Media Briefing transcript

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Journalist 1:

Did the government's decision to defer the reopening of indoor hospitality impact on the forecasts? And the second question is, how much savings have been built up and how much are considered excess?

Mark Cassidy:

Okay. Thanks for the questions. So, first of all, the impact that maintaining the restrictions on indoor dining will have will of course very much depend upon the duration. So, in terms of the overall economic impact, the impact on the overall public finances. If the extension is limited or short in nature then you would not expect to see a material effect on any of our forecasts. Of course, the longer the extension of those restrictions, the greater the effects will be. And because this has been with us for so long, because these sectors and these firms have been bearing the brunt of the crisis so far, the longer the restrictions last, the greater the probability that more firms will close down permanently. So, I certainly would not want to dismiss the effect. I wouldn't want to underestimate the frustrations and the difficulties for businesses and indeed households who have been facing these problems for so long. But if we're talking about extension of a matter of weeks, then you wouldn't expect it to show up in the numbers. It's just pushing things a little bit further back. On the second question, in relation to savings, so I can give you some of the numbers on that. So, over the period, over the 18-month period from the beginning of 2020 until May of 2021, the overall increase in household deposits which very much proxies the increase in savings was €21 billion. That equates to around one and a quarter billion euro a month. To put that in some context, the average over the previous five years had been somewhere between a quarter and a half a billion euro a month. So essentially, we're talking around three quarters of a billion to one billion additional savings compared with previous averages. So, this means that we estimate that additional or excess savings could be somewhere of the order of nine to 12 billion euro at the moment which equates to around 10% of annual consumption. So, it's quite a significant amount and as mentioned and as outlined in quite a detailed box in the bulletin. The extent to which, but also critically the pace at which these are wound down; we know they could go into spending; we know they could have an impact on the housing market or people may use it to pay down debt will be one of the important factors for the economy at the moment and I can give any more detail about the results of those scenarios if necessary. But they are in the box in the bulletin. I'm not sure if you can hear me, but if that's okay.

Journalist 2:

Could I just ask you Mark about that statement towards the end there about it being reasonable to consider the need for revenue raising measures or reducing other areas of spending? And then in the report you're also talking about the extra spending in Budget '21, the €5.4 billion and it needs to be financed over the medium-term. So, when do you think the Government needs to consider the need for revenue raising measures? Can you give me a timeframe for that? And then the second question is do you agree with the view put forward by the ESRI that the way the dynamics work at the moment, that there is scope for between (once things recover), for between €4 billion to €7 billion a year for capital investments? Thanks.

Mark Cassidy:

The two issues are related but let me take them separately because there are separate elements also. So, what we're saying in terms of the fiscal situation and the need for either … that likely will be needed for either revenue raising measures or for some reductions in other areas of spending is that there will be trade-offs needed in the coming years. We know the public debt has risen very highly. There is now the opportunity to return the public finance to a sustainable path. That is necessary in order to avoid adding to inflationary pressures in the coming years when the recovery gains hold and also importantly to allow for a reduction of the public debt ratio to more sustainable levels. And critically important is the context we're looking at which is over the medium term, the rising costs of an ageing population, the critical need for infrastructure particularly housing investment and also risks that relate to our corporation tax. So, I'll come to timing in a moment. But essentially that means that if we're going to deliver on all of those then choices do need to be made between the need for the revenue raising measures or reducing other areas of spending. Regarding timing, I don't think whether it would be this year or next year. I think this is more in the coming years these choices will be made. But the important… If any… In the current budget, if there were to be permanent increases in spending announced such as was the case of the order of around at least €5.5 billion in Budget 2021 that you allude to. Then there would at this stage need to be consideration also to how those would be financed because particularly if you're talking about permanent increases in expenditure. So, really from now, the overall path with the public finances, taking in consideration how any increases in spending would be financed or alternatively if there are to be decreases in revenue, what other areas of current spending might be looked at, might need to be financed? So, it's not a matter of whether this is for this budget or the next, this is something that needs to be taken into consideration in all of the upcoming budgets. In terms of the ESRI and the amount of capital spending that might be available. So, first I would distinguish and the ESRI make the important distinction between temporary and permanent spending in this regard also. So, what they're advocating would be a temporary increase in housing investment which would add to the level of the debt but it would not permanently put the public debt path on an unsustainable… public debt, public finances on an unsustainable path. So, our view on that I think would be that that is only a partial analysis looking at one area of the public finances. Whereas, you need really to take a holistic view of the public finances. And in that case, the optimal increase in public housing investment needs to be considered in the context of the other demands on the public finances also in the coming years, i.e., the ones I've mentioned, ageing population, climate change, policies, other infrastructure needs. And also, in terms of housing, need to look at the capacity of the State to deliver such a rapid increase in housing. So really, I think the ESRI analysis is very useful. We fully agree with the importance of increasing housing supply and associated infrastructure and facilities to accompany that. We also acknowledge public policy will have a critical role in supporting that but in terms of the optimal role for public policy, we do think we need to consider the public finances in that holistic way as I mentioned also in my previous answer. So, I hope that's not too roundabout a way of answering your question.

