Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Media Briefing Transcript

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Journalist 1: So, have you modified your Brexit forecast for next year, just in terms of the impact of a hard Brexit?

Mark Cassidy, Central Bank Director of Economics and Statistics:

No, so our central forecast assumes that the transition deal that has been proposed or suggested for the period up to end of 2020 comes into effect. Therefore any disruptive or hard Brexit which meant no transition deal and Brexit coming into effect from March 2019, would be a downside risk that is not currently incorporated into our forecasts. We don't have an estimate given that this will be happening during the year and given the uncertainty, we don't think it's wise to put an estimate into the public domain, as to what the impact would be next year. We have though already put into the public domain what we think the impact of a hard Brexit – that is with no trade deal at all – would be over the medium-term and to remind you of that, our estimates are that that would have a negative impact on output of around 3.2% over ten years. I would emphasise that is compared to a no-Brexit scenario. With around 40,000 fewer jobs over that same period. What we might expect if it is to be a sudden Brexit, we would expect that those effects would be somewhat front-loaded and we would see more of the effects during the first period, so the first few years.

Journalist 1: In terms of the impact on the financial system, in the event of a hard Brexit, have you come to modify your forecast or anything recently in terms of the financial hit or the hit on the financial system?

Mark Cassidy: Well we don't have forecasts as such for any of the variables relating to the finances. We're conscious of the fact and we've discussed before that we do, we have had a relatively significant increase in the number of firms expressing an interest or applying for authorisations to locate in this economy. We've always emphasised in our engagement with firms and our public communications, the need for everybody to be prepared for all possible Brexit scenarios, including the scenario of a disruptive hard Brexit from March 2019 so that is not something new in our communications even if it has not always been the central scenario. So, we certainly have strongly encouraged all firms to factor in all scenarios and if there … to engage with the Central Bank in these issues as early as possible.

Journalist 2: Mark, are you worried about the disruption in the short-term, the disruption of a hard Brexit to the wider economy? And a lot of uncertainty, supply chains, all those kind of things?

Mark Cassidy: Yeah, we certainly are, we certainly are. We think while the medium-term implications are reasonably substantial, we would also be concerned about the short-term disruption, what you will be talking about will be the immediate imposition of tariff barriers, in addition you have the potential for significant non-tariff barriers including in relation to regulatory checks and documentary compliance. We have estimates of the effects of both of those are for quite significant negative disruption. It's also worth noting, so the three, the sectors that are most reliant or would be hit most by a Brexit are those first that are most reliant upon exports to the UK and second those sectors that tend to be associated with higher tariff and non-tariff barriers because they are higher in some sectors than others. And a sector like the agri-food sector would be one that would be particularly vulnerable across all those fronts. And again we would emphasise the importance of preparedness for all these scenarios, not just in the financial sector, in all parts of the economy.

Journalist 1: The government is currently doing some contingency planning for a hard Brexit, it said it will publish its findings in September. Have you been asked to directly input into that or have they sought your advice?

Mark Cassidy: Yeah, we engage on a regular basis with the Department of Finance in the context of the financial stability group which examines information sharing co-ordination on issues of financial stability importance, Brexit is obviously a key issue in that regard. And there are a number of areas in the area of contingency planning which are shared across, which would be relevant for both the Department of Finance and the Central Bank in addition to us having our own independent areas of concern, and certainly contingency planning has been in place across I think all parts of the economy and certainly within the Bank.

Journalist 3: The rainy day fund, you mentioned that, you would like to see that boosted, is that right?

Mark Cassidy: Well, what we're saying is there is a particular need given first the high level of public sector debt which increases the vulnerability of the Irish economy to any shocks and given the fact that external risks remain quite significant at the moment, there was a need for an overall accumulation of fiscal buffers. So, this can be through either of two ways, either in significant further reduction in public sector indebtedness or by increasing the contributions to the rainy day fund. We're not saying that one of those measures is better than the other, we're just saying that there is a need in the coming years for further accumulations through either or both of those.

Journalist 4: So, Mark, you spoke there about a need for public policy to avoid adding to any overheating, can you maybe give an example or some examples of what you would like to see government avoid policy wise? I mean what would be damaging?

