Media Briefing Transcript

Quarterly Bulletin 2 – April 2020

Journalist 1:

Two quick questions, Mark. One, in the bulletin you say that your forecasts are on the downside, the negative side, rather, I'm just wondering, you know, what your thinking is and where further you may see the deterioration. And then the second question is about a stimulus, I'm just wondering, obviously there's the wage subsidy scheme that's in place there, but what beyond that would you consider to be appropriate and when might that happen?

Mark Cassidy:

Let me deal with your two questions in turn. Let me first, in relation, I think maybe you're saying that the risks are on the downside, so we think they're primarily on the downside. I will point to two potential risks. The first risk is that the containment measures will last beyond what we are assuming in our scenario. So, we ourselves cannot predict this. We can make a technical assumption of a three-month period which would extend until maybe late June, early July. The possibility remains that the measures may be in place to a certain extent and of course within this period, they may be tightened and loosened over time. But if they're in place for longer than that, the economic effect will be worse and obviously the longer they're in place the more the negative effect – and this is not just linear – the longer firms are closed down, the more difficult it is for the firms that are struggling to survive. So, that is one of the risks. The second risk is even if the containment measures or the pandemic, we get a grip of the pandemic within the time period that we're assuming, there's a lot of uncertainty about the longer term degree of scarring by the more persistent effects. We assume that there will be some amount of these but it's very uncertain. Economic evidence shows that a severe economic shock like this, including from previous global pandemics, even if they're of a short duration, can have significant lasting effects. And the factors that will influence how persistent the effects are first and foremost how many firms are forced to close during the containment period. Second, the extent of permanent job losses and permanent income cuts. Third, the behaviour of consumers. What effect will the crisis have on consumer confidence but also on consumer behaviour. Will consumers be wary about travelling, for example, or attending at large gatherings. And finally and very important also, what happens to the global environment? Our recovery will depend critically on the pace of recovery in the global activity, particularly in the US, the UK and continental Europe. So, if the recovery in these economies lags our own removal of containment measures, then the effect there could be somewhat worse. So, they're the main downsides and I think the government policy measures that have been announced are critically important in order to mitigate those by trying to keep jobs open and keep firms alive during the containment phase. Your second question, Robert, relates to stimulus measures, support measures. So, the measures that have been announced so far have been directed clearly at the three areas. First, health costs, second our increased health expenditures, second, temporary support for firms and temporary income support for workers. And hopefully my previous question highlights how important they are. But they are absolutely the appropriate focus for fiscal support at this juncture. A more generalised fiscal expansion would not be particularly effective at the moment because simply people don't have the opportunity to spend more money. So, the key needs to be alleviate the difficulties for those who are directly affected. Now when the economy, when this current phase is over, then there will be the opportunity to consider what more expansion with fiscal policies might be required and I think what is important and what my closing remarks and my opening statement would have highlighted, what would be particularly important is that these issues can be considered in an extensive and a globally co-ordinated manner. That will be the most effective way for the global economy to recover.

Journalist 2:

By any measure, the 8.3% drop in GDP and or the 25% drop under the alternative measure in the quarter in output is by any measure … the question is that depression era type of hit. The second question is just translate the, you know the general government balance of 10.2% GNI or 112% GNI or 10.2% of GNI, translate that into billions of euros in the gross debt, what that is. And very finally just the effects on the banks, the bank loans, do you expect a secondary hit there?

Mark Cassidy:

