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Duration: 46.32mins

Legend

F **Facilitator**

LO **Luca Onorante**

JF **John Flynn**

GF **Gabriel Fagan**

JB **Joe Brennan, Irish Times**

EQ **Eamon Quinn, Irish Examiner**

VW **Vincent Wall, Newstalk**

DD **Dara Doyle, Bloomberg**

VB **Vincent Boland, Financial Times**

POD **Peter O'Dwyer, Times Ireland**

F: Good morning everybody and welcome to our quarterly bulletin media briefing. Our participants are as usual Luka Onorante our Acting Head of Monetary Policy. John Flynn the Head of Irish Economic Analysis and Gabriel Fagan our Economist.

You should all have a copy of the document so I'll hand over now for the first presentation.

LO: Thank you very much and good morning. Let me start with some overview on the EU area and the international environment. This is, yes… the key messages are the following:

That EU growth is continuing at the moderate but sustained basis. It's supported by a combination of high accommodative monetary policy and a supportive fiscal policy. Additionally, continuing low energy prices, also a positive contribution.

The immediate event of Brexit on the EU area, there was the big thing of last press conference appears to have been an impact less disruptive than maybe people expected. This doesn't mean that there will be no impact it simply means that the policies have been appropriate and in particular the Bank of England has already provided additional stimulus. As a consequence the turbulence in the financial market was kind of short-lived and has quickly reversed.

Turning to inflation and price pressures, there is a small increase in headline inflation. But overall price pressures remain weak and we see no upward trends at the moment. The domestic price pressures as identified by the domestic components of inflation remain relatively contained. And additionally we see the wage growth remains subdued. Wage growth is kind of a predictor among other things of future inflation.

There is as usual, as with the last times considerable number of risks to growth and inflation, most of this risk should it materialise will cause a revision of the outlook towards less inflation and less growth. The first and most important factor of risk is the long term uncertainty over the outcome of the Brexit negotiations. There has been some clarity recently. It seems like the UK will trigger Article 50 in the first quarter of 2017. So the timeframe is likely getting defined. However the climate of uncertainty leads businesses to postpone investment generally speaking and the shorter, the period of uncertainty will be the better for the economy.

The second factor will be the availability of domestic demand to continue to support the EU areas recovery. We have seen that unemployment has been decreasing for quite some time, this decrease is kind of levelled off. And since unemployment internal demand are quite related to each other these kinds of internal demand input to, sorry, to… to the recovery may be slowing down. The additional job related political tensions and fragilities mainly in emerging markets, the uncertainty about the US monetary stimulus has at this point been largely priced in and taken into account. Therefor it is not a major factor of risk, if anything from the United Sates there will be some risk of related to the incoming elections.

Finally there are the remaining fragilities of the EU area financial system. These fragilities for the moment do not impede an easing trading conditions which appear to have improved somehow but they remain on the horizon as a risk factor.

Let me move to the EU area activity. On the right side you see real GDP growth and the contributions of experts, domestic demand and changes in inventory. We see that the EU area recovery from the latest data slowed down a little bit in second quarter to 0.3% from 0.6% in the first quarter. This slowdown is primarily due to-and this links to the previous slide-to a lower contribution from domestic demand.

On the other hand, there has been an unexpected increase in exports. This is a positive development. Without this increase of exports the slowdown in activity during the second quarter would have been even more pronounced.

Concluding on a more positive note, the latest hard and soft sentiment data are pointing to stabilisation in growth during the third quarter. We don’t have data yet but we look at this higher frequency information.

Turning to inflation, as I said the message is that headline inflation has increased in the data. But price pressures will remain contained. Headline inflation is the blue line in the chart on your right, the core inflation or inflation excluding energy actually to be precise is the right one. This indicates more domestic price pressures. Headline inflation has been continuing

to increase and climbed to 0.4 year on year. This increase is supported mostly by the external components that is the energy and also by these effects. So some low numbers are getting out from the year on year and therefore this almost mathematically increases the headline inflation year on year.

For the most part however, price pressures remain limited. If we look at inflation excluding energy, this has dropped to 0.8% from 0.9%, so it's basically stable. And additionally we know that wage growth remains subdued. So analysis of growth of wages and compensation for employee have averaged 1.5% and 1.2% since the first quarter of 2015.

