Journalist 1:

Four months ago, you said that the Irish Banks would be able to withstand even the worst Brexit, do you still hold kind of steady on that and do you think there will be any impact on lending, be it SME lending or mortgage lending at all?

Mark Cassidy:
Yeah, we do still hope that that finding, in fact we've been engaging even more intensively. So, we have been, the bank have been working since well before the referendum on preparing to mitigate any risks we have seen in relation to financial stability and the overall financial system under all potential scenarios. And this had involved engaging with the banks to ensure that they have sufficient capital to withstand any Brexit related downturn. Also, to ensure that they have contingency plans in place and that they are in a position to implement those contingency plans again under all scenarios and we would, and therefore we do think that risks to overall financial system stability are manageable. We do think there would, in the event of a no-deal scenario, we would expect to see some market dislocation, we would expect to see some temporary impact on financial markets, but we don't think this will have a material impact on overall stability and we think any impact on credit conditions, the supply of credit to the real economy would be relatively contained because of the capitalisation of banks which allows them to continue to lend into the economy in those circumstances.

Journalist 1:

But there could be a small.....

Mark Cassidy:
We, you know, you can't rule out anything in the very near term. The purpose of our interactions with banks and ensuring their capitalisation is to ensure that they do have sufficient capital to be able to lend into the economy under those circumstances and therefore we could not see large effects. Now, you may of course see a downturn in credit because of the weaker financial position of the firms demanding credit but that is somewhat different from a constraint upon credit from the supply side whereby firms seeking credit that are good credit risk are unable to receive it.

Journalist 2:

How concerned are you by the fact households aren't spending, they're still saving a lot more than they're borrowing? And the consumers appear to take on the economy along and now with Brexit as well, what are their savings and spending telling you about how they feel? It indicates a lack of confidence doesn't it?

Mark Cassidy:

Yeah, I think there's undoubtedly increase in uncertainty in the economy and the sentiment indicator is showing some decline in economic confidence, economic sentiment over recent months. You couldn't attribute this wholly to Brexit. I think there is increased uncertainty in relation to other global factors, heightened uncertainty in the global economy but I think it would be reasonable to say that Brexit related uncertainty is playing some part in the deterioration in both consumer and business sentiment. We are as we pointed out, or as John posted out as we point out in the bulletin, we are seeing a consumption growth while it is remaining relatively solid it is lagging somewhat behind incomes. This is reflected also in the increase in household deposits and we would attribute that primarily to first of all precautionary reasons along what you suggest and also maybe if households are putting more money into deposits with the view to saving money for a deposit on a house. That could also partly explain the trend you're talking about. I wouldn't be overly worried; we're still predicting robust consumption growth albeit slowing somewhat which is in line with overall trends. So, at the moment what we're predicting I wouldn't be concerned about from that respect.

Journalist 3:

The Bank of England's kind of Dracula forecast for a disorderly Brexit is around 8% decline in GDP equivalent to the financial crisis and yet we still have a positive growth and are you confident that you're capturing the likely scenario in its full?

Mark Cassidy:
Well first of all I would emphasise that there is considerable uncertainty around any such estimates whether our own of the Bank of England's. More uncertainly that in normal circumstances because of the unprecedented nature of Brexit. The Bank of England, their forecasts were undertaken primary from a financial stability perspective, primarily to identify the very worse case scenarios and I think that 8% figure which you correctly identify is indeed the very worse case scenario. I think they have a range of estimates ranging from a decline in output between 5% and 8%. So, what our estimate is under this scenario, we would have a corresponding reduction of around 6%, 6.1% which is not, over a two-year period. But that's the extent, the worst that it reaches before the economy starts to recover. So, our estimate is not out of line with the Bank of England. I think it's not unreasonable that in these circumstances given that a lot of the near-term impact comes through weakened confidence and settlement. I think it's understandable that the Bank of England estimates are slightly more adverse than our own. A reduction of 6.2% in growth over two years is a very significant reduction. The reason why we're expecting growth to remain positive is because overall economic conditions otherwise remain so favourable, much more favourable at the moment in Ireland than in the United Kingdom. So, we are predicting that growth, rather than being 4.2% this year and 3.6% next year in the hard-disorderly scenario would be around 1% to 1.5% in each year. So, that is almost, very similar to the extent of the decline but starting from a much more favourable position. I would emphasise again the uncertainty around those figures. It could be somewhat worse. It could be somewhat better.

Journalist 4:

Sticking with that worse case scenario or do Brexit ESRI in their recent quarterly similar hits to GDP this year but they seem to be rebounding faster than your estimates for next year. I think it's about 2.5% they were looking at.