Mark Cassidy: Well, given our mandate, the Central Bank communicates on the overall stance of fiscal policy. So, it's not our responsibility nor would it be appropriate for us to discuss any specific policy choices namely whether the government should introduce specific taxation or specific spending messages. So, our message instead is that in the recent years we have seen the economy has clearly outperformed expectations in recent years. The unemployment rate has come down at a quicker rate than was expected, such that we've reached a situation where the unemployment rate is currently now running at around 5.1%. So, given this positive momentum. Given that the outlook is strong for the next two years, there would appear to be scope for more ambitious fiscal targets, that would serve the dual purpose of increasing the financial buffers as already mentioned in response to the previous question but also to avoid a situation where government policy itself would contribute to overheating pressures or to capacity constraints within the economy which could damage economic competitiveness. For example, by crowding out the public sector or by leading to increasing costs of production throughout the economy so they're the type of competitiveness effects or overheating effects and the overall fiscal stance is particularly important but we certainly wouldn't get into specific tax or expenditure measures.

Journalist 5: What level of net immigration are you factoring in to your unemployment forecast or your labour force forecast?

Mark Cassidy: We have around 20,000 net inward migration per annum, so this is … net inward migration turned positive in around 2015. It has been steadily increasing to reach a rate of around 20,000 at the moment and we're expecting a similar rate over this year and next year.

Journalist 5: So, 20,000 in 2018, 20,000 in 2019, roughly speaking?

Mark Cassidy: Yes. Net numbers. I think the gross inward migration is about 80,000 – 85,000. That's the net number, yes.

Journalist 5: Okay, thank you for that.

Journalist 6: [Inaudible] the concerns about overheating. [Inaudible] saying we need more spending and [inaudible] elsewhere, you know, natural warning [inaudible], I mean very comfortable with what the government are doing at all or is it completely out of whack as far as you're concerned?

Mark Cassidy: Well, we've certainly seen an improvement in the public finances over recent years. We're getting into a position where we will be meeting fiscal targets, meeting all of the fiscal targets. But the fiscal targets set out I suppose minimum levels and it's in terms of the economy's own economic prudence whether it wants to take additional measures. So, I think we will be saying that, you know, given how the economy has performed recently and the fact that it has performed better than expectations that there would be scope for more ambitious fiscal targets including running a budget surplus from 2019.

Journalist 6: Sure, but would you be particularly uncomfortable with the government plans in terms of running a deficit in 2019 and so on?

Mark Cassidy: We're saying there would appear to be some scope for running a surplus. I think the planned deficit next year of the order of 0.1% which is around 350 million so we would see some scope. We would see scope for that to move into surplus. We wouldn't go more specific figures than, it will be too precise, I think.

Journalist 3: Are there any signs currently of the economy overheating?

Mark Cassidy: We don't think the economy is currently overheating. The key indicators we would look at to assess that would be things like credit growth, wage growth, growth in prices in the economy. These are all actually still quite subdued at the moment so we're really looking, the experience generally across economies from our own past and including the experience of the last crisis shows that as the unemployment rate gets closer to 5% and below, then the potential for wage increases to pick up more sharply does exist. So, we're really looking, we don't see it currently present but we're looking at the trends in all of these indicators that are picking up and we're warning about the potential risks in that regard.

Journalist 2: Where do you think the danger points are, Mark, in terms of overheating? Because inflation is so low at the moment.

Mark Cassidy: Yeah. Inflation is particularly low. Now one element of that relates to trends in goods prices. Goods inflation has been significantly negative for a large number of years and that reflects a number of factors that do not relate to demand pressures in the domestic economy, whether exchange rates, oil prices and in fact globalisation trends and in fact we've had a consistent downward impact from goods prices and we've a Box in the bulletin in that regard. Services inflation is a more accurate indicator of demand pressures in the economy. We have seen it pick up somewhat in recent years, albeit still running at more moderate levels than during the previous boom of a decade ago. But I suppose you're looking for credit growth, you're looking for rate of increase in services prices, particularly those services prices maybe with high labour components, strongly domestically focused, as well as wages and again particularly across services sectors.