Let me conclude the overlook of the EU area with some data. The upper part of the chart shows the projections of several institutions, the most recent being the ECB and the OECD. The scenario is one of a moderate and continuing growth. If you look at the column of 2016 the average or the consensus about 1.7% in 2016 growth and stabilising at 1.6% thereafter.

Turning to inflation, the scenario is one of low inflation and recovering in 2017. This is due to increasing energy prices and the effect of increasing energy prices and Brexit effect as we said. So inflation is projected at 0.2% for 2016 and progressively increasingly to a number around 1.6% in 2018. Here the only data we have are those of the ECB.

Now let me pass the microphone to John Flynn.

JF: Thanks Luca. So turning to the Irish economy then and the new forecast for the Irish economy. The main message from the Bank, in the new forecast is that we see the overall outlook for the economy as being broadly similar to that published in our last set of forecasts which was published in July. However, as in July the outlook is characterised by much uncertainty and risks to the forecasts are clearly weighed to the down side.

If we look at what we've seen so far in 2016 to date, the evidence from the first half of the year is that the economy and economic activity continues to grow at a reasonably healthy pace. Though growth momentum has slowed somewhat over the first half of the year and largely as a result of the slight signs of slowdown in the first half of the year, we now expect growth this year to be slightly lower than our previous projections.

The broad thrust of data that we have for the first half of the year suggest that there has been some weakening in the external performance. And on balance, some slight moderation in the growth in the underlying growth of domestic demand. Now we know and are well aware of the problems with the national accounts which have been much discussed in recent months. And given the problems of interpretation with the national accounts, it's necessary to look beyond headline measures of GDP and GNP. And to look at other more reliable spending and activity measures to give us a better handle on the kind of pace of activity and the strength of activity in the domestic economy.

Now, these indicators suggest that while the pace of domestic economic activity remains pretty solid, there has been a slight moderation. So if we look at consumer spending the signals in relation to consumer spending are slightly more mixed. The balance of evidence

across a broad range of indicators suggest that the slowing has been relatively modest. And consumer spending continues to be supported by strong growth in employment and also by raising earnings.

With regard to investment while the overall growth rate of investment is increased in the first half of the year a lot of this has been driven by intangibles and strong growth in intangibles investment. But if we look at some of the more domestic oriented components that there has been some softening there. So if we put together the evidence from that, it suggests that underlying domestic demand which would exclude investment in aircraft and intangibles has moderated a little in the first half of the year. But that slowing has been relatively modest.

So taking the elements that we have in the first half of the year and taking it all together to date, we've made a small down on revision to our forecast for growth, for GDP growth in 2016. And we've revised it down from 4.9 to 4.5%. And that's largely reflecting a weakening in the external performance, so some slow down there, which is linked to slower rate in growth in goods exports in the first half of the year which is tied in with developments in contract manufacturing.

Now the next slide shows the forecast in some detail. Before I get into talking about the detail, just an obvious overarching issue in terms of forecasting at this point is that in terms of looking ahead, assessing the outlook for the economy is complicated, obviously by the potential adverse effects on Ireland of Brexit. Given the close relationship between the Irish and UK economy obviously any significant weakening in the UK economic growth or weakening sterling against the Euro could have an impact, particularly for those sectors with a high dependency on exports to the UK.

Now, reflecting these concerns, because the Brexit referendum happened before we published our last bulletin, so reflecting these concerns at the time of the last bulletin, we made a downward adjustment to our forecast for 2016 and 2017. To take account of the effects of Brexit. As Luca said in his overview on the international economy, in the interim what we've saw was a period where the initial fears of Brexit gave way to what was essentially what has been a more sanguine assessment by markets in recent months. We've seen some movements in the last few days. But this kind of more sanguine assessment I suppose was based on what essentially has been better than expected economic data in the UK over the last two to three months. And as Luca mentioned as well, an accommodated policy environment.

So this leads us to the judgment that it's not appropriate at this stage to make a further negative adjustment, related to Brexit, to the forecast. However, that said, the potential remains for adverse macro-economic financial or currency market effects to quickly re-emerge at some point.

So in such circumstances, risks to the latest forecast again remain clearly titled to the downside which is what we said also in July. So on this basis and with the caveat that I

mentioned about the national accounts, our latest forecast is for GDP to grow by 3.6% next year in 2017.   And that follows projected growth of 4.5% this year.