Mark Cassidy:
Yeah, I think if you look over the medium and the long-term, we have broadly the same impact of this scenario. I think the main difference is we have a considerably more adverse impact over the first two years. That reflects two things, one of which is somewhat mythological and we do use different model approaches. I think it's useful that we're getting results from two different perspectives and our modelling approach has a somewhat more adverse impact on trade flows in the near term. Probably the main difference though is that we have an add on negative impact due to weaker uncertainty and sentiment, due to the disorderliness of a sudden Brexit. So, that's why we get a much more adverse impact on year one, year two. I think the evidence we're seeing from sentiment indicators at the moment and what you would expect to happen, if there is such an abrupt change to trading arrangement and such uncertainty about the near term prospects for business investment and exports, we think there would be a sudden and quite severe hit to confidence and sentiment in the economy and therefore we have this profile whereby you get a sharp reduction in the first two years as already mentioned and then the economy in many respects starts to adjust to the new arrangements. So, in fact the medium-term impact of around 6% is not far different from the impact we see in the first two years. Whereas with the ESRI it's more of a steady adverse impact over the medium term without as sudden a shock in the first two years. So, that's really the difference in the paths and as you say, the implication of that is we have much weaker growth in that scenario, probably both in the first year and the second year.

Journalist 5:

Will the confidence bands around your forecast and given the poor record or not great record of economists forecasting things, sorry, when you meet with the ESRI how do you discuss their forecast and how you reach them and how much they vary? Will the forecast impact Brexit?

Mark Cassidy:
Yeah so, we do in the medium and longer term, something like a Brexit scenario this is very much based upon our economic models. The economic models are much more accurate at estimating medium- and long-term impacts which are based on past relationships between different variables. Ourselves and the ESRI and others who are involved in the economic modelling we would get together in user groups and we will compare estimates that we come up with. Given that all of the outputs are based on similar historical relationships it's not unusual that the medium and long-term estimates are broadly similar. When we're talking about short term implications there's much less of

a reliance on economic modelling and there's more reliance first on judgement and second looking at the current trends in key indicators. You're absolutely right, economic forecasts of course do not always turn out to be correct. Hopefully we're providing a narrative about the most likely path for the economy that provides useful information as to what we expect to happen based on what we see in other indicators, hopefully that's useful. Uncertain events particularly in Ireland, this small and open nature of our economy means that all of our economic variables are considerably more volatile than in other larger and more closed economies. So, the degrees of error around our forecast in the small open economy tend to be somewhat larger than elsewhere and something like Brexit, our economic models do not have experience in terms of an event like Brexit and therefore the degree of uncertainty is inevitably larger around those estimates.

Journalist 5: So, what would be the degree of uncertainty around your first- and second-year impact?

Thomas Conefrey, Central Bank Economist:

I don't like, I don't think we put across the best number of the kind of range and as Mark mentioned there's a few ingredients into something like the Brexit exercise. So, we start out first by looking at the effect on the UK economy and then translating that through our domestic model of the Irish economy. And in terms of the effect of Brexit on the UK the key channel there especially in terms of the long run is the impact on UK trade and if we look at the range of studies that have been done on the effect of membership of the European Union and UK trade in a Brexit scenario we're essentially looking at reversing that out and that is one of the key components of the exercise we do. And in terms of that the number then we essentially have to pick, aside from that shock, the trade shock is a key ingredient of it. There is quite a large range, you're right, in the literature. So, the estimates in the literature suggest that moving from membership in a single market to a relationship based on WTO tariffs would reduce the UK/EU trade by between 40% and 60%. So, that's the kind of uncertainty you're looking at and that's one of the main transmission channels of the Brexit shock to the Irish economy. So, it is quite a large range and but at the same time you know these aren't numbers picked from the air either. They are based on the best available evidence from the academic literature on things like the effect of membership of a trade area on exports and imports.

Journalist 1:

It might be an ignorant question but the inward migration figures you have here and the importance on growth in the jobs market, what effect, how would those figures be dented and how might that be dented by a crash out Brexit?