Okay, thank you. On your first question, certainly this is an extremely sharp, extremely severe drop in output. Certainly that represents a severe … sometimes people ascribe technical definitions for recessions, but for me that is a recession within this year. I would not describe it as depression. For me, depression refers to a prolonged period of negative output. A period whereby an initial recession and output continues to contract for a number of years. That is very different to what we are estimating in this scenario, which is an extremely severe initial hit, 25% as you say, followed by an immediate start of a recovery, albeit it that the recovery will be gradual. Second, in terms of the general government balance, I think essentially you're asking us to put euro numbers on this. I'm very happy to do so. So, let me give for both the balance, the deficit and then also for the debt. So, euro numbers, overall deficit, that is the equivalent of the 10.2% of GNI* is €19.6 billion. Previously we were expecting a surplus of €2.2 billion. So, the overall fiscal cost we're estimating is actually €21.8 billion. So, let me just restate that. The overall fiscal cost we think will be €21.8 billion. Of that €8.3 billion reflects the direct supports, income and business supports and the remaining €13.6 billion reflects the cost of the overall economic downturn on tax receipts, welfare payments, et cetera. So, that overall fiscal cost €21.8 billion but that is not the same as a deficit because there was an expected surplus for 2020 of €2.2 billion and therefore the deficit is actually one minus the other, so the deficit is €19.6 billion. I hope that makes sense. Let me turn also … let me mention also the debt figure. So, the increase in the debt is from €203 billion in 2019 to €215 billion in 2020. Now let me elaborate on that. Figures for 2020, so that is the €12 billion increase. So, that is not the full extent of the increase because in line with previous government estimates, the debt for this year was to include a winding down of €8 billion of cash balances held by the NTMA. So, we will allow these €8 billion of cash balances to be absorbed in the higher government spending and therefore one way to look at this is that the net increase in debt equals the €12 billion increase in gross debt plus the €8 billion spending for winding down of the cash balances. I hope that make sense. Third, so clearly there will be an effect on the banks. Clearly the current situation will lead to more loan losses for the banks, but it will also bring new additional uncertainties. The longer the macroeconomic disruption, the greater the challenge is. What I would say is in recent years, both capital and liquidity buffers have been built up very significantly. This strengthens the resilience of the banking system and in the face of this unprecedented economic shock, we expect that that resilience will be drawn down and we expect that firms will be able to … the Central Bank has taken measures with the capital buffer, that opens up an additional €1 billion to the banking system to lend. So, while it will be more difficult for the banks, they have much higher working capital than they did. They're now mainly funded through deposits or they're in a much more stable position with regard to how they're funded. And also, they're much more resilient in that they have much more a share of non-performing loans on the balance sheet. So, it will be a challenging time, but the banks are in much better position.

Journalist 3:

Yeah, just two quick clarifications. The impact on the labour market slide four, is it your baseline assumption that 516,000 jobs are at risk, and then secondly, if you might just give a little bit more flavour of what the worst-case scenario would be if the three-month period is prolonged to a greater period. Thank you.

Mark Cassidy:

Thank you very much. Okay, your first question, so the 516 is the total amount of employment among those high-risk sectors. That is not the figure we're estimating for the total loss of employment across the economy as a whole. We think a very high employment would be lost in those high-risk sectors but not the full amount, not over 500 in those sectors alone. Okay. What we think is that there will additionally be significant losses among sectors other than these high-risk sectors. This is particularly the case for example in relation to construction and in relation to some of the businesses that have subsequently temporarily closed their doors because of the new containment measures. So, essentially the unemployment figures that were, the latest live register figure show that around 320,000 workers have already lost their jobs. Those data relate to 27th March, that predates the additional measures announced by the Taoiseach last Friday. We think that there will therefore also be more temporary job losses. So, what we're anticipating across the economy as a whole is between 450-500,000 job losses, many of which have materialised, most of which will be temporary and as the year progresses, that unemployment rate will fall but there will be some persistent effects. Second, in terms of more adverse … though we will in the coming period … alternative scenarios. What I would say is broadly speaking, for example, if the containment measures were to be in place for an additional three-month period, face an additional three-month period, our preliminary suggests that the decline in output this year could be closer to 15% rather than 8%. They are preliminary estimates. We will be publishing more detail on that in coming months.

Journalist 4:

Hi Mark, thanks very much. Just on all of the money that the European Central Bank has made available and all the facilities it's made available, how is that going to work, and can you explain how the Central Bank will distribute that and what role you'll have in that?

Mark Cassidy:

Okay, thanks. Our role is operational. Obviously our governor, as a member of the governance council contributes significantly in terms of the decision making and our role then becomes operational in that if Irish banks wish to avail … in terms of the asset programme then, sorry, there's two different measures. In terms of the asset purchase programme, our role is operational in terms of purchasing our share of the assets and the combination of assets, the type of assets are decided by the euro system. So, our role in that is operational and in terms of the other new announcement by the ECB, namely the targeted long-term refinancing operations, likewise our role is operational in that any Irish banks wishing to avail would do so via ourselves.

Journalist 4:

Just has the process started or, you know, when does it start or how will it start?

Mark Cassidy:

Well, yes, it'll start immediately so this is a continuation of the existing asset purchase programme but a very significant ramping up. Already it has been planned that €120 billion worth of assets would be purchased this year. So, at the rate of €10 billion every month. This has now been ramped up enormously by an additional €750 million, so that the total number of purchases- and this has just as the total number of purchases €1 trillion which I think reflects about 7 or 8% of Euro area GDP. So, I think these are clearly already having an effect and then secondly in terms of the targeted long-term, the LTROs the net … the new operation will begin in June. There is currently an existing operation between March and June. I hope that's okay.

