



EUROPEAN CENTRAL BANK
EUROSYSTEM



Report

on the national listening
events organised by Central
Bank of Ireland

I. Event overview

The Central Bank of Ireland organised two listening events on 18 February 2021. Both events were scheduled for two hours, and were hosted virtually on the Zoom platform. The first event brought together members of the Irish business community including SME organisations, large business groups and members of the financial services industry, with 36 business representatives registered in total. The second event sought the views of wider civil society with a broad representation, including organisations focused on homelessness, climate and social justice. In total, 21 civil society representatives registered for the event.

Governor Gabriel Makhlouf and Deputy Governor Sharon Donnery opened the events. Following the opening remarks, the events were then structured around two sessions. The first session sought attendees' perspectives on "Price Stability and Economic Expectations" and the second session asked for views on "Secondary Objectives and Communication". Members of the Bank's senior leadership team facilitated discussion. This included Mark Cassidy, Director of Economics and Statistics and Gillian Phelan Head of Monetary Policy.

II. Key themes in discussions

1. What does price stability mean for you?

Participants felt that the current inflation aim of 'close to, but below, 2%' is too ambiguous. The inflation target should be clearer, for example, a specific number such as 2% would be better. This would help in understanding exactly which inflation rate the ECB sees as consistent with its mandate. The definition of 'medium-term' in relation to the horizon of the inflation aim could also be communicated more explicitly by the ECB.

Business groups noted that, while households might prefer inflation to be at 0% (or even negative), businesses prefer some margin between 0% and 2%, which allows for changes in productivity margins and wage expectations. Participants from the business community felt they are better able to forecast and plan when price increases are moderate. While businesses can manage short periods of falling prices, there are psychological benefits to having low but positive rates of price inflation.

Many participants suggested that (owner occupied) housing costs should be included in the measurement of inflation targeted by the ECB. The costs associated with buying a house are substantial for families and should be captured in the inflation rate used by the ECB. Civil society representatives expressed concern that inflation figures do not show true cost of living for many people, particularly for those in lower income brackets. They spoke about how inflation disproportionately affects households with lower incomes, where a higher percentage of income is spent on food and day-to-day expenses, when compared to those in higher income brackets. Inflation can hurt these groups most, particularly if household income does not also increase.

In relation to the pandemic more specifically, there was concern about falling prices and the broader health of some sectors of the Irish economy, as businesses providing non-essential services are more adversely impacted due to lockdowns. Business representatives emphasised the need for stability and certainty, in particular for small businesses trying to recover from sectoral lockdowns. Business costs were highlighted as important, and should get more attention from policy makers. A suggestion was made that a 'cost of doing business' index would be beneficial to understand the real costs that firms face.

2. What are your economic expectations and concerns?

Representatives of both civil society and business groups expressed concern about the short-term economic fallout due to the COVID-19 pandemic, particularly in terms of business survival and unemployment. Participants noted the unequal impact of the pandemic across sectors and among households particularly for those on lower incomes, and how this had intersected with longer-term trends such as digitalisation. For example, the ability to work remotely meant less forced unemployment during lockdowns, however, this differed across sectors and has therefore affected household income in unequal ways. Similarly, there has been an acceleration of the shift to online purchases and other services, which can disadvantage some groups of people because they may not have access to effective internet services or relevant payment methods.

In general, there was more optimism around the medium-term outlook. However, some participants were more cautious and pointed to the trade-off between the cost pressures facing Irish firms (driven to an extent by Brexit), and potential financing challenges, such as bank loans, due to impaired balance sheets of firms. In the longer-term, the need for policies to address long-term unemployment was highlighted as a key issue.

More broadly, representatives of civil society stressed the benefits of fiscal and monetary policy coordination during the pandemic. They emphasised that lessons had to be learned from the previous crisis; fiscal austerity should not be pursued and any withdrawal of the fiscal supports put in place by the government to support businesses and the public should be tapered and unwound gradually.

Business representatives highlighted the importance of ECB forward guidance, which is communication on the expected path for interest rates in the future, on credit availability and financing conditions for short-term decision-making. They also expressed concern over the Irish banking system, and questioned if it is in a position to support the recovery, in particular for the SME sector in light of the recent exit of one lender. There is concern that this will have potential repercussions for credit supply and competitive interest rates. Participants also pointed to the impact of banking regulation in creating frictions for access to loans, as this might restrict banks from being able to lend sufficiently to certain sectors.

Business representatives noted the distortive impact of negative interest rates on decision-making. In financial services, in particular, they create a trade-off between holding riskier assets (e.g. equities) and earning margins on core business. This pushes asset prices higher, as people are incentivised to take more risk to avoid the low returns provided by safer assets. The distortive impact was also noted by civil society members who expressed concern about the shift of institutional investors towards the residential housing market as a source of stable returns. This trend is driving house prices higher and is making it more difficult for people to purchase a home. Some participants, however, viewed low rates more positively considering it a good time to undertake large-scale public investment.

3. What other topics matter to you?

A more holistic monetary policy orientation was broadly supported by most participants and a number of secondary objectives were cited as important, including climate change. Concerns were also raised about the distribution of wealth.

Civil society groups supported considering climate change as a secondary objective. They noted that the shift from fossil fuels may lead to larger swings in the price of energy (e.g. oil prices) thereby posing challenges for price stability also. The compatibility of economic growth and tackling climate change was also raised. Decoupling economic growth from environmental degradation is very difficult, and the financial system needs to adjust to account for the economic issues that might occur

because of climate change. The financial system is dependent on credit demand; however, this demand could be hampered by lower economic growth in the future as a result of climate change. Business representatives were also supportive of considering climate change as a secondary objective.

