



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Research Agenda

Our Areas of Focus and Collaboration

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Introduction

The Central Bank of Ireland serves the public interest by maintaining monetary and financial stability, while ensuring that the financial system operates in the best interests of consumers and the wider economy. This includes a statutory mandate to provide analysis and comment to support national economic policy development. Diverse research and analysis, to varying levels of depth and technical application, across multiple areas of focus is critical to us delivering on our mandate.

The research agenda reflects the full mandate of the Central Bank of Ireland and aligns with the key themes of our Strategic Plan. For example, one important focus of our research is the effectiveness of our policy frameworks in maintaining price and financial stability, and protecting consumers. In addition, in a future focused way, research can also help us to anticipate and respond to changes in the economy and financial system. To do so, we are increasingly moving beyond conventional analytical techniques and datasets to help answer new questions or approach existing research topics in a new way. This transforming approach can help us to improve the effectiveness of our work and reaffirm ourselves as an intelligence-led organisation.

The research agenda provides the focus of our research in areas of policy priority, seeking to add the most value, whilst also leveraging the framework for Eurosystem-wide collaboration on research and analysis. It aims to strike a balance between building our expertise on existing issues of interest while also maintaining flexibility to react to new issues that emerge. We also cover areas where we have ongoing research projects and areas where we will seek to expand our analysis. The research agenda is structured around four headline themes:

1. **The small open economy** - The small and open nature of the Irish economy yields unique areas of research to further our understanding of the sensitivity of the domestic economy and financial system to external developments. This research will inform our economic commentary and support policy decisions to enhance the resilience of the Irish economy.

2. **The evolving financial system** – Ireland has a large, diverse and internationally-connected financial sector. The financial system has been evolving at a rapid pace, with a growing role of non-bank financial intermediaries. Our research analyses the evolution of linkages with the real economy, the impact on consumers and identifies key risks and vulnerabilities, in particular tail risks that have the potential to undermine financial stability, which underpins our policy decisions.

3. **New horizons** - The COVID-19 pandemic, climate change, digitalisation, population ageing and inequality imply a need for a radical rethink of how our economy and financial system functions. Our research will aim to take a more medium term focus to assess the implications of these changes and consider potential public policy responses.

4. **Central bank frameworks** - The Central Bank of Ireland contributes to the setting of euro area monetary policy and is responsible Irish macroprudential policy, financial regulation and supervision and consumer protection. Our research seeks to inform our policy design and assess the effectiveness of our policy frameworks to ensure we fulfil our mandates.

Under each theme, we highlight key areas of focus over the next 3 year/s. We endeavour to contribute to the frontier of thinking across these areas through strong collaboration with external researchers in universities/institutions and our Eurosystem colleagues.

The small open economy

In order to contribute to euro area monetary policy decisions and provide independent economic advice to support national economic policy development, we assess economic developments and policy decisions that affect, or have the potential to affect, sustainable growth and inflation prospects.

We analyse Irish inflation dynamics with a particular focus on disentangling the underlying external and domestic sources of price changes. This aids our understanding of the duration of price pressures and the impact on spending and investment decisions of households and firms.

The large contribution of multinational enterprises (MNEs) to overall economic activity underscores the importance of the implications of global policy developments for trade and capital flows. These present an important transmission channel through which external shocks spill over to the Irish economy, amplified by the concentration of MNE activity in a small number of firms and sectors. While the contribution of the MNE sector is critical to Ireland's economic model, indigenous firms are responsible for the vast majority of employment in Ireland. Understanding the challenges and prospects of these firms, including the impact of a changing external landscape for their supply-chains and for export-intensive sectors are essential for domestic economic policy advice.

Fiscal policy is a key tool for domestic macroeconomic stabilisation in a small open economy in a monetary union. Our analysis supports our advice and recommendations for ensuring medium-term debt sustainability and the ability of fiscal policy to support a sustainable growth path for the economy.

Analysing and enhancing our understanding of such complex dynamics requires a multi-strand approach including the harnessing of new data sources and novel empirical analysis. However, to get a consistent, interconnected and more complete view requires an extensive macroeconomic modelling framework, including continuous investment in a suite of tools capable of adapting to address evolving issues.

Areas of focus and collaboration:

- How have the drivers of Irish inflation evolved? How persistent are these forces?
- How resilient are the public finances and what is the trajectory of public debt?
- How do external developments, including multiple interconnected shocks (for example Brexit, the pandemic and war) and evolving global policies (for example, corporate tax reforms and changes in global supply chains) spill over to the Irish economy?
- What policies can enhance the resilience of the domestic economy and financial system to small open economy risks?