Journalist 5:

Hi, Mark, my two qualified. Firstly, just on the assumptions that these lockdowns are listed at this quarter, what happens if there's rolling closures, like we get maybe two week closures, then we're back open, then we're down for another three weeks or four weeks, have you done any forecasting around that? And my second question is around multinationals. I think from the slides you said you don't believe they will be as badly affected by this as other companies. Just what's the assumptions behind that given that we've seen the US economy job numbers today were pretty poor, and other economies as well across Europe. Thank you very much for those two.

Mark Cassidy:

Thank you very much. So, on the first one, yes, we don't have … you're absolutely correct. I think what we will see is the measures being eased, maybe strengthened, you know, we cannot be too precise about this. You're absolutely right, that's what it could be like in real life. We're assuming some form of average. So, Ian, you're absolutely correct in practice, in reality there is likely to be different phases. There's likely to be some loosening, maybe some easing. In our forecasting we cannot be too precise about that. We're estimating some relatively … an average of some relatively tight degree of restrictions and but it hopefully would be in line with what we would see during this three-month period but we cannot be too … tend to have the degree of precision, but we've certainly been aware of that when we've been … judgement into our forecast. In terms of the MNEs, so yes, certainly on the face of it, our multinational sector seems to be extremely vulnerable because they export a lot to affected countries, particularly the United States, but also to Europe and indeed some to China. The issue, the important issue in terms of our forecast relates to the sectors that those MNEs are operating in. So, if you look at the last crisis, but also if you look generally at these type of products, we know that pharmaceutical and computer services continued to perform well during the last crisis, that is not a coincidence, that reflects the fact that demand for these products, demand for the pharmaceuticals, tend to be acyclical. They tend to hold up well even when are struggling. We know also because of the nature of the crisis that there will be increased demand for some products within our broad chemical pharmaceutical sector, for example, in relation to medical devices and we know there's expansion in some firms like Mechatronics. So, that's why we think that particular sector will hold up. Albeit it will be heterogeneous. There will be some parts of the sector might perform better than others. Similarly, in relation to computer services, where you would expect the Googles, the Amazons, the Facebooks, you would expect these to be able to continue to do well in the crisis and some may even do better given the nature of the crisis. Over time, of course. They could be affected over time if the marketing opportunities, the advertising revenues were to be significantly affected, it may have some effect. But generally, they seem to be holding up well. The one exception would be computer processors. This sector has contributed very significantly to the growth of exports in recent years, but in fact, in terms of export, it is much, much less than either computer services or pharmaceuticals. So, very much what we're projecting is because that these firms are in. Hopefully that's okay, Ian. Katie.

Journalist 6:

Just one quick question, Mark. You say that you think unemployment might be down around 12.6 for the four quarters restrictions are eased within three months for the three-month lockdown. That's still a pretty high level given the number coming in was 5%. Clearly the unemployment is going to take a long time to unwind, would you be slightly concerned that we could be looking at slightly higher permanent rate of unemployment, maybe if employers realise they can do without staff and I'm surprised unemployment would be at 13% at Christmas.

Mark Cassidy:

Thanks very much. Yes, this is an important point. Obviously, there's a degree of uncertainty but let me explain our thinking in this regard. So, we do think while the recovery we think will start immediately after containment measures are eased, we do think this will be a rather gradual recovery. We do think it will be rather sluggish in the third quarter of the year, before gaining momentum in the fourth quarter. And we know in terms of employment, firms are often reluctant to bring people into employment or back into employment until they have some confidence about future conditions. It is also the case that not all jobs will be regained. We will see despite the government efforts, we will see firm closures and therefore there will be some permanent job losses in addition to I suppose the delay in re-employing people and that's why we have what is as you say, a rather gradual reduction. So, we have the unemployment rate roughly halve between the beginning of the third quarter and that average and that is, that 12.6 is an average for the final quarter. So, we would expect it to continue reducing during the fourth quarter. We expect it to continue reducing into 2021. So, we would expect the trend in unemployment during next year to be a declining trend. But we think it will take time and it will not, unless there's another boost to the economy, it will not necessarily fall over the kind of one- to two-year period as low as the 5% it was for the beginning of the year. Now, I think that is more to do with the fact that some firms will go out of business and that there will be persistent scarring, some persistent scarring effects on the economy, rather than anything structural to do with how many employees firms need. So, we think it's more of a cyclical development reflecting what we think the pace of recovery will be. Hope that's okay.

Journalist 6:

Just one quick … you said double check a number, if the restrictions persist beyond three months, the economy could contract 15%. There was a figure you gave around … that's correct is it? 15%?

Mark Cassidy:

Yes. That is a preliminary assessment. We have not … scenarios. This is something we'll be doing further work on, but initial indications are that a doubling of the containment period, and that could be the extent of the annual drop in output.

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