house price debt spiral running completely out of control and bringing the whole financial system to a crash. So, I think that is a very, very big difference that everyone needs to bear in mind between the scenario we face at the moment which may be reflected in the higher house prices and the scenario we may have faced in the mid-2000s.

Ray Farrelly, Head of Communications Division

So, I've a question here from a journalist in the chat…I've a question on exemptions to the loan-to-income rules for first-time buyers please. Do you have any data on how many exemptions on the LTI rules were given to first-time buyers in 2019 and 2020? Did banks use up their full allocation of exemptions? And also, do you what percentage of exemption applications by first-time buyers were rejected in 2019 and 2020?

Vasileios Madouros, Director of Financial Stability:

The share of new lending that's happening above the allowances for the LTI market tools. These figures are actually available on their website on a regular basis. I don't have the precise figures in my head but we can follow up, but they are also probably available.

Journalist 10:

Governor, I think everybody accepts that the ECB is largely responsible for controlling inflation in the eurozone and inflation target is very clear, it's 2%. But on the other side, the ECB is also largely responsible for nominal incomes in the eurozone and that side of the ECBs job gets much less attention and the targets are much less clear. So, I mean one target might be nominal GDP growth, right now the eurozone is far off the trend of nominal GDP growth that it was on before the pandemic where the US is back on trend. So, my question is does the ECB have a target on the income side and if we're talking about something like nominal income growth like how much is sufficient?

Governor Gabriel Makhlouf:

We don't have a target on the income side to use your words. Certainly, that's one way of trying to run monetary policy but we haven't gone down that particular road. And I'm not sure of any major central bank that actually approaches things in the way you just described. I mean the ECB job or its primary mandate is price stability and we've defined price stability as 2% inflation over the medium-term. Our secondary objective is how to support the policies of the EU without prejudice to the price stability mandate. You compared us to the FED, I mean the FED had two objectives, one is price stability, and the other one is maximum sustainable employment. So, their objectives are different to the ECBs. I think, and I did read your article this week. I think one about the ECB, one reflection I had on reading it and we probably haven't a lot of time to discuss it all this morning. Just something that I read quite often in media is people tend to assume that the FED and the Bank of England and the ECB are all doing exactly the same job and operating in exactly the same context. But we're not. As I just indicated, the FED and the ECB have got different mandates. The ECB operates in a currency union but we still done have and is very unlikely to have a fiscal union which the FED actually operates within. So, the FED and the United States basically, has got in comparison to well the EU and the euro area has got much more fragmented macroeconomic framework compared to the United States. That has implications for how macro policy works. And but you know, it is by design, this isn't by accident. So, you know, there's a whole catalogue of discussion points that we could go on to but this is probably not the moment for it.