Journalist 3:

I just have two questions. Just the projection of the general government deficit in that table by the end of 2023, I think it was just under 4%, was it 3.8%? Is that based on no significant changes to budgetary policy, is that based on the current view or bearing in mind your answer to a previous question there, is that based on any additional current spending being mitigated by either a reducing spending elsewhere or taxes? I suppose in a roundabout way, what are the criteria by which you're assessing that in your 4% deficit, a ratio of government deficit to GNI star at the end of 2023? And my second question, if I'm allowed one, is in the table above that you have a line of compensation per employee. And for 2022 the forecast is 4.9%, I'm just wondering what that is. Is that what you expect average wage rates to go up by 4.9% or what is that, that compensation per employee line?

Mark Cassidy:

In terms of the budget deficit which you have at 3.8%. Essentially, we're taking into consideration with two caveats. We're taking into consideration the government's plans as set out in the stability update. The two changes that are slightly different, do not represent any forecasts for us of any additional discretionary changes in fiscal policy over that time. Rather, first of all, we now have confirmation of the extension of the income support into Q1 2022 which adds some fiscal cost, that is additional information available to us. And also, we have slightly higher spending in relation to social transfers, social welfare payments during 2023. The Department of Finance has quite a technical assumption on those. We have a slightly higher figure just because of how we see the relationship between the overall economy and projected social welfare payments. So, there is no change in, there's no kind of discretionary policy beyond what has been announced by the Government for example more expansively or more revenue. Just a couple of minor reasons why we have a deficit that is somewhat higher than the Department of Finance forecast from the stability programme update. Compensation per employee, indeed that is average ages, average earnings per worker. So, we have a pick-up over the projection horizon as you can see and this reflects two factors in particular. First of all, we are seeing a change in… Following the crisis we were seeing some change in the composition of the labour force. So, we've actually seen average earnings increasing quite significantly because quite a number, as we know quite a number of people have lost their jobs. The job losses have been predominantly concentrated among lower paid workers and therefore that leaves, automatically that leaves the average wage of those still in employment somewhat higher. So, that's a purely technical compositional effect in that the balance, the composition of the labour force has changed and we're seeing this over the coming years. But maybe more notable is we're also seeing increasing signs of tightness or labour shortages in certain parts of the economy. So, employment has been particularly strong in areas like IT, financial, business, public administration in recent years. We expect this trend to continue and we're seeing this in other economies as well. Emerging labour shortages in some parts of the economy may be being accelerated or encouraged by some of the structural transformations we're seeing in the economy. And therefore, we do expect in some sectors of the economy, particularly those I mentioned there, a rather rapid pick-up in wages growth. So, they're the two main factors underlying that pick up in wage pressures over the coming years if that's okay.

Journalist 3:

If I could, just one supplementary on the first question. What sort of tax revenues are you building in there? Are you making this on the 3.8% deficit, are you factoring in any significant reduction in corporate tax revenues?

Mark Cassidy:

Oh yes, sorry. Yes absolutely. We make the same assumption as the Department of Finance which is to assume that corporation taxes fall by €2 billion over the medium term and we incorporate the same path for that decline as the Department of Finance.

Journalist 3:

That's great. Thank you.

Mark Cassidy:

Thank you.

Journalist 4:

Hi everyone, thanks for the question. My question is actually just following on from the last sentence you uttered there Mark about corporation tax revenues. Because in one of your boxes in the forecast you talk about clear risks to tax receipts, especially in a negative scenario where multinationals might leave the country given you know, the new global corporate tax rules. You also talk about not only lower corporation tax but lower VAT on income tax if jobs flee along with those companies. Like so I know you're using the same estimates as the Department of Finance, but do you expect those estimates to go up or go down because I think the Fiscal Council have said that the risks might be more on the downside, that more revenue may be lost given the new, the G7 deal? Thanks very much.