Our growth forecast next year is unchanged from the last bulletin and that reflects the fact that we had already essentially in July incorporated a weaker external outlook into those forecasts and what's happening in the interim largely accords with that. So in other words we moved ahead in July in terms of where we thought things were going. And we are broadly happy at this point that we've incorporated that into the forecast but that said the risks are to the numbers obviously are clearly to the downside.

Now looking ahead at the detail of the forecast, if we look at it the main impetus to growth over the forecast horizon is said to come from domestic demand. The order for the growth of consumption and investment spending remains broadly favourable although we expect the growth rates of both to moderate over the forecast horizon.

Last year…if we look at consumption last year, consumer spending grew by 4.5% which was almost, which was its fastest rate of growth in almost a decade. And while there was some element of catch-up in that, the main driver of the strong performance of consumer spending was the growth in employment and incomes. Now we've revised down our forecast for consumption slightly this year, partly what we've observed in the first half of the year but we still expect consumer spending to grow by 3.8% this year. And that's supported by solid growth in employment which we very much see so far this year and again some rise in earnings.

Looking to next year we see slower growth in employment, we see some adverse effects from Brexit and we also see some less support from the sorts of actors that have been boosting real disposable income this year. So we see consumption moderating and we forecast a rate of 2.2% for consumption growth next year.

Now, obviously you know there are downside risks that consumption outlook so if we see things like consumer sentiment taking a hit in relation to Brexit fears that would be something that we would be looking at.

Investment is not straightforward to forecast, obviously because a lot of what's been happening and a lot of the volatility in the national accounts has been related to investment, any investment component.   So it's difficult to interpret that data and to try and forecast it.

Previously in our forecast we made a downward revision to investment for Brexit, I suppose the issue is that a lot of the components of investment now things like intangibles and things like aircraft leasing are not particularly affected by Brexit. But other things such as machinery and equipment investment is so we had made a downward revision to that number. And we've seen some softening there and essentially our forecast for investment is that while the overall level of investment is expected to grow very strongly, underlying investment-which would exclude intangibles and aircraft-we see as growing by an average of about 6% this year and next year.

So if we take those things into account then, underlying domestic demand, we think, will remain reasonably healthy but will slow, will be on a moderating path. So having grown by around 5% last year we see underlying domestic demand growing by close to 4% this year but slowing to about 2.7% next year. And that reflects the more moderate employment growth and then also some impacts from Brexit.

On the external side I suppose the same caveats apply in that the trade outlook is quite hard to forecast, it's subject to considerable uncertainty. Because you've got the issues in relation to the national accounts and also the issues in relation to Brexit. So subject to those caveats we expect export growth to moderate over the forecast horizon in line with external demand. So we've made some downward adjustments to this year to export growth on the basis of what we've seen in the first half of the year and our forecast for next year largely takes into account the Brexit effect as we see them.

If we look at inflation, inflation developments have been fairly subdued. Headline inflation essentially-whether you look at CPI or HSAPs-are essentially flat. So we see inflation being zero or close to zero this year, rising a little bit next year and possibly to a rate of 1%. In terms of inflation we've seen very weak goods price inflation which is negative and falling at a rate of about 3% a year. And that's been offset by services price inflation but really it's the component of the services which is holding that number up quite a lot of services inflation outside of that a lot of it is, a certain amount of it is soft anyway.

So then the final thing I want to say is just about risks, and risks around the forecast. Because we said that obviously given the high level of uncertainty demands and risks is weighed, so while the uncertainty is in relation to Brexit and on growth the outlook is relatively favourable but nevertheless there are risks to projections. And these rate firmly weighed to the down side.

As I said, downside risks from a macro-economic financial market effects could quickly remerge. I suppose risks reflect things like say the possibility that we would see a more adverse impact of Brexit in the UK than is currently factored into forecasts. The possibility of a larger spill-over to the international economy or the potential for more negative domestic effects. So things like confidence takes a hit or we see labour market effects, which are greater than we anticipate. So those would be the risks.

Now, at the time of the last Bulletin you might recall that we presented some estimates of the effect of Brexit on the Irish economy. And we used these as a basis for revising our forecast. And in this bulletin we look at the effects of a number of different types of external events and show how they might impact on the economy. And one of these looks at the sensitivity of Irish GDP to changes in UK GDP. This analysis is set out on page 15, and it uses a new modelling approach that we have for looking at these things. The results suggest that a fall of 1% in GDP will lower Irish GDP by accumulative one-third of a percent over time. And this is broadly in line with the estimates that we presented at the time we published the bulletin in July. It reconfirms the revision that we made to the forecast in July as well.