The evolving financial system

A well-functioning financial system supports the sustainable growth of the Irish economy through the provision of credit and insurance, the allocation of capital and the appropriate pricing of risks. Our research touches on all aspects of the financial system including pension funds, insurance providers, banks and market-based funding. The financial system must also evolve to meet the ever-changing needs of its customers while ensuring their interests are protected. We monitor consumer attitudes and behaviour towards their financial products and their experiences of engaging with financial service firms.

The size and complexity of Ireland's financial system makes us susceptible to 'tail risks'. These are, by their very nature, unobservable. We therefore use analytical techniques to identify the sources of these risks and measure their potential size and likelihood of occurrence. This analysis feeds in to policy decisions aimed at ensuring Irish financial stability and also has implications for Irish economic growth and inflation.

The rapid growth in non-bank financial intermediaries for domestic and international financing has prompted us to analyse the potential costs and benefits from this activity. In particular, we consider transmission channels through which this sector can affect the functioning of the Irish financial system and economy. This analysis serves as a crucial input into the design of a policy framework tailored towards non-bank financial intermediation.

The pandemic resulted in severe financial dislocation and the introduction of a large number of policy measures to support households and firms during lockdowns. We are considering the potential legacy effects of COVID-19 in terms of distressed debt and the implications of this for the financial system and wider economy, and the policy options for addressing this issue.

We analyse developments in residential and commercial real estate due to their macroeconomic importance, the interplay between credit supply and real estate prices, and the exposure of domestic financial institutions to these sectors. A key pillar of our overall macroprudential policy framework are our mortgage measures and

our analysis helps underpin key monetary, macroprudential, financial regulation and consumer protection policy decisions.

Areas of focus and collaboration:

- What are the 'tail risks' facing the Irish financial system?
- What are the costs and benefits of non-bank financial intermediaries operating in Ireland?
- What are best options for dealing with distressed debt arising from the pandemic?
- What are the macro-financial implications of developments in the residential and commercial real estate markets?
- How can engagement and regulations on product design improve the outcomes for consumers (for example, dual pricing in the insurance industry)?
- What are consumer attitudes towards pension decumulation, how have these changed?

New horizons

Climate change is a pressing issue that touches on all aspects of the Bank's mandates. To design appropriate policy responses, we first need a sense of the physical and transition risks of achieving net zero carbon emissions. This will allow us to assess the potential scale of Ireland's macro-financial exposure and benchmark the implications of alternative public policy initiatives to mitigate the damage.

The pandemic resulted in fundamental changes to the way we live, work and travel. It is not yet clear the degree to which these adjustments will become a permanent feature. We will therefore analyse post-pandemic trends and consider the economic and financial implications of any such structural shifts in behaviour. For example, reduced presence in offices will likely affect rents and commercial real estate prices, while increasing working from home may affect productivity and therefore wages and prices. The perceived need to ensure resilient supply chains could also affect trade and capital flow patterns. The greater burden for household duties placed on women during the pandemic also focused attention on disparities in opportunities for female labour market participation.

The rapid development of new financial technologies has implications for the real economy, financial inclusion and financial stability. Our research will aim to understand these effects, and inform policies to ensure that regulation remains fit for purpose. Digitalisation may also leave consumers vulnerable to exploitation and manipulation. We therefore track consumer and business attitudes towards cash and other payment usage, to assess financial literacy and ability to keep up to date with the latest innovations in consumer products. We are also involved in analysing the implications of introducing a digital euro.

Technological change, automation and globalisation are fundamentally changing the way labour markets operate. Demographic change (natural and migration) can have large effects on the labour market and overall economic growth over the short, medium and long run. The Irish population is ageing, and this will have large implications for pension and social security systems and

therefore fiscal policy and consumer behaviour related to pension decumulation.

Finally, the distributional implications of public policy, long overlooked, are now coming to the fore. In particular, the sustainability of economic and financial systems that fail to address large inequality in income and wealth is being called into question. While traditional analysis tended to focus on the aggregate effects of public policy, this will need to change to place greater emphasis on distributional aspects.

Areas of focus and collaboration:

- What are the physical- and transition-related risks of achieving net zero carbon emissions?
- Are there any post-pandemic adjustments in the ways we live, work and travel?
- What are consumer and business attitudes towards cash and other payment usage?
- What are the implications of income and wealth inequality for policy design?
- What is the likely effect of recent trade policy developments on globalisation?

Central bank frameworks

Measuring the outcomes of policy interventions is a notoriously difficult task. Yet, it is a vital component of ensuring our policies are fit for purpose. We focus our monetary policy research on priority areas such as policy communication, inflation expectations of households and firms, labour market dynamics, the transmission of policy through non-banks and monetary and fiscal policy interactions.