Mark Cassidy:

Yes, so as I say our central forecasting come up with the same assumption at the Department of Finance which is quite a prudent assumption, a decline of €2 billion in those. I would say that there's very considerable uncertainty, it's not possible to model what the effects may be and there are… So, first of all I would say that potentially that is a minimum, you couldn't rule out that the hits to corporation tax would be somewhat greater than that. The hit at that is associated with the OECD changes, either the likely introduction of a minimum effective corporation tax rate which may be 15% or potential changes to digital media. So, that is the basis for this reduction; corporation taxes of around €2 billion. The other point that you've mentioned yourself there that's extremely important to notice is you know, there's a lot of uncertainty around corporation taxes regardless of the OECD process. So, we have boosted, we have benefitted enormously from the volatility in these corporation taxes since 2015 with an enormous surge in these which has been extremely welcome. But that degree of volatility of course can go in either way. So, in addition to potential affects from the OECD, global arrangements with regard to how we tax multinationals, there are other risks to corporation taxes. Risks particularly we know that a very small number of multinationals, I think ten multinationals contribute 40% of corporation taxes. We know that these are predominantly within a small number of sectors; pharma and IT in particular. So, any firm or sector-specific risks also constitute additional potential risks to corporation taxes that we need to be mindful of. And as you mentioned yourself, the risks in that regard if there was to be any hit to the multinational sector would not only hit corporation taxes but also labour taxes because these firms also contribute a lot to income tax. So, there's a lot of uncertainty, a lot of volatility, all of which underlines the central message which is the importance for a prudence approach, not just the projecting corporation taxes but also to make sure that public finances are not reliant upon such a high level of taxes, if that's okay?

Journalist 5:

If the restrictions on indoor activity last longer than the couple of weeks that you discussed in the first question. Say if Q3 is lost in that regard. Can you outline what impact you would expect to have, that to have on the forecast that you've outlined? And also, whether it would threaten the sustainability of the public finances given the lost revenue that that would entail. And also, presumably the additional spending pressures that would come on the State. We would have heard Ministers of the National dialogue in the last few days saying that we needed to wind down the public spending to more normal levels. So, obviously, that's going to be more difficult now what is happening this week. And then just secondly, at what point does the downturn in sectors like hospitality and travel move from being temporary in nature for the duration of the restrictions to a more permanent depression whereby even when those businesses are allowed to reopen, the economic activity won't rebound as quickly due to the damage that has been done to those businesses?

Mark Cassidy:

Thanks very much. Yes, these are very important of course. So, certainly an extension along the lines of what you're describing, we don't think… It wouldn't itself threaten the sustainability of the public debt, you know. The conditions in this economy remain very favourable. We were expecting a strong return to economic growth, financial conditions are very favourable. So, what you're suggesting would add something to public sector debt and it would delay the recover somewhat further. And we've done some scenario analysis of this in the past, we've produced some adverse scenarios which made assumptions about the economy remaining under lockdown for considerably longer. And they did show hits to economic growth, they did show unemployment remaining higher for longer. But none of them put us into even scenarios which had very severe lockdowns remaining into the following year which we're no longer producing because we think the possibility of that is so much reduced. But even those scenarios while negative, they delayed the recovery, they delayed the period until which economic activity would get back to pre-pandemic levels. They added something to deficit and debt, but they certainly did not put the economy onto an unsustainable path. What I would say is that you would get effects on businesses because the longer… so many businesses have already been closed down for over a year. We have around 90,000 to 100,000 people have been on the Pandemic Unemployment Payment for over a year now. The longer that goes on, the more difficult it is for those businesses to stay open. So, you would undoubtedly get quite a significant increase in business closures, firm closures in those circumstances. And therefore, that contributes to longer term effects regarding the scarring of the economy. People/ employment turning into long term unemployment. So, in no way would I understate the consequences of what you're describing. But certainly, if it's an extension of restrictions to indoor dining as opposed to going back to the full Level 5 restrictions we saw in the opening months of the year, then it's a case of a bump in the road, a delay to the recovery. Albeit with significant sectoral effects. The second point you raised is extremely important. There's a lot of uncertainty about this but we do think that what you're describing is one of the examples of what we're describing as a likely structural transformation in the economy both domestically and globally that will arise as a result of COVID. And where we see that these effects, maybe the sectors that are most vulnerable are travel, transport, particularly business travel, those other parts of the economy that rely also on business travel. So, we do expect that we will see some sectors of the economy will decline to an extent on a permanent basis, whereas other sectors we know are emerging, other sectors are growing very quickly. So, we will get this reallocation of resources within the economy. The quicker, the more smoothly this reallocation of resources can occur, the quicker that people who lose jobs in one sector can find employment in other sectors then the less serious or the lasting, the permanent or the scarring effects of the crisis will be. But we expect to see some effect along the lines of what you're suggesting. Maybe just as a slightly more positive note on that, we are beginning to see some international experiences from some countries, whether the US or the UK or some other European countries that are somewhat further down the road then we are in terms of opening up the economy. Now I would exclude business travel from what I'm saying, but what we are seeing is a rather quicker re-emergence of pre-pandemic patterns, people's willingness to take public transport, the return to the spending patterns and social activities. That maybe a quicker re-emergence of the previous patterns, less of a change than might have previously been affected. But I think there are sectors like business travel, other parts of travel that may be affected to a more lasting extent.