So just to repeat that the outlook is relatively favourable but there are clearly risks to that outlook. So I'll hand over to Gabriel now.

GF: Thank you very much John, I see John has outlined the forecast is presenting a relatively favourable picture for the economy, despite the Brexit shock. We are seeing a situation for example where employment over the two years 2016 / 2017 is expected to increase by 82,000 jobs and growth in the Irish economy is likely to be twice the level that is expected for the euro area, more than twice the level.

So a relatively favourable scenario. Nonetheless, as has been pointed out these forecasts are subject to uncertainty. All forecasts are always subject to uncertainty. At the particular moment in time it's fair to argue the uncertainty is heightened because of the outcome of the Brexit referendum. And moreover you can say that the risks to these forecasts are very firmly tilted to the downside as was pointed out earlier.

So what does this mean for policy? I think the main implication that we draw from this is that policy should remain focused on underpinning stability and reducing uncertainty in the economy. And in particular in building resilience into the economy. The economy, despite the improvements that we've seen over the recent years remains fragile. The level of debt is high, both public and private. We have an economy which is very heavily integrated into the global economy, which is then subject to shocks. So we are very vulnerable to external shocks and we've even seen that decisions by a small number of multinationals can have a very big effect on the Irish economy. This is something that is unique to Ireland in a European and in a broader global context. We have a whole range of Brexit related vulnerabilities.

So what does this mean? Where do we come from in terms of policy given this sort of environment? Our conclusion is that the prudent fiscal policy remains essential in this environment. What does that mean? Well at a minimum it would mean adhering to the EU fiscal rules that have been agreed among the European partners. And I think that at least in this regard I think it's encouraging that there seems to be evidence that in Ireland at least there is a broad political consensus which would support adhering to the fiscal rules. So all of the debate about fiscal space is about how can I operate within the fiscal rules. So essentially, that goes across the political spectrum. That's encouraging, it's certainly not the case in other countries that there is the same degree of commitment to adhering to the fiscal rules.

Another element which I think in the short term is important would be very useful to adhere to the government's target of achieving a balanced budget in 2018. That would be a very helpful step and should be adhered to.

And also I just note in passing plans to establish a rainy day fund to build up precautionary buffers for future adverse developments is also a suitable example of fiscal prudence in this sort of environment.

But the question is, once the European rules are reached, once the NTO the medium term objective is achieved what next? Where would the next steps be? Well our governor has communicated to the Minister in her letter that from this perspective it would be desirable to establish a longer term debt target. Which would be robust to statistical issues but at the same time would take into account the risk exposure of the Irish economy.

Now it's important to note why would we make this proposal, well starting point is that the standard EU fiscal rules, the fiscal compact preventive arm of the stability and growth pact, the 60% debt ratio for example, the NTO, these are all ceilings. It says please do not go above this level. And these ceilings have been developed and calibrated for a range of European economies like Germany, France, the larger economies. Now as I have noted and we pointed out the Irish economy is different. It's much more vulnerable, it's much more volatile, we've seen that in the rules, which are appropriate for Germany, and maybe in some sense too loose or inappropriate for Ireland. And this is the motivation that is underlying in this proposal.

Hence, also bearing in mind an additional consideration that the standard fiscal matrix which are often expressed in terms of ratios to GDP, debt to GDP, or deficit to GDP we now know the problems that we've had with the data in 2015 that maybe matrix based on GDP are not really the most suitable matrix for Ireland. So we should be cautious there. So the idea is to develop some alternative matrix which may be more suitable to the Irish economy and formulate targets in terms of these particular matrix.

So that is a sort of part of the context for this proposal but the bottom line in a way why we do it or why we propose is that it's very important given the experience of the Irish economy in the last twenty years or so, even longer, its important in good times to build up buffers so that the economy is in a better position to respond to shocks. So this is important because if these buffers are built up if you have a long term debt target which will anchor fiscal policy over the medium term then it means that if the economy is hit by an adverse shock then it will be possible for fiscal policy to respond. By having an expansionary fiscal policy, a counter cycler fiscal policy, that would otherwise not be the case. So this is one of the main benefits of a credible long term debt target which would provide an anchor for policy. And it will help of course to avoid the pro-cycler policies that we have seen in the past.

