Philip R Lane: The European monetary and financial system - the role of the Central Bank of Ireland

Speech by Mr Philip R Lane, Governor of the Central Bank of Ireland, to the Irish Embassy, Tokyo, 8 May 2017.

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Good afternoon. It is a pleasure to address this distinguished audience.

Today, I wish to discuss the role of national central banks in the European monetary and financial system, with specific reference to the Central Bank of Ireland.

In relation to the monetary system, Ireland was one of the founding members of the euro area in 1999. Monetary policy is formulated and implemented by the eurosystem, which consists of the European Central Bank (ECB) in Frankfurt and the national central banks of the member countries. The staff of the Central Bank of Ireland actively participate in the eurosystem committees that provide advice to the Governing Council of the ECB.

The governors of the national central banks (each in an individual capacity) sit on the Governing Council, together with the six members of the ECB's executive board. Accordingly, the ECB's monetary policy decisions are a shared responsibility of the members of the Governing Council, supported by the collective work of the eurosystem's committees that include participants from the ECB and the national central banks. In turn, the implementation of monetary policy is primarily decentralised to the national central banks and the financial operations department of the Bank conducts liquidity operations and asset purchases as required.

A general lesson from the global financial cycle that generated expansionary conditions in the financial systems of many advanced economies during 2003–2007 which was followed by costly reversals is that macroprudential policies are required in order to ensure that the financial system is resilient in the face of such volatility.

This lesson was deeply absorbed in Europe, with a new post-crisis approach to financial regulation, that includes new frameworks to assess pan-European systemic risks and the development of institutional frameworks for macroprudential policy in each country. The Central Bank of Ireland actively participates in the work of the European Systemic Risk Board (ESRB) and I am a member of the General Board of the ESRB.

In addition, we are now the designated macroprudential authority for Ireland. This new mandate includes the setting of systemic capital buffers for banks, including bank-specific buffers that are proportional to the systemic importance of each institution and a common counter-cyclical capital buffer (CCyB) which can be adjusted at different stages of the credit cycle. In addition, the Bank sets borrower-based measures (BBMs), which places ceilings on the level of debt that can be incurred by individual households. Our current BBMs place ceilings on the loan-to-income (LTI) and loan-to-value (LTV) ratios in relation to mortgages, which are intended to improve the resilience of households and banks to withstand future reversals in housing market conditions.

In relation to the prudential regulation of banks, there has been considerable progress in developing a banking union in Europe. In particular, the Single Supervisory Mechanism (SSM) of the ECB is now responsible for supervision in the euro area and is the direct supervisor for the largest banks, including the main Irish-resident banks. In practice, the SSM operates through joint supervisory teams (JSTs), which are led by ECB staff but also include staff from the national supervisor – in Ireland, we are the national competent authority for supervision of not only banks but also insurance firms, investment firms and a broad range of other financial intermediaries. The supervision of non-bank financial firms remains a national responsibility but there is significant coordination through the work of the various European supervisory authorities (ESAs): the European Banking Authority (EBA); the European Insurance and Occupational Pensions Authority (EIOPA); and the European Securities and Markets Authority (ESMA). The staff and leadership of the Central Bank of Ireland contribute to the policy discussions of the ESAs, through committee work and membership of their governing boards.

A second element of banking union is a common EU-wide approach to the recovery and resolution of banks, which is laid down in the Banking Recovery and Resolution Directive (BRRD). Each country now has a national resolution authority, with a lead role played by the pan-European Single Resolution Board (SRB). In Ireland, we also have taken on the mandate to act as the national resolution authority which involves the development and, if required, the execution of recovery and resolution plans for banks and investment firms.

A third element of banking union is the establishment of a common deposit insurance system. This is a multi-stage process which remains under discussion. For now, the common EU rule is that deposits are guaranteed up to a limit of €100,000 but the funding and management of deposit guarantee schemes are a national responsibility: we operate the Irish deposit guarantee scheme.

Finally, the regulation of the conduct of financial firms and the operation of financial markets is a vital part of the overall regulatory architecture in order to protect consumers and investors. Within the general European-level regulatory policy framework, conduct regulation is primarily carried out at the national level and our mission statement of "maintaining stability, protecting consumers" conveys the priority attached to consumer protection in the regulatory work of the Central Bank of Ireland.

I hope that this brief overview gives you a basic understanding of the post-crisis European monetary-financial landscape and the important role played by the Central Bank of Ireland, both at the national level and through our contributions at the European level.