Journalist 5:

Thanks Mark, that's great, very thorough. Could I just ask you very briefly as a follow-up on the first question around your forecasts outlined here? If say the restriction on indoor extended to the next quarter, can you give us any best estimate as to how the growth or domestic demand forecast that you've outlined will be impacted?

Mark Cassidy:

I might ask Martin if he wants to add anything on this. I would say the effect will be minimal. I think what you would see is, you would see some impact on the unemployment numbers, the COVID adjusted unemployment numbers, not the official unemployment rate. So, around 58,000 people in total are now, from the accommodation/food sector are on the Pandemic Unemployment Payment. I wouldn't put an estimate. I know when the economy was at its most open that number was closer to 40,000. So, that difference is maybe giving an order of you know, employment effects maybe 10,000/20,000. But I don't think we could put a number on the annual change except to say it would be very significant. Martin, I'm not sure if you've any…

Martin O'Brien:

Yes, I'd agree. I think it's easier to say in the context of the labour market, and I think also when you look at sort of overall limits, the demand. We've seen some of those changes that Mark has alluded to. So, it would certainly be a more gradual return for some levels of lower unemployment.

Journalist 6:

Hi Mark, just one quick question there just in relation to the unwinding of pandemic savings. I'm just wondering if, see kind of precautionary consumer behaviour continue into the third and fourth quarters of the year. What sort of policy options might be available to I suppose speed that up, speed up the unwinding of those savings?

Mark Cassidy:

Well, we already have factored in there. If you look at the consumption figures, we do have quite a conservative which we think is reasonable, assumption regarding the unwinding of these savings. We do think that certain… First of all, we don't think that people will go out and immediate seek outlets to spend this money, it will occur over time. We think there are reasons why people may be cautious about the outlook, they may hold on to higher savings and therefore our central assumption is that the savings rate does remain above pre-pandemic levels. In other words, people continue to spend a little bit less of their disposable income than they would have done pre-crisis and I think that's in line with kind of what we expect people's behaviours/concerns to be after the crisis. We think that's reasonable. If we wanted to accelerate that, there are things we could do but I think the economy is now beginning to develop sufficient momentum that I'm not sure it is the optimal thing to try and stimulate overall climate consumption beyond what is expected. If you look at the pick-up that we have, we have consumer demand expected to increase by 7.6% next year, 5.3% the year after. So, by itself I think we have a very strong boost of consumption. The concern if government policy was to try to increase that further is that well first of all, being met by more and more important because of the lack of domestic capacity and for similar reasons that you would see it showing up more in higher prices rather than higher activities. So, I wouldn't… Maybe if the economy was more in the doldrums, I wouldn't necessarily think we need to try to stimulate savings. Of course, it's a different matter whether the government wants, how the government looks at those sectors that have been affected by the crisis. Whether the government, what supports the government has in place for those viable firms in those sectors but that's not about stimulating general consumption, I think, yeah.

Journalist 6:

That's great, that's comprehensive. Thanks very much Mark.

Journalist 7:

I just have one small question. So, I understood from your remarks a little while ago about wage growth, that there's some concern about second-round effects. And the bulletin advocates measures to reduce the possibility of wage and price pressures becoming more consistent. Now of course but I thought that what we needed right now in fact is some wage growth, admittedly not just in Ireland, to sustainably boost underlying inflation and allow eventually monetary policy normalisation. So, what is behind the concern that you and the bulletin are expressing?