Mark Cassidy:
Well, if anything Brexit may have a positive impact on net inward migration. I think it will change the incentives for migrants or potential migrants from other EU economies rather

than relocating to the United Kingdom perhaps to relocate to Ireland. Against that on the downside would be any downturn in the Irish economy could have a negative impact in terms of the attractiveness of Ireland and the availability of jobs. So, it's a little uncertain, I think the one sector maybe where we know that there will be positive net inward migration is in the financial services sector. The Central Bank has already authorised a number of financial services firms. It will be ensured that all of those firms have a substantive presence in Ireland and that will involve the relocation of employment to Ireland. So, because of enhanced foreign direct investment particularly in the financial services and possibly because of changes to the incentives of the other EU countries to relocate, the net impact of migration we think would be broadly positive. So, what we're seen so far and what we highlight in the bulletin in relation to migration is that we have seen a very significant recovery in net inward migration since around 2015. It was in 2015 only that net inward migration again turned positive for the first time since the crisis. Second, the inward migrants are coming from a very different set of countries than was the case prior to the crisis. Prior to the crisis predominantly from central and eastern European countries, predominantly from Poland, also from countries like Lithuania. Much fewer coming for a number of reasons that can be explained, much fewer inward migrants from those countries. Instead we're seeing still substantive inflows from the United Kingdom but also from a range of other countries such as Brazil, Italy, Spain, Romania. So, we're seeing a different type of inward migration. We're also seeing that it's much more broadly spread across sectors of the economy. So, whereas part of the crisis, a lot of the inward migration went into the construction sector. Now in fact there is actually not so much. Maybe surprisingly little going into the construction sector and much more going into sectors such as ICT, food and accommodation services, administration and support services. We're also seeing, so the rate of employment increase is much higher for migrant, for non-Irish workers and for Irish but in fact more than half of the final quota of last year, non-migrants accounted for more of the employment increase than did Irish workers and this of course partly reflects the fact that as unemployment has been falling the availability of Irish workers has declined. So, the labour market has become tighter and tighter and in fact this net inward migration is particularly important in order to ease some of the pressures in the labour market but also to support further growth in some of these sectors like ICT where vacancies can be quite high and its harder to find workers.

Journalist 6:

Just a very quick question. In terms of the economic modelling in terms of a disorderly Brexit, what sterling euro exchange rate are you factoring in over the next two years on average and secondly, are you modelling the imposition of WTO tariffs pretty quickly?

John Flynn:
Yes. So, first of all the scenario involves a further 10% depreciation of sterling compared to the current rate. So, the current rate is about 0.88. So, if you think about a 10% further depreciation of that which brings it up to, I don't know 0.96, 96, 97 pence per euro. Then secondly, yes. So, the disorderly, so we actually present two WTO or no deal scenarios.

One is a managed no deal scenario whereby you have a transition period or an orderly transition until WTO. In that case the tariffs would not be imposed until you get to the end of that transition period, after which they have to be imposed. But under the disorderly scenario that maybe we were emphasising a little bit more that assumes an immediate transition to no deal arrangements and WTO arrangements and in that case, tariffs are introduced from day one.

Journalist 6:

And is that the model you've used for the 1.5% growth rate projection?

John Flynn:
That's correct. That's correct.

Journalist 6:

Okay.

Mark Cassidy:
So, if there was to be a transition, if there was to be a deal there will be a transition period till end of 2020 and therefore there's actually no real impact apart from confidence affects there's no real impact of Brexit upon our forecast. Likely if you have a transition to a WTO, something similar would apply and you would not likely have any negative impact, you would have some confidence and sentiments sorry, it's not right to say there'd be none but much smaller impact in the first two years.

Journalist 7:

Can I just clarify, so you're presuming a 10% appreciation of euro under the disorderly?

Mark Cassidy:
Yes.

Journalist 7:

Even the two crash out Brexit scenarios managed and the unmanaged one. Is there a difference in the 10%?

Mark Cassidy:
Yes. So, the change in exchange rate will depend also upon what the financial markets are currently pricing in regarding the likelihood of a Brexit. So, at the moment if it turns out to be more favourable, trade arrangements are more similar to what people expect then you would actually expect some strengthening of sterling. If you get the no deal scenario, you'll get some weakening of sterling. So, we think the disorderly no deal that'll be a shock to financial markets. Financial markets currently do think that there will be some form of

deal and that's why you'll get a substantial depreciation in that scenario. On the other hand, if you do get a favourable outcome. If you were to get a customs union type agreement for example, that would be a pleasant surprise for the financial markets and in fact under those circumstances you will probably get some very modest strengthening, re-strengthening of sterling from the 88.

Journalist 7:

From the 88.

Mark Cassidy:
From the 88 so really the only scenario where you have further significant depreciation is a no deal and particularly the disorderly no deal.

Journalist:

At 10%.

Mark Cassidy:
We're assuming 10%. It's something of a technical assumption. We assume a 10% depreciation and that's what underlies these estimates.

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