Another point that we make, and it's been made also I think by the Irish Fiscal Advisory Council, is that one has to be cautious in spending revenue which may turn out to be transitory which are volatile in any case. Of course we saw in the crisis or before we the crisis the examples property related to taxation which turned out to disappear more or less when the crisis hit. In relation to more recent period we've seen very strong growth in corporate taxes, which is of course welcome. But we have to be aware that, IFAC have made this point this revenue gain may not prove durable. So one has to be cautious in spending this sort of money because it may actually turn out that some of it will not be there in the future.

The bottom line if you like of our policy advice is that the favourable outlook for the economy provides an opportunity to increase the resilience and if we use this opportunity we can avoid some of the problems we experienced in the past. Now let me just conclude by noting that the bulletin has three signed articles which have already been released have indeed got commentary. First article is a rental market savings and the accumulation of mortgage deposits by Conor Kelly and Fergal McCann. Our second article is new data collection on special purpose vehicles in Ireland initial findings and measuring shadow banking by Dominic Barrett and Brian Godfrey and Brian Golden. And then finally we have option implied probability density functions, methodology and use in understanding investment sentiment by Seamus O'Donnell and Mary O'Keefe. So the authors of these articles are present in the room so if you have any specific questions on the articles they would be in a position to answer those. Thank you very much.

F: Thank you and now open to questions, we'll take the first question here from Joe Brennan form the Irish Times?

JB: Sorry just two questions, first of all what sterling euro rates have you kind of baked into your figures over the next few years and also in relation to the debt to GDP ceiling, your initial kind of views on what kind of debt to GDP ratio should Ireland be looking for over the medium term. Presumably it's a good bit less than sixty percent.

JF: On the sterling one would be, sterling that we took was the rate that was prevailing kind of at the time we made the forecast which was a rate of eighty four pence. Obviously the rate has moved a little bit since. But that's the rate that we have in the forecast.

GF: Okay, on the issue of the debt, the long-term debt target, I don't think we're, we're not coming out at this moment saying here is the number. What we're saying is the debt to GDP of sixty may not be, is probably not appropriate for Ireland as embodied in the rules. Now you have two questions, one is what sort of indicator should you use, what are the better indicators for Ireland because we know that GDP and debt to GDP is distorted.

There's a lot of work going on there, there's work of the CSO group, the IFAC is also working on developing alternative metrics for fiscal analysis. So it's too early to say you know we should go for a particular variable. And the same point applies for the numbers. So the point that is being made at this moment in time is not here is the number but to say look here is the concept, having a longer term debt target will strengthen fiscal policy in Ireland and we should work in elaborating the target in terms of what metrics to use and what specific values for the target.

JB: What metrics would you kind of consider most appropriate?

GF: I think there's, I mean again I don't want to prejudge the outcome of the CSO review group among others. There are a number that have been proposed, a number of alternative indicators of GDP for example. And there are also other indicators like people have now used things like debt to total revenue and all these other indicators. We don't want to judge that at this point in time. But it's an open issue, work is under way in addressing these questions and when the work is completed we'll be in a better position to quantify what a longer term debt target would look like.

F: Ok next question here, Eamon Quinn from the Irish Examiner.

EQ: Has the drop in sterling against the euro, has the effects of that been over played and roughly given your broadly favourable outlook, economic outlook here, is a fiscal package of a billion euros broadly okay for next week?

JF: In terms of sterling and the movements in sterling, I suppose there's a number of factors to take into consideration. If we look at, I suppose a point that's worth bearing in mind is where is sterling now. We know where sterling is now relative to where it was prior to the BREXIT referendum. But if you look at the average value of the euro against sterling say over the period from 2009 up to about the middle of 2014 the average value of sterling was about eighty five pence. So there's been significant movement in it then since, in both directions.

I suppose another consideration to bear in mind is that if you look at what tends to drive exports in the economy, typically demand and demand in trading partner countries outweighs everything else. So demand tends to be the key driver of trade, exchange rates and relative price movements, relative cost movements less so.

Now this doesn't mean that the movement in the exchange rate is unimportant because it is important for particular sectors. And particularly those sectors that trade a good deal with the UK. So if you look at sectors like food, clothing and footwear, tourism, it's important for those. And the exchange rate is generally more important for indigenous firms. Because the UK accounts for a greater share of expert markets for those firms.