Mark Cassidy:

Thanks very much. So, I think we would not have concerns in this regard, regarding outlook. We do think we're seeing an understandable pick-up on prices and wages in line with what we're seeing in other countries which is understandable in the circumstances given that demand is recovering. And as you say, certainly for the euro area as a whole, an increase in price pressures is the objective of monetary policy at the moment. So, I don't think we're expressing a concern. Martin might want to add something to this, at the moment. I think we're just saying that as the economy… If wages and prices are growing at that rate and demand is growing at that rate, then you're increasing the risk of something more persistent down the line that the prices and wages could get tied up in some form of positive spiral above what you might think would be consistent with economic stability. So, I think we would just be cautious if things were to take off to a significantly greater degree, more than what we're seeing at the moment and I think that's one of the upside risks for the economy. But I'm not, we're not suggesting in the bulletin that the current outlook would be something we would be particularly concerned about in that regard. Martin, is that…?

Martin O'Brien:

Yes, I think, and hopefully people can hear me better now. But yes, a lot of the factors that we've seen driving, particularly the near-term pressures on pricing. We do see these and some of those are from you know, what we'd have seen last year. This is just both in terms of the learning situation and compositional issues that Mark referred to earlier. But also, in terms of the general price pressures that you see as well. Particularly in energy prices, certain commodity prices etc. These are things that are going to fall out over time as the sort of basis, the interaction between supply bottlenecks that pass through. So, as Mark said, it's really that central execution is not something that's worrying it's just it's something that the broader perspectives and policies for the last number of years. But certainly, something to watch out over the medium to longer-term you know. But you know, those sort of near-term pressures embedded in.

Mark Cassidy:

And I would say, the higher wages that we're seeing as I say that partly reflects what we're seeing across different sectors; labour shortages in some sectors and therefore wages increasing. And in fact, that's part of the way through which you get the natural transformation within an economy is wages in some of these sectors like IT. So, I think it's quite a benign outlook in that regard overall.

Journalist 8:

I just want to get an idea, your take on housing and how much of a drag the housing crisis might be if grew in the medium-term. And when might we start seeing kind of a closure of the gap between supply and demand?

Mark Cassidy:

Yes, like this is clearly one of the most important issues for the new economy. From an economic perspective it's an important issue but primarily, for those people who are trying to buy and to rent the many households across the economy, the issues in terms of both affordability and availability of houses is a major, major social and economic factor at the moment. In terms of the economic effects, so there's some drag on the overall… Housing output has declined as a result of the crisis. Construction output is an important contributor to overall economic growth. So, this has contributed to the decline in the overall economy and the fact that housing… I think our estimate is that over the period 2021 to 2023, sorry 2020 to 2023 there will be around 25,000 fewer houses built that we were expecting prior to the pandemic. So, there is some macroeconomic impact there. There's also a macroeconomic impact in terms of the future productivity of the economy. The ability, the attractiveness of this economy for foreign direct investment. The higher prices, the higher rents that exist, the more difficult it is for workers coming into the economy or new workers already within the economy to find housing and rent does make it more challenging from a competitiveness perspective. But ultimately, I think the main effects are on potential home owners and we are well short of building enough houses to satisfy demand in this country. We estimate a demand over the medium term of around 35,000 units. We are now currently estimating that even by 2023, we would only be building 26,000 units. So, it is going to be many years before we get to a position where we are building houses to meet medium term demand and even when we reach that, there will still be a shortfall to make up for the many years when there was a deficit of supply. So, it is an important issue. It's maybe the major national economic issue at the moment and I do think public policy will have a role in terms of the provision of public housing. But also, in terms of supporting the private building of housing in the coming years. Thanks Geoff.

Journalist 4:

Would you mind if I just followed up on the housing question very quickly? Yeah, I was just wondering because NAMA and the Construction Industry have talked about the why's in the cost of materials pushing up house prices. And I'm just wondering how important do you think that factor is in the rise in house prices overall compared to the obvious problem *which is the lack of supply?*

Mark Cassidy:

Thanks. Certainly, if I was being… A positive increase but it is also an additional effect of the crisis. It is cost of raw materials towards building a house are one of the areas where supply shortages, where supply blockages have contributed to rising prices of wood, rising prices of timber. These are some of the raw materials where you are currently seeing the largest increase of prices. So, higher costs, higher building costs, higher raw materials are exacerbating the problem at the moment. But I think undoubtedly the problem at the moment, we have seen that demand has remained stronger than many people suggested. But in fact, transactions last year were still around 16% lower than the previous year. So, I think undoubtedly the main factor relates to the lack of supply. There was a lack of availability with viewings closed down etc., during the pandemic. But mainly, it's the low output compared to demand that's outweighing all of those. Which is not to say there are not factors, there are many factors that relates to the overall cost of housing which could improve the supply of the market. Looking at those in a holistic way is very important for the agencies that you mentioned to be doing.