As macroprudential policy tools are relatively new, both in Ireland and internationally, we are focused on establishing the various transmission channels through which our policies affect the financial system and macroeconomic environment. As macroprudential frameworks mature, it is important to identify the benefits and costs of actions and the interactions between instruments – ultimately arriving at an overall measure of macroprudential stance.

Assessing the effectiveness and development of microprudential regulation and consumer protection policies are even more nascent. The continued growth in data science techniques greatly enhances the potential to derive empirical insights from these areas. But research and analysis is not necessarily quantitative in nature. Important lessons, in particular on the evolution of the financial system from the consumers perspective can be deduced from more qualitative approaches such as surveys, interviews and focus groups with key stakeholders.

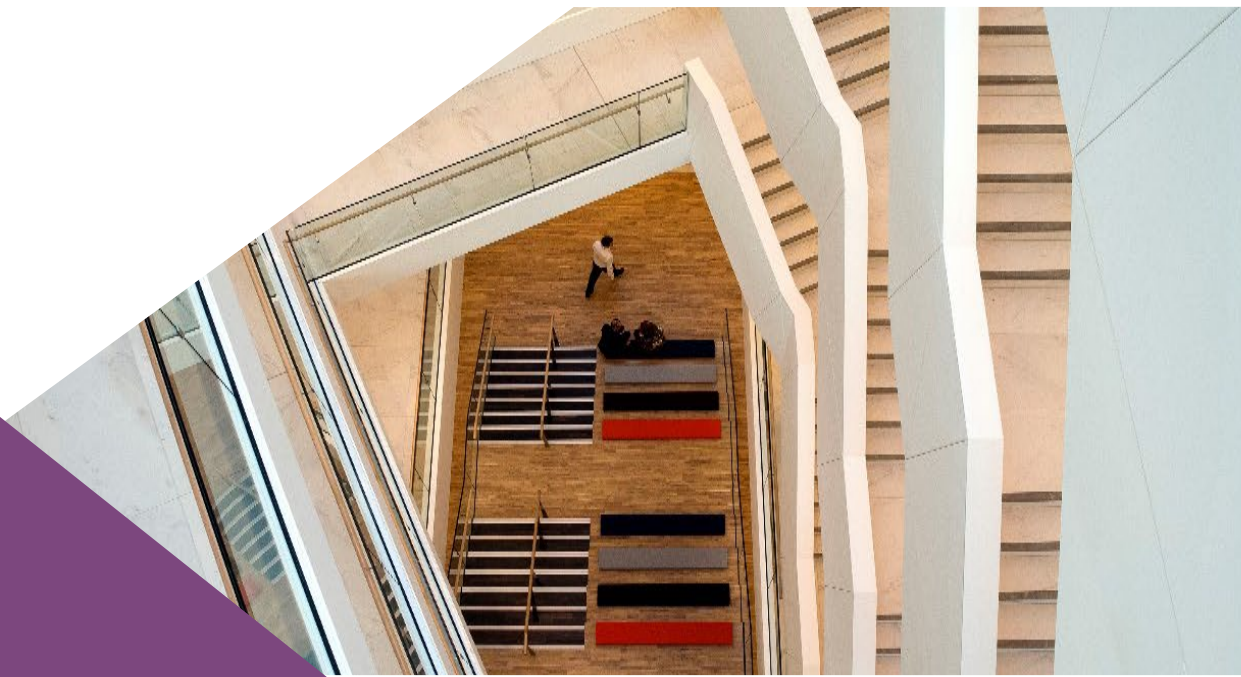
Policymaking is increasingly informed by insights from behavioural economics. Such analysis shows how decisions are often influenced by psychological biases and cognitive limitations. These have the potential to lead individuals to costly and systematic errors in all facets of life, including in relation to financial products. Continued measuring and leveraging of such insights provides for better and more effective consumer policy design.

We are particularly interested in the use of innovative new data sources and analytical techniques for policy analysis. One area where we have made progress using non-traditional data to better understand our effectiveness is in the use of text analysis algorithms to measure the impact of monetary policy communication. Further investment in such novel approaches will allow us to better exploit a

wide-range of non-traditional datasets at our disposal. When combined with ever-evolving techniques for establishing causal inference, these data can help us assess the impact and effectiveness of our policies as well as our operational efficiency.

Areas of focus and collaboration:

- Leverage behavioural insights into the key themes of the Consumer Protection Code Review.
- Leveraging data science and economic analysis to support evaluation and development of prudential regulation and consumer protection policy.
- Measure the impact, including the communication approach on the effectiveness of policy action.
- What are the effects of regulation on competition?
- What are the best institutional frameworks for central bank policymaking?



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