But if we look at it in the aggregate, there are those factors and then there's also kind of the rest of the economy. So we look at it in those terms it has some impact. But it tends to be demand that's the key factor.

GF: So on the second point, the issue of the package, I think it's reasonably fair to say that in view of the current state of the economy it's very hard to argue the case that the economy needs fiscal stimulus. I mean an economy growing at four and a half percent, unemployment coming down, you know is this an economy that needs a fiscal stimulus, probably not.

What we basically see though is that what is envisaged and we don't know the outcome of course at this stage, is that the fiscal stance would be compliant with the European rules. So the expenditures of fiscal space and so forth. So that certainly would meet a sort of minimal criteria. One could always say well maybe one should be more ambitious, maybe one should have less stimulus than is implied here certainly.

But I think bearing in mind that the package proposed is in line with the, as has been pointed out by the fiscal advisory council, it's within the boundaries of prudence, put it in those terms. So I mean we wouldn't necessarily, but in addition I would simply add you know the Central Bank, it's not for us to decide the precise magnitudes of the fiscal packages. That's a matter for the government and the Oireachtas.

But overall as long as fiscal policy remains prudent and as long as we make progress toward meeting the medium term objective and then the longer term, further reducing the debt burden. I think we can be relatively, reasonably content. Thank you.

F: Next question is from Vincent Wall of Newstalk.

VW: It's just a very quick follow on from Eamon's question there, just on the currency situation John, bearing in mind what you said, those qualifying factors in terms of the importance of sterling for. Are you suggesting there that you don't see a significant revision in your growth outlook if as a lot of analysts are saying now, we could go to at least ninety p and perhaps parity over the next fifteen months?

JF: No I mean if we were to have a different sterling rate in there, it obviously would have some impact on the forecast. But the issue then is in terms of its persistence. So how long. We've seen upward and downward movements in the exchange rate over time. And the issue is persistence. How long does the exchange rate stay at whatever level?

I mean the other, the change and the speed at which it changes is obviously an issue because people maybe have to come to terms with it relatively quickly. But we've seen kind of over a long period of time the economy demonstrate considerable flexibility and it's able to deal with the sterling rate at quite different levels over time. So we've seen that.

I mean the Irish economy is a much more flexible economy now than it was at various times in the past when sterling was a challenge for us. So those are factors to take into consideration as well.

F: Is there any questions over the other side of the room, I think Peter from Times Ireland.

POD: Thank you, given that you're advocating obviously a prudent approach to policy and that one of the signed articles is looking at the housing market. Would a tax rebate of ten

thousand as has been proposed be considered a prudent policy at this point given the state of the housing market?

GF: That's a great question. Let's break it down to parts. First of all in terms of when we talk about prudent policies we're talking about the overall stance of fiscal policy, the total level of expenditure and the deficit, debt and so forth. We're not talking about individual components of either expenditure or revenue. So from a Central Bank point of view with our mandate it is not for us to decide what is a good way of spending money, tax payer's money or a good way of raising taxes. We don't get involved in those discussions, it's outside of our remit. That is a matter for the government. And for the Oireachtas to decide.

So basically I can't comment on a specific policy and say this is a good policy, that's not part of our mandate, thank you.

F: Another question here, Vincent Boland from the Financial Times:

VB: Thanks, can I just go to this box A on the interpretation of the 2015 numbers. Can you be a bit more specific in what you mean by the relocation of a sizable amount of intangible assets to Ireland?

JF: At the time when the CSO presented the 2015 NIEs, if you remember they normally don't present capital stock estimates. But at the time they did. And the estimates that they presented for the capital stock showed that there was a three hundred billion euro increase in the capital stock in 2015. And that was largely driven, kind of as they kind of explained it at the time was largely driven by that, so that's that factor.

VB: And the twenty six percent GDP rise last year, are you basing your future numbers on the twenty six percent expansion of the economy in 2016?

JF: No, in terms of looking at it Vincent what we're doing really and this is why and for some time now we've been talking about underlying domestic demand in the economy. So we're recognising that there is a problem with the interpretation of the national accounts and there's a problem, you know that you can't simply rely on headline measures of GDP and GNP.

So what we're looking at is a sort of a broader range of indicators to try and focus on kind of what for example the pace of activity in the domestic economy is. And so we've been talking actually for most of this year, I think it goes back to the first bulletin this year, where we introduced the concept of underlying domestic demand. Where we're looking at essentially consumption, the domestic parts of investment and the government side.