Digitalisation and its impacts on different types of businesses and groups within the population were also put forward as major concerns. Inequality between firms has grown amid increased digitalisation, with firms in the digital sector gaining higher margins, while SMEs are facing higher cost of doing business. The economy has moved further away from manufacturing and is now driven by digitalisation. This shift needs to be reflected in the ECB's monetary policy strategy review. Finally, business groups suggested that full employment might be more appropriately addressed by fiscal policy particularly given the context of the low natural real rate of interest.

4. How can we best communicate with you?

In terms of communication with the general public, monetary policy was considered a difficult topic to effectively communicate. Civil society representatives highlighted the need to improve the public's understanding of monetary policy topics by pursuing a sustained communications strategy, as well as engaging with, and helping to improve financial literacy and education among members of the public. The excessive use of jargon in monetary policy communication can disempower people from actively taking part in discussions. Using language that is simple and straightforward on the part of ECB and the Central Bank of Ireland would allow the public to better understand monetary policy directly rather than through the media.

In relation to the inflation aim of "below, but close to, 2%", participants indicated that there needs to be clearer communication on whether the ECB views that its price stability mandate is being met over time. This is particularly true as inflation rates have been low in the euro area for a number of years. In terms of communicating its expectations for the economy and the path of inflation, participants stated that the ECB should specify if those expectations are consistent with its mandate. For example, recent inflation forecasts from the ECB show expectations that inflation will be around 1.5% over the coming years. Is this inflation rate in line with the aim of below, but close to, 2% inflation over the medium-term? If not, is the ECB being insufficiently accommodative in its monetary policy stance, or should more be done? Participants stated that the ECB should be clearer in its communications to clarify what it is trying to achieve with the policy implemented, so that the public can better understand the reasons underlying monetary policy decisions.

More broadly, participants welcomed the opportunity to engage with the Bank and ECB, and encouraged the central bank to engage in further public outreach. The events were viewed as important for building trust and creating a more open dialogue. Some participants felt that communications had improved throughout the pandemic period but that a more unified communications strategy would be beneficial going forward.

III. Summary of main recommendations, questions and concerns

Participants indicated that the inflation aim needs to be less ambiguous. Moving to a clearer target, for example an inflation rate of 2%, would help in providing clarity for the public. An inflation target of 2% appears to be accepted as appropriate, as the risks of deflation or high inflation were noted by both business and civil society representatives.

The cost of housing needs to be reflected in the measurement of inflation. The cost of saving for a house is an important factor that impacts on living standards and should be reflected in some capacity within the measurement of inflation used by the ECB (the Harmonised Index of Consumer Prices).

Communication is important, and events such as the Listening Events are beneficial for both central banks and the public. Central bank communication should be simple and easy to understand for all audiences. There would be less reliance on media reporting as a source of information if this were the case.

Secondary objectives are important also, and weight should be given to areas such as unemployment, financial stability and climate change. Synergies between fiscal and monetary policy were also highlighted as important.

IV. Annex

List of registered participants

Business Representative Event

- Irish Farmers Association
- Lakeland Dairies Co-operative Society Ltd
- Small Firms Association
- AIB
- Aramark
- Aviva
- AXA
- Bank of Ireland
- Citibank Europe Plc & Citi Country Officer
- Clayton Hotel
- Coca-Cola HBC Ireland and Northern Ireland
- Construction Industry Federation
- Cork Chamber of Commerce
- EY
- Galway Chamber
- Hewlett Packard Enterprise
- HSBC Ireland
- IBEC
- Idiró
- ING
- Keelings
- Kerry Women's Business Network
- Lakelands Dairies
- Northern Trust
- Partner
- STRAGILON
- TE Connectivity
- Tesco
- Ulster Bank Ireland
- Voltedge Management Ltd
- JRI America Inc.
- Westport Chamber of Commerce

- Wells Fargo
- Flender
- Enterprise Ireland
- Castlebar Chamber of Commerce

Civil Society Event

- An Taisce
- Community Action Network
- Community and Voluntary Pillar
- Feasta: the Foundation for the Economics of Sustainability
- FOCUS Ireland
- Green Foundation Ireland
- ICSH
- Protestant Aid
- Simon Communities of Ireland
- Social Finance Foundation
- Social Justice Ireland
- The Wheel
- Alone
- BeLonG To Youth Services
- HOPE
- Irish Mortgage Holders Organisation
- Irish National Organisation of the Unemployed
- Respond
- Threshold
- Ulster University
- William Syndrome Ireland

Overview of the Events

Thursday, 18 February 11:00-13:00 – Business Representative Event.

This event took place with Business Representatives. This event covered a range of sectors including representatives from financial firms, SME, farming and trade unions among others.

Thursday, 18 February 14:30 – 16:30 – Civil Society Event

This event took place with representatives from Civil Society organisations and community and voluntary groups from across the country and across a wide range of demographic groups.

Agenda

Both events followed the same overall running order.

Outline Order:

- Introduction, housekeeping and session moderator: Ray Farrelly, Head of Communications
- Opening Remarks: Gabriel Makhlouf, Governor of the Central Bank of Ireland (10 minutes)
- Session 1: DG Donnery introductions discussion session (5 minutes). The session covered:
 - What price stability means to you
 - What are your economic expectations and concerns?
- Session 1 discussion (50 minutes)
- Session 2: Mark Cassidy, Director of Economics and Statistics introduces discussion session (5 minutes). The session covered:
 - What other topics matter to you?
 - How can we best communicate with you?
- Session 2 discussion (40 minutes)
- Close (10 minutes)