And we're saying ok these are the domestic elements and what's going on here. So we're looking at those. We're looking at things like employment growth which has been fairly solid. You know we're looking at things like say earnings growth as well. And we're saying these are the things, you know we're looking then at more higher frequency indicators in different ways too. Like things like retail sales and things like that that give us a measure of what's going on in the economy.

You know obviously this is, as Gabriel mentioned this is an issue that's been looked at by the CSO group and we have to see what comes out of this. But in the interim we're looking at some of these things, some of the other institutions that forecast as well are looking at these or other similar things.

VB: But nevertheless the twenty six present increase is an official figure, it comes from the official data provider for the country.

JF: Yes.

VB: And yet we can all ignore it, can we?

JF: No, I mean the important thing to stress about the twenty six percent figure is that it is the correct figure because its calculated on the basis of an agreed international statistical methodology. So there's nothing wrong with the figure.

What I suppose the figure reflects is the way in which the statistical framework now treats globalisation. And the two changes when the statistical framework was changed two years ago in 2014 to move to ESA 2010 which is the current statistical basis. There were two important changes in that which have a bearing on this. One was the move to the concept of economic ownership. So that if goods are produced it moves away from geography and its ownership that determines things.

So if goods can be produced outside of a country but owned by an entity in the country and then they become part of the country's exports. And a second important thing essentially was the capitalisation of research and development expenditures in national accounts.

So those are the two things essentially then which bring the effects of globalisation more into the national accounts. And essentially the twenty six percent figure reflects that. So the twenty six percent figure is correct, this is how GDP is calculated.

The issue for us in terms of understanding what's going on in the economy is then trying to sort of interpret that and trying to develop measures which help us to make sense of what's happening in terms of domestic incomes and production. So that's partly what, you know that's kind of where the challenge is.

VB: So it's a bit like the Apple situation, isn't it? Our official data tells us that our economy is a quarter bigger than we think and we're saying no, not really. And you know

the European commission is handing us a cheque for thirteen billion euros and we're say actually no thanks, we don't want it.

JF: Well I mean in terms of, as I say in terms of where the economy is there is no issue about how GDP is calculated because that is how it's calculated. But I suppose what we're trying to get at is a measure of domestic incomes and production and what's being generated and earned within the economy that makes more sense and tells us more about activity within the economy. So that's kind of essentially the work that's underway with that CSO group.

F: Next question is to Dara Doyle from Bloomberg, please.

DD: A question for Gabriel. Gabriel you say there's obviously less pessimistic assessment of the impact of BREXIT on the UK economy recently. So do you think that BREXIT fears were overstated before the referendum or do you think that you know possibly still there's worse to come? That the UK economy is shielded by a temporary fall in sterling, giving a temporary boost. But actually the impact of BREXIT on the UK economy will be eventually quite serious.

GF: Yeah I think this is a very important point. First of all when we talk about what we have seen in the UK data is that they have been stronger than people expected after the referendum. But the question is which people. You know obviously immediately after the referendum there was an outbreak of very bleak pessimism. Which led people to revise down forecasts very sharply and led to people to rise their forecasts of the indicators that were upcoming very sharply.

Now as it turned out in the last few months the indicators have come in stronger than those very bleak shall we say expectations and you see this in surprise measures and so forth. Now there's a few points to bear in mind. First of all you know I don't think any serious economist would have thought that the main effect, big effects of Brexit would be seen in the months immediately after the referendum. So this is something that takes time to build up and lags that are involved are quite extensive.

Secondly as you point out there has been a very substantial policy response in the UK which as to some extent mitigated and helped to damp down these expectations. So basically what I would conclude from all of this is I think it's far too early to say you know don't worry about Brexit, things are fine. I mean we have every reason to expect adverse effects on the UK economy that are in the pipeline. It's for this very reason that the Bank of England has adopted such a dramatic package in the context of the UK and there is now talk in the UK of fiscal stimulus as well.

So I would tend to take the view it's too early to say but the latest type of indicators we have would not necessarily lead us to change our overall assessment of the impact.

F: Okay, final questions, any final questions from the room? Okay, alright, thank you very much. And just finally before we conclude, this is our final press conference with Luca Onorante who returns to the ECB after being acting head of monitory policy so thank you

and wish you well and the return of Gillian Phelan who comes back as head of monitory policy for the next briefing…

End